



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

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Memorandum 2010-20

To: Local Government Financial Officials and Their Independent Auditors

From: Sharon Edmundson, Director, Fiscal Management Section

Subject: Changes in Retirement Employer Contribution Rate

Date: November 17, 2009

The valuation used to determine the employer contribution rate for the Local Governmental Employees' Retirement System (LGERS), effective July 1, 2010, has now been completed. The valuation shows that the base Annual Required Contribution (ARC) has increased from 4.80% of compensation to 6.35% of compensation due to investment losses in 2008. Some local governments have additional percentages added for optional benefits such as death benefits. These adjustments to the base rate will not be changing. Therefore, all ARCs will increase by 1.55% of compensation (new base rate of 6.35% – current base rate of 4.80%).

Ultimately, the Board of Trustees of the system sets the contribution rate and is expected to do so at their January 21, 2010 meeting. The Board could in theory set a rate other than 6.35%, but we expect them to be strongly guided by the results of the valuation. In addition, the Board may have the option of granting a Cost of Living Adjustment (COLA) to retirees in the system. If the Board were to do this, it would further increase the ARC and thus probably the contribution rate set by the Board.

As we previously communicated in Memo #1117 (date April 22, 2009), contribution rates are expected to increase steadily in each of the next several years. In line with common actuarial practice, the LGERS recognizes investment gains and losses over a 5 year period. Thus, the rates shown above reflect only 1/5th of the 2008 investment losses. While markets have rebounded strongly in 2009, the S&P 500 closed on October 20, 2009 at 1,091, still almost 31% off its October, 2007 peak of 1,576 and 26% off its year-end 2007 value of 1,468. If the market does not make up this remaining lost ground, the other 4/5ths of the 2008 losses will continue to push up contribution rates in subsequent years.

For general questions about the contribution rates, including what your unit's new rate is estimated to be, please send an e-mail to nc.retirement@nctreasurer.com. For questions that are unique to your unit's situation, please call Diane Whaley at 919-508-5156.