



LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (LGERS)

Employer Contribution Rates

Board of Trustees – April 24, 2025



North Carolina
Retirement Systems

Summary

- LGERS employer contribution rates established by Board based on actuarial reports and board policy
- Typically established in January, effective six months later
- Board has not yet established rates to be effective Jul. 2025
- In Jan. 2025 discussion, some Board members wished to ensure the \$100 million Hurricane Helene recovery cashflow loan program for local governments, to be administered by Dept. of State Treasurer, was operational before establishing the rates
- Cashflow loan program now operational
- Today is last regular-meeting opportunity for LGERS Board to establish employer contribution rates effective July 1, 2025
- Many local governments currently in budget processes for FYE 2026
- Staff recommends establishing rates pursuant to current Board policy
- Once set, staff will post rates for each employer on RSD website

Background

- LGERS is actuarially funded
- Statute sets employee contribution at 6% of compensation
- Employer contribution may change each year
- Each of the ~ 900 employing entities in LGERS must make the employer contributions established by the Board
- Board sets rates in trustee capacity

Employer Contribution Rate Stabilization Policy (ECRSP)

- Board's policy on how actuarial funding should occur over a limited number of years, currently 5 years (expiring 6/30/2027)
- With unfunded actuarial accrued liability of \$5 billion as of 12/31/2023, ECRSP is a significant policy statement
- Details published in State's Annual Comprehensive Financial Report (ACFR) and other publications
- Shielded LGERS employers from unpredictable budget changes in the last few years
- General Assembly has required LGERS Board to set employer contribution rate at least equal to its ECRSP rate; G.S. 128-30(d)(5)
- Next planned re-evaluation of ECRSP in 2026, to be effective 7/1/2027
- Any other modification should be undertaken with caution after carefully considering implications for retirees, employers, employees, General Assembly, and those who rely on the State's and local governments' financial statements (rating agencies, creditors, etc.)

Employer Contribution Rates Have Risen Steadily in Recent Years

- Reasons include:
 - 2008-2009 financial crisis
 - Investment returns since then
 - 2017-2021 decisions to reduce assumed rate of return
 - Significant salary increases for local government employees during/since pandemic
- Under Board's methods, it takes at least five years for investment losses to be fully recognized in actuarial calculations, then 12 more years to collect contributions

Rates During Current ECRSP

FY Ending	LGERS (Retirement/LEO)	LGERS (Retirement/Non-LEO)
6/30/2023	13.10%	12.10%
6/30/2024	14.10%	12.85%
6/30/2025	15.10%	13.60%
6/30/2026	16.10% [P]	14.35% [P]
6/30/2027	17.10% [P]	15.10% [P]

- [P] = projected based on ECRSP. Current ECRSP will expire 6/30/2027
- Consulting actuary's most recent projection is that actuarially determined rates will continue to increase through FYE 2029, reaching "peaks" of 19.06% (LEO) and 16.74% (non-LEO)
- These projections depend on several key factors over the next year, including investment returns in 2025 and beyond, demographic changes from 2024 (including salary increases), and results of forthcoming experience study

Observations on Projections from Previous Page

- Under the assumptions of the consulting actuary's projections, remaining ECRSP increases through FYE 2027 help **prevent** the following **negative outcomes**:
 - 1) LGERS employers seeing a steep one-time increase in contributions overnight on 7/1/2027, equating to average property tax increase of \$0.01-\$0.02 per \$100 of property valuations (RSD staff estimate) – all at the same time. This is an average and would be greater for some employers.
 - 2) The State's ACFR illustrating a trend of rapid actuarially determined employer contribution growth from FYE 2024 through 2027, without the Board or local governments adjusting meaningfully to that growth.
 - 3) The State's ACFR disclosing that in FYE 2026 and 2027, the amounts contributed by local governments fell short of actuarially determined contributions by a combined amount of well more than \$100 million.
 - 4) The Board's alternatives being more constrained when re-evaluating the future of the ECRSP during 2026.

Staff Recommendation Pursuant to LGERS ECRSP

- **Establish LGERS employer contribution rates toward retirement benefits, to be effective July 1, 2025, as 14.35% of compensation (non-LEO) and 16.10% of compensation (LEO)**
- Further information available in Jan. 2025 meeting materials:
<https://www.myncretirement.com/13-20250130localalternatives/open>



Thank you.



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