North Carolina Retirement Systems

January 30, 2025

Summary of Funding/Benefits Alternatives for Recommendations to Legislature for Fiscal Year Ending in 2026

Teachers' and State Employees' Retirement System (TSERS) Board of Trustees

Executive Summary

This document summarizes alternatives for the Board's funding and benefits recommendations to the North Carolina General Assembly for its 2025 session. This includes alternatives for funding during the fiscal year ending in 2026.

The current State budget law covers the biennium for the fiscal years ending in 2024 and 2025. In 2025, the General Assembly will enact a State budget for the fiscal years ending in 2026 and 2027. Retirement-related costs will be informed by the most recent annual valuation reports from the consulting actuaries, published in October 2024. These costs may be adjusted for the costs of any benefit changes enacted by the General Assembly.

The Board may make recommendations to the General Assembly regarding the appropriate funding levels for currently-promised benefits for the fiscal year ending in 2026, based on the actuarial valuation results. The Board also may recommend changes in benefits, as well as changes in funding that would be connected to benefit change recommendations.

Staff believes that the following substantive issue remains for the Board to consider:

(1) Whether to recommend a benefit improvement under the North Carolina National Guard Pension Fund (NCNGPF), along with funding levels commensurate with the increase.

The remainder of this memo provides details regarding each Retirement System.

TSERS

G.S. 135-8(d)(3a) requires that employer contributions to TSERS in each year "shall not be less than the sum of the rate per centum known as the actuarially determined employer contribution [ADEC] rate… as adjusted higher under a contribution rate policy adopted by the Board of Trustees and known as the 'required employer contribution' rate." G.S. 135-8(d)(2a) requires that the ADEC rate "shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees."

1. ADEC Prior to Legislative Changes and Contribution Rate Policy

The most recent TSERS actuarial valuation report documents the recommended employer contribution rate for the fiscal year ending in 2026. The "ADEC Prior to Legislative Changes and Contribution Rate Policy" is the mathematical contribution rate that would fund the system using the Board's assumptions and methods adopted on January 28, 2021, and plan population and asset information as of December 31, 2023. The "ADEC Prior to Legislative Changes and Contribution Rate Policy" for the fiscal year ending in 2026 is 14.85% of compensation.

2. Adjustment for Legislative Changes

There have been no legislative changes since the October 2024 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

3. Adjustment for Employer Contribution Rate Stabilization Policy (ECRSP)

The Board adopted the current ECRSP on April 29, 2021. This policy serves to provide predictable incremental increases in the employer contribution rate to ameliorate any potential adverse experience. Under the ECRSP, the annual appropriation recommendation for the fiscal year ending in 2026 will be the greater of (A) or (B) below. The greater of the two is 17.14%.[1]

(A) The rate from part (1) above, as adjusted for part (2) if necessary. This rate is 14.85%.
(B) 0.35% greater than the Board's recommendation from the fiscal year ending in 2025, as adjusted for any legislative benefit change if necessary. The Board's recommendation for the fiscal year ending in 2025 was 16.79%. Therefore, the rate under (B) is 16.79% + 0.35% = 17.14%.

This adjusted ADEC rate of 17.14% of pay is greater than the appropriated employer contribution rate for the fiscal year ending in 2025 from S.L. 2023-134, Section 39.26.(c), as amended by S.L. 2024-55, Section 12.1.(a), which was 16.79%. Therefore, the ECRSP would require the recurring appropriation to TSERS from the General Fund to increase by $44.3 million for the fiscal year ending in 2026.[2]

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[1] The ECRSP also provides that the recommended rate should be no greater than the ADEC if it were determined using a discount rate equal to the yield on 30-year Treasury securities, as adjusted for legislative benefit changes. According to the most recent actuarial valuation report, this upper bound would have been approximately 52.06% of compensation.

[2] As illustrated in the footnotes to the "Summary" page of this document, the approximate dollar amounts for appropriations effective July 1, 2025, are estimated using the "Estimated State Payrolls for Retirement Appropriations Purposes for the 2024 Session of the North Carolina General Assembly," set forth in a letter from the Executive Director of the Retirement Systems to the State Budget Director and the Director of the Fiscal Research Division of the General Assembly, dated April 23, 2024. For example, the approximate increase in appropriations from the General Fund ($44.3 million) is estimated as $12,657,405,000 (the TSERS payroll sourced from the General Fund from the aforementioned memo) multiplied by 0.35% (17.14% minus 16.79%). Once a similar payroll letter is finalized for the 2025 Session of the General Assembly, the dollar amounts would change in accordance with the new estimated payroll amounts.

Cost of Living Adjustment to Retirement Allowances (COLA) or One-Time Supplements. The Board may recommend benefit changes to the General Assembly, but does not have the authority to grant them. G.S. 135-5(o) has various provisions related to COLAs, including a description of an increase to ongoing monthly benefits limited to 4% or inflation (whichever is less) when the cost would not require an increase in the employer contribution rate. Notwithstanding the amount of investment gains experienced in a year, if any, the ECRSP provides that the recommended employer contribution rate for any year through the fiscal year ending in 2027 will be adjusted for “the effect of any benefit change enacted by the General Assembly that was not incorporated in the consulting actuary’s annual valuation report.”

In the latest actuarial valuation report, the Board’s consulting actuary stated that “an actuarial investment loss was incurred during 2023, and there are no investment gains available to support a recommendation of either of the following by the TSERS Board of Trustees: (1) a Cost-of-Living Adjustment (COLA) that would take effect on July 1, 2025; or (2) a one-time supplement to participants in receipt of benefits, payable July 1, 2025.”

Policy Option for Consideration by the Board. Recommend the legislature set a contribution rate of 17.14% of compensation to cover the “required employer contribution” pursuant to G.S. 135-8(d)(3a) for the fiscal year ending in 2026. The recurring appropriation from the General Fund would need to increase by $44.3 million from the amount appropriated for the fiscal year ending in 2025.

Consolidated Judicial Retirement System (CJRS)

G.S. 135-66(d) provides that an actuarially determined employer contribution (ADEC) rate "shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees." G.S. 135-66(e) provides that "the Board of Trustees may adopt a contribution policy that would recommend a contribution not less than the [ADEC]." G.S. 135-66(f) provides that "the recommended employer contribution rate by the Board of Trustees each year shall not be less than the [ADEC]."

1. ADEC Prior to Legislative Changes

The most recent valuation report shows the "ADEC Prior to Legislative Changes" rate for the fiscal year ending in 2026. The "ADEC Prior to Legislative Changes" is the mathematical contribution rate that would fund the system using the Board's assumptions adopted on January 28, 2021, and plan population and asset information as of December 31, 2023. It consists of a normal contribution rate and an accrued liability contribution rate. The "ADEC Prior to Legislative Changes" for the fiscal year ending in 2026 is 37.73% of compensation.

2. Adjustment for Legislative Changes

There have been no legislative changes since the October 2024 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

The ADEC rate for the fiscal year ending in 2026, 37.73% of compensation, is greater than the appropriated employer contribution rate for the fiscal year ending in 2025 from S.L. 2023-134, Section 39.26.(c), as amended by S.L. 2024-55, Section 12.1.(a), which was 35.96%. Therefore, the recurring appropriation to CJRS from the General Fund would be required to increase by $1.8 million for the fiscal year ending in 2026.[3]

Policy Option for Consideration by the Board. Recommend the legislature set a contribution rate of 37.73% of compensation for the fiscal year ending in 2026. The recurring appropriation from the General Fund would need to increase by $1.8 million from the amount appropriated for the fiscal year ending in 2025.

[3] The approximate increase in appropriations from the General Fund ($1.8 million) is estimated as $100,612,000 (CJRS payroll from "Estimated State Payrolls for Retirement Appropriations Purposes for the 2024 Session of the North Carolina General Assembly,") multiplied by 1.77% (37.73% minus 35.96%).

Legislative Retirement System (LRS)

G.S. 120-4.20(a) provides that "the State shall contribute annually an amount equal to the sum of the 'normal contribution' and the 'accrued liability contribution.'" G.S. 120-4.20(e) provides that "the normal contribution rate and the accrued liability contribution rate shall be determined after each annual valuation of the Retirement System and shall remain in effect until a new valuation is made."

1. ADEC Prior to Legislative Changes

The most recent valuation report shows the "ADEC Prior to Legislative Changes" rate for the fiscal year ending in 2026. The "ADEC Prior to Legislative Changes" is the mathematical contribution rate that would fund the system using the Board's assumptions adopted on January 28, 2021, and plan population and asset information as of December 31, 2023. It consists of a normal contribution rate and an accrued liability contribution rate. The "ADEC Prior to Legislative Changes" for the fiscal year ending in 2026 is 18.26% of compensation.

2. Adjustment for Legislative Changes

There have been no legislative changes since the October 2024 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

The ADEC rate for the fiscal year ending in 2026, 18.26% of compensation, is less than the appropriated employer contribution rate for the fiscal year ending in 2025 from S.L. 2023-134, Section 39.26.(c), as amended by S.L. 2024-55, Section 12.1.(a), which was 19.32%. Therefore, the recurring appropriation to LRS from the General Fund could decrease by $38,000 while still meeting the ADEC requirements for the fiscal year ending in 2026.[4]

Policy Option for Consideration by the Board. Recommend the legislature set a contribution rate of 18.26% of compensation for the fiscal year ending in 2026. The recurring appropriation from the General Fund could decrease by $38,000 while still meeting the ADEC requirements for the fiscal year ending in 2026.

[4] The approximate decrease in appropriations from the General Fund ($38,000) is estimated as $3,620,000 (LRS payroll from "Estimated State Payrolls for Retirement Appropriations Purposes for the 2024 Session of the North Carolina General Assembly,") multiplied by 1.06% (19.32% minus 18.26%).

Disability Income Plan of North Carolina (DIPNC)

The most recent valuation report shows the recommended actuarially determined contribution (ADC) rate for the fiscal year ending in 2026. The ADC is the mathematical baseline contribution rate that would fund the system using the Board's assumptions adopted on January 28, 2021, and plan population and asset information as of December 31, 2023.

The ADC rate for the fiscal year ending in 2026, 0.07% of compensation, is less than the appropriated employer contribution rate for the fiscal year ending in 2025 from S.L. 2023-134, Section 39.26.(c), as amended by S.L. 2024-55, Section 12.1.(a), which was 0.13%. Therefore, the recurring appropriation to DIPNC from the General Fund could decrease by $8.5 million while still meeting the ADEC requirements for the fiscal year ending in 2026.[5]

Policy Option for Consideration by the Board. Recommend the legislature set a contribution rate of 0.07% of compensation for the fiscal year ending in 2026. The recurring appropriation from the General Fund could decrease by $8.5 million while still meeting the ADEC requirements for the fiscal year ending in 2026.

[5] The approximate decrease in appropriations from the General Fund ($8.5 million) is estimated as $14,148,202,000 (payroll sourced from the General Fund from "Estimated State Payrolls for Retirement Appropriations Purposes for the 2024 Session of the North Carolina General Assembly" for TSERS [$12,657,405,000] added to the UNC Optional Retirement Plan [$1,490,797,000]), multiplied by 0.06% (0.13% minus 0.07%).

North Carolina National Guard Pension Fund (NCNGPF)

G.S. 127A-40.1(d) provides that an actuarially determined employer contribution (ADEC) rate “shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees.” G.S. 127A-40.1(e) provides that “the Board of Trustees may adopt a contribution policy that would recommend a contribution not less than the [ADEC].” G.S. 127A-40.1(f) provides that “the recommended employer contribution rate by the Board of Trustees each year shall not be less than the [ADEC].”

1. ADEC Prior to Legislative Changes and Contribution Policy

The most recent NCNGPF actuarial valuation report documents the recommended “ADEC Prior to Legislative Changes and Contribution Policy” amount for the fiscal year ending in 2026. The “ADEC Prior to Legislative Changes and Contribution Policy” is the mathematical contribution that would fund the system using the Board’s assumptions and methods adopted on January 21, 2021, and plan population and asset information as of December 31, 2023. The “ADEC Prior to Legislative Changes and Contribution Policy” for the fiscal year ending in 2026 is $0.

2. Adjustment for Legislative Changes

There have been no legislative changes since the October 2024 publication of the actuarial valuation report that have been measured to materially affect the ADEC.

3. Adjustment for State Contribution Rate Stabilization Policy (SCRSP)

The Board adopted the SCRSP on April 29, 2021 and amended it on January 25, 2024. The SCRSP provides that if the most recent measured funded percentage of the NCNGPF is at least 100%, the recommended State contribution will be equal to the Normal Cost used to calculate the ADEC. Based on current benefit levels and the most recent actuarial valuation report, the relevant funded percentage was 124.1%, and the Normal Cost for the fiscal year ending in 2026 is $1,110,318. Accordingly, the ADEC recommended under the SCRSP based on current benefit levels is $1,110,318.

The ADEC of $1,110,318 based on current benefit levels would be less than the appropriated State contribution for the fiscal year ending in 2025 from S.L. 2023-134, as amended by S.L. 2024-55, Section 12.1.(b), which was $1,120,949. Therefore, the recurring appropriation to NCNGPF from the General Fund could decrease by $10,631 while still meeting the ADEC requirements for the fiscal year ending in 2026, if there is no change to benefit levels.

Benefit Improvements. The NCNGPF was measured to be 124.1% funded on an actuarial basis as of December 31, 2023, with $188.3 million in actuarial value of assets, as compared to $151.7 million in actuarial accrued liability. Because the funded percentage was at least 100%, the SCRSP provides that the Board may consider recommending a benefit increase up to the relevant inflation measure, which was 2.97%. The consulting actuary has estimated that based on the funded position of the plan, namely an actuarial “surplus” of $36.6 million as of December 31, 2023, any such increase in benefits could be recommended without a State funding request:

Table 1: Benefit Improvement Costs Based on Gallagher's 12/31/2023 Actuarial Valuation

Monthly Ben. After 20 Yrs.	Monthly Ben. After 30 Yrs.	Full Actuarial Cost	Actuarial Surplus at 12/31/23	Expected State Contribution	Net Funding Requirement
$105 (Current)	$210 (Current)	$0	($36,625,908)	($1,110,318)	$0
$106	$212	$1,446,913	($36,625,908)	($1,110,318)	$0
$107	$214	$2,893,826	($36,625,908)	($1,110,318)	$0
$108	$216	$4,340,739	($36,625,908)	($1,110,318)	$0

In assessing the durability of the funding surplus as of December 31, 2023, the Board may wish to consider that as of December 31, 2023, the market value of assets was $10 million less than the actuarial value. That is, the surplus on a market value basis was $26 million, compared to a surplus of more than $36 million on an actuarial value basis.

Gallagher's most recent valuation report indicates that the Normal Cost for the fiscal year ending in 2026, which is $1,110,318 based on already-promised benefits, would have been slightly greater if the benefit amount were improved, in the following amounts:

Table 2: Normal Costs at Various Benefit Levels from Gallagher's 12/31/2023 Valuation

Monthly Ben. After 20 Yrs.	Monthly Ben. After 30 Yrs.	Normal Cost
$105 (Current)	$210 (Current)	$1,110,318
$106	$212	$1,112,337
$107	$214	$1,114,356
$108	$216	$1,116,375

Policy Options for Consideration by the Board.

(1) The Board could recommend no change in benefits. If so, the Board would recommend the legislature set a State contribution of $1,110,318 for the fiscal year ending in 2026. The recurring appropriation to NCNGPF from the General Fund could decrease by $10,631 while still meeting the ADEC requirements for the fiscal year ending in 2026.

(2) The Board could recommend a benefit improvement that would (if enacted) increase the benefit from $105 to as much as $108 per month for a retiree with 20 years of military service, and from $210 to as much as $216 per month for a retiree with 30 years of military service. If so, the Board would recommend the legislature set a State contribution equal to the amount from the "Normal Cost" column of "Table 2: Normal Costs at Various Benefit Levels from Gallagher's 12/31/2023 Valuation" above. For example, if the Board is recommending an increase in the benefit level from $105 / $210 to $108 / $216, the recommended State contribution amount would be $1,116,375. In that scenario, the recurring appropriation to NCNGPF from the General Fund could decrease by $4,574 while still meeting the ADEC requirements for the fiscal year ending in 2026.

Death Benefit Plans

Death Benefit Plan for Members of TSERS

The actuarial valuation of the Death Benefit Plan for members of TSERS as of December 31, 2023, shows that the plan has liabilities of $152 million. Against these liabilities, the plan has current assets of $61 million. Prospective contributions by the state based on a contribution rate equal to 0.13% of compensation have a present value of $231 million. The present and prospective assets, which amount to $292 million, exceed the liabilities of $152 million by $140 million.

Policy Option for Consideration by the Board. Recommend no change to the current contribution rate or benefit structure. ***Making no recommendation does not require a vote of the Board.***

Separate Insurance Benefit Plan for Law Enforcement Officers

The actuarial valuation of the Separate Insurance Benefits Plan for Law Enforcement Officers as of December 31, 2023, shows that the plan has liabilities of $51 million. Against these liabilities, the plan has current assets of $54 million.

Policy Option for Consideration by the Board. Recommend no change to the current benefit structure and do not request additional appropriations. ***Making no recommendation does not require a vote of the Board.***

Contributory Death Benefit

Benefits payable under the Contributory Death Benefit Plan are supported entirely by the contributions of the participants and the investment earnings on those contributions. The actuarial valuation as of December 31, 2023, shows that the plan has liabilities of $1.52 billion. Against these liabilities, the plan has current assets of $0.25 billion. Prospective contributions of participants eligible for benefits have a value of $1.04 billion. The total present and prospective benefits amount to $1.29 billion, which are less than the liabilities of $1.52 billion by $0.23 billion. The Board's consulting actuary has advised that, based on the assumptions of the actuarial valuation, the current assets and contribution rates of the plan are not adequate with the current plan provisions and contribution rates. Pursuant to S.L. 2020-29, no decision of either the State Board or the Local Board related to this plan can take effect unless and until the same decision has been made and voted on by the other Board.

In January 2022, the Boards directed RSD staff to engage with the consulting actuary to identify and study alternative actions that would help to address the projected funding shortfall. This study was presented to the Boards in January 2023. In April 2023, the Boards voted unanimously (among those present) to recommend that the General Assembly enact legislation to add the State Employees' Benefit Trust (SEBT) described in G.S. 135-7(g) to the list of "Retirement Systems" funds in G.S. 147-69.2(b)(8). This would allow the funds to be invested in the Retirement Systems pool. The consulting actuary estimated that this alternative would have improved the measured shortfall/surplus of the Contributory Death Benefit Plan by $0.28 billion as of December 31, 2021. The Boards' recommendation has been communicated to the legislature.

Policy Option for Consideration by the Board. No new recommendation. ***Making no new recommendation does not require a vote of the Board.***

Summary of Alternatives
For Presentation to the 2025 General Assembly

This draft is prepared under the assumption that the Board adopts a motion to recommend a benefit improvement for the NCNGPF from $105 / $210 to $108 / $216. If the Board takes different actions, it is suggested that the Board direct staff to make any updates necessary to conform to Board decisions prior to communicating this summary to the legislature.

Retirement System	Employer Contributions	Enhanced Benefits
Teachers' and State Employees' Retirement System	Establish employer contribution rate at 17.14%, an increase of 0.35%, increasing recurring costs by $44.3 million to General Fund and $1.3 million to Highway Fund.[1]	None
Consolidated Judicial	Establish employer contribution rate at 37.73%, an increase of 1.77%, increasing recurring General Fund costs by $1.8 million.[2]	None
Legislative	Establish employer contribution rate at 18.26%, a decrease of 1.06%, decreasing recurring General Fund costs by $38,000.[3]	None
Disability Income Plan	Establish employer contribution rate at 0.07%, a decrease of 0.06%, decreasing recurring costs by $8.5 million to General Fund and $0.2 million to Highway Fund.[4]	None
National Guard Pension Fund	Establish State contribution of $1,116,375, decreasing recurring General Fund costs by $4,574.[5]	Amend G.S. 127A-40(a) to change $105 to $108; $10.50 to $10.80; and $210 to $216.
Death Benefit Plans	No change	None

FOOTNOTES:

[1]The estimated payrolls for the 2024 Session of the General Assembly were $12,657,405,000 for the General Fund and $369,932,000 for the Highway Fund.

[2]The estimated payroll for the 2024 Session of the General Assembly was $100,612,000.

[3]The estimated payroll for the 2024 Session of the General Assembly was $3,620,000.

[4]The estimated payrolls for the 2024 Session of the General Assembly were $14,148,202,000 for the General Fund and $369,932,000 for the Highway Fund.

[5]The appropriated employer contribution for fiscal year ending June 30, 2025 is $1,120,949. The recommended contribution for the fiscal year ending in 2026 is $1,110,318 if the change in the "Enhanced Benefits" column is not made, and $1,116,375 if the change in the "Enhanced Benefits" column is made.