Local Governmental Employees' Retirement System Board of Trustees

Employer Contribution Rate Stabilization Policy for the Local Governmental Employees' Retirement System
(Adopted 4/29/2021; Amended 1/27/2022)

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. Having adopted the Experience Study of the 2015-2019 calendar years on January 28, 2021, which will be effective for plan funding purposes for fiscal years ending 2023 and later, the Board wishes to institute an ECRSP effective for contributions during the five fiscal years ending 2023 through 2027.

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 (LEO): The employer contribution rate with respect to LEOs under this policy.

Policy Contribution (Non-LEO): The employer contribution rate with respect to Non-LEOs under this policy.

Underlying Actuarially Determined Employer Contribution (Non-LEO) or "Underlying ADEC (Non-LEO)": The amount developed annually by the Board's consulting actuary, representing a funding requirement with respect to Non-LEOs according to the Board's actuarial assumptions and methods before applying this policy. For purposes of applying this policy, the Underlying

ADEC should be adjusted to include the effect of any benefit change enacted by the General Assembly that was not incorporated in the consulting actuary's annual valuation report. This adjustment should be equal to the Actuarial Measurement of the effect of the benefit change on the Underlying ADEC.

IV. Determining the Policy Contribution (Non-LEO)

For the fiscal year ending 2022, which is the last scheduled year of the ECRSP amended as of January 31, 2019, the employer contribution rate with respect to Non-LEOs will be 11.35% of retirement-eligible compensation, prior to any adjustment in the event of a benefit improvement taking effect during fiscal year ending 2022.

A. Rate for Fiscal Years Ending 2023-2024 Prior to Discretionary Adjustment

For each of the two fiscal years ending 2023-2024, the Policy Contribution (Non-LEO) will be equal to the sum of items (1) through (5) below, subject to any adjustment under part (C).

(1): The Policy Contribution (Non-LEO) for the previous fiscal year, excluding any portion that provided for an enacted benefit increase over a single year (for example, an amount that funded a one-time "COLA supplement" during the previous year).

(2): An increase equal to 0.75%.

(3): An adjustment (increase or decrease) for the effect of any enacted benefit change taking effect before or during the fiscal year that was not incorporated in the Policy Contribution (Non-LEO) for the previous fiscal year, equal to the Actuarial Measurement of the effect of the enacted benefit change on the Underlying ADEC (Non-LEO) for the fiscal year. Notwithstanding this provision, in the case of a one-time supplement authorized by the Board under G.S. 128-27(k1) for the fiscal year ending in 2023 in the amount of 2% of each payee's annual pension, the adjustment under this item (3) will be zero.

(4): An adjustment (increase or decrease) for the effect of any changes in actuarial assumptions or methods adopted by the Board that were not incorporated in the Policy Contribution (Non-LEO) for the previous fiscal year, equal to the Actuarial Measurement of the effect on the Underlying ADEC for the fiscal year.

(5): If the Underlying ADEC (Non-LEO) for the fiscal year exceeds the sum of (1) through (4) by more than 1.00% of compensation, an increase equal to 50% multiplied by the difference [Underlying ADEC (Non-LEO) less the sum of items (1) through (4)], rounded to the nearest 0.01% of compensation. If the Underlying ADEC (Non-LEO) does not exceed the sum of (1) through (4) by more than 1.00% of compensation, then this item (5) is equal to 0.00%.

B. Rate for Fiscal Years Ending 2025-2027 Prior to Discretionary Adjustment

For each of the three fiscal years ending 2025-2027, the Policy Contribution (Non-LEO) will be equal to the sum of items (1) through (6), subject to any adjustment under part (C). Items (1) through (5) are the same as defined above under part (A), and item (6) is as follows:

(6): If the sum of (1) through (4) exceeds the Underlying ADEC (Non-LEO) for the fiscal year by more than 1.00% of compensation, a decrease equal to 50% multiplied by the difference [the sum of items (1) through (4), less the Underlying ADEC (Non-LEO)], rounded to the nearest 0.01% of compensation. The decrease under this item (6) is limited to be no larger than 1.50% of compensation. If the sum of (1) through (4) does not exceed the Underlying ADEC (Non-LEO) by more than 1.00% of compensation, then this item (6) is equal to 0.00%.

C. Discretionary Adjustment

If the consulting actuary's projections provided publicly to the Board indicate that the Policy Contribution (Non-LEO) for the year following the immediately upcoming year ("second-following year") will result in an increase to the Policy Contribution (Non-LEO) for the second-following year under item (5) of the formula if the Board's actuarial assumptions and methods are met, then the Board may, in its discretion, increase the Policy Contribution (Non-LEO) for the immediately upcoming year in order to reduce or eliminate the anticipated increase in the second-following year. Any such discretionary increase should be no greater than the anticipated increase under item (5) of the formula for the second-following year, according to the consulting actuary's projections.

For example, suppose that the Policy Contribution (Non-LEO) for fiscal year ending 2025 is 13.75%. Suppose further that in January 2025, the consulting actuary's projections provided to the Board indicate a Policy Contribution (Non-LEO) of 14.50% for fiscal year ending 2026, and a likely Policy Contribution (Non-LEO) of 17.00% for fiscal year ending 2027 due to an anticipated increase under item (5) of the formula resulting from actuarial losses through calendar year 2024. In January 2025, the Board may, in its discretion, elect to increase the Policy Contribution (Non-LEO) for fiscal year ending 2026, from 14.50% to a rate such as 15.00%, to reduce the magnitude of the increment between the fiscal years ending 2026 and 2027. The increase should be no greater than the anticipated effect of item (5) of the formula on the rate for fiscal year ending 2027, according to the consulting actuary's projections.

D. Overall Limitation and Required Employer Contribution Rate

The Policy Contribution (Non-LEO) will be no less than the rate of compensation contributed by employees. The Policy Contribution (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)

According to the ECRSP as amended January 31, 2019, for fiscal years ending 2017 through 2022, the employer contribution rate with respect to LEOs exceeded the rate with respect to Non-LEOs by 0.75% of compensation. Annual actuarial valuation reports and the recently adopted Experience Study have indicated that the difference in the Underlying ADEC rates (without regard to “direct rate smoothing”) will be greater than 2.00% of compensation.

This policy establishes the Policy Contribution (LEO) according to the following schedule:

- Fiscal year ending 2023: Policy Contribution (Non-LEO) plus 1.00%.
- Fiscal year ending 2024: Policy Contribution (Non-LEO) plus 1.25%.
- Fiscal year ending 2025: Policy Contribution (Non-LEO) plus 1.50%.
- Fiscal year ending 2026: Policy Contribution (Non-LEO) plus 1.75%.
- Fiscal year ending 2027: Policy Contribution (Non-LEO) plus 2.00%.

The Policy Contribution (LEO) should further be adjusted for the effect of any enacted benefit change taking effect before or during the fiscal year that has not been taken into account when determining the Policy Contribution (Non-LEO). This could occur, for example, where the benefit change applied only to LEOs. The amount of the adjustment should be equal to the Actuarial Measurement of the effect of the enacted benefit change on the Underlying ADEC (LEO) for the fiscal year.

The Policy Contribution (LEO) will be no less than the rate of compensation contributed by employees. 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 Effective Date

This policy, if adopted by the Board, will be effective through the fiscal year ending June 30, 2027. The Board may vote to extend it for any period of time.