

MEMORANDUM

TO: Local Governmental Employees' Retirement System (LGERS) Board of Trustees (Board)

FROM: Patrick Kinlaw, Director of Policy, Planning, and Compliance

DATE: January 30, 2025

RE: Summary of Information Regarding Investment Returns and Benefit Improvement Decisions for LGERS as of January 2025

I. Key Statutory Provisions and Board Policy Provisions

- a. G.S. 128-27(k) provides that LGERS retirees and beneficiaries "shall be entitled to" inflation-based (limited to 4%) adjustments to retirement allowances "provided that any such increase in allowances shall be contingent upon the total fund providing sufficient investment gains to cover the additional actuarial liabilities on account of such increase. The determination of whether there are sufficient investment gains to cover the possible postretirement increase in allowance shall reside exclusively within the discretion of the Board of Trustees and shall be informed by the findings within the annual actuarial valuation reports. In considering whether to grant a postretirement increase, the Board of Trustees shall take into account both the rate of inflation as determined by the Consumer Price Index and the record of investment gains or losses during the preceding three-year period."
- b. G.S. 128-27(k) further provides that "[n]otwithstanding the foregoing linkage between increases in the Consumer Price Index and correlative contingent increases in retirement benefits determined by the availability of sufficient investment gains to cover the additional actuarial liabilities arising from those increased benefits, the Board of Trustees, may in any year, considering an increase, if any, in the Consumer Price Index, fund a cost-of-living increase in a percentage amount, measured in tenths of one percent (1/10 of 1%), of up to four percent (4%), provided that the Board may use only investment gains to fund such an increase."
- c. G.S. 128-27(k1) provides that LGERS retirees and beneficiaries "shall be entitled to" inflation-based (limited to 4%) one-time pension supplement payments, "provided that any such one-time pension supplement shall be contingent upon a determination by the Board of Trustees under subsection (k) of this section that a permanent increase in benefits will not be paid during the same fiscal year as the one-time pension supplement, but the total fund is providing sufficient investment gains to cover the additional actuarial liabilities on account of such one-time pension supplement. The determination of whether there are sufficient investment gains to cover the one-time pension supplement shall reside exclusively within the discretion of the Board of Trustees and shall be informed by the findings within the annual actuarial valuation reports. In considering whether to grant a one-time pension supplement, the Board of Trustees shall take into account both the rate of inflation as determined by the Consumer Price Index and the record of investment gains or losses during the preceding three-year period."

- d. Under the Board's [Employer Contribution Rate Stabilization Policy \(ECRSP\)](#), the employer contribution rate for FY ending 2026 should be adjusted "for the effect of any enacted benefit change taking effect before or during [FY ending 2026] that was not incorporated in the Policy Contribution [for FY ending 2025]."

II. Statements by Consulting Actuary (Gallagher) in Most Recent [Actuarial Valuation Report](#)

- a. "The December 31, 2023, valuation indicates an actuarial investment loss was incurred during 2023, and there are no investment gains available to support authorization by the LGERS Board of Trustees of either of the following: [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 on September 1, 2025, payable October 2025." (p. 12)
- b. "Based on the methods and assumptions used for the projections discussed later in the presentation, the conditions for the Board to consider granting a COLA effective July 1, 2026, following the December 31, 2024, valuation would include the following minimal levels of investment return on market values of assets during 2024.... If calendar year 2024 market value return is at least 15.87% (or about \$5.12 billion for LGERS), [LGERS] is estimated to have an actuarial investment gain (rather than a loss) for 2024 and such gain may be enough to provide some level of COLA effective July 1, 2026." (p. 13)
- c. "Based on the methods and assumptions used for the projections discussed later in the presentation, the conditions for the Board to consider granting a one-time supplement to all in-receipt participants as of September 1, 2026 (payable in October 2026), following the December 31, 2024, valuation would include the following minimal levels of investment return on market values of assets during 2024.... If calendar year 2024 market value return is at least 15.87% (or about \$5.12 billion for LGERS), [LGERS] is estimated to have an actuarial investment gain (rather than a loss) for 2024 and such gain may be enough to provide a one-time supplement payable in October 2026." (p. 14)
- d. "Gallagher cannot provide legal advice. Neither this slide, nor any other slide, should be interpreted as legal advice as to the Board's ability to provide a COLA to retirees or recommend a COLA to the legislature." (pp. 13 and 14)

III. Preliminary Calendar Year 2024 Investment Returns

- a. In January 2025, staff of the Department of State Treasurer's Investment Management Division (IMD) informed RSD that the preliminary calendar year 2024 rate of investment return for the North Carolina Retirement Systems was +7.4%. This estimate is subject to change.

IV. Staff Observations

- a. Based on p. 12 of the consulting actuary's most recent valuation report, there were no actuarial investment gains as of December 31, 2023 available to support a benefit improvement during FY ending 2026.

- b. Based on pp. 13-14 of the consulting actuary's most recent valuation report, the preliminary investment return of +7.4% during calendar year 2024 is less than the rate of +15.87% that would have been necessary to establish an actuarial investment gain to support a potential benefit improvement during FY ending 2027.
- c. Benefit promises must be funded either by future contributions (and investment returns thereon), or by past contributions (and investment returns thereon), or some combination. An unfunded actuarial accrued liability (UAAL) means that the past contributions and investment returns thereon have not been fully sufficient to support already-promised benefits.

V. Additional Resources

- a. [LGERS actuarial valuation report](#) published October 2024, describing the funded status of LGERS as of December 2023, relative to benefits already promised.
 - i. UAAL as of 12/31/2023: \$5.2 billion (p. 8)
 - ii. Actuarial Value of Assets as of 12/31/2023: \$34.3 billion (p. 48)
 - iii. Actuarial Accrued Liability as of 12/31/2023: \$39.5 billion (p. 48)
 - iv. Additional cost of 1% permanent increase in retirement allowances: \$210.3 million, or an increase of 0.30% in the employer contribution rate for a 12-year period (p. 12)
 - v. Additional cost of one-time 1% supplemental payment: \$19.8 million, or an increase of 0.21% in the employer contribution rate for a single year (p. 12)
 - vi. Rates of return for calendar years 2021-2023: +9.66% (2021); -10.35% (2022); +10.11% (p. 35); three-year geometric return +2.7%
- b. LGERS funding projections from Gallagher in these meeting materials, taking into account only benefits already promised. See agenda item titled "Actuarially Determined Employer Contribution (ADEC) Projections for Local System."
 - i. Preliminary Estimated UAAL as of 12/31/2024: \$5.4 billion (p. 9)
 - ii. Projected Employer Contribution in FY ending 2026: 14.35% of compensation for non-LEOs and 16.10% for LEOs (pp. 3-4); equates to \$1.3 billion; does not include member contributions (6% of compensation)
 - iii. Projected Employer Contribution in FY ending 2027: 15.10% of compensation for non-LEOs and 17.10% for LEOs (pp. 3-4); equates to \$1.4 billion; does not include member contributions (6% of compensation)
- c. Recommendation alternatives from RSD staff in these meeting materials. See agenda item titled "Presentations on the 2025 Alternatives for the General Assembly" under "Local System."
- d. [Consumer Price Index history](#) through June 2024 from the U.S. Bureau of Labor Statistics.
- e. [Board of Trustees website](#) with past meeting materials, including minutes describing quarterly updates on Investment Advisory Committee (IAC) meetings.

- f. [IAC website](#) with meeting materials, including link to archived years' materials, containing quarterly reports on investment performance and other information about investment policies and recommendations.
- g. [Investment performance and fee reports](#) published by IMD; some reports are quarterly and some annual.