

Local Governmental Employees' Retirement System Board of Trustees

Employer Contribution Rate Stabilization Policy for the Local Governmental Employees' Retirement System

I. Policy Purpose

This policy provides for continued operation of an Employer Contribution Rate Stabilization Policy (ECRSP) for the Local Governmental Employees' Retirement System (LGERS). On January 21, 2016, the Board of Trustees (Board) of LGERS approved an ECRSP to be in place for fiscal years ending 2017 through 2022. On January 31, 2019, the Board amended the ECRSP for the remainder of its term through fiscal year ending 2022. The ECRSP effective for fiscal years ending 2023 through 2027 was adopted on April 29, 2021, and amended on January 27, 2022. Having adopted the Experience Study of the 2020-2024 calendar years on January 29, 2026, which will be effective for LGERS funding purposes for fiscal years ending 2028 and later, the Board wishes to adopt an ECRSP effective for contributions during the five fiscal years ending 2028 through 2032.

II. Policy Objectives

This policy establishes how the Board will determine the "required employer contribution rate" and the "required employer contribution for law enforcement officers rate," pursuant to G.S. 128-30(d)(5) and 128-30(d)(9) respectively, during each year the policy is in effect.

III. Definitions

Actuarial Measurement: The result of an analysis by the Board's consulting actuary, presented in a public report, based on actuarial assumptions and methods adopted by the Board for purposes of funding of LGERS.

Law Enforcement Officer (LEO): An employee as defined under G.S. 128-21(11d).

Non-Law Enforcement Officer (Non-LEO): An employee as defined under G.S. 128-21(10) who is not a LEO.

Policy Contribution Rate: The percentage of eligible member compensation to be contributed to LGERS each year by employers in accordance with this policy. For each year the policy is in effect, there will be two Policy Contribution Rates, one with respect to LEOs and the other with respect to Non-LEOs.

Underlying Actuarially Determined Employer Contribution or "Underlying ADEC": The amount developed annually by the Board's consulting actuary, representing a funding requirement according to the Board's actuarial assumptions and methods before applying this policy. The

consulting actuary calculates two Underlying ADECs each year, one with respect to LEOs and the other with respect to Non-LEOs.

IV. Determining the Policy Contribution Rate (Non-LEO)

Prior to the beginning of each fiscal year covered by this policy ("Contribution Year"), the Board should receive a projection from its consulting actuary of the Underlying ADECs for at least the next five years. This projection is typically provided to the Board at its January meeting. This projection should be based on the best estimate of the prior calendar year's actual rate of investment return, as provided by the N.C. Investment Authority (NCIA) to the Retirement Systems Division; the actuarial assumptions and methods adopted by the Board for funding purposes as of the date of the projection report; and the benefits enacted by the General Assembly as of the date of the projection report.

Under this policy, the Policy Contribution Rate (Non-LEO) is the total of items A. through G. below, but no less than 6% of compensation:

- A. Projection of Underlying ADEC (Non-LEO) for the Contribution Year, from Prior January Meeting
- Calculation:
 - Item A. is the projection of the Underlying ADEC (Non-LEO) for the contribution year, taken from the consulting actuary's projection provided to the Board one year before the meeting when the Board is making its decision.
 - Comment:
 - This allows for advance planning and budgeting. See the example timeline in Appendix 1.
 - Item A. is determined without regard to the statutory minimum rate (member contribution rate) under G.S. 128-30(d)(10).
- B. Increase Equal to 0.50% of Compensation
- Calculation:
 - Item B. is equal to 0.50% of compensation.
 - Comment:
 - The adjustment in item B. is intended to provide assurance that the Policy Contribution Rates over the course of this policy will deliver contributions to LGERS at least equal to the Underlying ADECs, even if they do not deliver contributions at least equal to the Underlying ADEC in a particular Contribution Year or with respect to a particular segment of members (Non-LEO or LEO).
- C. Increase or Decrease for Intervening Changes in Benefits
- Calculation:

- Item C. is to adjust for the effect of any benefit change enacted by the General Assembly or authorized by the Board that was not incorporated in the consulting actuary's projections from the previous year (item A.). This adjustment should equal the Actuarial Measurement of the effect of the benefit change on the Underlying ADEC (Non-LEO) for the Contribution Year.

D. Increase or Decrease for Intervening Changes in Actuarial Assumptions or Methods

- Calculation:
 - Item D. is to adjust for the effect of any changes in actuarial assumptions or methods adopted by the Board that were not incorporated in the consulting actuary's projections from the previous year (item A.). The adjustment should equal the Actuarial Measurement of the effect on the Underlying ADEC (Non-LEO) for the Contribution Year.

E. Increase to Manage Declining-Rate Environment

- Calculation:
 1. Total items A. through D. for current Contribution Year.
 2. Policy Contribution Rate (Non-LEO) for previous Contribution Year.
 3. If E.1. is greater than or equal to E.2., there is no increase under item E.
 4. If E.1. is less than E.2., the increase under item E. is:
 - a. 50% of the difference (E.2. – E.1.) if it is not the second (or more) consecutive year that E.1. has been less than E.2.
 - b. 25% of the difference (E.2. – E.1.) if it is the second (or more) consecutive year that E.1. has been less than E.2.
- Comment:
 - This adjustment will apply if the employer contribution rate is declining year-over-year. It is intended to provide budgeting stability for employers, and to minimize the likelihood of a rebound in the employer contribution rate after it declines (that is, a “V” shape).

F. Increase for Any Benefit Improvement Authorized by Board

- Calculation:
 - Before the Board authorizes any benefit improvement described in the “Comment” below, the Retirement Systems Division should obtain an Actuarial Measurement of the contemplated benefit improvement.
 - The increase in item F. is equal to the Actuarial Measurement of the effect of any authorized benefit improvement on the Underlying ADEC (Non-LEO) for the contribution year.
- Comment:

- In general, LGERS benefits are established by the General Assembly. However, if certain conditions are met each year, the Board has limited, delegated authority to approve either a cost-of-living increase in retirement allowances (“Permanent COLA”) under G.S. 128-27(k), or a discretionary one-time pension supplement (“Supplement”) under G.S. 128-27(k1), but not both. Under each of those provisions, the percentage increase of the Permanent COLA or Supplement must be no greater than the prior-year increase in inflation as defined by statute, and no greater than 4%. The Board must also determine that there are sufficient investment gains to cover the additional actuarial liabilities on account of the Permanent COLA or Supplement. Both provisions state that “the determination of whether there are sufficient investment gains... shall reside exclusively within the discretion of the [Board] and shall be informed by the findings within the annual actuarial valuation reports.”
- It is the intent of this policy that the Board may consider authorizing, but will not necessarily authorize, a Permanent COLA or Supplement if there have been gains on the actuarial value of assets, greater than or equal to the immediate increase in unfunded actuarial accrued liabilities arising from the Permanent COLA or Supplement.
- Under this policy, the Board may authorize a benefit improvement even if the Policy Contribution Rate is decreasing year-over-year.
- Note that, as of the adoption of this policy, the actuarial value of assets is a measurement that gradually recognizes gains and losses (returns above or below the assumption of 6.5% per year) over five years. Gains or losses are measured as of December 31 and documented in an actuarial valuation report published the following October. As such, when the Board meets in January, the precise gain or loss on the actuarial value of assets as of the immediately preceding December 31 will not yet be determined, but an estimate may be available from the consulting actuary.

G. Discretionary Increase to Avoid “V” Shape

- Calculation:
 - Discretionary calculation by staff that the Board may consider.
- Comment:
 - At the meeting where the Board is establishing the Policy Contribution Rate (Non-LEO), the consulting actuary will present a projection of Policy Contribution Rates for the remaining term of this policy.
 - The projections may indicate that the Policy Contribution Rate (Non-LEO) for the Contribution Year will be less than both the employer contribution rate (Non-LEO) for the year before and the projected Policy Contribution Rate (Non-LEO) for the year after. This is otherwise known as a “V” shape, with the Contribution Year being the bottom of the “V.” If this situation arises, the Board may, in its

discretion, increase the Policy Contribution Rate (Non-LEO) for the Contribution Year, to mitigate or eliminate the "V" shape.

- Any such discretionary increase should be no greater than the amount expected to be necessary to eliminate the "V" shape.

The Policy Contribution Rate (Non-LEO) will be deemed by the Board to be the annual actuarially determined employer contribution (funding ADEC) with respect to Non-LEOs, and to be the "required employer contribution rate" for LGERS, pursuant to G.S. 128-30(d)(5) as in effect at the date of adoption of this policy.

V. Determining the Policy Contribution (LEO)

Under this policy, the Policy Contribution (LEO) is to be determined using the same process as for the Policy Contribution (Non-LEO) in Section IV, but replacing "Non-LEO" with "LEO" in each case where it occurs in the descriptions of items A. through G. in Section IV.

The Policy Contribution (LEO) will be deemed by the Board to be the annual actuarially determined employer contribution (funding ADEC) with respect to LEOs, and to be the "required employer contribution for law enforcement officers rate" for LGERS, pursuant to G.S. 128-30(d)(9) as in effect at the date of adoption of this policy.

VI. Policy Contribution Rates in Absence of Specific Board Action

If the Board does not establish an employer contribution rate with respect to Non-LEOs or LEOs for a Contribution Year by March 1 preceding the beginning of the Contribution Year:

- The rates will be established according to Retirement Systems Division staff's calculation of the Policy Contribution Rates as set forth in Sections IV. and V. above.
- In performing these calculations, the Retirement Systems Division is to assume that the Board does not authorize a benefit improvement as described in item F. of Section IV, and the Board does not authorize a discretionary increase in the rate to avoid a "V" shape as described in item G. of Section IV.
- Retirement Systems Division staff is directed to communicate the resulting Policy Contribution Rate (Non-LEO) and Policy Contribution Rate (LEO) to LGERS participating employers and the public.

VII. Policy Effective Date

This policy, if adopted by the Board, will be effective through the fiscal year ending June 30, 2032. The Board may vote to extend it for any period of time.

Local Governmental Employees' Retirement System Board of Trustees

Employer Contribution Rate Stabilization Policy for the Local Governmental Employees' Retirement System (Continued)

Appendix 1: Example Timeline and Calculation

This Appendix illustrates a timeline and example of a particular year's establishment of a Policy Contribution Rate under this policy. The example illustrated in this Appendix is the fiscal year ending 2028, which is the first year of this policy.

- January 2026: Consulting actuary provides a projection of Underlying ADECs for at least five years. This includes a projected Underlying ADECs for fiscal year ending 2028.
 - As of the date of the adoption of this policy, this has already occurred. The consulting actuary presented this information at the Board's January 29, 2026 meeting. The projected Underlying ADECs for fiscal year ending 2028 were 15.29% of compensation with respect to Non-LEOs, and 17.59% with respect to LEOs.
- October 2026: Consulting actuary provides the annual actuarial valuation report.
 - The actuarial valuation report will present the Underlying ADECs for fiscal year ending 2028. As of the date of the adoption of this policy, this has not yet occurred. This Appendix assumes for illustrative purposes only that the Underlying ADECs will be 15.70% of compensation with respect to Non-LEOs, and 18.15% with respect to LEOs.
 - The actuarial valuation report will also present the calculation of gains or losses on the actuarial value of assets during 2025, measured as of December 31, 2025. This has not yet occurred. This Appendix assumes for illustrative purposes only that the report will show a loss on the actuarial value of assets during 2025.
- January 2027: Board meets to make decisions pertaining to fiscal year ending 2028.

Under this policy, and in the scenario described above, the Board would establish the employer contribution rate for Non-LEOs for fiscal year ending 2028 as follows:

- Item A.: 15.29%.
- Item B.: 0.50%.
- Items C. and D.: The consulting actuary will instruct the Board as to whether there have been any enacted benefit changes, or changes in actuarial assumptions or methods, since the January 2026 projection that require adjustment under Items C and D. For illustrative purposes in this Appendix, there are none assumed.
- Item E: Zero. (The sum of Items C. and D., 15.79%, would be greater than the Non-LEO employer contribution rate from fiscal year ending 2027, which was 15.10%.) Since item E.1. is greater than item E.2., there is no adjustment in E.
- Item F: Based on the illustrative scenario, the Board would not consider authorizing a benefit improvement unless there had been a gain in the actuarial

value of assets greater than or equal to the immediate increase in unfunded actuarial accrued liabilities arising from the benefit improvement.

- Item G: Zero. This scenario would not indicate a “V” shape with a “bottom of the V” in fiscal year ending 2028, and therefore, there is no discretionary increase.
- Policy Contribution Rate (Non-LEO): 15.79%. (Sum of items A. through G., no less than 6%.)

Similarly, the Board would establish the employer contribution rate for LEOs for fiscal year ending 2028 as follows:

- Item A.: 17.59%.
- Item B.: 0.50%.
- Items C. and D.: Assumed to be zero, for same reason as Non-LEOs.
- Item E: Zero. (The sum of Items C. and D., 18.09%, would be greater than the Non-LEO employer contribution rate from fiscal year ending 2027, which was 17.10%.) Since item E.1. is greater than item E.2., there is no adjustment in E.
- Item F: Assumed to be zero, for same reason as Non-LEOs.
- Item G: Zero. This scenario would not indicate a “V” shape with a “bottom of the V” in fiscal year ending 2028, and therefore, there is no discretionary increase.
- Policy Contribution Rate (LEO): 18.09%. (Sum of items A. through G., no less than 6%.)
- **Note that in this hypothetical scenario, the Policy Contribution Rate (LEO), 18.09%, is less than the Underlying ADEC (LEO), 18.15%.** The Policy Contribution Rate (LEO) would remain at 18.09% and would not be increased to 18.15%. The 0.50% adjustment in each Contribution Year, under item B. of Section IV, is intended to provide assurance that the Policy Contribution Rates over the course of this policy will deliver contributions to LGERS at least equal to the Underlying ADECs, even if they do not deliver contributions at least equal to the Underlying ADECs in a particular Contribution Year or with respect to a particular segment of members (Non-LEO or LEO).
- Also in January 2027: Consulting actuary provides a projection of Underlying ADECs for at least five years. This includes a projected Underlying ADEC for fiscal year ending 2029, which will be used in Item A. for fiscal year ending 2029. This supports reliable planning for fiscal year ending 2029. However, it will not be until 2028 that the employer contribution rates for fiscal year ending 2029 are established.