



200 Jefferson Park, 2nd. Floor
Whippany, NJ 07981

August 29, 2024

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

Disability Income Plan of North Carolina
GASB 74 Disclosure for Fiscal Year Ending June 30, 2024
Based on Valuation Date of December 31, 2023

Dear Mr. Causey:

We have prepared the required accounting information for Governmental Accounting Standards Board (GASB) Statement No. 74 for the Disability Income Plan of North Carolina for fiscal year ending June 30, 2024 based on a valuation date of December 31, 2023.

GASB Statement No. 74

GASB Statement No. 74 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 12/31/2023	
Disabled members currently receiving extended short-term and long-term disability benefits	3,820
Inactive plan members entitled to, but not currently receiving benefits	0
Active members, including those in the waiting period or on short-term disability	<u>320,953</u>
Total membership	324,773

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

Schedule of Changes in Net OPEB Liability as of June 30, 2024	
Total OPEB Liability	
Service Cost	\$ 23,066,000
Interest	8,713,000
Changes in Benefit Terms	0
Differences Between Expected and Actual Experience	(45,761,000)
Changes of Assumptions	(17,657,000)
Net Benefits Payments	<u>(31,846,000)</u>
Net Change in Total OPEB Liability	\$ (63,485,000)
Total OPEB Liability – Beginning of Year	\$ 283,168,000
Total OPEB Liability – End of Year	\$ 219,683,000
Plan Fiduciary Net Position	
Employer Contributions	\$ 22,659,000
Member Contributions	N/A
Net Investment Income	6,387,000
Net Benefit Payments	(31,846,000)
Administrative Expenses	(1,110,000)
Other	<u>(53,000)</u>
Net Change in Plan Fiduciary Net Position	\$ (3,963,000)
Plan Fiduciary Net Position – Beginning of Year	\$ 256,572,000
Plan Fiduciary Net Position – End of Year	\$ 252,609,000

Net OPEB Liability (Asset)		
	June 30, 2024	June 30, 2023
Total OPEB Liability	\$ 219,683,000	\$ 283,168,000
Plan Fiduciary Net Position	<u>252,609,000</u>	<u>256,572,000</u>
Net OPEB Liability (Asset)	\$ (32,926,000)	\$ 26,596,000
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	114.99%	90.61%

3. Following is the sensitivity of the Net OPEB liability to changes in the discount rate.

Sensitivity of the Net OPEB Liability/(Asset) to Changes in Discount Rate			
	1% Decrease	Current	1% Increase
Discount Rate	2.00%	3.00%	4.00%
Net OPEB Liability/(Asset)	\$ (29,359,000)	\$ (32,926,000)	\$ (36,675,000)

4. The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that System contributions will continue to follow the current funding policy. Investment earnings are based on actual returns through June 30, 2024, and on the assumed investment rate of return thereafter. Based on those assumptions, and the assumed investment return of 3.00% used in the actuarial valuation as of December 31, 2023, 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.

Starting with this valuation, estimated Social Security benefits provided on the census data were used to offset the benefits for claimants with more than three years of disability who had over 5 years of service in 2007. This change resulted in a gain of \$17,657,000, reducing the Total OPEB Liability and related measurements.

5. The actuarially determined contribution rate for the fiscal year ending 6/30/2025 is documented in the Disability Income Plan of North Carolina Report on the Annual Valuation Prepared as of December 31, 2022, dated October 2023. Methods and assumptions used to calculate the projected actuarially determined contribution rates for fiscal years ending after 6/30/2025 are as follows:

Valuation Date	12/31/2023
Actuarial Cost Method	Aggregate
Amortization Method	Level percent of pay
Amortization Period	The aggregate cost method does not identify or separately amortize unfunded liabilities.
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*	3.00%
Projected Salary Increases**	3.25% - 8.05%
*Includes Inflation of	2.50%
**Includes Inflation and Productivity of	3.25%
Cost-of-living Adjustments	3.25% for gross long-term disability benefits. Disabilities that occurred before January 1, 1988 do not have cost-of-living adjustments. 2.50% for Social Security offsets.
Expected Administrative Expenses Included in Normal Cost	0.01% of payroll

The June 30, 2024 total OPEB liability was determined by an actuarial valuation as of December 31, 2023, 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. 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. Based on recent economic conditions, returns on bond index funds are expected to exceed 3.00% over 10- and 20-year periods. As such, the investment rate of return of 3.00% includes a provision for adverse deviation. All actuarial assumptions, including the investment rate of return, will be reviewed in an experience study prepared as of December 31, 2024.

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 requirements of GASB Statement No. 74. We prepared this letter in accordance with the requirements of this standard.

The June 30, 2024 total OPEB liability is based on the same plan provisions as used in the previous valuation. To the extent there have been changes to DIPNC provisions enacted by the legislature, they have been reviewed with staff of the Retirement Systems Division and were not considered material to the current valuation. To the extent the legislature enacts additional legislation that has a material impact on the valuation, revised GASB 74 disclosures may be required.

Full summaries of the assumptions, methods and plan provisions used in the previous valuation and for the June 30, 2024 total OPEB liability were provided in October 2023 in the "Report on the Actuarial Valuation Prepared as of December 31, 2022".

The actuarial cost method used to develop the total OPEB liability is the Entry Age Normal Cost method as required by GASB Statement No. 74. The funding span is from first funding age to the last age with a future benefit.

The results of this letter are based upon participant data supplied by the Retirement Systems Division and financial data supplied by the Financial Operations Division. Gallagher 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 this 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 plan audit. Use of this 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. Gallagher will not accept any liability for any such statement made without prior review by Gallagher.

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, Gallagher performed no analysis of the potential range of such future differences other than the sensitivity to changes in the discount rate required by GASB Statement No. 74.

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. 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

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September 4, 2024

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 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 OPEB liability” and “fiduciary net position as a percentage of the total OPEB 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. Barry is an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. Christian is an Associate of the Society of Actuaries, and a Member of the American Academy of 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.

Please let us know if you require additional information.

Sincerely,

Gallagher Benefit Services, Inc. (hereinafter “Gallagher”)



Barry J. Goldberg, ASA, MAAA, FCA
Principal, Consulting Actuary



Christian Hershey, ASA, MAAA
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 Expense	Investment Earnings	Ending Fiduciary Position
2024	\$ 260,370	\$ 0	\$ 22,960	\$ 37,059	\$ 1,110	\$ 1,102	\$ 246,263
2025	246,263	0	17,572	40,566	989	7,031	229,311
2026	229,311	0	12,810	39,785	883	6,465	207,918
2027	207,918	0	12,911	37,393	793	5,861	188,504
2028	188,504	0	12,991	35,813	715	5,305	170,272
2029	170,272	0	13,033	34,338	646	4,781	153,102
2030	153,102	0	13,020	32,560	584	4,293	137,271
2031	137,271	0	11,584	30,453	527	3,829	121,704
2032	121,704	0	10,249	28,140	476	3,378	106,715
2033	106,715	0	9,603	25,771	428	2,954	93,073
2034	93,073	0	8,966	23,430	384	2,571	80,796
2035	80,796	0	8,342	20,997	344	2,230	70,027
2036	70,027	0	7,734	18,769	307	1,932	60,617
2037	60,617	0	7,148	16,789	274	1,671	52,373
2038	52,373	0	6,171	14,931	243	1,437	44,807
2039	44,807	0	5,309	13,415	217	1,220	37,704
2040	37,704	0	4,876	11,966	193	1,023	31,444
2041	31,444	0	4,448	10,555	170	850	26,017
2042	26,017	0	3,741	9,128	149	698	21,179
2043	21,179	0	3,092	7,808	130	563	16,896
2044	16,896	0	2,740	6,574	112	448	13,398
2045	13,398	0	2,202	5,469	95	352	10,388
2046	10,388	0	1,736	4,484	80	270	7,830
2047	7,830	0	1,333	3,515	67	201	5,782
2048	5,782	0	993	2,657	54	148	4,212
2049	4,212	0	715	1,978	44	107	3,012
2050	3,012	0	497	1,523	35	75	2,026
2051	2,026	0	328	1,123	27	49	1,253
2052	1,253	0	148	676	20	29	734
2053	734	0	68	253	13	19	555
2054	555	0	43	9	8	17	598
2055	598	0	29	6	5	18	634
2056	634	0	20	2	3	19	668
2057	668	0	13	1	2	20	698
2058	698	0	9	0	0	21	728
2059	728	0	6	0	0	22	756
2060	756	0	4	0	0	23	783
2061	783	0	3	0	0	24	810
2062	810	0	2	0	0	24	836
2063	836	0	1	0	0	25	862
2064	862	0	1	0	0	26	889
2065	889	0	1	0	0	27	917
2066	917	0	0	0	0	28	945
2067	945	0	0	0	0	28	973
2068	973	0	0	0	0	29	1,002
2069	1,002	0	0	0	0	30	1,032

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 3.00%	Unfunded Payments at 3.93%*	Using Single Discount Rate of 3.00%
2024	\$ 260,370	\$ 37,059	\$ 37,059	\$ 0	\$ 36,515	\$ 0	\$ 36,515
2025	246,263	40,566	40,566	0	38,807	0	38,807
2026	229,311	39,785	39,785	0	36,951	0	36,951
2027	207,918	37,393	37,393	0	33,718	0	33,718
2028	188,504	35,813	35,813	0	31,353	0	31,353
2029	170,272	34,338	34,338	0	29,186	0	29,186
2030	153,102	32,560	32,560	0	26,868	0	26,868
2031	137,271	30,453	30,453	0	24,398	0	24,398
2032	121,704	28,140	28,140	0	21,888	0	21,888
2033	106,715	25,771	25,771	0	19,462	0	19,462
2034	93,073	23,430	23,430	0	17,178	0	17,178
2035	80,796	20,997	20,997	0	14,946	0	14,946
2036	70,027	18,769	18,769	0	12,971	0	12,971
2037	60,617	16,789	16,789	0	11,265	0	11,265
2038	52,373	14,931	14,931	0	9,726	0	9,726
2039	44,807	13,415	13,415	0	8,484	0	8,484
2040	37,704	11,966	11,966	0	7,347	0	7,347
2041	31,444	10,555	10,555	0	6,292	0	6,292
2042	26,017	9,128	9,128	0	5,283	0	5,283
2043	21,179	7,808	7,808	0	4,387	0	4,387
2044	16,896	6,574	6,574	0	3,586	0	3,586
2045	13,398	5,469	5,469	0	2,897	0	2,897
2046	10,388	4,484	4,484	0	2,306	0	2,306
2047	7,830	3,515	3,515	0	1,755	0	1,755
2048	5,782	2,657	2,657	0	1,288	0	1,288
2049	4,212	1,978	1,978	0	931	0	931
2050	3,012	1,523	1,523	0	696	0	696
2051	2,026	1,123	1,123	0	498	0	498
2052	1,253	676	676	0	291	0	291
2053	734	253	253	0	106	0	106
2054	555	9	9	0	4	0	4
2055	598	6	6	0	2	0	2
2056	634	2	2	0	1	0	1
2057	668	1	1	0	0	0	0
2058	698	0	0	0	0	0	0
2059	728	0	0	0	0	0	0
2060	756	0	0	0	0	0	0
2061	783	0	0	0	0	0	0
2062	810	0	0	0	0	0	0
2063	836	0	0	0	0	0	0
2064	862	0	0	0	0	0	0
2065	889	0	0	0	0	0	0
2066	917	0	0	0	0	0	0
2067	945	0	0	0	0	0	0
2068	973	0	0	0	0	0	0
2069	1,002	0	0	0	0	0	0

* The municipal bond rate of 3.93% is based on the Bond Buyer 20 Bond GO Index as of June 30, 2024.