Decisions on Local Governmental Employees' Retirement System (LGERS)

Why is this an issue? Valuation report shows that the new Annual Required Contribution (ARC) of 7.07 percent is higher than the current employer contribution rate of 6.74 percent. Therefore, the LGERS Board of Trustees will need to increase the employer contribution rate by an additional 0.33 percent of payroll, or $18.3 million to meet the new ARC.

What is the reason for the difference? The impact of investment losses during calendar year 2011 was partially offset by the impact of salaries increasing less than assumed in the valuation. Because of this, the ARC as determined by the December 31, 2011 valuation for the 2013-2014 fiscal year is higher than the employer contribution rate that was set for the 2012-2013 fiscal year.

Two Policy Options for Consideration by the Board of Trustees

Option One – Increase the Employer Contribution Rate:
Increase the employer contribution rate of 6.74 percent by 0.33 percent to cover the ARC. The new employer rate would be 7.07 percent, which would cost employers an additional $18.3 million during the fiscal year 2013-2014.

Option Two – Provide a 1.0 Percent COLA:
Increase the employer contribution rate of 6.74 percent by 0.54 percent. This increase would cover the ARC and provide enough additional funds to allow the Board to grant a 1.0 percent COLA. The cost to employers to cover the ARC and pay for the COLA would be an additional $29.9 million during the fiscal year 2013-2014. The total amount to be funded over time is the increase in liability of $93.3 million. The COLA would produce, on average, a $15 per month increase per retiree.

Option Three – Increase Multiplier for Active Employees: [STAFF RECOMMENDS AGAINST THIS OPTION]

Increase the employer contribution rate of 6.74 percent by 0.64 percent. This increase would cover the ARC and provide enough additional funds to allow the Board to grant a 0.01 percent accrual rate increase. The total amount to be funded over time is the increase in liability of $136.8 million. The additional funds would cover the ARC and increase benefits for current active employees. The additional cost for future hires is 0.06 percent of pay. The accrual rate could increase from 1.85 percent to 1.86 percent with a corresponding 0.54 percent increase to all beneficiaries. Staff does not recommend this option.

Prepared by Staff of the Retirement Systems Division,
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Building Brighter Futures for Public Employees

North Carolina Retirement Systems SM

SUMMARY OF ALTERNATIVES
FOR PRESENTATION TO THE 2013 GENERAL ASSEMBLY

Retirement System	**Employer Contributions**	**Enhance Benefits**
Local Governmental Employees'	Increase normal rate[1] by 0.33% for a cost in the first year to employers of $18,282,000	No undistributed gain available for benefit enhancements

FOOTNOTES:

[1]The current normal employer contribution rates are 6.74% for General Employees and 7.22% for Law Enforcement Officers. The total estimated payroll for the 2011 Session of the General Assembly was $5,540,000,000.

LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
COST OF CERTAIN BENEFIT CHANGES AFFECTING
FISCAL YEAR ENDING JUNE 30, 2014 BUDGET

	Percentage Payroll[1]	Local Funding[2]
<u>Benefit Changes</u>		
<u>Post-Retirement Increases</u>		
Each 1% increase to Beneficiaries as of July 1, 2012 payable beginning July 1, 2013 and prorated percentage to 2012-13 Beneficiaries	0.21%[3]	$ 11,634,000
<u>Enhance Benefit Structure</u>		
Each 0.01% increase in the defined benefit formula accrual rate from current 1.85% with a 0.54% increase to all Beneficiaries	0.31%[4]	$ 17,174,000

<u>FOOTNOTES</u>:

[1]Employer normal rates of contribution are 6.74% for General Employees and 7.22% for Law Enforcement Officers of covered members' payroll with variable rates for accrued liabilities.

[2]Assumes total covered payroll of $5,540,000,000.

[3]The total amount to be funded over time is the increase in liability of $93.3 million.

[4]The total amount to be funded over time is the increase in liability of $136.8 million. The additional cost for future hires is 0.06 percent of pay.