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North Carolina Retirement Systems

Contribution-Based Benefit Cap

Larry Langer, ASA, FCA, EA, MAAA
Jonathan Craven, ASA, FCA, EA, MAAA
Wendy Ludbrook, FSA, FCA, EA, MAAA

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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”
- 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, CMC has updated analysis of such factors adopted by the Board of Trustees in October 2015
- We refer to these as CBBC Factors

Basis for Current CBBC Factor

TSERS					LGERS				
Contribution-Based Benefit Cap Factor	Percent of Benefit provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped	Contribution-Based Benefit Cap Factor	Percent of Benefit provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.5	22.2%	185	41	0.42%	4.7	21.3%	56	12	0.36%

- In October 2015, the Board approved a factor of 4.5 for TSERS and a factor of 4.7 for LGERS as shown above.

CBBC Factor Assumptions

- The analysis and sample factors are based on the following:
 - Valuation data used for the December 31, 2019 valuation
 - Analysis based on valuation data from other years may produce different results
 - Retirement assumptions based on proposed experience study assumptions presented earlier, including a 6.50% discount rate
 - Based on proposed retirement assumptions, 9,806 TSERS members and 3,112 LGERS members are expected to retire in 2020
 - The cap on Average Final Compensation for 2020 is \$109,746.34
 - The cap on Average Final Compensation is adjusted annually for inflation
- Various levels of CBBC factors based on the above are on the next slide

Updated CBBC Factors

TSERS				
Contribution-Based Benefit Cap Factor (CBBC)	Percent of Benefit provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
3.8	26.3%	295	81	0.82%
3.9	25.6%	246	69	0.71%
4.0	25.0%	212	62	0.63%
4.1	24.4%	173	51	0.52%
4.2	23.8%	141	42	0.43%
4.3	23.3%	113	34	0.35%
4.4	22.7%	88	30	0.31%
4.5	22.2%	78	27	0.27%
4.6	21.7%	61	20	0.21%
4.7	21.3%	55	19	0.19%
4.8	20.8%	50	17	0.18%
4.9	20.4%	39	15	0.15%
5.0	20.0%	28	11	0.11%
5.1	19.6%	20	7	0.08%

For TSERS, a cap factor that would be expected to apply to at least **0.10%** of expected retirements, but no more than **0.75%** of expected retirements, would be in the range of **3.9 to 5.0**. The midpoint of this range is **4.5**. The cap factor in current administration is **4.5**.

LGERS				
Contribution-Based Benefit Cap Factor (CBBC)	Percent of Benefit provided by Member Contributions	Number of Retirement Eligible Members Over Cap	Expected Number of Members Capped	Expected Percent of Members Capped
4.0	25.0%	120	24	0.76%
4.1	24.4%	105	21	0.66%
4.2	23.8%	87	16	0.53%
4.3	23.3%	71	15	0.47%
4.4	22.7%	53	11	0.36%
4.5	22.2%	39	9	0.28%
4.6	21.7%	32	8	0.25%
4.7	21.3%	29	7	0.23%
4.8	20.8%	24	6	0.19%
4.9	20.4%	20	6	0.18%
5.0	20.0%	18	5	0.17%
5.1	19.6%	16	5	0.16%
5.2	19.2%	13	3	0.09%

For LGERS, a cap factor that would be expected to apply to at least **0.10%** of expected retirements, but no more than **0.75%** of expected retirements, would be in the range of **4.1 to 5.1**. The midpoint of this range is **4.6**. The cap factor in current administration is **4.7**.

Considerations

- Conceptually, the factor is a comparison of a member's contributions to the member's retirement benefit. A CBBC factor of 5 suggests that as low as 20% of the pension can be derived from member contributions without the pension being capped.
- A lower CBBC factor results in more pensions being subject to capping.
- If a higher CBBC factor is set such that less than 0.10% of expected retirements are subject to capping, the expected variation in payroll over the next five years is such that the chosen factor may not give meaning to the statute.
- Based on this analysis and to satisfy the requirement that no more than 0.75% of expected retirements be subject to capping, the CBBC factor can be set no lower than 3.9 for TSERS and 4.1 for LGERS, This suggests that as low as around 25% of the pension can be derived from member contributions without the pension being capped.

Actuarial Certification

- The results were prepared under the direction of actuaries 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.

Larry Langer, ASA, EA, MAAA, FCA
Principal and Consulting Actuary

Jonathan T. Craven, ASA, EA, MAAA, FCA
Consulting Actuary