



110 West Berry Street
Suite 1300
Fort Wayne, IN 46802

October 6, 2023

Mr. Thomas Causey
Executive Director
State of North Carolina
Department of State Treasurer
Retirement Systems Division
3200 Atlantic Avenue
Raleigh, NC 27604

Legislative Retirement System
GASB 67 Disclosure for Fiscal Year Ending June 30, 2023
Based on Valuation Date of December 31, 2022 (updated)¹

Dear Mr. Causey:

We have prepared the revised required accounting information for Governmental Accounting Standards Board (GASB) Statement No. 67 for the Legislative Retirement System of North Carolina (LRS) for fiscal year ending June 30, 2023 based on a valuation date of December 31, 2022.

GASB Statement No. 67

GASB Statement No. 67 set forth certain items of information to be disclosed in the financial statements of the Plan.

1. One such item is a distribution of the number of employees by type of membership, as follows:

Number of Active and Retired Participants as of 12/31/2022	
Retired members and survivors of deceased members currently receiving benefits	288
Terminated members and survivors of deceased members entitled to benefits but not yet receiving benefits	108
Active members	<u>170</u>
Total	566

¹ This letter is an update to the GASB 67 letter dated August 31, 2023, reflecting the provisions of House Bill 259, which became law on October 3, 2023.

2. Following is the schedule of changes in Net Pension Liability

Schedule of Changes in Net Pension Liability as of June 30, 2023		
Total Pension Liability		
Service Cost	\$	797,000
Interest		1,933,000
Changes in Benefit Terms		94,000
Differences Between Expected and Actual Experience		(92,000)
Changes of Assumptions		0
Benefits Payments, including Refund of Member Contributions		<u>(2,449,000)</u>
Net Change in Total Pension Liability		283,000
Total Pension Liability – Beginning of Year	\$	30,150,000
Total Pension Liability – End of Year	\$	30,433,000
Plan Fiduciary Net Position		
Employer Contributions	\$	901,000
Member Contributions		259,000
Net Investment Income		1,441,000
Benefit Payments, including Refund of Member Contributions		(2,449,000)
Administrative Expenses		(23,000)
Other		<u>(1,000)</u>
Net Change in Plan Fiduciary Net Pension		128,000
Plan Fiduciary Net Pension – Beginning of Year	\$	28,620,000
Plan Fiduciary Net Pension – End of Year	\$	28,748,000

Net Pension Liability/(Asset)			
	June 30, 2023		June 30, 2022
Total Pension Liability	\$	30,433,000	\$ 30,150,000
Plan Fiduciary Net Pension		<u>28,748,000</u>	<u>28,620,000</u>
Net Pension Liability/(Asset)	\$	1,685,000	\$ 1,530,000
Plan Fiduciary Net Pension as a Percentage of the Total Pension Liability/(Asset)		94.46%	94.93%

3. Following is the sensitivity of the Net Pension Liability to changes in the discount rate.

Sensitivity of the Net Pension Liability to Changes in Discount Rate			
	1% Decrease	Current	1% Increase
Discount Rate	5.50%	6.50%	7.50%
Net Pension Liability (Asset)	\$ 4,515,000	\$ 1,685,000	\$ (736,000)

4. The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that System contributions will follow the current funding policy, including "direct-rate smoothing" as adopted by the Board of Trustees on January 28, 2021. In addition, assumed contributions include contributions based on payroll from future employees of the System that are not associated with the accumulation of their plan benefits. Investment earnings are based on actual returns through June 30, 2023, and based on the assumed investment rate of return thereafter. In addition, future administrative expenses are assumed to equal 1.00% of expected payroll but are limited to a flat dollar rate per active and in-pay member as of each valuation date. The flat dollar rate is \$27 in 2022 and increased by 2.5% each year thereafter. Based on these policies, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Please see Appendix A for additional detail.

Note that the projection of cash flows in Appendix A has not been updated to reflect the provisions of House Bill 259. However, based on the policies described above as well as the benefits and appropriation updates described in HB 259, the System's fiduciary net position is still projected to be made available to make all projected future benefit payments of current plan members.

5. Methods and assumptions used to calculate the actuarially determined contribution rate are as follows:

Valuation Date	12/31/2022
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar closed
Amortization Period	12-year closed period
Asset Valuation Method	Asset returns in excess of or less than the expected return on market value of assets reflected over a five-year period (not greater than 120% of market value and not less than 80% of market value)
Actuarial Assumptions:	
Investment Rate of Return*	6.50%
Projected Salary Increases**	3.25%
*Includes Inflation of	2.50%
**Includes Inflation and Productivity of	3.25%
Cost-of-living Adjustments	N/A

The June 30, 2023 total pension liability was determined by an actuarial valuation as of December 31, 2022, based on the assumptions adopted by the Board of Trustees on January 28, 2021, which are based on the experience study prepared as of December 31, 2019, including a discount rate of 6.50%. The economic assumptions with respect to investment yield, salary increase, and inflation have been based upon a review of the existing portfolio structure as well as recent and anticipated experience.

The plan sponsor selected the assumptions used for the accounting results in this letter. We believe that these assumptions are reasonable and comply with the Actuarial Standards of Practice ("ASOPs") 27 and 35 and the requirements of GASB Statement No. 67. We prepared this letter in accordance with the requirement of this standard.

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 plan sponsor's selection of expected return on assets ("EROA"), the signing actuaries have used economic information and tools provided by the Financial Risk Management ("FRM") practice at Buck, A Gallagher Company (Buck). A spreadsheet tool created by the FRM team converts averages, standard deviations, and correlations from Buck'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 EROA 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 actuary's analysis, including consistency with other assumptions used in the valuation and the percentiles generated by the spreadsheet described above, the actuary believes the EROA, in the actuary's professional judgment, is reasonable for the purpose of the measurement.

The June 30, 2023 total pension liability is based on the same plan provisions as used in the previous valuation, except that it reflects the provisions of House Bill 259, which was signed into law on October 3, 2023. In particular, the June 30, 2023 total pension liability reflects the one-time supplement for LRS payees in pay status as of October 1, 2023 that is equal to 4% of their annual allowance and payable in November 2023. All other LRS provisions enacted by the legislature were reviewed with staff of the Retirement Systems Division and were not considered material to the current valuation.

Other than the 4% supplement described above, full summaries of the assumptions, methods and plan provisions used in the previous valuation and for the June 30, 2023 total pension liability were provided in October 2022 in the "Report on the Actuarial Valuation of the Legislative Retirement System of North Carolina Prepared as of December 31, 2021."

The actuarial cost method used to develop the total pension liability is the Entry Age Normal Cost Method, as required by GASB Statement No. 67.

The results of this letter are based upon participant data supplied by the Retirement Systems Division and unaudited financial data supplied by the Financial Operations Division. Buck reviewed the data for reasonableness and consistency with data for the prior valuation but performed no audit of the data. The results of this letter are dependent on the accuracy of the data.

The primary purpose of the letter is to provide information that the Office of the State Controller (OSC) requires for its Annual Comprehensive Financial Report. This letter may also be used in conjunction with other materials for purposes of the pension plan audit. Use of the letter for any other purposes or by anyone other than OSC and its auditors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask us to review any statement you wish to make on the results contained in this report. Buck will not accept any liability for any such statement made without prior review by Buck.

Future actuarial measurements may differ significantly from current measurements due to plan experience differing from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. Because of limited scope, Buck performed no analysis of the potential range of such future differences.

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. Buck 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. Buck 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. Buck 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 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.

Where presented, references to "net pension liability" and "fiduciary net position as a percentage of the total pension liability" may be appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the Fund if the Fund were to settle (i.e., purchase annuities to cover) any portion of its liabilities.

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.

Mr. Thomas Causey
October 6, 2023

Please let us know if you require additional information.

Sincerely,

Buck, A Gallagher Company

A handwritten signature in dark ink, reading "Michael A. Ribble". The signature is fluid and cursive, with the first name "Michael" being the most prominent.

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

A handwritten signature in dark ink, reading "Elizabeth A. Wiley". The signature is fluid and cursive, with the first name "Elizabeth" being the most prominent.

Elizabeth A. Wiley, FSA, EA, MAAA, FCA
Senior Actuarial Consultant

Appendix A

Table 1 – Projection of Fiduciary Net Positions

(\$ in Thousands)

Calendar Year	Beginning Fiduciary Position	Member Contributions	Employer Contributions	Benefit Payments	Administrative Expenses	Investment Earnings	Ending Fiduciary Position
2023	\$ 27,865	\$ 230	\$ 714	\$ 2,817	\$ 34	\$ 2,439	\$ 28,397
2024	28,397	205	552	2,533	30	1,789	28,380
2025	28,380	183	498	2,579	27	1,782	28,237
2026	28,237	162	468	2,594	24	1,772	28,021
2027	28,021	145	484	2,601	21	1,757	27,785
2028	27,785	130	534	2,608	19	1,743	27,565
2029	27,565	116	524	2,631	17	1,728	27,285
2030	27,285	102	559	2,642	15	1,709	26,998
2031	26,998	90	344	2,635	13	1,685	26,469
2032	26,469	79	238	2,629	12	1,645	25,790
2033	25,790	69	208	2,616	11	1,602	25,042
2034	25,042	61	269	2,599	10	1,555	24,318
2035	24,318	54	366	2,565	10	1,512	23,675
2036	23,675	48	381	2,530	10	1,471	23,035
2037	23,035	43	456	2,478	9	1,433	22,480
2038	22,480	38	457	2,407	9	1,400	21,959
2039	21,959	34	414	2,346	8	1,366	21,419
2040	21,419	31	341	2,305	8	1,331	20,809
2041	20,809	27	85	2,229	8	1,285	19,969
2042	19,969	24	65	2,152	7	1,231	19,130
2043	19,130	22	42	2,074	7	1,180	18,293
2044	18,293	20	37	2,021	6	1,126	17,449
2045	17,449	18	34	1,960	6	1,072	16,607
2046	16,607	16	28	1,872	6	1,021	15,794
2047	15,794	14	22	1,793	5	970	15,002
2048	15,002	13	15	1,727	5	921	14,219
2049	14,219	11	6	1,649	5	871	13,453
2050	13,453	10	0	1,583	4	824	12,700
2051	12,700	8	0	1,518	4	778	11,964
2052	11,964	7	0	1,451	4	732	11,248
2053	11,248	7	0	1,390	3	686	10,548
2054	10,548	6	3	1,318	3	644	9,880
2055	9,880	5	3	1,243	3	603	9,245
2056	9,245	4	1	1,195	3	563	8,615
2057	8,615	4	0	1,125	2	524	8,016
2058	8,016	3	0	1,056	2	487	7,448
2059	7,448	3	0	993	2	452	6,908
2060	6,908	2	0	940	2	419	6,387
2061	6,387	2	0	879	2	387	5,895
2062	5,895	2	0	821	1	356	5,431
2063	5,431	1	0	767	1	329	4,993
2064	4,993	1	0	714	1	301	4,580
2065	4,580	1	0	665	1	276	4,191
2066	4,191	1	0	617	1	253	3,827
2067	3,827	0	1	572	1	230	3,485
2068	3,485	0	1	529	1	209	3,165
2069	3,165	0	1	488	1	190	2,867
2070	2,867	0	1	448	1	171	2,590
2071	2,590	0	1	412	1	155	2,333
2072	2,333	0	1	377	1	139	2,095

Appendix A

Table 1 – Projection of Fiduciary Net Positions (continued)

(\$ in Thousands)

Calendar Year	Beginning Fiduciary Position	Member Contributions	Employer Contributions	Benefit Payments	Administrative Expenses	Investment Earnings	Ending Fiduciary Position
2073	\$ 2,095	\$ 0	\$ 1	\$ 343	\$ 1	\$ 125	\$ 1,877
2074	1,877	0	0	312	1	113	1,677
2075	1,677	0	1	282	1	99	1,494
2076	1,494	0	0	255	0	89	1,328
2077	1,328	0	0	229	0	79	1,178
2078	1,178	0	0	205	0	71	1,044
2079	1,044	0	0	181	0	62	925
2080	925	0	0	160	0	55	820
2081	820	0	0	140	0	48	728
2082	728	0	0	122	0	44	650
2083	650	0	0	105	0	39	584
2084	584	0	0	90	0	35	529
2085	529	0	0	77	0	32	484
2086	484	0	0	64	0	29	449
2087	449	0	0	54	0	28	423
2088	423	0	0	44	0	26	405
2089	405	0	0	36	0	26	395
2090	395	0	0	29	0	24	390
2091	390	0	0	23	0	25	392
2092	392	0	0	18	0	25	399
2093	399	0	0	14	0	26	411
2094	411	0	0	11	0	26	426
2095	426	0	0	8	0	28	446
2096	446	0	0	6	0	29	469
2097	469	0	0	4	0	30	495
2098	495	0	0	3	0	32	524
2099	524	0	0	2	0	33	555
2100	555	0	0	1	0	36	590
2101	590	0	0	1	0	38	627
2102	627	0	0	1	0	41	667
2103	667	0	0	0	0	43	710
2104	710	0	0	0	0	46	756
2105	756	0	0	0	0	49	805
2106	805	0	0	0	0	53	858
2107	858	0	0	0	0	55	913
2108	913	0	0	0	0	60	973
2109	973	0	0	0	0	63	1,036
2110	1,036	0	0	0	0	67	1,103
2111	1,103	0	0	0	0	72	1,175
2112	1,175	0	0	0	0	76	1,251
2113	1,251	0	0	0	0	82	1,333
2114	1,333	0	0	0	0	86	1,419
2115	1,419	0	0	0	0	92	1,511
2116	1,511	0	0	0	0	99	1,610
2117	1,610	0	0	0	0	104	1,714
2118	1,714	0	0	0	0	112	1,826
2119	1,826	0	0	0	0	118	1,944
2120	1,944	0	0	0	0	127	2,071
2121	2,071	0	0	0	0	134	2,205
2122	2,205	0	0	0	0	144	2,349

Appendix A

Table 2 – Actuarial Present Values of Projected Benefit Payments

(\$ in Thousands)

Calendar Year	Beginning Fiduciary Position	Benefit Payments	Funded Benefit Payments	Unfunded Benefit Payments	Present Value of Benefit Payments		
					Funded Payments at 6.50%	Unfunded Payments at 3.65%	Using Single Discount Rate of 6.50%
2023	\$ 27,865	\$ 2,817	\$ 2,817	\$ 0	\$ 2,730	\$ 0	\$ 2,730
2024	28,397	2,533	2,533	0	2,305	0	2,305
2025	28,380	2,579	2,579	0	2,203	0	2,203
2026	28,237	2,594	2,594	0	2,081	0	2,081
2027	28,021	2,601	2,601	0	1,959	0	1,959
2028	27,785	2,608	2,608	0	1,845	0	1,845
2029	27,565	2,631	2,631	0	1,747	0	1,747
2030	27,285	2,642	2,642	0	1,647	0	1,647
2031	26,998	2,635	2,635	0	1,543	0	1,543
2032	26,469	2,629	2,629	0	1,445	0	1,445
2033	25,790	2,616	2,616	0	1,350	0	1,350
2034	25,042	2,599	2,599	0	1,260	0	1,260
2035	24,318	2,565	2,565	0	1,167	0	1,167
2036	23,675	2,530	2,530	0	1,081	0	1,081
2037	23,035	2,478	2,478	0	994	0	994
2038	22,480	2,407	2,407	0	907	0	907
2039	21,959	2,346	2,346	0	830	0	830
2040	21,419	2,305	2,305	0	766	0	766
2041	20,809	2,229	2,229	0	695	0	695
2042	19,969	2,152	2,152	0	630	0	630
2043	19,130	2,074	2,074	0	570	0	570
2044	18,293	2,021	2,021	0	522	0	522
2045	17,449	1,960	1,960	0	475	0	475
2046	16,607	1,872	1,872	0	426	0	426
2047	15,794	1,793	1,793	0	383	0	383
2048	15,002	1,727	1,727	0	347	0	347
2049	14,219	1,649	1,649	0	311	0	311
2050	13,453	1,583	1,583	0	280	0	280
2051	12,700	1,518	1,518	0	252	0	252
2052	11,964	1,451	1,451	0	226	0	226
2053	11,248	1,390	1,390	0	204	0	204
2054	10,548	1,318	1,318	0	181	0	181
2055	9,880	1,243	1,243	0	161	0	161
2056	9,245	1,195	1,195	0	145	0	145
2057	8,615	1,125	1,125	0	128	0	128
2058	8,016	1,056	1,056	0	113	0	113
2059	7,448	993	993	0	100	0	100
2060	6,908	940	940	0	89	0	89
2061	6,387	879	879	0	78	0	78
2062	5,895	821	821	0	68	0	68
2063	5,431	767	767	0	60	0	60
2064	4,993	714	714	0	52	0	52
2065	4,580	665	665	0	46	0	46
2066	4,191	617	617	0	40	0	40
2067	3,827	572	572	0	35	0	35
2068	3,485	529	529	0	30	0	30
2069	3,165	488	488	0	26	0	26
2070	2,867	448	448	0	22	0	22
2071	2,590	412	412	0	19	0	19
2072	2,333	377	377	0	17	0	17

Appendix A

Table 2 – Actuarial Present Values of Projected Benefit Payments (continued)
(\$ in Thousands)

Calendar Year	Beginning Fiduciary Position	Benefit Payments	Funded Benefit Payments	Unfunded Benefit Payments	Present Value of Benefit Payments		
					Funded Payments at 6.50%	Unfunded Payments at 3.65%	Using Single Discount Rate of 6.50%
2073	\$ 2,095	\$ 343	\$ 343	\$ 0	\$ 14	\$ 0	\$ 14
2074	1,877	312	312	0	12	0	12
2075	1,677	282	282	0	10	0	10
2076	1,494	255	255	0	9	0	9
2077	1,328	229	229	0	7	0	7
2078	1,178	205	205	0	6	0	6
2079	1,044	181	181	0	5	0	5
2080	925	160	160	0	4	0	4
2081	820	140	140	0	4	0	4
2082	728	122	122	0	3	0	3
2083	650	105	105	0	2	0	2
2084	584	90	90	0	2	0	2
2085	529	77	77	0	2	0	2
2086	484	64	64	0	1	0	1
2087	449	54	54	0	1	0	1
2088	423	44	44	0	1	0	1
2089	405	36	36	0	1	0	1
2090	395	29	29	0	0	0	0
2091	390	23	23	0	0	0	0
2092	392	18	18	0	0	0	0
2093	399	14	14	0	0	0	0
2094	411	11	11	0	0	0	0
2095	426	8	8	0	0	0	0
2096	446	6	6	0	0	0	0
2097	469	4	4	0	0	0	0
2098	495	3	3	0	0	0	0
2099	524	2	2	0	0	0	0
2100	555	1	1	0	0	0	0
2101	590	1	1	0	0	0	0
2102	627	1	1	0	0	0	0
2103	667	0	0	0	0	0	0
2104	710	0	0	0	0	0	0
2105	756	0	0	0	0	0	0
2106	805	0	0	0	0	0	0
2107	858	0	0	0	0	0	0
2108	913	0	0	0	0	0	0
2109	973	0	0	0	0	0	0
2110	1,036	0	0	0	0	0	0
2111	1,103	0	0	0	0	0	0
2112	1,175	0	0	0	0	0	0
2113	1,251	0	0	0	0	0	0
2114	1,333	0	0	0	0	0	0
2115	1,419	0	0	0	0	0	0
2116	1,511	0	0	0	0	0	0
2117	1,610	0	0	0	0	0	0
2118	1,714	0	0	0	0	0	0
2119	1,826	0	0	0	0	0	0
2120	1,944	0	0	0	0	0	0
2121	2,071	0	0	0	0	0	0
2122	2,205	0	0	0	0	0	0