

North Carolina National Guard Pension Fund

Principal Results of Actuarial Valuation as of December 31, 2023

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October 24, 2024, Board of
Trustees Meeting



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Valuation input

Membership data

Membership Data	Asset Data	Benefit Provisions	Assumptions	Funding Methodology
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The table below provides a summary of the membership data used in this valuation compared to the prior valuation.

Number as of	12/31/2023	12/31/2022
Active members	5,336	5,614
Terminated members entitled to benefits but not yet receiving benefits	2,500	2,885
Retired members currently receiving benefits	<u>4,825</u>	<u>4,681</u>
Total	12,661	13,180

The total number of active members decreased by 5.0% from the previous valuation date.

The total number of terminated members decreased by 13.3% from the previous valuation date.

The decrease of terminated members is primarily attributable to an audit of the population that identified a significant number who are confirmed to be deceased.

Valuation results

Net actuarial gain or loss

Membership Data	Asset Data	Benefit Provisions	Assumptions	Funding Methodology
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The table below provides a reconciliation of the prior year's unfunded actuarial accrued liability to the current year's unfunded actuarial accrued liability.

(in millions)		
Unfunded actuarial accrued liability (UAAL) as of 12/31/2022	\$	(39.2)
Normal cost and administrative expense during 2023		0.4
Reduction due to actual contributions during 2023		(5.5)
Interest on UAAL, normal cost, and contributions		(2.7)
Asset (gain) / loss		1.9
Actuarial accrued liability (gain) / loss		8.5
Impact of assumption changes		<u>0.0</u>
Unfunded actuarial accrued liability (UAAL) as of 12/31/2023	\$	(36.6)

During 2023, the reflection of retroactive benefit payments to age 60 for all Deferred Vested members over age 60 (calculated without interest) increased the UAAL by \$13.1 million. The UAAL increased by an additional \$1.2 million due to new retirements initiated by the N.C. National Guard during 2023 where the individuals were not previously expected to be retirement eligible based on census data files provided for purposes of the valuation.

These amounts were offset by \$5.3 million attributable to experience and data updates for terminated members not yet receiving benefits, and an additional \$0.5 million due to other demographic experience.

In addition, an asset loss increased the UAAL by \$1.9 million.

Valuation results (continued)

Employer contributions

Actuarial Value of Assets	Actuarial Accrued Liability	Net Actuarial Gain or Loss	Funded Ratio	Employer Contributions
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The table below provides a reconciliation of the actuarially determined employer contribution.

Fiscal year ending June 30, 2025 Preliminary ADEC (estimated based on December 31, 2022 valuation)	\$ 0
Impact of Legislative Changes	<u>0</u>
Fiscal year ending June 30, 2025 Final ADEC	\$ 0
Fiscal year ending June 30, 2025 ADEC Without \$0 Minimum	\$ (3,289,481)
Anticipated Increase/(Decrease) in UAAL	91,035
Change Due to Investment (Gain)/Loss	264,388
Direct Rate Smoothing	154,186
Change Due to Demographic (Gain)/Loss	1,089,931
Change Due to Contributions Greater than ADEC	<u>(279,895)</u>
Fiscal year ending June 30, 2026 ADEC Without \$0 Minimum	\$ (1,969,836)
Fiscal year ending June 30, 2026 Preliminary ADEC (estimated based on December 31, 2023 valuation and no less than \$0)	\$ 0

The change in amount due to investment loss is based on the actuarial value of assets return of 5.45%, which is less than the 6.50% assumed return.

The majority of the “Change Due to Demographic (Gain)/Loss” amount, \$1.7 million, is attributable to the reflection of retroactive benefit payments to age 60 for all Deferred Vested members over age 60. This amount was offset by \$0.6 million due to other demographic experience.

Valuation results (continued)

Employer contributions (SCRSP)

Actuarial Value of Assets	Actuarial Accrued Liability	Net Actuarial Gain or Loss	Funded Ratio	Employer Contributions
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The table below provides a summary of the employer contribution development for this valuation compared to the prior valuation.

Contributions for Fiscal Year Ending	6/30/2026	6/30/2025
Actuarially Determined Employer Contribution (ADEC)		
Normal Cost	\$ 1,110,318	\$ 1,120,949
Accrued Liability	<u>(1,110,318)</u>	<u>(1,120,949)</u>
Total Preliminary ADEC	\$ 0	\$ 0
Total Based on Direct Rate Smoothing	\$ 0	\$ 0
Additional Contribution Under State Contribution		
Rate Stabilization Policy (SCRSP)	<u>\$ 1,110,318</u>	<u>\$ 0</u>
Total Contribution	\$ 1,110,318	\$ 0
Contributions for Fiscal Year Ending	6/30/2026	6/30/2025
Legislative Appropriation	Not Final	Not Final

The SCRSP was amended effective January 25, 2024 such that, when the plan has a funded ratio over 100%, the recommended appropriation is equal to the Normal Cost used to calculate the ADEC. Prior to the amendment, the recommended appropriation was equal to the Underlying ADEC.

The recommended appropriation for fiscal year ending June 30, 2026 is based on the amended SCRSP, and equal to the normal cost used to calculate the ADEC.

The recommended appropriation for fiscal year ending June 30, 2025 was based on the SCRSP prior to amendment, and was equal to the ADEC

Valuation results (continued)

State Contribution Rate Stabilization Policy

Benefit Enhancements	Additional Disclosures	Projections
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Below is a summary of the SCRSP that the Board adopted on April 29, 2021 and amended on January 25, 2024:

- Annual Appropriation Recommendation (before consideration of benefit improvements)
 - If the Funded Percentage is greater than or equal to 100%, the Board will recommend a contribution equal to the Normal Cost used to calculate the underlying ADEC, including any provisions included in the Normal Cost for anticipated new entrants and administrative expenses
 - If the Funded Percentage is less than 100%, the Board recommendation will be the greater of (1) the appropriation recommended by the Board for the current fiscal year or (2) the underlying ADEC for the upcoming fiscal year plus \$2 million
- Board considerations for benefit improvements:
 - Recommended benefit increase is no greater than the most recent June-over-June CPI-U increase
 - The Benefit Improvement Funding Requirement (BIFR) is included in the appropriation recommended by the Board for the upcoming fiscal year
 - See next slides for information regarding the BIFR
- Board considerations for Cost-of-Living Adjustments (COLAs):
 - If the Funded Percentage is greater than or equal to 90%, any recommendations of the Board regarding (1) whether a COLA should be granted, (2) the percentage increase in retirement benefits due to the COLA, and (3) the term of amortization will be the same as the Board's recommendations taking effect at the same time regarding TSERS. If it is not administratively feasible for RSD staff to implement the same adjustments for the NCNGPF as for TSERS, then the Board will recommend that some pension adjustment of similar value for retirees be implemented.
 - If the Funded Percentage is less than 90%, the Board may consider recommending a COLA for NCNGPF retirees under the conditions described above for benefit improvements.

Valuation results (continued)

State Contribution Rate Stabilization Policy (continued)

Benefit Enhancements	Additional Disclosures	Projections
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Metrics the Board must consider to recommend a benefit increase to the General Assembly based on the results of the December 31, 2023 valuation:

- The most recent June-over-June increase in the CPI-U is 2.97%. Consequently, the maximum benefit improvement the Board could approve is an increase in the \$105/\$210 benefit to \$108/\$216 applicable to current and future retired participants, provided the BIFR is included in the appropriation recommendation for the upcoming fiscal year.
- The increase in the AAL and Normal Cost for certain proposed benefit improvements:

	\$ Improvement		
	\$1	\$2	\$3
Increase in AAL	\$ 1,444,894	\$ 2,889,788	\$ 4,334,682
% Increase in AAL	0.95%	1.90%	2.86%
Increase in Normal Cost	\$ 2,019	\$ 4,038	\$ 6,057

- Development of BIFR for a benefit improvement from \$105/\$210 to \$108/\$216

	\$ Improvement		
	\$1	\$2	\$3
(1) Full Actuarial Cost of Proposed Benefit Improvement	\$ 1,446,913	\$ 2,893,826	\$ 4,340,739
(2) NCNGPF Actuarial Accrued Liability as of 12/31/2023	151,713,820	151,713,820	151,713,820
(3) NCNGPF Actuarial Value of Assets as of 12/31/2023	188,339,728	188,339,728	188,339,728
(4) Underlying ADEC for FYE 6/30/2026	0	0	0
(5) Policy Contribution Without Benefit Increase for FY 6/30/2026	1,110,318	1,110,318	1,110,318
(6) Total Adjustment (2) – (3) + (4) – (5), only if less than \$0	<u>(37,736,226)</u>	<u>(37,736,226)</u>	<u>(37,736,226)</u>
BIFR: (1) + (6), not less than \$0	\$ 0	\$ 0	\$ 0

Certification

Future actuarial results may differ significantly from the current results presented in this report 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, Gallagher 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 a summary of the actuarial valuation results to the Board at the October 24, 2024 meeting attended by the actuaries. Use of this report for any other purposes may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of this presentation for that purpose. This presentation should not be provided without a copy of the full valuation report. Because of the risk of misinterpretation of actuarial results, you should ask Gallagher Benefit Services, Inc. (hereinafter “Gallagher”) to review any statement you wish to make on the results contained in this presentation. Gallagher will not accept any liability for any such statement made without prior review.

This presentation is considered part of the annual actuarial valuation report. Please see below for full description of data, actuarial assumptions and methods, plan provisions, and other applicable disclosures.

We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report has been prepared in accordance with all applicable Actuarial Standards of Practice, and we are available to answer questions about it.

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

Elizabeth A. Wiley, FSA, EA, MAAA, FCA

Appendix

Supplemental information

Valuation input (continued)

Market value

Membership Data	Asset Data	Benefit Provisions	Assumptions	Funding Methodology
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The table below provides details of the Market Value of Assets for the current and prior year's valuations.

Asset data as of	12/31/2023	12/31/2022
Beginning of year market value of assets	\$ 165,622,801	\$ 181,849,684
Contributions	5,515,857	11,031,716
Benefit payments	(9,222,377)	(9,088,937)
Expenses	(232,184)	(112,894)
Investment income	<u>16,235,006</u>	<u>(18,056,768)</u>
Net increase / (decrease)	12,296,302	(16,226,883)
End of year market value of assets	\$ 177,919,103	\$ 165,622,801
Estimated net investment return	9.92%	(9.88)%

National Guard Pension Fund assets are held in trust and are invested for the exclusive benefit of plan members.

Over the long term, benefit payments and administrative expenses not covered by contributions are expected to be covered with investment income, illustrating the benefits of following actuarial pre-funding since inception.

Valuation input (continued)

Funded ratio

Actuarial Value of Assets	Actuarial Accrued Liability	Net Actuarial Gain or Loss	Funded Ratio	Employer Contributions
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The table below provides a summary of the results of this valuation compared to the prior valuation.

Valuation results as of	12/31/2023	12/31/2022
Assets		
Actuarial Value (AVA)	\$ 188,339,728	\$ 182,447,658
Market Value	\$ 177,919,103	\$ 165,622,801
Actuarial Accrued Liability (AAL)	\$ 151,713,820	\$ 143,252,559
Unfunded Accrued Liability (AAL-AVA)	\$ (36,625,908)	\$ (39,195,099)
Funded Ratio (AVA/AAL)	124.1%	127.4%

The funded ratio decreased from 127.4% to 124.1% as of 12/31/2023.

The decrease in funded ratio is primarily attributable to demographic experience indicated in the census data (see slide 3 for additional details).

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North Carolina National Guard Pension Fund

Report on the Actuarial Valuation
Prepared as of December 31, 2023

October 2024



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October 16, 2024

Board of Trustees
Teachers' and State Employees'
Retirement System of North Carolina
3200 Atlantic Avenue
Raleigh, NC 27604

Members of the Board:

We submit herewith our report on the actuarial valuation of the North Carolina National Guard Pension Fund (referred to as "the Fund") prepared as of December 31, 2023. The report has been prepared in accordance with Chapter 127A of the North Carolina General Statutes. Information contained in our report for plan years from December 31, 2017, to December 31, 2020, is based on valuations performed by the prior actuarial firm.

The primary purpose of the valuation report is to determine the required employer contribution rates, to describe the current financial condition of the Fund, and to analyze changes in such condition. Use of this report for any other purposes or by anyone other than North Carolina Retirement Systems Division (RSD) and Department of State Treasurer staff may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the report for that purpose. The attached pages should not be provided without a copy of this cover letter. Because of the risk of misinterpretation of actuarial results, you should ask Gallagher to review any statement you wish to make on the results contained in this report. Gallagher will not accept any liability for any such statement made without prior review.

The results of this report are based upon participant data supplied by RSD and financial data supplied by the Financial Operations Division. Although we reviewed the data for reasonableness and consistency with data for the prior valuation, these elements have not been audited by Gallagher and we cannot certify as to the accuracy and completeness of the data supplied. The results of this report are dependent on the accuracy of the data. Sometimes assumptions are made by Gallagher to interpret membership data that is imperfect. The valuation does not include members with less than seven years of service. The liabilities have been adjusted to reflect the expected impact of these members. Furthermore, in order to be eligible to receive a benefit from the Fund, members are required to have twenty years of total military service, of which at least fifteen must be North Carolina National Guard service. Assumptions with respect to total military service and North Carolina National Guard service are detailed in Appendix C.

The valuation is also based on benefit and contribution provisions as presented in this report. If you have reason to believe that the plan provisions are incorrectly described, that important plan provisions relevant to this valuation are not described, or that conditions have changed since the calculations were made, you should contact the authors of this actuarial report prior to relying on this information.

The valuation is further based on the actuarial valuation assumptions, approved by the Board of Trustees, as presented in this report. We believe that these assumptions are reasonable and comply with the Actuarial Standards of Practice ("ASOPs") 27 and 35. In our professional judgement, the combined effect of the assumptions is expected to have no significant bias. We have prepared this valuation in accordance with the requirements of this standard and in accordance with all applicable ASOPs.



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The assumptions used for the December 31, 2023, actuarial valuation are based on the experience study prepared as of December 31, 2019, and adopted by the Board of Trustees on January 28, 2021. All assumptions are discussed annually with the appropriate parties, and actuarial gain/loss experience is reviewed during each valuation, to see if any changes are needed. The economic assumptions with respect to investment yield and inflation have been based upon a review of the existing portfolio structure as well as recent and anticipated experience. All assumptions represent an estimate of future experience.

ASOPs 27 and 35 ask the actuary to disclose the information and analysis used to support the actuary's determination that the assumptions selected by the plan sponsor do not significantly conflict with what, in the actuary's professional judgment, are reasonable for the purpose of the measurement. In the case of the Board's selection of the investment return assumption, the signing actuaries have used economic information and tools provided by Gallagher's Financial Risk Management ("FRM") practice. A spreadsheet tool created by the FRM team converts averages, standard deviations, and correlations from Gallagher's Capital Markets Assumptions ("CMA") that are used for stochastic forecasting into approximate percentile ranges for the arithmetic and geometric average returns. It is intended to suggest possible reasonable ranges for the investment return assumption without attempting to predict or select a specific best estimate rate of return. It takes into account the duration (horizon) of investment and the target allocation of assets in the portfolio to various asset classes. Based on the actuaries' analysis, including consistency with other assumptions used in the valuation, the percentiles generated by the spreadsheet described above, and review of actuarial gain/loss experience, the actuaries believe the assumptions, in the actuaries' professional judgment, is reasonable for the purpose of the measurement.

Where presented, references to "funded ratio" and "unfunded accrued liability" typically are measured on an actuarial value of assets basis. It should be noted that the same measurements using market value of assets would result in different funded ratios and unfunded accrued liabilities. Moreover, the funded ratio presented is appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the plan if the plan were to settle (i.e. purchase annuities) for a portion or all of its liabilities. In various places in the report the results also show funded ratios and unfunded liabilities based upon varying sets of assumptions as well as market values of assets as that is required for certain disclosure information required per accounting rules or statutes. Where this has been done it has been clearly indicated.

Actuarial Standard of Practice No. 56 ("ASOP 56") provides guidance to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, using, reviewing, or evaluating models. In addition to the spreadsheet model discussed above, Gallagher uses third-party software in the performance of annual actuarial valuations and projections. The model is intended to calculate the liabilities associated with the provisions of the Plan using data and assumptions as of the measurement date under the accounting rules specified in this report. The output from the third-party vendor software is used as input to an internally developed model that applies applicable accounting rules to the liabilities derived and other inputs, such as Plan assets and contributions, to generate many of the exhibits found in this report. Gallagher has an extensive review process whereby the results of the liability calculations are checked using detailed sample output, changes from year to year are summarized by source, and significant deviations from expectations are investigated. Other accounting outputs and the internal model are similarly reviewed in detail and at a high level for accuracy, reasonability, and consistency with prior results. Gallagher also reviews the third-party model when significant changes are made to the software. The review is performed by experts within the company who are familiar with applicable accounting rules as well as the manner in which the model generates its output. If significant



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changes are made to the internal model, extra checking and review are completed. Significant changes to the internal model that are applicable to multiple clients are generally developed, checked, and reviewed by multiple experts within the company who are familiar with the details of the required changes.

Future actuarial results may differ significantly from the current results presented in this report 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, Gallagher performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information.

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.

Respectfully submitted,

Buck Global, LLC (Buck),
Gallagher Benefit Services, Inc. (hereinafter "Gallagher")

Michael A. Ribble, FSA, EA, MAAA, FCA
Principal, Retirement Actuary

Elizabeth A. Wiley, FSA, EA, MAAA, FCA
Director, Retirement Actuary

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Section 1: Principal Results

This report, prepared as of December 31, 2023, presents the results of the actuarial valuation of the Fund. For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results are summarized below.

Table 1: Summary of Principal Results

Valuation results as of	12/31/2023	12/31/2022
Active Members		
Number	5,336	5,614
Retired Members Currently Receiving Benefits		
Number	4,825	4,681
Annual Pensions	\$ 8,943,692	\$ 8,677,540
Terminated Members Entitled to but Not Yet Receiving Benefits		
Number	2,500	2,885
Deferred Pensions	\$ 4,452,893	\$ 5,182,555
Assets		
Actuarial Value (AVA)	\$ 188,339,728	\$ 182,447,658
Market Value	\$ 177,919,103	\$ 165,622,801
Actuarial Accrued Liability (AAL)	\$ 151,713,820	\$ 143,252,559
Unfunded Accrued Liability (AAL-AVA)	\$ (36,625,908)	\$ (39,195,099)
Funded Ratio (AVA/AAL)*	124.1%	127.4%
Contributions for Fiscal Year Ending	6/30/2026	6/30/2025
Actuarially Determined Employer Contribution (ADEC)		
Normal Cost	\$ 1,110,318	\$ 1,120,949
Accrued Liability	<u>(1,110,318)</u>	<u>(1,120,949)</u>
Total Preliminary ADEC	0	0
Total Based on Direct Rate Smoothing	\$ 0	\$ 0
Additional Contribution Under State Contribution Rate Stabilization Policy (SCRSP)**	\$ 1,110,318	\$ 0
Total Contribution	\$ 1,110,318	\$ 0
Contributions for Fiscal Year Ending	6/30/2026	6/30/2025
Legislative Appropriation	Not Final	Not Final

* The Funded Ratio on a Market Value of Assets basis is 117.3% at December 31, 2023.

** The SCRSP was amended effective January 25, 2024 such that, when the plan has a funded ratio over 100%, the recommended appropriation is equal to the Normal Cost used to calculate the ADEC. Prior to the amendment, the recommended appropriation was equal to the Underlying ADEC. The recommended appropriation for fiscal year ending June 30, 2026 is based on the amended SCRSP, while the recommended appropriation for fiscal year ending June 30, 2025 was based on the SCRSP prior to amendment. The SCRSP can be found in Appendix E.

Section 1: Principal Results (continued)

The following table shows a reconciliation of the change in the actuarially determined employer contribution that remained at \$0 based on the December 31, 2022 and December 31, 2023 valuations.

Table 2: Reconciliation of Change in Actuarially Determined Employer Contribution (ADEC)

Fiscal year ending June 30, 2025 Preliminary ADEC (based on December 31, 2022 valuation)		\$	0
Impact of Legislative Changes			0
Fiscal year ending June 30, 2025 Final ADEC		\$	0
Fiscal year ending June 30, 2025 ADEC Without \$0 Minimum		\$	(3,289,481)
Anticipated Increase/(Decrease) in UAAL			91,035
Change Due to Investment (Gain)/Loss			264,388
Direct Rate Smoothing			154,186
Change Due to Demographic (Gain)/Loss*			1,089,931
Change Due to Contributions Greater than ADEC			(279,895)
Fiscal year ending June 30, 2026 ADEC Without \$0 Minimum		\$	(1,969,836)
Fiscal year ending June 30, 2026 Preliminary ADEC (based on December 31, 2023 valuation and no less than \$0)		\$	0

* The majority of the amount, \$1.7 million, is attributable to the reflection of retroactive benefit payments to age 60 for all Deferred Vested members over age 60. This amount was offset by \$0.6 million due to other demographic experience.

- Tables summarizing the membership of the Fund as of the valuation date are shown in Section 2.
- An allocation of investments by category and the development of the actuarial value of assets are shown in Section 3.
- Comments on the experience and actuarial gains/losses during the valuation year are provided in Section 4.
- Comments on the actuarially determined employer contribution are provided in Section 5.
- Comments on risks to the fund are provided in Section 6.
- Appendix A provides detailed tabulations of the membership of the Fund as of the valuation date.
- Appendix B gives a summary of the benefit provisions of the Fund.
- Appendix C outlines the full set of actuarial assumptions and methods employed.
- Appendix E contains the SCRSP policy.

Section 2: Membership Data

Data regarding the membership of the Fund for use as a basis for the valuation were furnished by the Retirement Systems Division. The following table summarizes the membership of the Fund as of December 31, 2023 upon which the valuation was based. Detailed tabulations of the data are given in Appendix A.

Table 3: Membership of the Fund as of December 31, 2023

	Member Count	Average Age	Average Service	Annual Pensions
Active Members	5,336	37.84	15.08	N/A
Retired Members Currently Receiving Benefits	4,825	72.93	N/A	\$ 8,943,692
Terminated Members Entitled to Benefits but Not Yet Receiving Benefits	2,500	57.54	N/A	\$ 4,452,893

Section 3: Asset Data

Assets are held in trust and are invested for the exclusive benefit of NGPF members. The tables below provide the details of the Market Value of Assets for the current and prior years' valuations.

Table 4: Market Value of Assets

Asset Data as of	12/31/2023	12/31/2022
Beginning of Year Market Value of Assets	\$ 165,622,801	\$ 181,849,684
State Contributions	5,515,857	11,031,716
Benefit Payments	(9,222,377)	(9,088,937)
Expenses	(232,184)	(112,894)
Investment Income	<u>16,235,006</u>	<u>(18,056,768)</u>
Net Increase/(Decrease)	12,296,302	(16,226,883)
End of Year Market Value of Assets	\$ 177,919,103	\$ 165,622,801
Estimated Net Investment Return on Market Value	9.92%	-9.88%

The following table shows an allocation of investments by category as of December 31, 2023.

Table 5: Allocation of Investments by Category for the National Guard Pension Fund as of December 31, 2023

Cash and Receivables	11.3%
Fixed Income (LTIF)	24.5%
Public Equity	36.6%
Other*	<u>27.6%</u>
Total	100.0%

* Real Estate, Alternatives, Inflation, and Credit.

Section 3: Asset Data (continued)

Table 6: Development of Actuarial Value of Assets

Asset Data as of	12/31/2023
Beginning of Year Market Value of Assets	\$ 165,622,801
Contributions	5,515,857
Benefit Payments and Administrative Expenses	<u>(9,454,561)</u>
Net Cash Flow	(3,938,704)
Expected Investment Return	10,639,489
Expected End of Year Market Value of Assets	172,323,586
End of Year Market Value of Assets	177,919,103
Excess of Market Value over Expected Market Value of Assets	5,595,517
80% of 2023 Asset Gain/(Loss)	4,476,414
60% of 2022 Asset Gain/(Loss)	(17,961,320)
40% of 2021 Asset Gain/(Loss)	1,884,671
20% of 2020 Asset Gain/(Loss)	<u>1,179,610</u>
Total Deferred Asset Gain/(Loss)	(10,420,625)
Preliminary End of Year Actuarial Value of Assets	188,339,728
Final End of Year Actuarial Value of Assets (not less than 80% and not greater than 120% of Market Value)	188,339,728
Estimated Net Investment Return on Actuarial Value	5.45%
Estimated Net Investment Return on Market Value	9.92%

Commentary: The actuarial value of assets smooths investment gains/losses, resulting in less volatility in the employer contribution. The asset valuation method recognizes asset returns in excess of or less than the expected return on the market value of assets over a five-year period. Continued recognition of the 2022 asset loss resulted in a lower-than-expected return on the actuarial value of assets for calendar year 2023 of 5.45% and a recognized actuarial asset loss of \$1.9 million during 2023.

Section 4: Liability Results

Table 7: Liability Summary

Valuation Results as of	12/31/2023	12/31/2022
(a) Present Value of Future Benefits		
(1) Active Members	\$ 24,703,130	\$ 25,670,559
(2) Terminated Members	50,379,918	43,712,925
(3) Members Currently Receiving Benefits	<u>77,706,365</u>	<u>74,993,239</u>
(4) Total	\$ 152,789,413	\$ 144,376,723
(b) Present Value of Future Normal Costs	\$ 1,075,593	\$ 1,124,164
(c) Actuarial Accrued Liability: (a4) - (b)	\$ 151,713,820	\$ 143,252,559
(d) Actuarial Value of Assets	\$ 188,339,728	\$ 182,447,658
(e) Unfunded Accrued Liability: (c) - (d)	\$ (36,625,908)	\$ (39,195,099)

The following table shows a detailed reconciliation of the change in unfunded accrued liability since the prior valuation.

Table 8: Reconciliation of Change in Unfunded Accrued Liability Since the Prior Valuation (in millions)

(in millions)	
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2022	\$ (39.2)
Normal Cost and Administrative Expense during 2023	0.4
Reduction due to Actual Contributions during 2023	(5.5)
Interest on UAAL, Normal Cost, and Contributions	(2.7)
Asset (Gain)/Loss	1.9
Actuarial Accrued Liability (Gain)/Loss	8.5
Impact of Assumption Changes	<u>0.0</u>
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2023	\$ (36.6)

Commentary: During 2023, the reflection of retroactive benefit payments to age 60 for all Deferred Vested members over age 60 (calculated without interest) increased the UAAL by \$13.1 million. The UAAL increased by an additional \$1.2 million due to new retirements initiated by the N.C. National Guard during 2023 where the individuals were not previously expected to be retirement eligible based on census data files provided for purposes of the valuation. These amounts were offset by \$5.3 million attributable to experience and data updates for terminated members not yet receiving benefits, and an additional \$0.5 million due to other demographic experience. In addition, an asset loss increased the UAAL by \$1.9 million.

Section 5: Actuarially Determined Employer Contribution

The normal cost contribution is the cost of benefits accruing in the current year under the actuarial funding method. The valuation indicates that the annual normal cost contribution payable by the State is equal to \$44.10 multiplied by the number of active members with seven or more years of service. Based on 5,336 active members included in the valuation, the normal contribution is \$235,318. In addition, there is \$150,000 required for administrative expenses and \$725,000 added to the normal cost to account for members with less than 7 years of service that are not included in the valuation.

The unfunded actuarial accrued liability is amortized within a 12-year period through an annual unfunded accrued liability contribution. According to the SCRSP adopted on April 29, 2021 and amended on January 25, 2024, since the plan's funded percentage is greater than 100% as of December 31, 2023, the appropriation recommended by the SCRSP is equal to the Normal Cost used to calculate the ADEC for the fiscal year June 30, 2026.

The SCRSP can be found in Appendix E.

Based on the present membership and the amortization schedule described above, the following table shows the total actuarially determined employer contributions for the fiscal years ending June 30, 2026 and June 30, 2025.

The ADEC is compliant with the definition of a reasonable actuarially determined contribution under ASOP 4. When determining the smoothing period for the actuarial value of assets and the amortization period for the unfunded actuarial accrued liability, the following items were considered: (i) the balance among benefit security, intergenerational equity, and stability of actuarially determined contributions, (ii) the timing and duration of expected benefit payments, and (iii) the nature and frequency of plan amendments. Plan amendments are amortized over periods appropriate for the nature of the change or are funded at the time of the change based on decisions by the plan sponsor.

Table 9: Actuarially Determined Employer Contribution (ADEC)

Contribution	Annual Amount FY Ending 6/30/2026	Annual Amount FY Ending 6/30/2025
Normal Cost	\$ 235,318	\$ 245,949
Administrative Expenses	\$ 150,000	\$ 150,000
Load for New Entrants	<u>\$ 725,000</u>	<u>\$ 725,000</u>
Total	\$ 1,110,318	\$ 1,120,949
Accrued Liability	<u>\$ (1,110,318)</u>	<u>\$ (1,120,949)</u>
Total	\$ 0	\$ 0
Impact of Direct Rate Smoothing	<u>\$ 0</u>	<u>\$ 0</u>
Preliminary ADEC (not less than \$0)	\$ 0	\$ 0

Section 5: Actuarially Determined Employer Contribution (continued)

Table 10: Amortization Schedule for Unfunded Actuarial Accrued Liability

Date Established	Original Balance	12/31/2023 Outstanding Balance	Annual Payment Effective July 1, 2025*
December 31, 2010	(2,911,753)	(193,154)	-
December 31, 2011	(2,233,724)	(429,515)	-
December 31, 2012	(515,855)	(159,812)	(69,099)
December 31, 2013	4,219,347	1,769,795	563,512
December 31, 2014	7,361,464	3,840,877	980,321
December 31, 2015	16,021,040	9,886,944	2,127,207
December 31, 2016	796,884	562,243	105,424
December 31, 2017	1,856,450	1,462,434	244,689
December 31, 2018	(9,816,470)	(8,499,552)	(1,291,545)
December 31, 2019	(10,786,025)	(10,111,579)	(1,414,550)
December 31, 2020	2,913,588	2,921,246	380,321
December 31, 2021	(33,769,285)	(36,062,979)	(4,408,029)
December 31, 2022	(7,815,545)	(8,323,555)	(1,020,192)
December 31, 2023	6,710,699	6,710,699	875,972
Total		\$ (36,625,908)	\$ (2,925,969)

* When calculating the preliminary ADEC, the Total Annual Payment of (\$2,925,969) is constrained so that the resulting preliminary ADEC is no less than \$0.

Section 6: Risk

Measuring pension obligations and actuarially determined contributions requires the use of assumptions regarding future economic and demographic experience. Whenever assumptions are made about future events, there is risk that actual experience will differ from expected. Actuarial valuations include the risk that actual future measurements will deviate from expected future measurements due to actual experience that is different than the actuarial assumptions. The primary areas of risk in this actuarial valuation are:

Investment Risk

The potential that investment returns will be different than expected.

Longevity and Other Demographic Risks

The potential that mortality or other demographic experience will be different than expected.

Interest Rate Risk

To the extent market rates of interest affect the expected return on assets, there is a risk of change to the discount rate which determines the present value of liabilities and actuarial valuation results.

Contribution Risk

The potential that actual contributions are different than the actuarially determined contributions.

Annual actuarial valuations are performed for RSD which re-measure the assets and liabilities and compute a new actuarially determined contribution. RSD also has experience studies performed every five years to analyze the discrepancies between actuarial assumptions and actual experience and determine if the actuarial assumptions need to be changed. Annual actuarial valuations and periodic experience studies are practical ways to monitor and reassess risk.

Appendix A: Detailed Tabulations of Member Data

Table A-1: The Number of Active Members Distributed by Age and Service as of December 31, 2023

Age	Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	
Under 25	0	0	3	0	0	0	0	0	0	0	3
25 to 29	0	0	649	161	0	0	0	0	0	0	810
30 to 34	0	0	386	761	140	0	0	0	0	0	1,287
35 to 39	0	0	143	427	640	68	0	0	0	0	1,278
40 to 44	0	0	54	162	263	390	48	0	0	0	917
45 to 49	0	0	13	63	98	146	123	10	0	0	453
50 to 54	0	0	5	32	76	79	60	100	13	0	365
55 to 59	0	0	0	3	32	53	32	33	51	4	208
60 to 64	0	0	0	0	2	4	1	3	4	1	15
65 to 69	0	0	0	0	0	0	0	0	0	0	0
70 & Up	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	1,253	1,609	1,251	740	264	146	68	5	5,336

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-2: The Number of Active Members Distributed by Age as of December 31, 2023

Age	Number
24	3
25	51
26	133
27	175
28	226
29	225
30	239
31	253
32	217
33	282
34	296
35	327
36	290
37	246
38	217
39	198
40	211
41	200
42	183
43	159
44	164
45	111
46	106
47	85
48	71
49	80
50	82
51	62
52	68
53	80
54	73
55	63
56	48
57	43
58	33
59	21
60	10
61	4
63	1
Total	5,336

Appendix A: Detailed Tabulations of Member Data (continued)

**Table A-3: The Number of Active Members Distributed by Service
as of December 31, 2023**

Service	Number
7	390
8	425
9	438
10	400
11	347
12	313
13	282
14	267
15	277
16	285
17	282
18	208
19	199
20	185
21	185
22	162
23	121
24	87
25	70
26	75
27	48
28	41
29	30
30	34
31	32
32	28
33	23
34	29
35	15
36	24
37	14
38	6
39	9
40	4
41	1
Total	5,336

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-4: The Number and Deferred Annual Retirement Allowances of Terminated Vested Members Distributed by Age as of December 31, 2023

Age	Number	Allowances
38	4	\$ 5,040
39	17	25,326
40	26	34,579
41	29	40,324
42	35	47,628
43	48	71,064
44	45	64,630
45	41	59,976
46	50	77,313
47	51	79,002
48	72	117,230
49	68	114,912
50	76	129,171
51	78	134,442
52	108	189,191
53	134	247,590
54	136	257,934
55	140	263,591
56	148	278,064
57	146	293,482
58	139	259,571
59	154	294,336
60	136	260,606
61	58	109,603
62	38	69,794
63	31	57,204
64	39	68,796
65	21	42,588
66	19	37,926
67	10	17,010
68	14	24,570
69	12	19,152
70	17	28,476
71	15	23,184
72	12	17,892
73	10	17,766
74	36	58,086
75	33	55,062
76	44	70,812
77	41	72,324
78	35	65,772
79	36	66,654
80	25	45,738
81	28	52,920
82	20	35,658
83	15	32,004
84	6	11,214
87	2	3,780
89	1	2,520
92	1	1,386
Total	2,500	\$ 4,452,893

Appendix A: Detailed Tabulations of Member Data (continued)

Table A-5: The Number and Annual Retirement Allowances of Retired Members Distributed by Age as of December 31, 2023

Age	Number	Allowances
58	1	\$ 420
60	60	112,266
61	179	331,590
62	208	382,536
63	202	375,985
64	187	344,988
65	173	308,550
66	161	296,604
67	168	302,526
68	147	277,567
69	155	284,641
70	154	279,236
71	199	357,358
72	243	442,162
73	261	475,981
74	267	492,799
75	293	531,720
76	287	511,889
77	266	479,304
78	179	338,058
79	171	321,387
80	149	278,838
81	134	258,792
82	90	164,106
83	63	120,078
84	62	128,898
85	71	140,124
86	60	118,173
87	53	112,392
88	44	91,602
89	38	76,482
90	27	56,070
91	20	41,328
92	19	39,690
93	9	18,648
94	8	15,120
95	8	16,632
96	3	5,166
97	3	7,560
100	3	6,426
Total	4,825	\$ 8,943,692

Appendix B: Summary of Main Plan Provisions

Membership

All members of the North Carolina National Guard with seven years of service are eligible to be members of the Fund.

Benefits

Service Retirement Pension

Condition for Pension

A member who retires after he or she has attained age 60 and has credit for 20 years of military service, including at least 15 years of North Carolina National Guard duty, both reserve and active, and who has received an honorable discharge, is entitled to a monthly pension.

Amount of Pension

The amount of the pension is equal to \$105 per month for 20 years of creditable service with an additional \$10.50 per month for each additional year of such service, provided that the total pension shall not exceed \$210 per month.

Deferred Early Retirement Pension

Condition for Pension

A member whose service is terminated after he or she has credit for 20 years of military service, including at least 15 years of North Carolina National Guard duty, both reserve and active, and who has received an honorable discharge, is eligible to receive a deferred retirement pension commencing at age 60. If electing to receive benefits after age 60, benefit payments are retroactively due to the member to age 60 without accumulated interest.

Amount of Pension

The amount is the same as that for a service retirement.

Normal Form

Life Annuity.

Optional Form

None.

Contributions

The State makes annual contributions sufficient to meet the cost of the benefits under the Fund.

Changes Since Prior Valuation

None.

Appendix C: Actuarial Assumptions and Methods

The assumptions used for the December 31, 2023 valuation are based on the experience study prepared by the prior actuary as of December 31, 2019 and adopted on January 28, 2021 for use beginning with the December 31, 2020 annual actuarial valuation.

Interest Rate

6.50% per annum, compounded annually.

Active Members

Normal Cost is loaded \$725,000 to account for active members with less than 7 years of service that are not included in the valuation.

Separations From Active Service

Assumed annual rates of separation from active service are as follows:

Annual Rates of Withdrawal				
	Service			
Age	< = 6	7 – 9	10 - 19	> = 20
< = 50	0.000	0.175	0.110	0.150
50 - 54	0.000	0.175	0.110	0.200
> = 55	0.000	0.175	0.110	0.250

Deaths Prior to Retirement

Representative values of the assumed pre-retirement mortality rates prior to any mortality improvements are as follows:

Annual Rates of Mortality		
Age	Males	Females
25	0.00028	0.00009
30	0.00036	0.00015
35	0.00047	0.00023
40	0.00066	0.00036
45	0.00098	0.00056
50	0.00149	0.00083
55	0.00219	0.00123
60	0.00319	0.00186

Benefit Payments for Deferred Vested Members Over Age 60

All current deferred vested members over age 60 are assumed to receive a payment on the valuation date equal to the amount of payments due retroactively to age 60, without adjustment for any interest.

Appendix C: Actuarial Assumptions and Methods (continued)

Service Retirement

Assumed annual rates of retirement from active service are as follows:

Annual Rates of Retirement		
	Service	
Age	<=19	>=20
<=55	0.000	0.150
55-59	0.000	0.250
60-64	0.000	0.500
>=65	0.000	1.000

Deaths After Retirement

Representative values of the assumed post-retirement mortality rates prior to any mortality improvements are as follows:

Annual Rates of Mortality				
	Service Retirees		Contingent Annuitants	
Age	Males	Females	Males	Females
55	0.00455	0.00272	0.01147	0.00742
60	0.00649	0.00365	0.01450	0.00975
65	0.00963	0.00582	0.02086	0.01332
70	0.01610	0.01010	0.03221	0.01931
75	0.02818	0.01789	0.04971	0.02946
80	0.05037	0.03360	0.07802	0.04698
85	0.09064	0.06515	0.12468	0.07945
90	0.15479	0.12636	0.19956	0.13258

Deaths After Retirement (Healthy at Retirement)

Mortality rates are based on the Pub 2010 General Retirees Mortality Table (Benefits Weighted) adjusted 105.50% for males and as follows for females:

Age	Factor	Age	Factor
< 76	95%	83	103%
76	96%	84	104%
77	97%	85	105%
78	98%	86	106%
79	99%	87	107%
80	100%	88	108%
81	101%	89	109%
82	102%	>=90	110%

Appendix C: Actuarial Assumptions and Methods (continued)

Deaths After Retirement (Contingent Annuitants):

Mortality rates are based on the Pub-2010 Teachers Contingent Annuitant Below Median Mortality Table (Benefits Weighted) set forward 3 years for males and 1 year for females.

Mortality Projection

Post-retirement mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Deaths Prior to Retirement

Mortality Rates are based on the Pub 2010 General Employees Mortality Table (Benefits Weighted).

Timing of Assumptions

All withdrawals, deaths and retirements are assumed to occur July 1 of each year. The timing of retirement changes from mid-year to beginning of year at and after the 100% retirement age.

Administrative Expenses

\$150,000 added to Normal Cost.

Missing Gender Code

For members reported on the data without a gender code, we use the prior year's code where available or assign a code based on inspection.

Other Data Assumptions

- Members of the Army National Guard who were terminated vested participants in the prior valuation but were reported with less than 15 years of prior North Carolina National Guard duty were assumed to have terminated without a vested benefit.
- Inactive Army National Guard members who were reported this year with over 20 years of total service and more than 15 years of North Carolina National Guard duty (or National Guard duty information was omitted), but were not included as deferred vested members the previous year, are assumed to have terminated with a vested benefit.
- Where service showed an unexpected change from the prior year and an explanation for the change could not be reconciled, the creditable service reported for the current year was accepted.

Actuarial Cost Method

Entry age normal cost method. Under this method, the actuarial value of projected benefits for each individual participant is allocated as a level dollar over the working lifetime of the participant between the date of employment and assumed date of exit.

Normal Cost

Normal cost rate reflects the impact of new entrants during the year.

Appendix C: Actuarial Assumptions and Methods (continued)

Asset Valuation Method

Actuarial value, as developed in Section 3. Actuarial value of assets is based upon a smoothed market value method. Under this method, asset returns in excess of or less than the expected return on market value of assets will be reflected in the actuarial value of assets over a five-year period. The calculation of the Actuarial Value of Assets is based on the following formula:

$$MV - 80\% \times G/(L)_1 - 60\% \times G/(L)_2 - 40\% \times G/(L)_3 - 20\% \times G/(L)_4$$

MV = the market value of assets as of the valuation date

$G/(L)_i$ = the asset gain or (loss) for the i-th year preceding the valuation date

Changes in Assumption and Methods Since Prior Valuation:

None.

Appendix D: Additional Disclosures

NCNGPF invests in a diversified portfolio with the objective of maximizing investment returns at a reasonable level of risk. However, Actuarial Standard of Practice No. 4 (“ASOP 4”) requires the actuary to disclose a Low-Default-Risk Obligation Measure (“LDROM”) of plan liabilities and provide commentary to help intended users of this report understand the significance of the measure with respect to funded status, contributions, and participant benefit security.

As of December 31, 2023 the LDROM is \$200,976,674. The LDROM is to be based on “discount rates derived from low-default-risk fixed income securities whose cash flows are reasonably consistent with the pattern of benefits expected to be paid in the future.” Please note that the interest rate used for the LDROM is based on 30-year Treasury rates as of the measurement and will therefore vary for different measurement dates. As of December 31, 2023 the 30-year Treasury rate used to calculate the LDROM is 4.03%. All other assumptions are the same as those used for funding purposes as shown in this report.

The LDROM shown here represents an estimate of what the NCNGPF actuarial accrued liability would be if NCNGPF invested its assets solely in 30-year Treasury bonds. Consequently, the difference between the LDROM and the Actuarial Accrued Liability can be thought of as representing the expected taxpayer savings / (cost) from investing in the plan’s diversified portfolio compared to investing only in 30-year Treasury bonds. It may also be thought of as the cost of reducing investment risk.

Actuaries play a role in helping determine funding methods and policies that can achieve affordable and appropriate contributions and risk management. The funded status based on actuarial accrued liability and the actuarially determined contributions are determined using the expected return on assets, which reflects the actual investment portfolio. Since the assets are not invested in an all-bond portfolio, the LDROM does not indicate NCNGPF funded status or progress, nor does it provide information on necessary plan contributions.

With respect to security of participant benefits, if this plan were to be funded on an LDROM basis, participant benefits currently accrued as of the measurement date may be considered more secure as investment risk may be significantly reduced. However, the assets being invested in a diversified portfolio does not mean the participant benefits are not secure. Security of participant benefits relies on a combination of the assets in the plan, the investment returns generated on those assets, and the promise of future contributions from the plan sponsors.

Appendix E: SCRSP Policy

Teachers' and State Employees' Retirement System Board of Trustees

State Contribution Rate Stabilization Policy for the North Carolina National Guard Pension Fund

This SCRSP policy was adopted by the TSERS Board of Trustees at its meeting on April 29, 2021 and amended on January 25, 2024.

I. Policy Purpose

This policy provides for continued operation of a State Contribution Rate Stabilization Policy (SCRSP) for the North Carolina National Guard Pension Fund (NCNGPF). On January 31, 2019, the Board of Trustees (Board) of the Teachers' and State Employees' Retirement System (TSERS), which administers the provisions of the NCNGPF as set forth in G.S. 127A-40, directed staff of the Retirement Systems Division of the Department of State Treasurer (RSD) to develop a proposed SCRSP for the NCNGPF, "which would include both a multi-year contribution pattern and conditions under which the Board would recommend benefit improvements." The SCRSP was adopted by the Board on April 25, 2019.

The 2019 version of the SCRSP provided that it would be "effective through the fiscal year ending June 30, 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 SCRSP 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 the NCNGPF, and the conditions under which the Board will consider or recommend benefit improvements for the NCNGPF.

III. Definitions

Actuarial Measurement

The result of an analysis by the Board's consulting actuary, presented to the Board in a public report, based on actuarial assumptions and methods adopted by the Board for purposes of funding of the NCNGPF, without regard to any "direct rate smoothing" of changes in the Board's assumptions and methods.

Benefit Improvement Funding Requirement

An amount equal to (1) the Actuarial Measurement of the full increase in the NCNGPF actuarial accrued liability and normal cost expected from a proposed benefit increase, plus (2) the NCNGPF actuarial accrued liability according to the most recently accepted valuation report of the consulting actuary, less (3) the NCNGPF actuarial value of assets according to the most recently accepted valuation report of the consulting actuary, plus (4) the Underlying ADEC for the upcoming fiscal year, less (5) the Policy Contribution Without Benefit Increase for the upcoming fiscal year. However, the Benefit Improvement Funding Requirement will be no less than \$0, and no greater than the amount in part (1) of the definition prior to adjustment for parts (2) through (5). The intention of parts (2) through (5) is to provide for a possible reduction in the Benefit Improvement Funding Requirement if there is a funding surplus (parts (2) and (3)) or if the Board's appropriation recommendation under this policy will exceed the Underlying ADEC (parts (4) and (5)).

Appendix E: SCRSP Policy (continued)

Funded Percentage

The NCNGPF's actuarial value of assets, divided by its actuarial accrued liability, according to the most recently accepted valuation report of the consulting actuary.

Policy Contribution Without Benefit Increase

The State appropriation to be recommended by the Board under this policy, prior to any increase for the cost of benefit improvements that the Board may recommend under Sections V or VI of 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 pattern of annual recommended appropriations under the formula used for the fiscal years ending 2020 through 2022, as long as the Funded Percentage is less than 100%. This may result in an appropriation recommendation exceeding the Underlying ADEC. Accordingly, for each year that this policy is in effect:

- **If the Funded Percentage is greater than or equal to 100%**, the Policy Contribution Without Benefit Increase recommended by the Board for an upcoming fiscal year will be equal to the Normal Cost used to calculate the underlying ADEC, including any provisions included in the Normal Cost for anticipated new entrants and administrative expenses, and including any increase to the Normal Cost from a benefit improvement after the publication of the actuary's report.
- **If the Funded Percentage is less than 100%**, the Policy Contribution Without Benefit Increase recommended by the Board for an upcoming fiscal year will be the greater of (1) the appropriation recommended by the Board for the current fiscal year, or (2) the Underlying ADEC for the upcoming fiscal year plus \$2 million*. In developing Parts (1) and (2) of this definition, this policy provides the following guidance:
 - In Part (1), the appropriation that was recommended for the current fiscal year should exclude any portion of the Board's recommendation specifically intended to cover a one-year payment of the costs of a benefit improvement, as described below under "Further Increase to Fund Benefit Improvement."
 - In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (increased) to include the cost of any benefit improvements enacted by the General Assembly, for which the General Assembly did not appropriate funding during the current fiscal year at least equal to the Benefit Improvement Funding Requirement. This increase should be equal to the Benefit Improvement Funding Requirement, reduced for any funding appropriated by the General Assembly during the current fiscal year toward the enacted benefit improvement.
 - In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (either increased or reduced) 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, except that it may include direct rate smoothing to the extent the Board adopted direct rate smoothing of the relevant assumption or method change for NCNGPF funding purposes.
 - In Part (2), the Underlying ADEC for the upcoming fiscal year should exclude any portion attributable to a one-year payment of costs of a benefit improvement.

* The amount of \$2 million corresponds to more than one percent of the Actuarial Accrued Liability that is expected to exist during the period of this policy. Therefore, the appropriation amount recommended under this policy, if enacted, will improve the Funded Percentage by at least one percentage point in each year while the Funded Percentage remains less than 100%, relative to the Funded Percentage if only the Underlying ADEC had been contributed.

Appendix E: SCRSP Policy (continued)

Further Increase to Fund Benefit Improvement

The appropriation recommended by the Board for the upcoming fiscal year will be further adjusted if the Board recommends to the General Assembly a benefit improvement as described in Sections V or VI of this policy. Such adjustment will be at least equal to the Benefit Improvement Funding Requirement. Under such a recommendation, the full actuarial cost of any benefit improvement would be funded within one year through the upcoming year's appropriation, rather than amortized over multiple years.

The Policy Contribution Without Benefit Increase, added to the Benefit Improvement Funding Requirement associated with any benefit improvement enacted by the General Assembly effective for a fiscal year, will be deemed by the Board to be the annual actuarially determined employer contribution (funding ADEC) for the NCNGPF.

V. Recommended Increases to Benefit at Retirement

As of April 2021, the NCNGPF provides a pension equal to \$105 per month for members with 20 years of creditable service, plus \$10.50 per month for each additional year of such service, provided that the total pension shall not exceed \$210 per month. This section of the policy describes the conditions under which the Board may consider a recommendation of an improvement to the benefit formula, meaning the calculation of the initial pension benefit for members who have not yet retired.

Under this policy, the Board may consider a recommendation to the General Assembly that the benefit amounts be improved, provided that both of the following conditions are met:

1. The increase in the benefit amount is not greater than the most recent June-over-June one-year change in the Consumer Price Index for all Urban Consumers (CPI-U), U.S. City Average, all items, not seasonally adjusted, standard reference base, as published by the Bureau of Labor Statistics of the U.S. Department of Labor.
2. The Benefit Improvement Funding Requirement is included in the appropriation recommended by the Board for the upcoming fiscal year.

VI. Recommended Increases for Cost-of-Living Adjustments (COLAs)

This section of the policy describes the conditions under which the Board may consider a recommendation of a COLA, meaning an increase to existing retirees' pension amounts, whether that be a permanent, ongoing increase to each retiree's pension or a one-time supplemental payment.

- **If the Funded Percentage is greater than or equal to 90%**, any recommendations of the Board regarding (1) whether a COLA increase should be granted, (2) the percentage increase in retirement benefits due to the COLA, and (3) the term of amortization will be the same as the Board's recommendations taking effect at the same time regarding TSERS. If it is not administratively feasible for RSD staff to implement the same adjustment for the NCNGPF as for TSERS, then the Board will recommend that some pension adjustment of similar value for retirees be implemented.
- **If the Funded Percentage is less than 90%**, the Board may consider recommending a COLA for NCNGPF retirees only under the conditions described in Section V above. That is, any COLA recommendation should not be greater than the inflationary increase described in Section V, and it should be accompanied by a recommended appropriation increase at least equal to the Benefit Improvement Funding Requirement.

VII. Policy Effective Date

- This policy is effective through the fiscal year ending June 30, 2027. The Board may vote to extend it for any period of time.

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