



# North Carolina Retirement Systems Division

Contribution-Based Benefits Cap

October 22, 2015

# Session Law 2014-88

- Session Law 2014-88 enacted an “Anti-Pension-Spiking Contribution-Based Benefit Cap” to be set by the Board of Trustees for both TSERS and LGERS.
- Per Session Law 2014-88,
  - “The Board of Trustees shall adopt a contribution-based benefit cap factor recommended by the actuary, based upon actual experience, such that no more than three-quarters of one percent (0.75%) of retirement allowances are expected to be capped.”
- Conceptually, the factor is a comparison of a member’s contributions to the member’s retirement benefit. Calculation of the factor applies the actuarial assumptions for retirement for each system to estimate
  - the number of annual retirements expected, and
  - the number of annual retirements expected to be capped under various contribution-based benefits cap factors.
- The Board of Trustees shall modify such factors every five years, as shall be deemed necessary, based upon the five-year experience study as required by G.S. 135-6(n).
- As such, Buck has updated analysis of such factors adopted by the Board of Trustees in October 2014.

# Prior Recommendations For Setting The Contribution-Based Benefit Cap Factor

TSERS

Contribution-Based Benefit Cap Factor	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.8	110	27	0.25%

LGERS

Contribution-Based Benefit Cap Factor	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
5.1	35	9	0.27%

- In October 2014, the Board approved a factor of 4.8 for TSERS and a factor of 5.1 for LGERS based on the following considerations:
  - It is prudent to set the CBBC factor at a level such that the 0.75% threshold is very unlikely to be triggered
  - The ramifications of having the 0.75% threshold triggered suggests a liberal amount of cushion
  - Alternatively, setting the factor at a conservatively high level may result in far fewer capped benefits than the 0.75% threshold
- Since the October 2014 analysis, we have learned that a cushion is not necessary
  - The Board must adopt a percentage of expected retirements not to exceed 0.75%
  - The actual percent of impacted retirements is not a threshold that must be avoided

# Considerations In Setting The Contribution-Based Benefit Cap Factor

- The analysis and sample factors following rely on certain data and assumptions
  - Valuation data used for the December 31, 2014 valuation
    - Analysis based on valuation data from other years may produce different results
  - Retirement assumptions based on proposed experience study assumptions presented earlier
    - Based on proposed retirement assumptions, 9,850 TSERS members and 3,476 LGERS members are expected to retire in 2015
  - Actual experience of the System related to the Contributions-Based Benefit Cap during 2015
    - Retirement Systems Division (RSD) has provided data detailing the number of participants whose benefits were capped during the eight month period from January 1, 2015 through August 31, 2015 based on the prior recommended factors

	Prior Contribution-Based Benefit Cap Factor	2014 Number of Retirement Eligible Members Over Cap	2014 Expected Number of Members Capped	2014 Expected Percent of Members Capped	2015 Actual Number of Members Capped (Through Aug-31)	2015 Estimated Annualized Percent of Members Capped
TSERS	4.8	110	27	0.25%	15	0.23%
LGERS	5.1	35	9	0.27%	3	0.13%

# Updated Contribution-Based Benefit Cap Factors

Based on December 31, 2014 valuation and proposed experience study assumptions

## TSERS

Contribution -Based Benefit Cap Factor	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.1	353	77	0.79%
4.2	298	66	0.67%
4.3	255	57	0.58%
4.4	221	50	0.51%
4.5	185	41	0.42%
4.6	155	35	0.36%
4.7	134	31	0.31%
4.8	115	26	0.27%
4.9	92	21	0.22%
5.0	68	15	0.16%

## LGERS

Contribution -Based Benefit Cap Factor	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.2	139	29	0.83%
4.3	123	25	0.73%
4.4	100	21	0.62%
4.5	86	18	0.52%
4.6	71	15	0.43%
4.7	56	12	0.36%
4.8	49	11	0.33%
4.9	40	10	0.28%
5.0	32	7	0.21%
5.1	25	6	0.17%

# Recommendations

Based on December 31, 2014 valuation and proposed experience study assumptions

## TSERS

Contribution -Based Benefit Cap Factor	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
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Current Factor

Midpoint

Minimum Allowable Factor

# Recommendations

- Based on the experience of the Systems during 2015, there were fewer retirements than expected among participants limited by the factors adopted in October 2014
  - This suggests CBBC factors may be decreased in order to limit additional spikers without exceeding the 0.75% threshold
- For this reason, the Board may consider decreasing the factor
  - For TSERS, the current factor is 4.8; the minimum allowable factor is 4.2
  - For LGERS, the current factor is 5.1; the minimum allowable factor is 4.3
  - Based on the actuarial assumptions of the Systems, it is expected that the minimum allowable factors shown above will result in less than 0.75% of retirements being capped in any given year.

## TSERS

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## LGERS

Contribution -Based Benefit Cap Factor	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.3	123	25	0.73%

# Certification

The results were prepared under the direction of Michael Ribble and Larry Langer who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. These results have been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions about them.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law.

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Questions?

**THANK YOU**