



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Actuarial Note - Retirement

Short Title: 2026 Appropriations Act.
Bill Number: Senate Bill 257 (Seventh Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 257, V.7 (\$ in thousands)

	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>	<u>FY 2030-31</u>
State Impact					
General Fund	99,018	-	88	181	192
Highway Fund	5,088	-	-	-	-
Other/Receipts	44,760	-	-	-	-
TOTAL STATE EXPENDITURES	148,865	-	88	181	192

ACTUARIAL IMPACT SUMMARY

Sections 41.26, 41.27, 41.28, and 41.29 have potential actuarial impacts on retirement systems.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), National Guard Pension Fund (NGPF), Council of State Supplemental Retirement Allowance (COSSRA)

Section 41.26: Grants a one-time cost-of-living supplement of two and one-half percent (2.5%) of the annual benefit to retirees in TSERS, CJRS, and LRS who are retired as of September 1, 2026. The supplement will be paid in a lump sum as close as is practicable to October 15, 2026.

Gallagher, the actuary for the Retirement System, and Aon, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs as a percent of salaries in FY 2026-27:

<u>System</u>	<u>Gallagher</u>	<u>Aon</u>
TSERS	0.73%	0.75%
CJRS	1.43%	1.55%
LRS	1.53%	1.55%

The Aon estimates above are based on the December 31, 2023 valuations and data and assume a supplement paid in 2025, but should be roughly accurate for this bill.

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2026-27 because the additional contributions during each fiscal year are estimated to offset the additional benefits paid out.

Section 41.27: Creates a new supplemental retirement allowance for current and future members of the Council of State (COS). The 10 members of the COS participate in TSERS. When combined with the TSERS benefit, the new allowance will result in a total benefit for their COS service based on a 4.02% multiplier instead of the 1.82% multiplier in TSERS, but with the combined unreduced benefit under the maximum option not to exceed 75% of the average final compensation.

The COS member must have at least 5 years of COS service to qualify. For those serving on the COS on July 1, 2026, all COS service will be used in calculating the benefit. For those not serving on the COS on July 1, 2026, only COS service after July 1, 2026 will be used.

The new allowance will be a multiple of the TSERS benefit and will thus be paid in the same months and to the same recipient as the TSERS benefit. The allowance is not being actuarially funded and no trust is being created to accumulate assets to pay the allowance. Instead, the last agency at which the member served on the COS would be required to pay the allowance from funds available.

The actuaries estimate the following increases in payments for this new allowance:

Year	Gallagher	Aon
2026	\$0	\$0
2027	0	290,000
2028	0	310,000
2029	175,000	330,000
2030	187,000	350,000
2031	196,000	360,000
2032	221,000	370,000
2033	259,000	380,000
2034	259,000	380,000
2035	259,000	380,000
2036	259,000	390,000

Section 41.28: Increases the NGPF monthly retirement benefit as follows, effective January 1, 2027:

	<u>Current Law</u>	<u>Section 41.28</u>
With 20 years of service	\$105	\$110
Each additional year of service	\$10.50	\$11.00
Maximum with 30 years of service	\$210	\$220

The actuaries estimate that this section will have the following impact on the NGPF:

	<u>Gallagher</u>	<u>Hartman & Associates</u>
Increase in accrued liability	\$7,325,910	\$6,821,550
Increase in normal cost	\$46,505	\$11,712

The Hartman & Associates estimates above are based on the December 31, 2022 valuation and assume a July 1, 2024 effective date, but should be roughly accurate for this bill.

Under the funding policy adopted by the Board of Trustees in April 2021 and amended in January 2024, the Actuarially Determined Employer Contribution (ADEC) includes an adjustment for any benefit improvements at least equal to the Benefit Improvement Funding Requirement (BIFR), which is calculated for the improvement in this section as follows using the Gallagher estimates above:

(1) Full Actuarial Cost of Proposed Improvement	\$7,372,415
(2) Accrued Liability as of Last Valuation	153,844,144
(3) Actuarial Value of Assets as of Last Valuation	188,206,330
(4) Underlying ADEC for FY 2026-27	0
(5) Policy Contribution without Increase for FY 2026-27	1,126,618
(6) Total Adjustment (2) - (3) + (4) - (5)	(35,488,804)
BIFR: (1) + (6), not less than \$0	0

While the increase in contribution required by the improvement is \$0, the use of surplus funding has an opportunity cost because the surplus could instead be used for other purposes.

Section 41.29: Increases the FRSWPF retirement benefit from \$175 per month to \$184 per month, effective January 1, 2027.

Gallagher, the actuary for the retirement systems, and Hartman & Associates, the former actuary for the General Assembly, estimate that this section will have the following impact on the FRSWPF:

	<u>Gallagher</u>	<u>Hartman & Associates</u>
Increase in accrued liability	\$26,750,763	\$26,698,964
Increase in normal cost	\$343,206	\$363,175

The Hartman & Associates estimates above are based on the December 31, 2022 valuation and assume a July 1, 2024 effective date, but should be roughly accurate for this bill.

Under the funding policy adopted by the Board of Trustees in April 2021, the Actuarially Determined Employer Contribution (ADEC) includes an adjustment for any benefit improvements at least equal to the Benefit Improvement Funding Requirement (BIFR), which is calculated for the improvement in this section as follows using the Gallagher estimates above:

(1) Full Actuarial Cost of Proposed Improvement	\$27,093,969
(2) Accrued Liability as of Last Valuation	528,294,472
(3) Actuarial Value of Assets as of Last Valuation	558,225,078
(4) Underlying ADEC for FY 2026-27	353,544
(5) Policy Contribution without Increase for FY 2026-27	21,102,208
(6) Total Adjustment (2) - (3) + (4) - (5)	(50,679,270)
BIFR: (1) + (6), not less than \$0	0

While the increase in contribution required by the improvement is \$0, the use of surplus funding has an opportunity cost because the surplus could instead be used for other purposes.

Appropriations

The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of these sections and contribute the amount recommended by the actuary to properly fund existing benefits.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2024 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2024 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>CIRS</u>	<u>FRSWPF</u>	<u>NGPF</u>
Active Members				
Count	298,000	594	25,343	5,729
General Fund Compensation	\$13,348M	\$106M	Not applicable	Not applicable
Valuation Compensation (Total)	\$19,198M	\$105M	Not applicable	Not applicable
Average Age	46	54	40	38
Average Service	10.8	10.7	11.2	15.3
Inactive Members				
Count	240,872	66	20,334	2,391
Retired Members				
Count	257,645	862	15,487	4,895
Annual Benefits	\$5,572M	\$59M	\$33M	\$9M
Average Age	72	74	69	73
New Retirees During 2025	11,496	37	657	146

Financial Statistics (as of 12/31/2024 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>CJRS</u>	<u>FRSWPF</u>	<u>NGPF</u>
Accrued Liability (AL)	\$103,627M	\$967M	\$528M	\$154M
Actuarial Value of Assets (AVA)	\$91,621M	\$763M	\$558M	\$188M
Market Value of Assets (MVA)	\$88,517M	\$736M	\$540M	\$182M
Unfunded Accrued Liability (AL - AVA)	\$12,006M	\$204M	(\$30M)	(\$34M)
Funded Status (AVA / AL)	88%	79%	106%	122%
Required Employer Contribution for FY 2026-27 (as % of pay)	17.49%	40.68%	\$21M	\$1M
Salary Increase Assumption (includes 3.25% inflation and productivity)	3.25% - 8.05%	3.25% - 4.75%	Not applicable	Not applicable
Assumed Rate of Investment Return: 6.50%				
Cost Method: Entry Age Normal				
Amortization: 12 year, closed, flat dollar				
Demographic assumptions based on 2015-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019				

Benefit Provisions				
	<u>TSERS</u>	<u>CJRS</u>	<u>FRSWPF</u>	<u>NGPF</u>
Formula	1.82% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	\$175/month	\$105 + \$10.50/year over 20 to a maximum of \$210
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	55/20	60/20
Employee contribution (as % of pay)	6%	6%	\$15/month	None

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Gallagher, “Teachers’ and State Employees’ Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2024”, October 22, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Gallagher, “Consolidated Judicial Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2024”, October 22, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Gallagher, “Legislative Retirement System of North Carolina; Report on the Actuarial Valuation Prepared as of December 31, 2024”, October 22, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Aon, “One-Time Retiree Supplement for Select Retirement Systems”, March 28, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Gallagher, “Special Provision 2026-RET-C6-P (v25)”, June 30, 2026, original of which is on file in the General Assembly’s Fiscal Research Division.

Aon, “Special Provision 2026-RET-C6-P: Council of State Supplemental Retirement Allowance”, June 30, 2026, original of which is on file in the General Assembly’s Fiscal Research Division.

Gallagher, “North Carolina National Guard Pension Fund; Report on the Actuarial Valuation Prepared as of December 31, 2024”, October 22, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Increase Benefits for Members of the NCNG Pension Fund”, May 15, 2024, original of which is on file in the General Assembly’s Fiscal Research Division.

Gallagher, “North Carolina Firefighters’ and Rescue Squad Workers’ Pension Fund; Report on the Actuarial Valuation Prepared as of December 31, 2024”, October 22, 2025, original of which is on file in the General Assembly’s Fiscal Research Division.

Hartman & Associates, LLC, “Increase Monthly Benefit for Members of the FRSW Pension Fund”, May 15, 2024, original of which is on file in the General Assembly’s Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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Signed copy located in the NCGA Principal Clerk's Offices