

Teachers' and State Employees' Retirement System Board of Trustees

Employer Contribution Rate Stabilization Policy for the Teachers' and State Employees' Retirement System

I. Policy Purpose

This policy provides for continued operation of an Employer Contribution Rate Stabilization Policy (ECRSP) for the Teachers' and State Employees' Retirement System (TSERS). On January 21, 2016, the Board of Trustees (Board) of TSERS approved an ECRSP to be in place for fiscal years ending 2017 through 2022. On April 29, 2021, the Board adopted an ECRSP for fiscal years ending 2023 through 2027. Having adopted the Experience Study of the 2020-2024 calendar years on January 29, 2026, which will be effective for plan funding purposes for fiscal years ending 2028 and later, the Board wishes to institute an ECRSP effective for contributions during the five fiscal years ending 2028 through 2032.

II. Policy Objectives

This policy establishes how the Board will develop an annual appropriation amount to recommend to the General Assembly to fund TSERS and to establish the "required employer contribution rate" pursuant to G.S. 135-8(d)(3a).

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 TSERS.

Policy Contribution Rate: The percentage of eligible member compensation that the Board recommends be contributed to TSERS by employers each year in accordance with this policy.

Underlying Actuarially Determined Employer Contribution (Underlying ADEC): A rate of compensation calculated by the Board's consulting actuary, and disclosed in the consulting actuary's annual valuation report, representing a minimally sufficient funding level according to the Board's actuarial assumptions and methods before applying this policy.

IV. Annual Appropriation Recommendation

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 is the total of items A. through E. below, but no less than 6% of compensation:

A. Projection of Underlying ADEC for the Contribution Year, from Prior January Meeting

- Calculation:
 - Item A. is the projection of the Underlying ADEC 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 recommendation.
- Comment:
 - This allows for advance planning and budgeting, for example, for an entire biennium. See the example timeline in Appendix 1.
 - Item A. is determined without regard to the statutory minimum rate (member contribution rate) under G.S. 135-8(d)(1a).

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 ensure that the recommended contribution rate will at least be equal to the Underlying ADEC, so that in most circumstances, no adjustment under Item E. will be necessary.

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 before the end of the Contribution Year that was 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 for the Contribution Year, presented in the legislative actuarial note.

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 for the Contribution Year.

E. Increase to Underlying ADEC if Necessary

- Calculation:
 - Item E. is equal to the Underlying ADEC from the consulting actuary's annual valuation report defining the Underlying ADEC for the Contribution Year (typically published in October about 8 months before the Contribution Year begins), minus the total of items A. through D., with the result being no less than zero.
 - If the General Assembly enacts a benefit change before the end of the Contribution Year that was not incorporated in the actuarial valuation report, the Underlying ADEC used in item E. is to be adjusted by the Actuarial Measurement of the effect of the benefit change on the Underlying ADEC for the Contribution Year, presented in the legislative actuarial note.
- Comment:
 - Pursuant to G.S. 135-8(d)(3a), this policy may adjust the ADEC "higher" when determining the required employer contribution rate. It cannot recommend a rate less than the Underlying ADEC.
 - If the total of items A. through D. above is less than the Underlying ADEC, item E. is intended to ensure this policy does not recommend less than the Underlying ADEC.
 - Note that item B. above is intended to ensure that under most circumstances, no adjustment under item E. will be necessary. However, an adjustment under item E. may become necessary if the most recent annual actuarial valuation report shows very significant actuarial losses due to unforeseen changes in employee salaries or other observations of the TSERS population.

The Policy Contribution Rate may be greater than the Underlying ADEC indicated by actuarial valuation reports. For avoidance of doubt, the Board considers the Policy Contribution Rate to be the annual actuarially determined employer contribution (ADEC) for funding purposes, and the Board considers the Policy Contribution Rate to be the "required employer contribution rate" for TSERS pursuant to G.S. 135-8(d)(3a) as in effect at the date of adoption of this policy.

V. **Benefit Improvement Recommendations by the Board**

TSERS benefits are established by the General Assembly. The Board has discretion to recommend or not recommend that the General Assembly improve benefits. If the Board recommends benefit improvements, they may include, for example, a cost-of-living increase in retirement allowances, a one-time supplement payable to TSERS beneficiaries, or an increase in the statutory retirement formula multiplier that is 1.82% as of the adoption of this policy.

It is the intent of this policy that the Board may consider, but will not necessarily make, a recommendation of a benefit improvement 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 contemplated benefit improvement. The Board may recommend a benefit improvement even if the Policy Contribution Rate is decreasing year-over-year.

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.

Before the Board recommends any benefit improvement, the Retirement Systems Division should obtain an Actuarial Measurement of the contemplated benefit improvement.

Along with recommending any benefit improvement to the General Assembly, the Board should recommend that the General Assembly's appropriation for the Contribution Year be adjusted for the Actuarial Measurement of the recommended benefit improvement, to the extent the recommended benefit improvement is adopted, consistent with Section IV, items C. and E., above.

VI. Recommendation in Absence of Specific Board Action

If the Board does not make a specific recommendation for the Contribution Year, then Retirement Systems Division is directed to communicate to the General Assembly that the recommended employer contribution rate is the Policy Contribution Rate described in Section IV above, with the presumption that the Board has not recommended a benefit improvement as described in Section V above.

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.

Teachers' and State Employees' Retirement System Board of Trustees

Employer Contribution Rate Stabilization Policy for the Teachers' and State Employees' Retirement System (Continued)

Appendix 1: Example Timeline and Calculation

This Appendix illustrates a timeline and example of a particular year's recommendation 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 ADEC 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 ADEC for fiscal year ending 2028 was 15.69% of compensation.
- October 2026: Consulting actuary provides the annual actuarial valuation report.
 - The actuarial valuation report will present the Underlying ADEC 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 ADEC will be 16.01% of compensation.
 - 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 a recommendation. Under this policy, and in the scenario described above, the Board would recommend that the General Assembly establish the employer contribution rate for fiscal year ending 2028 as follows:
 - Item A.: 15.69%.
 - 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. (Calculated as 16.01%, minus [15.69% + 0.50% = 16.19%], but no less than zero.) Note that in this scenario, the 0.50% adjustment under Item B. means that no adjustment under Item E. is necessary. If the Underlying ADEC published in October 2026 were greater than 16.19%, an adjustment would be necessary.
 - Based on the illustrative scenario, the Board would not consider recommending a benefit improvement under Section V 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 recommended benefit improvement.

- Policy Contribution Rate: 16.19%. (Sum of items A. through E., no less than 6%.)

- 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 and budgeting for fiscal year ending 2029 (and hence, the entire 2027-2029 State biennium). However, it will not be until 2028 that the Board makes its recommendations to the General Assembly with respect to fiscal year ending 2029.

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