NORTH CAROLINA NATIONAL GUARD PENSION FUND (NCNGPF)

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State Contribution Rate Stabilization Policy (SCRSP) Summary

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Total Retirement Plans

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Agenda

- Background: SCRSP for FY 2020-2022
- Summary of Proposed Version for FY 2023-2027
- Hypothetical Examples

Background: SCRSP for FY 2020-2022

- TSERS Board adopted April 25, 2019 after directing staff to develop a proposed policy
- Effective through the fiscal year ending June 30, 2022
- Described annual appropriation recommendation, as well as the conditions for considering and recommending increases to the benefit multiplier ($105 / $210) or cost-of-living adjustments (COLAs)

Background: SCRSP for FY 2020-2022 (Continued)

- Annual appropriation recommendation in January, for an upcoming fiscal year
  - Greater of (1) or (2)
    - (1): Appropriation recommended by Board for current year
    - (2): Underlying actuarially determined employer contribution rate (ADEC) plus $2,000,000
  - $2,000,000 is greater than 1% of the actuarial accrued liability
- Any contributions exceeding Underlying ADEC, and earnings thereon, were to be excluded by actuary when calculating the unfunded liability to be amortized
- Any investment gains, causing the market value of assets to exceed actuarial value, were to be used as protection against future investment losses, rather than being used to reduce a recommended appropriation
- Increases to benefit formula ($105 / $210) and COLAs were to be recommended only if the Board also recommended that the actuarial cost of those increases would be fully funded in one year, and only if the increases were no greater than inflation (CPI)
  - Exception: If Funded Percentage >= 90%, retiree COLA recommendation to follow the Board's recommendation for TSERS (if any) or equivalent feasible alternative

Summary of Proposed SCRSP for FY 2023-2027

- Maintains appropriation recommendation before any benefit improvements (greater of current year's recommendation, or underlying ADEC plus $2,000,000) as long as Funded Percentage is less than 100%
  - Clarifies how the Board's current year recommendation (generally a year old by the time of the decision for upcoming year) and the underlying ADEC (generally calculated months prior) should be adjusted for intervening events, such as enacted benefit changes or assumption/method changes
- Adds provision that if Funded Percentage reaches 100%, recommendation before any benefit improvements is equal to underlying ADEC
- Removes requirement that contributions exceeding underlying ADEC be excluded by actuary when calculating unfunded liability to be amortized
- Removes statement about market vs. actuarial value of assets (this is handled by basing decisions on Funded Percentage, which uses actuarial value of assets)

Summary of Proposed SCRSP for FY 2023-2027 (Continued)

- Maintains “follow-along” TSERS COLA recommendation if Funded Percentage >=90%, including recommendation on payoff period and administrative feasibility
- Maintains conditions for “stand-alone” recommendation of benefit improvements (with exception noted below)
  - (1) Recommended benefit increase is no greater than CPI increase
  - (2) Board recommends full funding of the benefit increase in one year
- Exception regarding (2) above:
  - In the initial SCRSP, “full funding” of a benefit increase meant that the Board must recommend an appropriation equal to the full value of the increased benefits
  - Proposed version for FY 2023-2027 instead defines a Benefit Improvement Funding Requirement (BIFR)
  - BIFR is equal to the full actuarial cost increase, with the following adjustments (but only if the adjustments are a total decrease to the BIFR):
    - Increase by actuarial accrued liability, decrease by actuarial value of assets
    - Increase by underlying ADEC, decrease by contribution being made under policy
    - Resulting BIFR no less than $0

Examples – Policy Contribution Without Benefit Increase (Decision During January 2025 for FY Ending 6/30/2026)

(1) Appropriation recommended for FYE 6/30/25 Adjustments: (a) Portion intended for one-year funding of ben. improvement (b) BIFR for improvement enacted by NCGA, not fully-funded (c) Funding appropriated toward NCGA-enacted improvement (d) Effect of actuarial assumption/method changes not incorporated in Board's recommendation for FYE 6/30/25 Adjusted (1)	$11,031,715 $0 $0 $0 $0 $11,031,715	$12,531,715* ($1,500,000) $3,000,000 ($1,000,000) $0 $13,031,715	$11,031,715** $0 $0 $0 $0 $11,031,715
(2) Underlying ADEC for FYE 6/30/2026 (from 12/31/2023 actuarial valuation report adopted Oct. 2024) Adjustment: (a) Portion of Underlying ADEC attributable to one-year funding of benefit improvement Adjusted (2)	$7,000,000 $0 $7,000,000	$8,500,000 ($1,500,000) $7,000,000	$10,000,000 $0 $10,000,000
Greater of Adjusted (1), or Adjusted (2) plus $2,000,000	$11,031,715	$13,031,715	$12,000,000

All scenarios assume Funded Percentage < 100% at time of recommendation.

* Assumes in Jan. 2024, Board recommended benefit improvement with BIFR of $1.5 million; NCGA instead granted a benefit improvement with BIFR of $3.0 million but funded only $1.0 million.

** Compared to other scenarios, assumes that there have been significant actuarial losses (investment or other) that have increased the Underlying ADEC to within $2 million of the prior year's recommendation as adjusted. The recommendation would then become the Underlying ADEC plus $2 million.

Hypothetical Examples – Ben. Improvement Funding Req. (BIFR) (Decision for Recommended Improvement Taking Effect 7/1/2025)

(1) Full actuarial cost of proposed benefit improvement (increase in actuarial accrued liability and normal cost)	$2,000,000*	$2,000,000**	$2,000,000***
(2) NCNGPF actuarial accrued liability as of 12/31/2023	$180,000,000	$180,000,000	$180,000,000
(3) NCNGPF actuarial value of assets as of 12/31/2023	$150,000,000	$179,500,000	$182,500,000
(4) Underlying ADEC for FYE 6/30/2026	$7,000,000	$9,500,000	$7,000,000
(5) Policy Contrib. Without Ben. Increase for FYE 6/30/2026	$11,031,715	$11,500,000	$7,000,000
Total Adjustment: (2) – (3) + (4) – (5), Only If Less Than $0	$0	($1,500,000)	($2,500,000)
BIFR: (1) + Total Adjustment, No Less Than $0	$2,000,000	$500,000	$0
Total Policy Contribution Including BIFR	**$13,031,715**	**$12,000,000**	**$7,000,000**

* Assumes NCNGPF is not very close to 100% funded. BIFR is equal to full actuarial cost of improvement, $2,000,000.
** Assumes just under 100% funded, and already planning to fund equal to the Underlying ADEC plus the full actuarial cost in the upcoming year. BIFR is adjusted by amount of funding exceeding the Underlying ADEC ($2,000,000) less the amount needed to reach 100% funding ($500,000), for an overall reduction of $1,500,000 and a BIFR of $500,000.
*** Assumes over 100% funded, and recommended funding equal to the Underlying ADEC in the upcoming year. BIFR is reduced for the amount of plan surplus ($2,500,000). The BIFR is $0 because the total adjustment (reduction) cannot make it less than $0.