



# North Carolina Local Governmental Employees' Retirement System

Actuarially Determined Employer Contributions (ADEC) Projections for the Local System

January 25, 2024, Board of Trustees Meeting

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# Projections

- Projections of contribution requirements and funded status into the future can be helpful planning tools for stakeholders. This presentation provides such projections. The projections of the actuarial valuation are known as deterministic projections. Deterministic projections are based on one scenario in the future. The baseline deterministic projection is based on December 31, 2022 valuation results and assumptions.
- Key Projection Assumptions
  - Valuation interest rate of 6.50%
  - Direct rate smoothing of the employer contribution rate over a 5-year period beginning July 1, 2022.
  - 6.50% investment return on market value of assets
  - Actuarial assumptions and methods as described in Appendix C of the December 31, 2022 valuation report. All future demographic experience is assumed to be exactly realized.
  - The contribution rate under the Employer Contribution Rate Stabilization Policy (ECRSP) is contributed until fiscal year ending 2027.
  - The actuarially determined employer contribution rate is contributed for fiscal years ending 2028 and beyond.
  - The employer contribution shall not be less than the employee contribution, which is currently 6%.
  - 0% increase in both the active population of LGERS and its subgroups: General Employees, Firefighters, Law Enforcement Officers, and Rescue Squad Workers
  - To replace those assumed to leave active service, the age, gender and salary of future members assumed to be hired into LGERS are based on the demographic information of new LGERS hires over the past three (3) valuations.
  - Demographic profiles of new entrants for each subgroup are based on new hires specific to that subgroup over the past three (3) valuations.
  - 75% of new entrants are assumed to have rounded service of 0 when first valued, and 25% are assumed to have rounded service of 1 when first valued.
  - No cost-of-living adjustments granted
  - Future pay increases based on long-term salary increase assumptions
- The ECRSP contribution rate is the Stable Contribution rate shown in the projections. See the next slide and Appendix H of the December 31, 2022 valuation report for more detail on the ECRSP.
- In addition, we have provided one other alternate deterministic projection. This alternate deterministic projection is based on the same assumptions as the baseline deterministic projection except that it assumes a 10.2% asset return for calendar year 2023.

# Projections – ECRSP Policy Contribution Rate

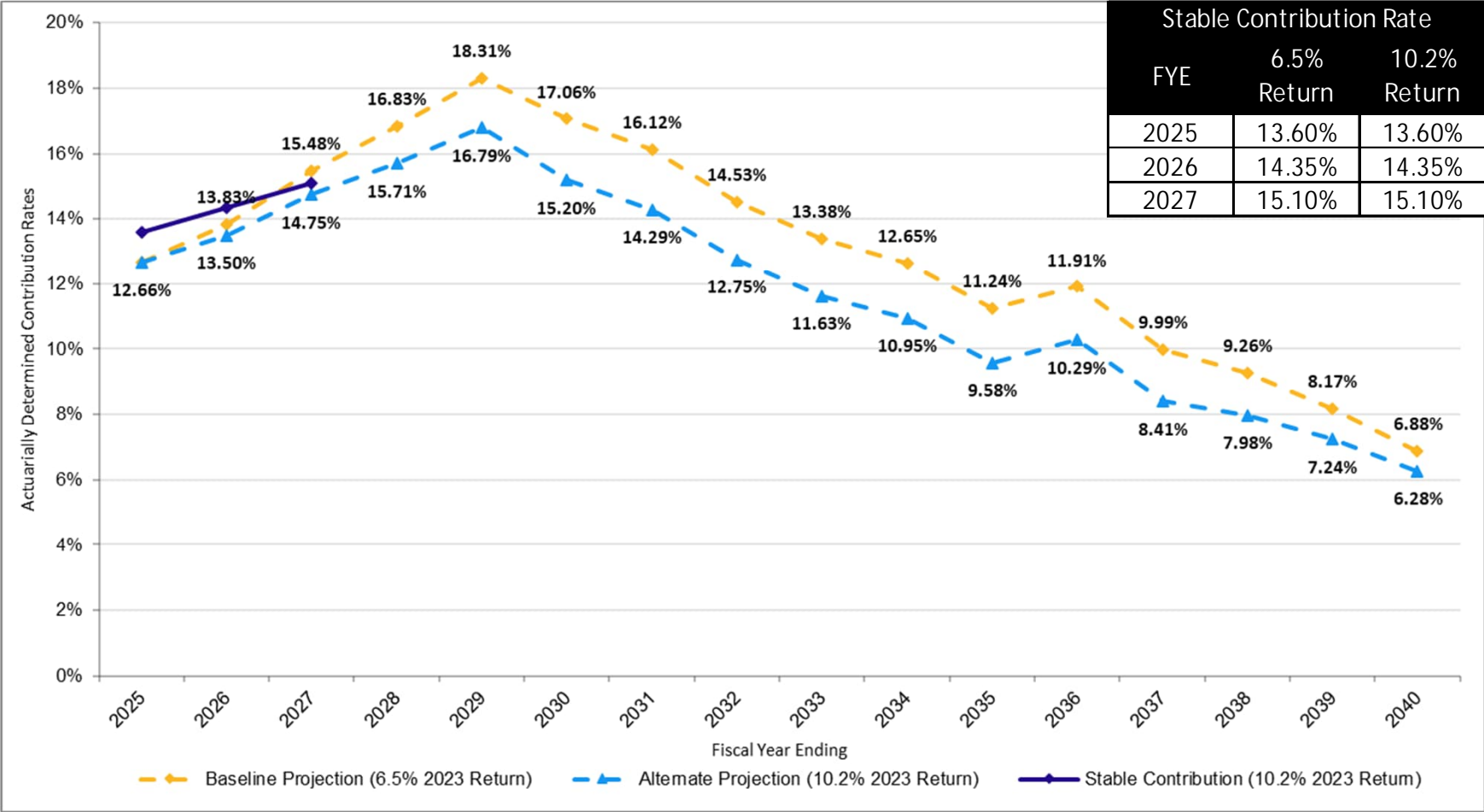
The Employer Contribution Rate Stabilization Policy (ECRSP) adopted by the Board of Trustees on April 29, 2021, and amended on January 27, 2022, requires that recommended contributions for general employees be set at 11.35% of payroll for fiscal year ending 2022 and will increase each fiscal year by 0.75% per year, with adjustments for the impact of any benefit or assumption changes that were made and not incorporated in the previous scheduled rate (other than the one-time supplement authorized by the Board under G.S. 128-27(k1) for the fiscal year ending in 2023), with the following additional adjustments, if applicable:

- 1) If the underlying actuarially determined employer contribution rate (ADEC) for a given fiscal year exceeds the adjusted scheduled employer contribution rate for that fiscal year by more than 1.00% of compensation, an increase equal to 50% of the difference is added to the adjusted scheduled employer contribution rate for the current and future fiscal years.
- 2) Beginning July 1, 2024, if the adjusted scheduled employer contribution rate for that fiscal year exceeds the underlying actuarially determined employer contribution rate (ADEC) for a given fiscal year by more than 1.00% of compensation, a decrease equal to 50% of the difference, but not greater than 1.50% of compensation, is subtracted from the adjusted scheduled employer contribution rate for the current and future fiscal years.

The ECRSP contribution rates for law enforcement officers will be 1.00% higher than contribution rates for general employees for fiscal year 2023. The 1.00% difference will increase by 0.25% each year until fiscal year 2027, when the contribution rates for law enforcement officers will be 2.00% higher than the contribution rates for general employees.

# Projections

## Projected Contribution Rates – Non-LEO (10.2% in 2023, 6.5% Thereafter)



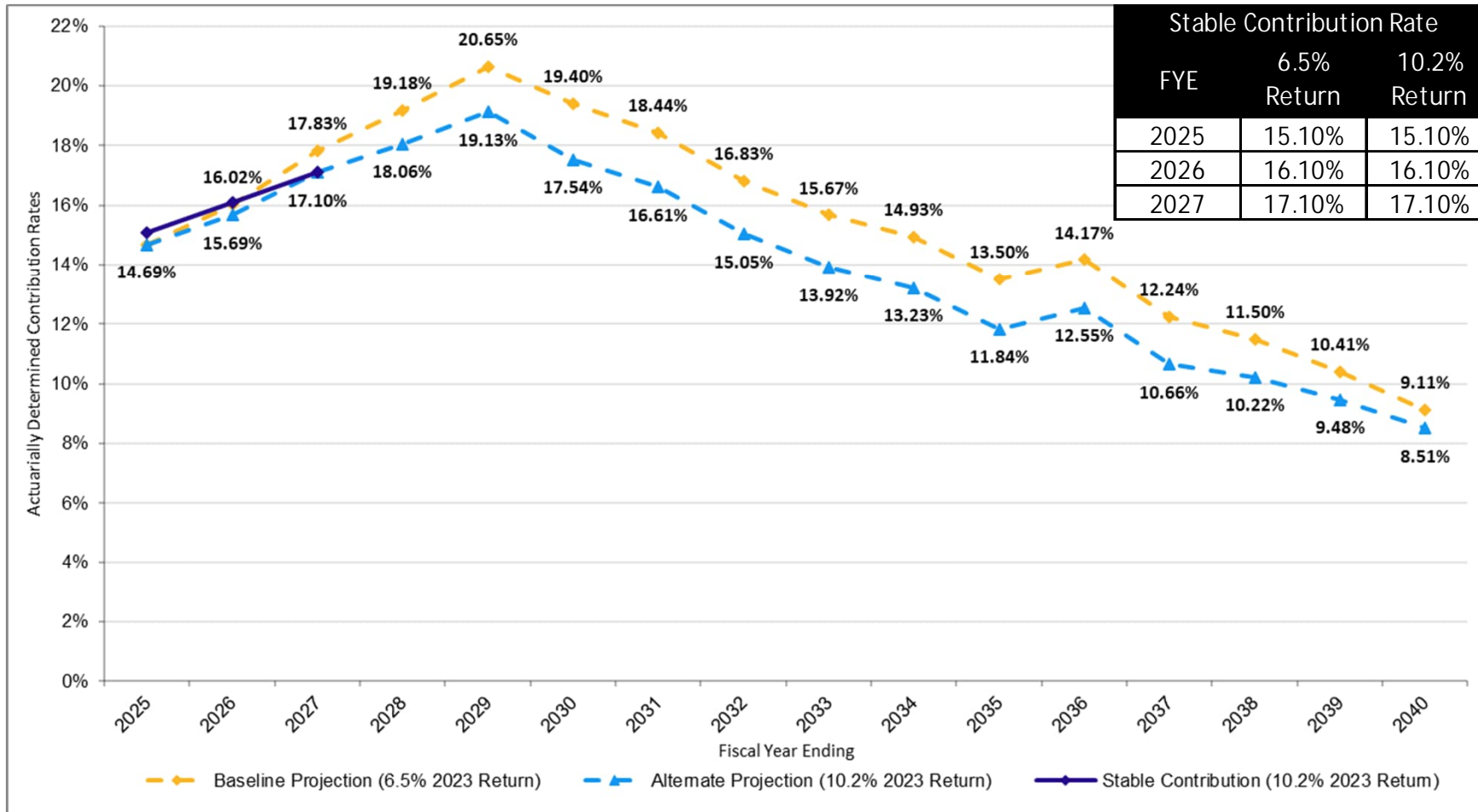
Alternate Projection utilizes estimated return of 10.2% for calendar year 2023 compared to Baseline Projection assumption of 6.5%.

The estimated return for the 2023 calendar year is 3.7% higher than expected, resulting in an estimated market value of assets \$1.1 billion higher than expected.

The unfunded actuarial accrued liability is projected to be lower than previously expected given this gain, resulting in lower employer contribution rates over the projection period.

# Projections

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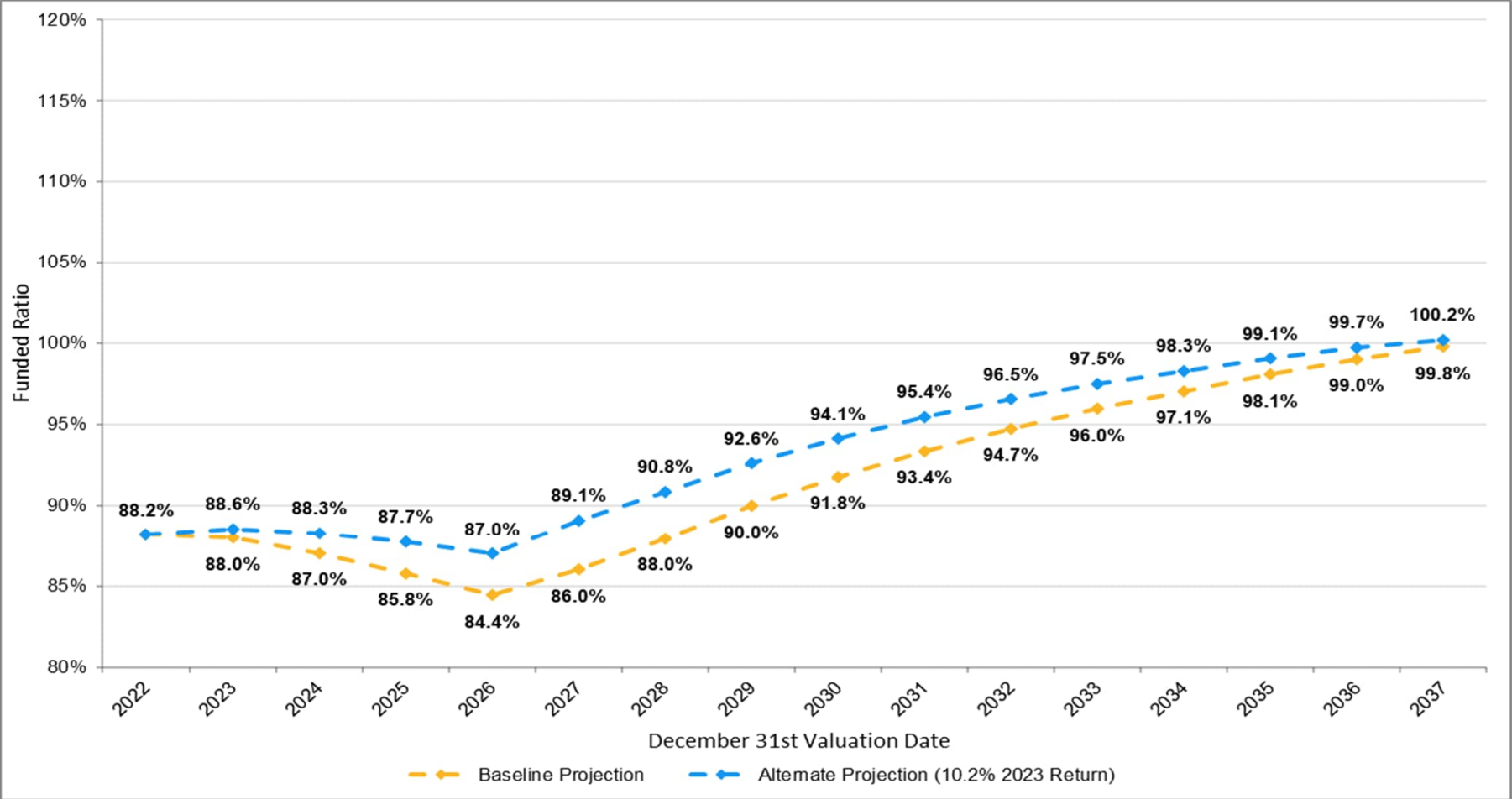
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# Projections

## Projected Funded Ratio



Given the greater than expected return for 2023, estimated market value of assets are \$1.1 billion higher than anticipated.

This asset gain will be phased into the funded status of the plan over a five-year period from December 31, 2023 to December 31, 2027, causing a decline in the funded status until the gain is fully recognized. Thereafter, the funded status of the plan continues to climb upward.

# Certification

Future actuarial results may differ significantly from current measurements due to such factors as the following: fund experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law. Such changes in law may include additional costs resulting from future legislated benefit improvements or cost-of-living pension increases or supplements, which are not anticipated in the actuarial valuation. Because of limited scope, Buck, A Gallagher Company (Buck) performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information.

The purpose of this presentation is to provide the Board of Trustees (“Board”) of the North Carolina Local Governmental Employees’ Retirement System estimated future projections based on the December 31, 2022 valuation results for discussion during the January 25, 2024 Board meeting attended by the actuaries. This presentation is provided for informational purposes and should not be used as actual future funding contribution rates for the System.

Use of these presentation results for any other purpose or by anyone other than the Board, the State of North Carolina, or their respective staffs may not be appropriate and may result in mistaken conclusions due to failure to understand applicable assumptions, methodologies, or inapplicability of the presentation results for that purpose. Because of the risk of misinterpretation of actuarial results, Buck recommends requesting its advance review of any statement, document, or filing to be based on the results contained in this presentation. Buck will accept no liability for any such statement, document, or filing to be made without its prior review.

Unless otherwise noted, the data, assumptions, methods, plan provisions, and model associated with the development of these results are the same as those described in the December 31, 2022 valuation report prepared October 2023. Risks inherent in the measurements herein and other applicable disclosures are the same as those described in that report.

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. We are Fellows of the Society of Actuaries, Enrolled Actuaries, Members of the American Academy of Actuaries, and Fellows of the Conference of Consulting Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. We are available to discuss this report with you at your convenience.

Michael A. Ribble, FSA, EA, MAAA, FCA

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# Appendix



# Fiscal Year Contribution Projection

Alternate Projection (10.2% Return in 2023, 6.50% Return Thereafter)

Fiscal Year Ending	Employer Policy Contribution Rate		Year Ending	Employer Contribution	Member Contribution	Benefit Payments
	(Non-LEO)	(LEO)				
6/30/2025	13.60%	15.10%	12/31/2023	\$ 1,052,359,458	\$ 497,498,917	\$ 1,945,085,676
6/30/2026	14.35%	16.10%	12/31/2024	\$ 1,136,078,748	\$ 505,576,506	\$ 2,052,365,250
6/30/2027	15.10%	17.10%	12/31/2025	\$ 1,222,671,705	\$ 514,189,413	\$ 2,166,516,425
6/30/2028	15.71%	18.06%	12/31/2026	\$ 1,313,469,087	\$ 523,650,975	\$ 2,283,592,887
6/30/2029	16.79%	19.13%	12/31/2027	\$ 1,403,476,524	\$ 533,771,532	\$ 2,401,278,251
6/30/2030	15.20%	17.54%	12/31/2028	\$ 1,510,864,029	\$ 544,565,130	\$ 2,525,257,781
6/30/2031	14.29%	16.61%	12/31/2029	\$ 1,518,051,239	\$ 555,774,509	\$ 2,650,185,123
6/30/2032	12.75%	15.05%	12/31/2030	\$ 1,432,037,886	\$ 567,676,966	\$ 2,774,573,671
6/30/2033	11.63%	13.92%	12/31/2031	\$ 1,345,073,329	\$ 580,316,775	\$ 2,897,508,182
6/30/2034	10.95%	13.23%	12/31/2032	\$ 1,244,350,670	\$ 593,820,795	\$ 3,016,694,883
6/30/2035	9.58%	11.84%	12/31/2033	\$ 1,182,737,400	\$ 608,096,098	\$ 3,076,073,152
6/30/2036	10.29%	12.55%	12/31/2034	\$ 1,104,761,825	\$ 622,876,576	\$ 3,193,522,753
6/30/2037	8.41%	10.66%	12/31/2035	\$ 1,096,429,888	\$ 638,112,849	\$ 3,311,575,563
6/30/2038	7.98%	10.22%	12/31/2036	\$ 1,060,008,111	\$ 654,122,117	\$ 3,427,207,680
6/30/2039	7.24%	9.48%	12/31/2037	\$ 957,793,769	\$ 670,893,192	\$ 3,543,444,918
6/30/2040	6.28%	8.51%	12/31/2038	\$ 915,270,030	\$ 688,218,131	\$ 3,656,322,996

# Asset and Liability Projection

Alternate Projection (10.2% Return in 2023, 6.50% Return Thereafter)

Valuation Date	Market Value of Assets	Actuarial Value of Assets	Accrued Liability	Unfunded Accrued Liability	Funded Ratio
12/31/2022	\$ 29,655,407,814	\$ 32,707,972,457	\$ 37,089,528,129	\$ 4,381,555,672	88.2%
12/31/2023	\$ 32,256,755,973	\$ 34,129,721,093	\$ 38,542,873,794	\$ 4,413,152,701	88.6%
12/31/2024	\$ 33,920,989,422	\$ 35,316,349,102	\$ 39,996,310,566	\$ 4,679,961,464	88.3%
12/31/2025	\$ 35,673,689,580	\$ 36,359,396,260	\$ 41,443,827,433	\$ 5,084,431,173	87.7%
12/31/2026	\$ 37,522,789,807	\$ 37,304,773,856	\$ 42,883,177,793	\$ 5,578,403,937	87.0%
12/31/2027	\$ 39,473,780,934	\$ 39,473,780,934	\$ 44,314,577,289	\$ 4,840,796,355	89.1%
12/31/2028	\$ 41,545,413,852	\$ 41,545,413,852	\$ 45,731,782,317	\$ 4,186,368,465	90.8%
12/31/2029	\$ 43,641,567,824	\$ 43,641,567,824	\$ 47,133,787,550	\$ 3,492,219,726	92.6%
12/31/2030	\$ 45,668,916,111	\$ 45,668,916,111	\$ 48,521,767,643	\$ 2,852,851,532	94.1%
12/31/2031	\$ 47,624,252,950	\$ 47,624,252,950	\$ 49,897,898,234	\$ 2,273,645,284	95.4%
12/31/2032	\$ 49,493,447,274	\$ 49,493,447,274	\$ 51,266,492,374	\$ 1,773,045,100	96.5%
12/31/2033	\$ 51,373,766,103	\$ 51,373,766,103	\$ 52,690,134,891	\$ 1,316,368,788	97.5%
12/31/2034	\$ 53,189,630,091	\$ 53,189,630,091	\$ 54,113,068,080	\$ 923,437,989	98.3%
12/31/2035	\$ 55,008,556,912	\$ 55,008,556,912	\$ 55,536,044,985	\$ 527,488,073	99.1%
12/31/2036	\$ 56,805,040,167	\$ 56,805,040,167	\$ 56,962,895,437	\$ 157,855,270	99.7%
12/31/2037	\$ 58,509,876,551	\$ 58,509,876,551	\$ 58,394,666,970	\$ (115,209,581)	100.2%

