



## ***LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM (LGERS)***

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**Employer Contribution Rate Stabilization Policy (ECRSP) Summary**

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**North Carolina**  
Total Retirement Plans



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# Agenda

- Background: ECRSPs in General; LGERS ECRSP for FY 2017-2022
- Summary of Proposed Version for FY 2023-2027
- Hypothetical Examples



## Background: History of LGERS ECRSP

- LGERS Board adopted January 21, 2016
- Effective through the fiscal year ending June 30, 2022
- Revised on January 31, 2019 for remainder of term
- Describes setting of employer contribution rate each year
- Policy to set required contribution rate is not subject to rule-making; G.S. 128-30(d)(5), 128-30(d)(9), and 150B-1(d)(30)
- Does not describe recommendation about cost-of-living allowances (COLAs) or other benefit improvements – separate decision guided by statute



## Background: History of LGERS ECRSP

- G.S. 128-30(d)(5), as amended by S.L. 2017-129, provides: “Notwithstanding Chapter 150B of the General Statutes, the total amount payable in each year to the pension accumulation fund shall not be less than the sum of the rate per centum known as the actuarially determined employer contribution rate and the past service liability contribution rate of the total earned compensation of all members during the preceding year as adjusted under a contribution rate policy adopted by the Board of Trustees and known as the ‘required employer contribution’ rate. The Board of Trustees shall not adopt a contribution rate policy that results in a rate less than the normal contribution rate.”
- G.S. 128-30(d)(9), as amended by S.L. 2017-129, provides: “Notwithstanding Chapter 150B of the General Statutes and the foregoing provisions of this subsection, the actuary shall determine an additional ‘accrued liability contribution rate’ and a ‘normal contribution rate’ on account of the total earned compensation of each employer’s law enforcement officers each year, known as the ‘required employer contribution for law enforcement officers rate.’ The required employer contribution for law enforcement officers’ rate may be adjusted under a contribution rate policy adopted by the Board of Trustees and added to the employers’ past service liability rate. The Board of Trustees shall not adopt a contribution rate policy that results in a rate less than the normal contribution rate.”



## Background: General Goals of ECRSPs

- ECRSPs are designed to address volatility in budgets as well as actual contributions
- Goals – some of which are in tension with each other
  - Contribute at least the actuarially determined rates (ADECs) over the policy period
  - Do not burden governments with contributions far in excess of ADEC
  - Increase predictability as much as possible so governments know rate far in advance
  - Attempt to limit year-over-year contribution increases and spread them out over time
  - Position budgets as well as possible for what may be required after policy period
  - Reduce volatility by avoiding “V” or “W” shape in contribution rates
- All this is accomplished by calling for contributions greater than the ADEC in some years, in order to offset any future sudden increases
- May allow decline in contributions if there is a sustained and sustainable ADEC decline
- May address related issues (COLAs, unexpected plan or assumption changes, etc.)

Staff has estimated that a 5% of pay increase in contribution rate would equate to a \$0.01-\$0.05 per \$100 property tax increase for a variety of local governments of different sizes in different parts of NC. This underscores the importance of a policy that provides stability for governments while self-adjusting and not putting off major changes until after the five-year period.

## Background: Policy Contribution for FY 2017-2022

Fiscal Year Ending	Policy Contribution (Non-LEOs)	ADEC (Non-LEOs)	Policy Contribution (LEOs)	ADEC (LEOs)
June 30, 2017	<b>7.25%</b>	6.39%	<b>8.00%</b>	6.87%
June 30, 2018	<b>7.50%</b>	6.25%	<b>8.25%</b>	7.84%
June 30, 2019	<b>7.75%</b>	7.40%	<b>8.50%</b>	8.99%
June 30, 2020	<b>8.95%</b>	8.56%	<b>9.70%</b>	10.22%
June 30, 2021	<b>10.15%</b>	10.24%	<b>10.90%</b>	11.92%
June 30, 2022	<b>11.35%</b>	11.27%	<b>12.10%</b>	12.94%

- Policy initially provided step increases of 0.25% of compensation; revised Jan. 2019 (effective for FY ending 2020) to provide step increases of 1.20% of compensation
- Policy provided that if ADEC differed from policy contribution by 50%, the policy contribution would be adjusted 0.50% of compensation toward the ADEC (never invoked)
- Policy provided LEO rate always 0.75% greater than Non-LEO rate



## Looking Ahead: Rationale for Continued Gradual Increases

- 12-year amortization policy and 2020 investment return have tempered the forecast of underlying ADEC increases
- Consulting actuary's projection as of Jan. 2021 shows underlying ADECs fairly stable starting FYE 2023 if all assumptions are met (including 6.50% annual rate of return)
- However, significant risk of steep increases remains:
  - Volatility of capital markets (investment returns)
  - Increasing ratio of pension liability to current employee payroll
- In event of significant increases, providing for gradual escalation early in period will help to limit the increases and spread them out over time
  - Staff actuary's estimate: If policy used simply the underlying ADEC, 50%-60% probability of a year-over-year increase of at least 1.00% of pay at some point during the five-year period; with the pattern proposed in this policy, this becomes a 30%-35% probability <sup>[1]</sup>
- Staff actuary estimates that a "V" shape in contribution rate is about 40% likely during five-year period if contribution were equal to underlying ADEC; with the pattern proposed in this policy, this becomes a probability of about 20% <sup>[1]</sup>

[1] Methodology description and actuarial certification available upon request from Retirement Systems.



## Summary of Proposed ECRSP for FY 2023-2027

- Maintains basic pattern of step increases with “guardrail” adjustment when ADEC differs significantly from scheduled rates
  - Step increases are 0.75% of compensation
- Tightens (significantly) the “guardrail” provision
  - Prior: If ADEC 50% different (e.g. 12% vs. 8%), adjust by 0.50% of compensation
  - Proposed: If ADEC different by > 1% of compensation, adjust by half of difference
    - For FY ending 2023-2024, guardrail can only increase (not decrease) the rate
    - For FY ending 2025-2027, guardrail can increase or decrease the rate, but the decrease due to guardrail is limited to 1.50% of compensation per year
  - Clarifies that the Non-LEO schedule and ADEC are used to determine “guardrail”





## Summary of Proposed ECRSP for FY 2023-2027

- Gradually increases the additional employer rate related to LEOs from the current 0.75%, to 1.00% (FY ending 2023), 1.25% (FY ending 2024)..., 2.00% (FY ending 2027)
- Clarifies how the policy rate should be adjusted for intervening events from year to year, such as enacted benefit changes or assumption/method changes
- Defines terminology
- Updates the policy with specific references to statutory provisions added in 2017
- Introduces provision for increase at Board's discretion in limited case where actuary has projected significant increase related to "guardrail" for the second-following year
  - Example: Jan. 2025, Board setting rate for FY ending 2026
  - Suppose FY ending 2025 Non-LEO rate was 13.75%
  - Suppose policy otherwise provides FY ending 2026 rate of 14.50%
  - Suppose actuary's projection based on investment returns through calendar year 2024 anticipate "guardrail-related" increase to 16.50% for FY ending 2027
  - At its discretion, Board may increase FY ending 2026 rate from 14.50% to something greater (like 15.00%) to reduce / eliminate increment expected on July 1, 2026



# Examples – Policy Recommendation Jan. 2025 for FYE 6/30/2026

	[1]	[2]	[3]	[4]	[5]
Established Non-LEO Policy Rate for FYE 6/30/2025	13.75%	13.75%	13.75%	13.75%	13.75%
Assumed Non-LEO ADEC Rate for FYE 6/30/2026	13.55%	<b>12.70%</b>	<b>16.20%</b>	13.55%	13.55%
Projected Non-LEO Policy Rate for FYE 6/30/2027 from consulting actuary's Jan. 2025 presentation to Board	15.25%	14.35%	16.10%	<b>17.00%</b>	15.25%
Rate for Non-LEOs:					
(1) Rate for previous year, excluding one-time benefit funding	13.75%	13.75%	13.75%	13.75%	13.75%
(2) Increase of 0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
(3) Enacted benefit change not incorporated in (1)	0.00%	0.00%	0.00%	0.00%	<b>0.40%</b>
(4) Actuarial assumption/method changes not incorporated in (1)	0.00%	0.00%	0.00%	0.00%	0.00%
(5) Guardrail-related increase (any FY 2023-2027)	0.00%	0.00%	<b>0.85%</b>	0.00%	0.00%
(6) Guardrail-related decrease (only FY 2025-2027)	0.00%	<b>(0.90%)</b>	0.00%	0.00%	0.00%
(7) Discretionary increase based on anticipated guardrail	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<b><u>0.50%</u></b>	<u>0.00%</u>
<b>Total Non-LEO Policy Rate</b>	14.50%	13.60%	15.35%	15.00%	14.90%
Rate for LEOs:					
Policy Rate for Non-LEOs	14.50%	13.60%	15.35%	15.00%	14.90%
Required increase for LEOs for FYE 6/30/2026	1.75%	1.75%	1.75%	1.75%	1.75%
Enacted benefit change not taken into account for Non-LEOs	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>Total LEO Policy Rate</b>	16.25%	15.35%	17.10%	16.75%	16.65%

[1] Underlying ADEC (13.55%) within 1% of preliminary rate (14.50%), so no guardrail adjustment.

[2] Underlying ADEC (12.70%) less than preliminary rate (14.50%) by >1%, so “guardrail” decrease half of difference.

[3] Underlying ADEC (16.20%) greater than preliminary rate (14.50%) by >1%, so “guardrail” increase half of difference.

[4] Because of large projected increase in FYE 2027, Board may (but is not required to) increase the rate as shown in (7).

[5] Assumes benefit change enacted effective for FYE 2026, not incorporated in the rate for FYE 2025..

