

Teachers' and State Employees' Retirement System Board of Trustees

Employer Contribution Rate Stabilization Policy for the Teachers' and State Employees' Retirement System

I. Policy Purpose

This policy provides for continued operation of an Employer Contribution Rate Stabilization Policy (ECRSP) for the Teachers' and State Employees' Retirement System (TSERS). On January 21, 2016, the Board of Trustees (Board) of TSERS approved an ECRSP to be in place for fiscal years ending 2017 through 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 develop an annual appropriation amount to recommend to the General Assembly to fund TSERS and to establish the "required employer contribution rate" pursuant to G.S. 135-8(d)(a3).

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 TSERS.

Policy Contribution: The State appropriation to be recommended by the Board under this policy.

Underlying Actuarially Determined Employer Contribution (Underlying ADEC): The amount developed annually by the Board's consulting actuary, representing a funding requirement according to the Board's actuarial assumptions and methods before applying this policy.

IV. Annual Appropriation Recommendation

This policy calls for continuing the approach used for the fiscal years ending 2017 through 2022, whereby the Board recommends an appropriation at least equal to the Underlying ADEC, and also at least equal to the prior year's recommendation (as adjusted) plus 0.35% of retirement-eligible compensation. This may result in an appropriation recommendation exceeding the Underlying ADEC.

Accordingly, for each year that this policy is in effect, the Policy Contribution recommended by the Board will be the greater of (1) the Underlying ADEC for the upcoming fiscal year or (2) 0.35% of eligible compensation greater than the appropriation recommended by the Board for the current fiscal year. However, if the Policy Contribution is determined by part (2) of the definition, it can be no greater than (3) the Underlying ADEC if it were determined using a discount rate equal to the annual yield on 30-year U.S. Treasury securities as of the date of the actuarial valuation used to determine the Underlying ADEC for the upcoming fiscal year.

In developing Parts (1) and (3) of this definition, 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 for purposes of the legislative actuarial note.

In developing Part (2) of this definition, this policy provides the following guidance:

- The appropriation that was recommended for the current fiscal year should be adjusted for the effect of any permanent cost-of-living allowance (COLA) or other permanent benefit change enacted by the General Assembly, taking effect during the current fiscal year, that was not incorporated in the Board's recommendation for the current fiscal year. This adjustment should be equal to the Actuarial Measurement of the effect of the benefit change on the Underlying ADEC for purposes of the legislative actuarial note.
- The appropriation that was recommended for the current fiscal year should be adjusted for the effect of any one-time supplemental payment (COLA supplements) enacted by the General Assembly, taking effect during the current fiscal year, that was not incorporated in the Board's recommendation for the current fiscal year, only if the General Assembly made a recurring appropriation associated with the supplemental payment. In that case, the adjustment should be equal to the percentage of eligible compensation equivalent to the recurring appropriation. Otherwise, the appropriation that was recommended for the current fiscal year should not be adjusted for the cost of a one-time supplemental payment.
- The appropriation that was recommended for the current fiscal year should be adjusted for the effect of any benefit change enacted by the General Assembly, taking effect during the upcoming fiscal year, including COLA supplements, that was not incorporated in the Board's recommendation for the current fiscal year. This adjustment should be equal to the Actuarial Measurement of the effect of the benefit change on the Underlying ADEC for purposes of the legislative actuarial note.
- The appropriation that was recommended for the current fiscal year should be adjusted for the effect of any changes in actuarial assumptions or methods adopted by the Board that were not incorporated in the Board's recommendation for the current fiscal year. The adjustment should be equal to the Actuarial Measurement of the effect on the Underlying ADEC.
- The appropriation that was recommended for the current fiscal year should exclude any appropriations to the Unfunded Liability Solvency Reserve for distribution to TSERS.

The Policy Contribution will be deemed by the Board to be the annual actuarially determined employer contribution (funding ADEC) and the "required employer contribution rate" for TSERS, pursuant to G.S. 135-8(d)(a3) as in effect at the date of adoption of this policy.

V. 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.