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Legislative Retirement System of North Carolina
Principal Results of Actuarial Valuation as of December 31, 2020

October 28, 2021 Board of Trustees Meeting

Larry Langer, ASA, FCA, EA, MAAA
Wendy Ludbrook, FSA, FCA, EA, MAAA

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Member Data

The table below provides a summary of the membership data used in this valuation compared to the prior valuation.

Number as of	12/31/2020	12/31/2019
Active Members	170	170
Terminated members and survivors of deceased members entitled to benefits but not yet receiving benefits	110	110
Retired members and survivors of deceased members currently receiving benefits	286	294
Total	566	574
Active Reported Compensation	3,526,167	3,575,706
Active Valuation Compensation	3,738,339	3,819,521
Annual Retirement Allowances	2,259,482	2,340,721

The number of retired members and survivors of deceased members currently receiving benefits decreased by 2.72% from the previous valuation date.

A detailed summary of the membership data used in this valuation is provided in Section 3 and Appendix B.

Asset Data

The table below provides details of the Market Value of Assets for the current and prior year's valuations.

Asset Data as of	12/31/2020	12/31/2019
Beginning of Year Market Value of Assets	$ 28,800,055	$ 26,543,448
Employer Contributions	971,088	883,435
Employee Contributions	252,888	257,451
Benefit Payments other than Refunds	(2,328,044)	(2,364,330)
Refunds	(49,708)	(266,742)
Administrative Expense	(12,787)	(13,043)
Investment Income	3,069,240	3,759,836
Net Increase/(Decrease)	1,902,677	2,256,607
End of Year Value of Assets	$ 30,702,732	$ 28,800,055
Estimated Net Investment Return	10.88%	14.58%

LRS 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.

A detailed summary of the market value of assets is provided in Section 4.

Net Actuarial Gain or Loss

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 12/31/2019	$	2.2
Normal Cost and Administrative Expense		1.0
Reduction due to Actual Contributions during 2020		(1.2)
Interest on UAAL, Normal Cost, and Contributions		0.1
Asset (Gain) / Loss		(0.5)
Actuarial Accrued Liability (Gain) / Loss		(0.8)
Impact of Assumption Changes		(0.2)
Impact of Legislative Changes		0.0
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2020	$	0.6

The gain recognized in the actuarial value of assets of $0.5 million and the gain recognized in the Actuarial Accrued Liability of $0.8 million lowered the UAAL by a combined $1.3 million.

The changes in assumptions from the experience study further lowered the UAAL by $0.2 million.

A detailed summary of the net actuarial gain or loss is provided in Section 5.

Employer Contributions

The table below provides a reconciliation of the actuarially determined employer contribution.

Fiscal year ending June 30, 2022 Preliminary ADEC (Based on December 31, 2019 valuation)	27.15%
Impact of Legislative Changes	0.00%
Fiscal year ending June 30, 2022 ADEC for Reconciliation	27.15%
Change Due to Anticipated Reduction in UAAL*	-0.01%
Change due to Demographic (Gain)/Loss	-3.01%
Change due to Investment (Gain)/Loss	-1.60%
Change Due to Contribution Experience	0.13%
Impact of Assumption Changes	-3.05%
Impact of Direct Rate Smoothing	2.44%
Fiscal year ending June 30, 2023 Preliminary ADEC (based on December 31, 2020 valuation)	22.05%

The change in rate due to investment gains is based on the actuarial value of assets returns, which was greater than the 7.00% assumed return.

The impact of assumption changes is due to the changes in the assumptions and methods in the December 31, 2019 experience study.

The impact of direct-rate smoothing is the first year of the five-year deferred recognition of these assumption changes.

A detailed summary of the actuarially determined employer contribution rates is provided in Section 6.

Key Takeaways

- Key results of the December 31, 2020 valuation were:
  - Market value returns of 10.88% compared to 7.00% assumed

- When compared to the December 31, 2019 actuarial valuation, the above resulted in:
  - Higher funded ratio (97.8% in the December 31, 2020 valuation compared to 92.6% in the December 31, 2019 valuation)
  - Lower actuarially determined employer contribution rate (22.05% for fiscal year ending June 30, 2023 compared to the contribution rate of 27.15% calculated in the December 31, 2019 valuation for fiscal year ending June 30, 2022)

Key Takeaways (continued)

- The assumptions used for the December 31, 2020 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.
- Material assumptions and methods that were changed since the prior valuation:
  - The investment return assumption was lowered from 7.00% to 6.50%
  - The inflation assumption was lowered from 3.00% to 2.50%
  - The real wage growth assumption was increased from 0.50% to 0.75%
  - The payroll growth assumption was lowered from 3.50% to 3.25%
  - The withdrawal rates, retirement rates, mortality assumption and annual rates of salary increase assumption were changed
  - The marriage assumption was changed from assuming male spouses are four years older than female spouses to assume that male spouses are three years older than female spouses

Certification

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, Cavanaugh Macdonald performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information. Results prior to December 31, 2017 were provided by the prior consulting actuary.

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.

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

Wendy Ludbrook, FSA, EA, FCA, MAAA
Consulting Actuary

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North Carolina Legislative Retirement System

Report on the Actuarial Valuation Prepared as of December 31, 2020

October 2021

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The experience and dedication you deserve

October 13, 2021

Board of Trustees
Legislative 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 Legislative Retirement System (referred to as "LRS" or the "Legislative Retirement System") prepared as of December 31, 2020. Information contained in our report for plan years prior to December 31, 2017 is based upon valuations performed by the prior actuary.

The primary purpose of the valuation report is to determine the required member and employer contribution rates, to describe the current financial condition of LRS and to analyze changes in such condition. In addition, the report provides information that the Office of the State Controller (OSC) requires for its Comprehensive Annual Financial Report and it summarizes census data. Use of this report for any other purposes or by anyone other than OSC and its auditors, or North Carolina Retirement System Division 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 Cavanaugh Macdonald Consulting (CMC) to review any statement you wish to make on the results contained in this report. CMC will not accept any liability for any such statement made without prior review.

The valuation is based upon membership data and financial information as furnished by the Retirement Systems Division and the Financial Operations Division and as summarized in this report. Although reviewed for reasonableness and consistency with the prior valuation, these elements have not been audited by CMC and we cannot certify as to the accuracy and completeness of the data supplied. Sometimes assumptions are made by CMC to interpret membership data that is imperfect. 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 appropriate and reasonable and also comply with the requirements of GASB Statement No. 67. We prepared this valuation in accordance with the requirements of this standard and in accordance with all applicable Actuarial Standards of Practice (ASOP).

The assumptions used for the December 31, 2020 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. 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.

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.

In order to prepare the results in this report we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results.

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, CMC performed no analysis of the potential range of such future differences, except for some limited analysis in financial projections or required disclosure information.

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.

Respectfully submitted,

Larry Langer, ASA, EA, FCA, MAAA
Principal and Consulting Actuary

Wendy Ludbrook, FSA, EA, FCA, MAAA
Consulting Actuary

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Executive Summary

Overview

The North Carolina Retirement Systems Division (RSD) was established in 1941 to provide retirement benefits for public servants in the State of North Carolina. Today, under the management of the Department of State Treasurer, RSD administers seven public pension plans (defined benefit plans), three supplemental retirement plans (voluntary defined contributions plans), a health trust fund, a disability income plan, death benefit funds and a number of other benefit programs. As of December 31, 2020, the RSD defined benefit plans cover over one million current and prior public servants of the state of North Carolina. During the fiscal year ending June 30, 2021, RSD paid over $6.7 billion in pensions to more than 330,000 retirees. And as of June 30, 2021, RSD's defined benefit plan assets were valued at over $120 billion.

Under the supplemental retirement plans, the amount of contributions in any given year is defined by law. The amount of benefits derived is dependent on the investment returns the individual achieves. Conversely, under the pension plans, the amount of the benefit paid to a member upon retirement, termination, death or disability is defined by law. The amount of contributions needed to fund these benefits cannot be known with certainty. In North Carolina, like other states, these contributions are paid during a public servant's career so that upon retirement, termination, death, or disability, there are funds available to pay these benefits. These amounts are determined through an actuarial valuation. Actuarial valuations are performed for each of the pension plans administered by RSD and the results are contained in actuarial valuation reports like this.

The Legislative Retirement System ("LRS") provides benefits to all members of the General Assembly. LRS has over $30 million in assets and 566 members as of December 31, 2020. This actuarial valuation report is our annual analysis of the financial health of LRS. This report, prepared as of December 31, 2020, presents the results of the actuarial valuation of the Retirement System.

Purpose

An actuarial valuation is performed on LRS annually as of the end of the calendar year. The actuary determines the amount of contributions to be made to LRS during each member's career that, when combined with investment return, will be sufficient to pay for retirement benefits.

In addition, the annual actuarial valuation is performed to:

- Determine the progress of funding LRS,
- Explore why the results of the current valuation differ from the results of the valuation of the previous year, and
- Satisfy regulatory and accounting requirements.

A detailed summary of the valuation process and a glossary of actuarial terms are provided in Appendix A.

Executive Summary

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.

Executive Summary

Key Takeaways

The actuarial valuation is performed each year to replace the estimates the actuary assumed for the prior valuation with the actual events that happened. This past year, as expected, some of the assumptions used in the prior valuation were not realized. Key results of the December 31, 2020 valuation as compared to the December 31, 2019 valuation were:

- Changes in actuarial assumptions and methods, including a decrease in the discount rate from 7.00% to 6.50%, in accordance with the latest experience study prepared as of December 31, 2019, and adopted by the Board of Trustees on January 28, 2021
- Direct-rate smoothing of the change in the employer contribution rate due to the changes in assumptions and methods over a 5-year period
- Market value returns of during calendar year 2020 of 10.88% compared to 7.00% assumed
- Demographic gains reduced the liabilities and contribution requirements

When compared to the December 31, 2019 actuarial valuation, the above resulted in:

- Higher funded ratio (97.84% in the December 31, 2020 valuation compared to 92.60% the December 31, 2019 valuation)
- Lower actuarially determined employer contribution (22.05% for fiscal year ending June 30, 2023 compared to the contribution rate of 27.15% calculated in the December 31, 2019 valuation for fiscal year ending June 30, 2022)

LRS is well funded compared to its peers. This is due to:

- Stakeholders working together to keep LRS well-funded since inception
- A history of appropriating and contributing the recommended contribution requirements
- Assumptions that in aggregate are more conservative than peers
- A funding policy that aggressively pays down unfunded liability over a 12-year period
- An ad hoc cost-of-living adjustment that supports the health of the system
- Modest changes in benefits when compared to peers

Continued focus on these measures will be needed to maintain the solid status of LRS well into the future.

More details can be found later in this report. We encourage readers to start with Sections 1 and 2 and refer to other sections for additional details as needed.

Section 1: Principal Results

This report, prepared as of December 31, 2020, presents the results of the actuarial valuation of the system. The principal results of the valuation and a comparison with the preceding year's results are summarized below.

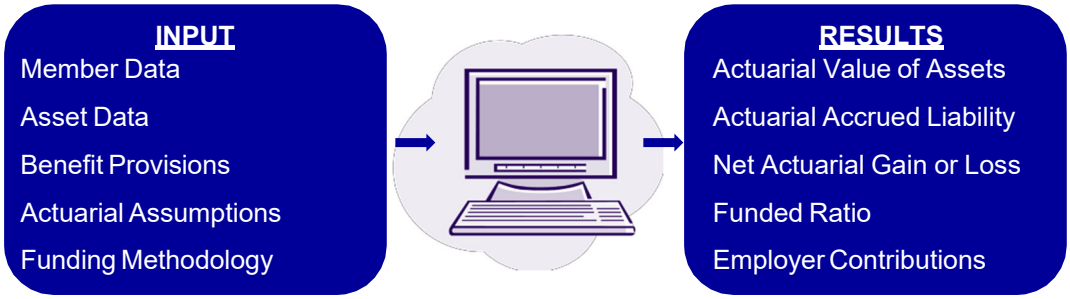
Table 1: Summary of Principal Results

Valuation Results as of	12/31/2020	12/31/2019
Active Members		
Number	170	170
Reported Compensation	$ 3,526,167	$ 3,575,706
Valuation Compensation*	$ 3,738,339	$ 3,819,521
Retired Members and Survivors of Deceased Members Currently Receiving Benefits		
Number	286	294
Annual Allowances	$ 2,259,482	$ 2,340,721
Assets		
Actuarial Value (AVA)	$ 29,252,976	$ 28,028,978
Market Value (MVA)	$ 30,702,732	$ 28,800,055
Actuarial Accrued Liability (AAL)	$ 29,898,096	$ 30,269,003
Unfunded Accrued Liability (AAL - AVA)	$ 645,120	$ 2,240,025
Funded Ratio (AVA / AAL)**	97.8%	92.6%
Results for Fiscal Year Ending	**6/30/2023**	**6/30/2022**
Actuarially Determined Employer Contribution (ADEC), as a percentage of payroll		
Normal Cost	17.16%	19.77%
Accrued Liability	2.45%	7.38%
Total	19.61%	27.15%
Total with Direct Rate Smoothing	22.05%	27.15%
Impact of Legislative Changes	N/A	N/A
Final ADEC	N/A	N/A
Appropriation Act for Fiscal Year Ending	**6/30/2022**	**6/30/2021**
Employer Contribution Rate as a percentage of payroll		
Normal Cost	17.16%	19.77%
Accrued Liability	N/A	7.53%
Total	N/A	27.30%

*Reported compensation annualized for new hires and projected for valuation purposes.
**The Funded Ratio on a Market Value of Assets basis is 102.7% at December 31, 2020.

Section 2: The Valuation Process

The following diagram summarizes the inputs and results of the actuarial valuation process.



A more detailed description of the valuation process is provided in Appendix A.

Valuation Input: Membership Data

As with any estimate, the actuary collects information that we know now. Under the actuarial valuation process, current information about LRS members is collected annually by the Retirement Systems Division staff at the direction of the actuary. Membership data will assist the actuary in estimating benefits that could be paid in the future. Information about benefit provisions and assets held in the trust as of the valuation date is also collected.

The member information the actuary collects includes data elements such as current service, salary and benefit group identifier for members that have not separated service, and actual benefit amounts and form of payment for members that have separated service. Data elements such as gender and date of birth are used to determine when a benefit might be paid and for how long.

Section 2: The Valuation Process

The table below provides a summary of the membership data used in this valuation compared to the prior valuation.

Number as of	12/31/2020	12/31/2019
Active Members	170	170
Terminated members and survivors of deceased members entitled to benefits but not yet receiving benefits	110	110
Retired members and survivors of deceased members currently receiving benefits	286	294
Total	566	574
Active Reported Compensation	3,526,167	3,575,706
Active Valuation Compensation	3,738,339	3,819,521
Annual Retirement Allowances	2,259,482	2,340,721

Commentary: The number of retired members and survivors of deceased members currently receiving benefits decreased by 2.7% from the previous valuation date.

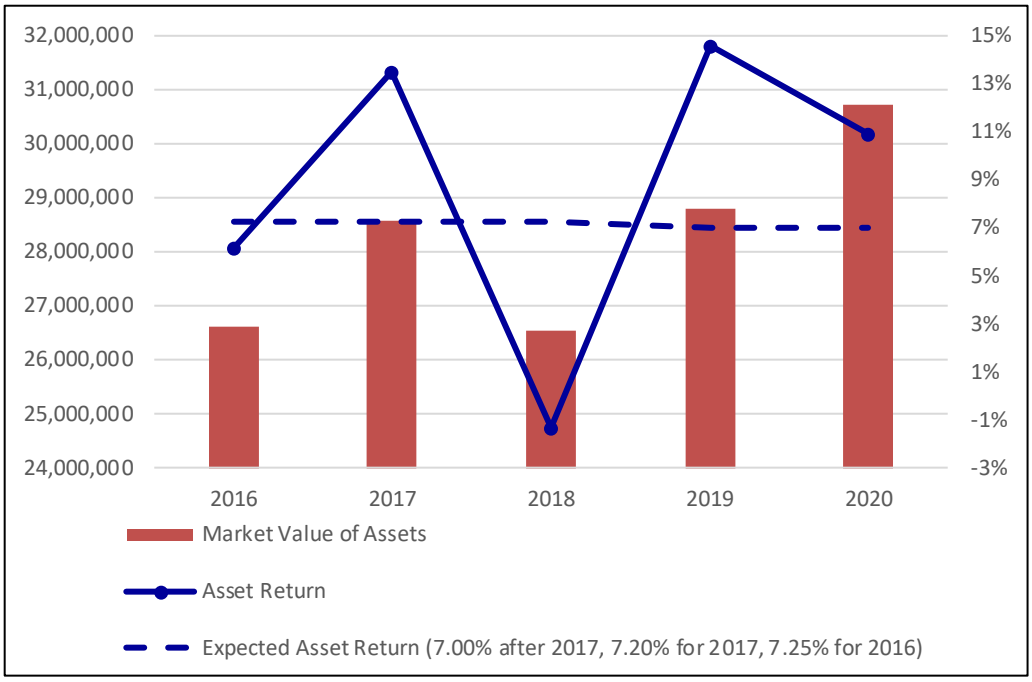
Section 2: The Valuation Process

Valuation Input: Asset Data

LRS assets are held in trust and are invested for the exclusive benefit of plan members. The Market Value of Assets is $30.7 million as of December 31, 2020 and was $28.8 million as of December 31, 2019. The investment return for the market value of assets for calendar year 2020 was 10.88%.

Graph 1: Market Value of Assets and Asset Returns

The graph below provides a history of the market value of assets and asset returns over the past five years.



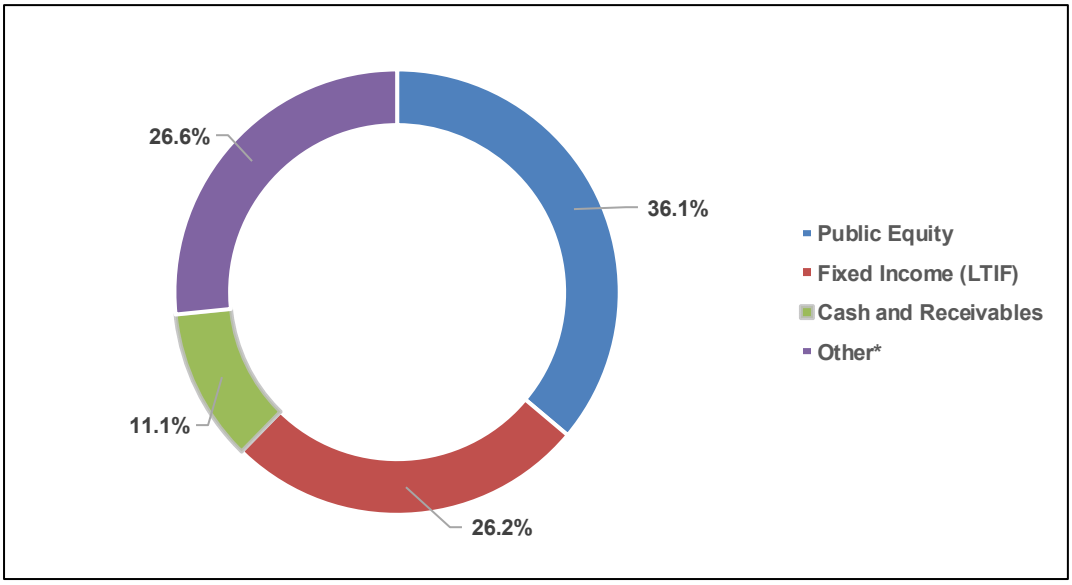
Commentary: Market value returns during 2020 were greater than the 7.0% assumed rate of return, resulting in lower required contributions and a higher funded ratio than anticipated.

Section 2: The Valuation Process

Valuation Input: Asset Data (continued)

Graph 2: Allocation of Investments by Category

The graph below provides the breakdown of the market value of assets at December 31, 2020 by asset category.



* Real Estate, Alternatives, Inflation and Credit

Commentary: Based on historical market returns, the current asset allocation, the current investment policy, and the expectation of future asset returns, as reviewed in the recent experience study, the 6.50% discount rate used in this valuation is reasonable and appropriate.

A detailed summary of the market value of assets is provided in Section 4 of this report.

Section 2: The Valuation Process

Valuation Input: Benefit Provisions

Benefit provisions are described in North Carolina General Statutes, Chapter 120.

Highlights of the benefit provisions are described below.

- An unreduced retirement allowance is payable to members who retire from service after attaining age 65 and five years of creditable service
- The unreduced retirement allowance is equal to 4.02% of a member's highest annual compensation multiplied by the number of years of creditable service, with a maximum annual allowance of 75% of a member's highest annual compensation.
- A reduced retirement allowance is payable to members who retire from service:
  - after attaining age 50 and 20 years of creditable service; or
  - after attaining age 60 and five years of creditable service
- Benefits are also payable upon the death or disability of a member
- LRS does not provide for automatic cost of living increases as part of the benefit package. Instead, increases may be provided if certain financial conditions are met and/or the legislature passes a budget that provides for a cost-of-living adjustment

Commentary: Many Public Sector Retirement Systems in the United States have undergone pension reform where the benefits of members (current retirees and active or future members) have been reduced. Because of the well-funded status of LRS due to the legislature contributing the actuarially determined employer contribution when such contribution is required, benefit cuts have not been made in North Carolina as they have been in most other states. However, if North Carolina's investment policy shifts substantively, or if he system incurs other unfavorable investment, economic, or demographic experience, the system should review likely impacts of the shift and consider corresponding changes to actuarial assumptions, funding policy and/or benefit levels.

A detailed summary of the benefit provisions is provided in Appendix C of this report.

Section 2: The Valuation Process

Valuation Input: Actuarial Assumptions

Actuarial assumptions bridge the gap between the information that we know with certainty as of the valuation date (age, gender, service, and benefits of the members) and what may happen in the future. The actuarial assumptions of LRS are reviewed at least every five years. Based on this review, the actuary will make recommendations on the demographic and economic assumptions.

Demographic assumptions describe future events that relate to people such as retirement rates, termination rates, disability rates, and mortality rates. Economic assumptions describe future events that relate to the assets such as the interest rate, salary increases, the real return and payroll growth.

The assumptions used for the December 31, 2020 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. Material assumptions and methods that were changed since the prior valuation:

- The investment return assumption was lowered from 7.00% to 6.50%
- The inflation assumption was lowered from 3.00% to 2.50%
- The real wage growth assumption was increased from 0.50% to 0.75%
- The payroll growth assumption was lowered from 3.50% to 3.25%
- The withdrawal rates, retirement rates, mortality assumption and annual rates of salary increase assumption were changed
- The marriage assumption was changed from assuming male spouses are four years older than female spouses to assume that male spouses are three years older than female spouses

Section 2: The Valuation Process

Valuation Input: Funding Methodology

The Funding Methodology is the payment plan for LRS and is composed of the following three components:

- Actuarial Cost Methods allocate costs to the actuarial accrued liability (i.e. the amount of money that should be in the fund) for past service and normal cost (i.e. the cost of benefits accruing during the year) for current service.
  - The Board of Trustees has adopted Entry Age Normal as its actuarial cost method
  - Develops normal costs that stay level as a percent of payroll

- Asset Valuation Methods smooth or average the market value returns over time to alleviate contribution volatility that results from market returns. The Board of Trustees have adopted the following:
  - Asset returns in excess of or less than the expected return on market value of assets reflected over a five-year period
  - Assets corridor: not greater than 120% of market value and not less than 80% of market value

- Amortization Methods determine the payment schedule for unfunded actuarial accrued liability (i.e. the difference between the actuarial accrued liability and actuarial value of assets). The Board of Trustees have adopted the following:
  - Payment level: the payment is determined as a level dollar amount, similar to a mortgage payment
  - Payment period: a 12-year closed amortization period was adopted for fiscal year ending 2018. A new amortization base is created each year based on the prior year experience

When compared to other Public Sector Retirement Systems in the United States, the funding policy for LRS is quite aggressive in that the policy pays down the unfunded actuarial accrued liability over a much shorter period of time (12 years) compared to most other Public Sector Retirement Systems. As such it is a best practice in the industry.

A detailed summary of the actuarial assumptions and methods is provided in Appendix D of this report.

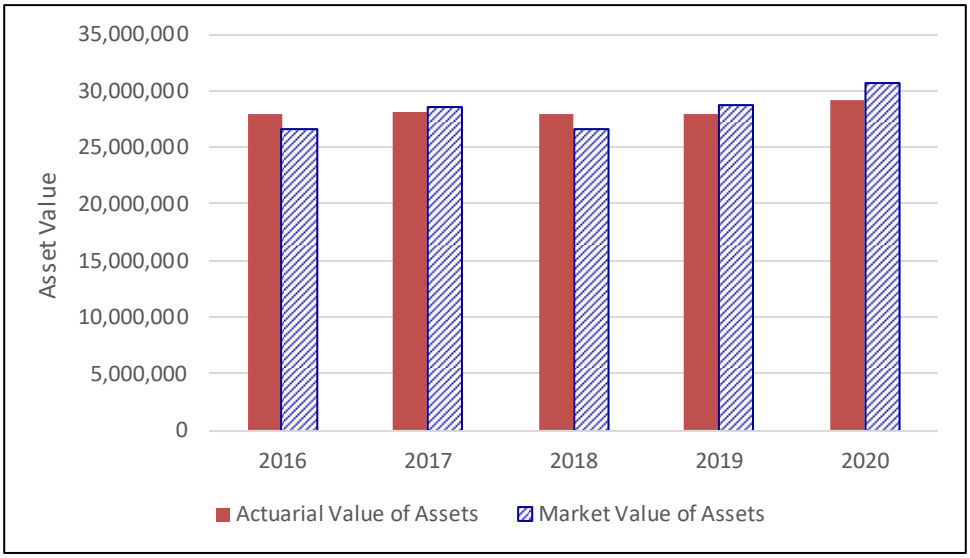
Section 2: The Valuation Process

Valuation Results: Actuarial Value of Assets

In order to reduce the volatility that investment gains and losses can have on required contributions and funded status of LRS, the Board adopted an asset valuation method to determine the Actuarial Value of Assets used for funding purposes. The Actuarial Value of Assets is $29.3 million as of December 31, 2020 and $28.0 million as of December 31, 2019.

Graph 3: Actuarial Value and Market Value of Assets

The graph below provides a history of the market value and actuarial value of assets over the past five years.

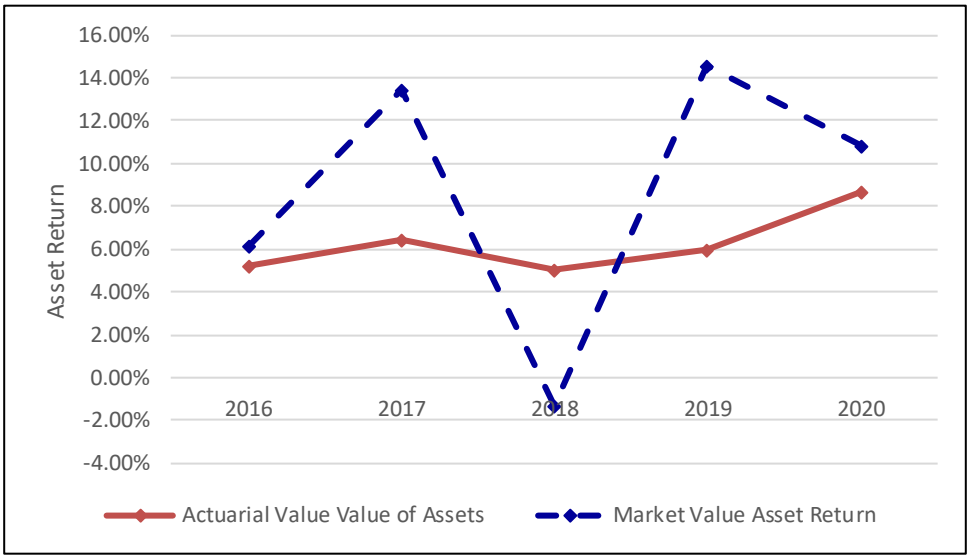


Commentary: The market value of assets is higher than the actuarial value of assets, which is used to determine employer contributions. This indicates that overall there are unrecognized asset gains to be recognized in future valuations.

Valuation Results: Actuarial Value of Assets (continued)

Graph 4: Asset Returns

The graph below provides a history of the market value and actuarial value of asset returns over the past five years.



Commentary: The investment return for the market value of assets for calendar year 2020 was 10.88%. The actuarial value of assets smooths investment gains and losses. Higher than expected market returns, in 2017, 2019, and 2020, resulted in an actuarial value of asset return for calendar year 2020 of 8.71% and a recognized actuarial asset gain of $0.5 million during 2020.

A detailed summary of the Actuarial Value of Assets is provided in Section 4 of this report.

Section 2: The Valuation Process

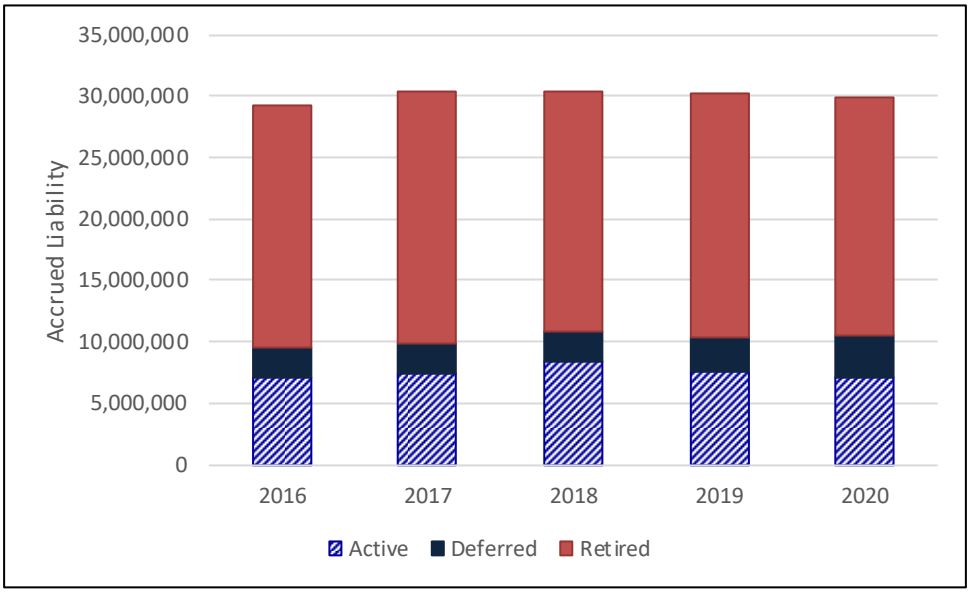
Valuation Results: Actuarial Accrued Liability

Using the provided membership data, benefit provisions, and actuarial assumptions, the future benefit payments of LRS are estimated. These projected future benefit payments are discounted into today's dollars using the assumed rate of investment return assumption to determine the Present Value of Future Benefits (PVFB) of the Retirement System. The PVFB is an estimate of the current value of the benefits promised to all members as of a valuation date.

Once the PVFB is developed, an actuarial cost method is used to allocate the PVFB. Under the actuarial cost method, the PVFB is allocated to past, current and future service, respectively known as the actuarial accrued liability (AAL), normal cost (NC) and present value of future normal costs (PVFNC). The AAL is also referred to as the amount of money the Retirement System should ideally have in the trust. The NC is also referred to as the cost of benefits accruing during the year.

Graph 5: Actuarial Accrued Liability

The graph below provides a history of the actuarial accrued liability over the past five years.



Commentary The AAL decreased slightly from 30.3 million in 2019 to $29.9 million in 2020. LRS is an open plan, which means that new members enter the plan each year. In an open plan, liabilities are expected to grow from one year to next as more benefits accrue and the membership approaches retirement. The AAL was $0.8 million less than expected due to demographic experience.

A detailed summary of the AAL is provided in Section 5 of this report.

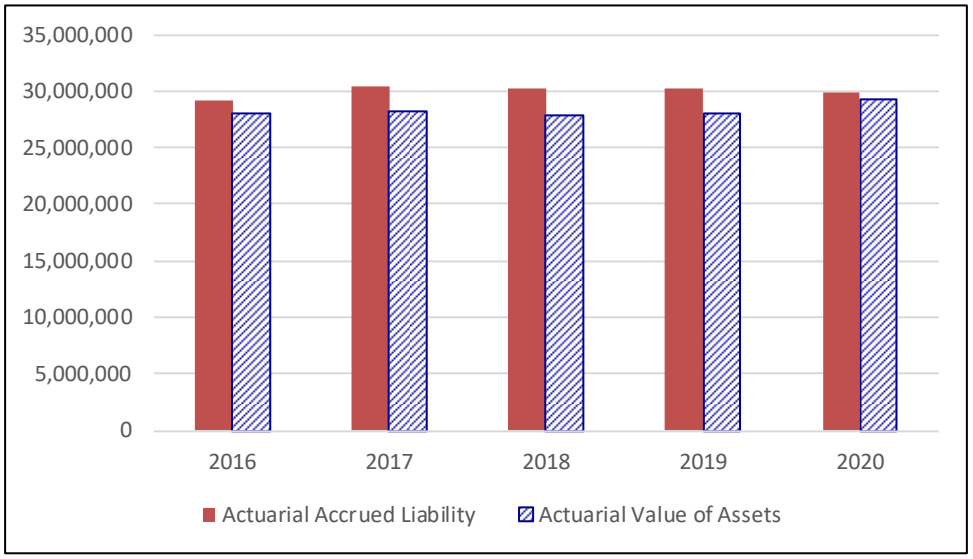
Section 2: The Valuation Process

Valuation Results: Funded Ratio

The funded ratio is a measure of the progress that has been made in funding the plan as of the valuation date. It is the ratio of how much money the Retirement System actually has in the fund to the amount the LRS should have in the fund.

Graph 6: Actuarial Accrued Liability and Actuarial Value of Assets

The graph below provides a history of the actuarial accrued liability compared to the actuarial value of assets over the past five years.

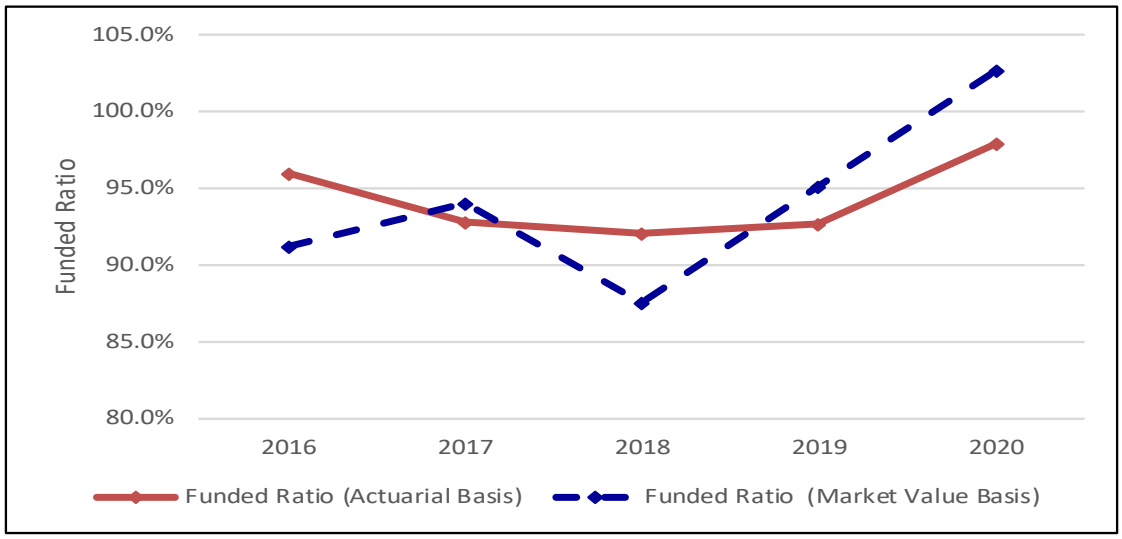


Commentary: The actuarial value of assets basis is used for computing contributions to alleviate contribution volatility. The difference in the actuarial accrued liability and the actuarial value of assets is the amount of pension debt to be paid off in 12 years.

Valuation Results: Funded Ratio (continued)

Graph 7: Funded Ratios

The graph below provides a history of the funded ratio on a market and actuarial basis over the past five years.



Commentary: The ratio of assets to liabilities shows the health of the plan on an accrued basis. The funded ratio on an actuarial basis increased from 92.6% at December 31, 2019 to 97.8% at December 31, 2020.

Section 2: The Valuation Process

Valuation Results: Employer Contributions

G.S. 120-4.20 provides that the contributions of employers shall consist of a normal contribution and an accrued liability contribution.

The December 31, 2019 valuation suggested that the preliminary total employer contribution rate be set at 27.15% of payroll for the fiscal year ending June 30, 2022. As a result of this December 31, 2020 valuation, the preliminary actuarially determined employer contribution rate is 22.05% of payroll for the fiscal year ending June 30, 2023, subject to the impact of any future legislative changes effective during that fiscal year.

A detailed summary of the actuarially determined employer contribution rates is provided in Section 6 of this report.

Valuation Results: Accounting Information

The Governmental Accounting Standards Board (GASB) issues statements which establish financial reporting standards for defined benefit pension plans and accounting for pension expenditures and expenses for governmental employers.

The valuation has been prepared in accordance with the parameters of Statement No. 67 of the GASB and all applicable Actuarial Standards of Practice. The Net Pension Liability (Asset) under GASB 67 for the fiscal year ending June 30, 2021, is $(1,921,000) (compared to $2,549,000 for fiscal year ending June 30, 2020). The required financial reporting information for the Retirement System under GASB No. 67 can be found in Section 7 of this report.

Section 3: Membership Data

The Retirement Systems Division provided membership data as of the valuation date for each member of the Retirement System. The membership data assists the actuary in estimating benefits that could be paid in the future. The tables below provide a summary of the membership data used in this valuation. Detailed tabulations of data are provided in Appendix B.

Table 2: Active Member Data

	Member Count	Average Age	Average Service	Reported Compensation
Male	127	58.76	6.63	$ 2,653,954
Female	43	61.35	6.98	872,213
Total	170	59.42	6.72	$ 3,526,167

Table 3: Vested Terminated Member Data

	Member Count	Average Age	Average Service	Deferred Retirement Allowance
Male	45	57.16	8.71	349,435
Female	12	57.08	9.32	93,238
Total	57	57.14	8.84	$ 442,673

The table above includes terminated members entitled to retirement benefits but not yet receiving benefits.

Table 4: Non-Vested Terminated Member Data

	Member Count	Average Age	Average Service	Accumulated Contributions
Male	46	53.89	2.84	$ 271,807
Female	7	58.71	1.81	28,395
Total	53	54.53	2.70	$ 300,201

The table above includes non-vested terminated members who have not received a refund of contributions.

Section 3: Membership Data

Table 5: Data for Members Currently Receiving Benefits

	Member Count	Average Age	Annual Retirement Allowances
Retired Members (Healthy at Retirement)			
Male	166	78.36	$ 1,388,429
Female	54	77.85	418,050
Total	220	78.24	$ 1,806,479
Survivors of Deceased Members			
Male	2	63.50	$ 23,964
Female	64	77.72	429,039
Total	66	77.29	$ 453,003
Grand Total	286	78.02	$ 2,259,482

Section 4: Asset Data

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

Table 6: Market Value of Assets

Asset Data as of	12/31/2020	12/31/2019
Beginning of Year Market Value of Assets	$ 28,800,055	$ 26,543,448
Employer Contributions	971,088	883,435
Employee Contributions	252,888	257,451
Benefit Payments other than Refunds	(2,328,044)	(2,364,330)
Refunds	(49,708)	(266,742)
Administrative Expense	(12,787)	(13,043)
Investment Income	3,069,240	3,759,836
Net Increase/(Decrease)	1,902,677	2,256,607
End of Year Value of Assets	$ 30,702,732	$ 28,800,055
Estimated Net Investment Return	10.88%	14.58%

Table 7: Allocation of Investments by Category of the Market Value of Assets

Asset Data as of	12/31/2020	12/31/2019
Allocation by Dollar Amount		
Public Equity	$ 11,077,214	$ 9,232,090
Fixed Income (LTIF)	8,043,140	7,433,578
Cash and Receivables	3,414,261	3,822,852
Other*	8,168,117	8,311,535
Total Market Value of Assets	$ 30,702,732	$ 28,800,055
Allocation by Percentage of Asset Value		
Public Equity	36.1%	32.0%
Fixed Income (LTIF)	26.2%	25.8%
Cash and Receivables	11.1%	13.3%
Other*	26.6%	28.9%
Total Market Value of Assets	100.0%	100.0%

* Real Estate, Alternatives, Inflation and Credit

Section 4: Asset Data

In order to reduce the volatility that investment gains and losses can have on the required contributions and funded status of LRS, the Board adopted an asset valuation method to determine the Actuarial Value of Assets used for funding purposes. The table below provides the calculation of the Actuarial Value of Assets at the valuation date.

Table 8: Actuarial Value of Assets

Asset Data as of	12/31/2020
Beginning of Year Market Value of Assets	$ 28,800,055
Contributions	1,223,976
Benefit Payments, Refunds and Administrative Expenses	(2,390,539)
Net Cash Flow	(1,166,563)
Expected Investment Return	1,975,865
Expected End of Year Market Value of Assets	29,609,357
End of Year Market Value of Assets	30,702,732
Excess of Market Value over Expected Market Value of Assets	1,093,375
80% of 2020 Asset Gain/(Loss)	874,700
60% of 2019 Asset Gain/(Loss)	1,172,111
40% of 2018 Asset Gain/(Loss)	(920,620)
20% of 2017 Asset Gain/(Loss)	323,565
Total Deferred Asset Gain/(Loss)	1,449,756
Preliminary End of Year Actuarial Value of Assets	29,252,976
Final End of Year Actuarial Value of Asset (not less than 80% and not greater than 120% of Market Value)	29,252,976
Estimated Net Investment Return on Actuarial Value	8.71%

Commentary: The actuarial value of assets smooths investment gains/losses on the market value of assets over a five-year period resulting in less volatility in the actuarially determined employer contribution. The asset valuation recognizes asset returns in excess of or less than the expected return on the market value of assets over a five-year period. Actuarial value of assets was reset to the market value of assets at December 31, 2014.

Section 5: Liability Results

Using the provided membership data, benefit provisions, and actuarial assumptions, the Retirement System's future benefit payments are estimated. These projected future benefit payments are discounted into today's dollars using the assumed rate of investment return assumption to determine the Present Value of Future Benefits. The Present Value of Future Benefits is allocated to past, current and future service, respectively known as the actuarial accrued liability, normal cost and present value of future normal costs. The table below provides these liability numbers for the current and prior years' valuations.

Table 9: Liability Summary

Valuation Results as of	12/31/2020	12/31/2019
(a) Present Value of Future Benefits		
(1) Active Members	$ 11,491,666	$ 13,878,585
(2) Terminated Members	3,501,026	2,877,651
(3) Members Currently Receiving Benefits	19,375,257	19,877,116
(4) Total	$ 34,367,949	$ 36,633,352
(b) Present Value of Future Normal Costs	4,469,853	6,364,349
(c) Actuarial Accrued Liability: (a4) - (b)	$ 29,898,096	$ 30,269,003
(d) Actuarial Value of Assets	$ 29,252,976	$ 28,028,978
(e) Unfunded Actuarial Accrued Liability: (c) - (d)	$ 645,120	$ 2,240,025

Section 5: Liability Results

The table below provides a reconciliation of the prior year's unfunded actuarial accrued liability to the current year's unfunded actuarial accrued liability.

Table 10: Reconciliation of Unfunded Actuarial Accrued Liability

(in millions)		
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2019	$	2.2
Normal Cost and Administrative Expense		1.0
Reduction due to Actual Contributions during 2020		(1.2)
Interest on UAAL, Normal Cost, and Contributions		0.1
Asset (Gain) / Loss		(0.5)
Actuarial Accrued Liability (Gain) / Loss		(0.8)
Impact of Assumption Changes		(0.2)
Impact of Legislative Changes		0.0
Unfunded Actuarial Accrued Liability (UAAL) as of 12/31/2020	$	0.6

Commentary: During 2020, the UAAL decreased more than expected due to an asset gain during the year of $0.50 million, along with an Actuarial Accrued Liability gain of $0.8 million. Additionally, the impact of assumption changes further decreased the UAAL by $0.2 million.

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Section 6: Actuarially Determined Employer Contribution

The actuarially determined employer contribution consists of a normal cost contribution and an accrued liability contribution. The normal cost contribution is the employer's portion of the cost of benefits accruing during the year after reducing for the member contribution. The accrued liability contribution is the payment toward the unfunded accrued liability in order to pay off the unfunded accrued liability over 12 years.

The table below provides the calculation of the actuarially determined employer contribution for the current and prior years' valuations.

Table 11: Calculation of the Actuarially Determined Employer Contribution (ADEC)

Valuation Date	12/31/2020	12/31/2019
ADEC for Fiscal Year Ending	6/30/2023	6/30/2022
Normal Cost Rate Calculation		
(a) Total Normal Cost Rate	23.16%	25.77%
(b) Employee Contribution Rate	7.00%	7.00%
(c) Expense Assumption	1.00%	1.00%
(d) Employer Normal Cost Rate: (a) - (b) +(c)	17.16%	19.77%
Accrued Liability Rate Calculation		
(e) Unfunded Accrued Liability	$ 645,120	$ 2,240,025
(f) Total Amortization Payments*	$ 96,226	$ 291,003
(g) Valuation Compensation**	$ 3,922,056	$ 3,945,548
(h) Accrued Liability Rate: (f) / (g)	2.45%	7.38%
Preliminary ADEC (d) + (h)	19.61%	27.15%
ADEC (with Direct Rate Smoothing)	22.05%	27.15%
Impact of Legislative Changes	N/A	N/A
Final ADEC	N/A	N/A

*See Table 14 for more detail.
** Beginning with the December 31, 2017 valuation, compensation is projected to the fiscal year over which contributions will occur

Section 6: Actuarially Determined Employer Contribution

The table below provides a reconciliation of the actuarially determined employer contributions.

Table 12: Reconciliation of the Change in the ADEC

Fiscal year ending June 30, 2022 Preliminary ADEC (Based on December 31, 2019 valuation)	27.15%
Impact of Legislative Changes	0.00%
Fiscal year ending June 30, 2022 ADEC for Reconciliation	27.15%
Change Due to Anticipated Reduction in UAAL*	-0.01%
Change due to Demographic (Gain)/Loss	-3.01%
Change due to Investment (Gain)/Loss	-1.60%
Change Due to Contribution Experience	0.13%
Impact of Assumption Changes	-3.05%
Impact of Direct Rate Smooothing	2.44%
Fiscal year ending June 30, 2023 Preliminary ADEC (based on December 31, 2020 valuation)	22.05%

* Amortization of the UAAL is determined as a level dollar amount with payments expected to remain the same over the amortization period, but was calculated as a percentage of valuation payroll in the previous valuation. Payroll is expected to increase annually while the expected amortization payment does not increase. This causes the expected amortization payment to be a lesser percentage of the expected payroll.

Section 6: Actuarially Determined Employer Contribution

Amortization methods determine the payment schedule for the unfunded actuarial accrued liability. LRS adopted a 12-year closed amortization period for fiscal year ending 2018. A new amortization base is created each year based on the prior years' experience. The tables below provide the calculation of the new amortization base and the amortization schedule for the current year's valuation.

Table 13: Calculation of the New Amortization Base

Calculation as of	12/31/2020
(a) Unfunded Actuarial Accrued Liability	$ 645,120
(b) Prior Years' Outstanding Bases	2,092,099
(c) New Amortization Base: (a) - (b)	(1,446,979)
(d) New Amortization Payment	(188,880)

Table 14: Amortization Schedule for Unfunded Accrued Liability

Date Established	Original Balance	12/31/2020 Outstanding Balance	Annual Payment
December 31, 2015	$ 249,266	$ 217,805	$ 33,097
December 31, 2016	935,816	884,979	123,803
December 31, 2017	908,785	920,048	119,782
December 31, 2018	183,640	197,669	24,161
December 31, 2019	(120,002)	(128,402)	(15,738)
December 31, 2020	(1,446,979)	(1,446,979)	(188,880)
Total		$ 645,120	$ 96,226

Commentary: This is the payment schedule for the unfunded actuarial accrued liability of LRS.

The following table shows an estimate of the potential cost of adding a permanent one-time cost-of-living increase if it were enacted based on results of the December 31, 2020 or December 31, 2019 valuations.

Table 15: Cost of Benefit Enhancements

Calculation as of	12/31/2020	12/31/2019
Increase in UAAL for 1% COLA*	212,000	218,000
Increase in ADEC for 1% COLA*	0.71%	0.74%

* The 1% COLA calculated at the December 31, 2020 valuation would be effective July 1, 2022. The COLA would be paid in full to retired members and survivors of deceased members on the retirement roll on July 1, 2021 and would be prorated for retired members and survivors of deceased members who commence benefits after July 1, 2021 but before June 30, 2022.

Section 7: Accounting Results

This section contains the accounting information for Governmental Accounting Standards Board (GASB) Statement No. 67 for fiscal year ending June 30, 2021 based on a valuation date of December 31, 2020.

Please note that GASB Statement No. 67 (*Financial Reporting for Pension Plans)* is applicable for fiscal years ending 2014 and later.

The June 30, 2021 total pension liability presented in this section was determined by an actuarial valuation as of December 31, 2020, based on the assumptions, methods and plan provisions described in this report. 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.

GASB Statement No. 67 set forth certain items of information to be disclosed in the financial statements of the Plan. The tables below provide a distribution of the number of employees by type of membership.

Table 16: Number of Active and Retired Members as of December 31, 2020

Group	Number
Retired members and survivors of deceased members currently receiving benefits	286
Terminated members and survivors of deceased members entitled to benefits but not yet receiving benefits	110
Active Members	170
Total	566

Section 7: Accounting Results

GASB Statement No. 67 set forth certain items of information to be disclosed in the financial statements of the Plan. The tables below provide the schedule of changes in Net Pension Liability (Asset).

Table 17: Schedule of Changes in Net Pension Liability (Asset)

Schedule of Changes in Net Pension Liability as of June 30, 2021	
Total Pension Liability	
Service Cost	$ 1,034,000
Interest	2,053,000
Changes of Benefit Terms	0
Difference between Expected and Actual Experience	(815,000)
Change of Assumptions	(353,000)
Benefit Payments, including Refund of Member Contributions	(2,516,000)
Net Change in Total Pension Liability	(597,000)
Total Pension Liability – Beginning of Year	$ 30,571,000
Total Pension Liability – End of Year	$ 29,974,000
Plan Fiduciary Net Position	
Employer Contributions	$ 987,000
Member Contributions	253,000
Net Investment Income	5,162,000
Benefit Payments, including Refund of Member Contributions	(2,516,000)
Administrative Expenses	(13,000)
Other	0
Net Change in Plan Fiduciary Net Position	3,873,000
Plan Fiduciary Net Position – Beginning of Year	$ 28,022,000
Plan Fiduciary Net Position – End of Year	$ 31,895,000

Table 18: Net Pension Liability (Asset)

Net Pension Liability (Asset)	June 30, 2021	June 30, 2020
Total Pension Liability	$ 29,974,000	$ 30,571,000
Plan Fiduciary Net Position	31,895,000	28,022,000
Net Pension Liability (Asset)	$ (1,921,000)	$ 2,549,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)	106.41%	91.66%

Section 7: Accounting Results

The table below is the sensitivity of the net pension liability to changes in the discount rate.

Table 19: Sensitivity of the Net Pension Liability (Asset) at June 30, 2021 to Changes in the Discount Rate

Sensitivity of the Net Pension Liability to Changes in the Discount Rate			
	1% Decrease	Current	1% Increase
Discount Rate	5.50%	6.50%	7.50%
Net Pension Liability (Asset)	$ 905,000	$ (1,921,000)	$ (4,336,000)

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 continue to follow the current funding policy, including "direct-rate smoothing" as adopted by the Board of Trustees on January 28, 2021. Based on those assumptions, 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 E for additional detail.

The table below provides the methods and assumptions used to calculate the actuarially determined contribution rate.

Table 20: Additional Information for GASB Statement No. 67

Valuation Date	12/31/2020
Actuarial Cost Method	Entry Age
Amortization Method	Level dollar closed
Amortization Period	12-year closed period
Asset Valuation Method	Asset return 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

Appendix A: Valuation Process and Glossary of Actuarial Terms

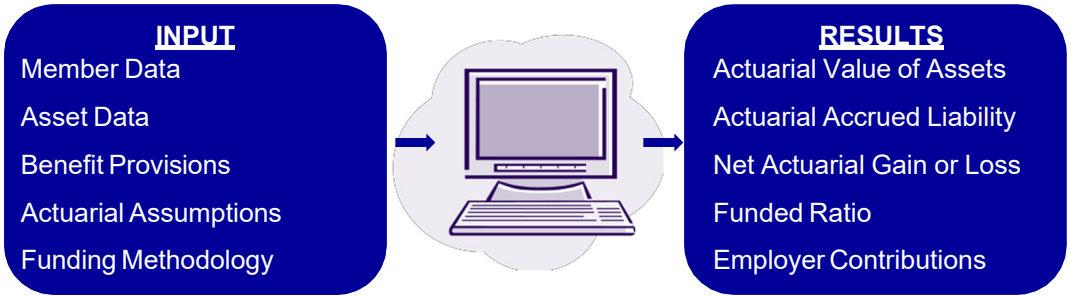
Purpose of an Actuarial Valuation

The majority of Public Sector Retirement Systems in the State of North Carolina are defined benefit (DB) retirement systems. Under a DB retirement system, the amount of benefits payable to a member upon retirement, termination, death or disability is defined in various contracts and legal instruments and is based, in part, on the member's years of credited service and final compensation. The amount of contribution needed to fund these benefits cannot be known with certainty. A primary responsibility of the Board of Trustees of a Retirement System is to establish and monitor a funding policy for the contributions made to the Retirement System.

While somewhat uncommon, in some jurisdictions, contributions are made by the plan sponsor as benefits come due. This is known as pay-as-you-go financing. More commonly, contributions for benefits are made in advance during the course of active employment of the members. This is known as actuarial pre-funding. For example, the State of North Carolina mandates for the Teachers' and State Employees' Retirement System ("TSERS") under G.S.135-8(d), that "on account of each member there shall be paid into the pension accumulation fund by employers an amount equal to a certain percentage of the actual compensation of each member to be known as the 'normal contribution' and an additional amount equal to a percentage of the member's actual compensation to be known as the 'accrued liability contribution'. The rate per centum of such contributions shall be fixed on the basis of the liabilities of the Retirement System as shown by actuarial valuation, duly approved by the Board of Trustees, and shall be called the 'actuarially determined employer contribution rate'…The actuarially determined employer contribution rate shall be calculated annually by the actuary using assumptions and a cost method approved by the Actuarial Standards Board of the American Academy of Actuaries and selected by the Board of Trustees."

The Actuarial Valuation Process

The following diagram summarizes the inputs and results of the actuarial valuation process. A narrative of the process follows the diagram. The reader may find it worthwhile to refer to the diagram from time to time.



Under the actuarial valuation process, current information about Retirement System members is collected annually by staff at the direction of the actuary, namely member data, asset data and information on benefit provisions. Member data is collected for each member of the Retirement System. The member data will assist the actuary in estimating benefits that could be paid in the future. The member information the actuary collects to estimate the amount of benefit includes elements such as current service, salary and benefit group identifier for members that have not separated service; for those that have, the actual benefit amounts are collected. The actuary collects information such as gender and date of birth to determine when a benefit might be paid and for how long.

The actuary collects summary information about assets as of the valuation date and information on cash flows for the year ending on the valuation date. Information about benefit provisions as of the valuation date is also collected. To bridge the gap between the information collected and potential benefits to be paid in the future, the actuary must make assumptions about future activities. These assumptions are recommended by the actuary to the Boards based on the results of an experience review. An experience review is a review of the Retirement System over a period of time, typically five years, where the actuary analyzes the demographic and economic assumptions of the Retirement System. Based on this review, the actuary will make recommendations on the demographic assumptions, such as when members will be projected to retire, terminate, become disabled and/or die in the future, as well as the economic assumptions, such as what rate of return is projected to be earned by the fund based on the Retirement System investment policy and what level of future salary increases is expected for members. To maintain the assumptions, the Board should adopt a prudent policy of having an experience review being performed every five years. The next experience review for the North Carolina Retirement Systems will be based on the five-year period ending on December 31, 2024 and will be presented during 2025. Using these assumptions, the actuary is able to use the member data, asset data and benefit provision information collected to project the benefits that will be paid from the Retirement System to current members. These projected future benefit payments are based not only on service and pay through the valuation date but includes future pay and service, which has not yet been earned by the members but is expected to be earned.

These projected future benefit payments are discounted into today's dollars using the assumed rate of investment return assumption to determine the Present Value of Future Benefits (PVFB) of the Retirement System. The PVFB is an estimate of the value of the benefits promised to all members as of a valuation date. If the Retirement System held assets equal to the PVFB and all the assumptions were realized, there would be sufficient funds to pay off all the benefits to be paid in the future for members in the Retirement System as of the valuation date.

The PVFB is a large sum of money, typically much larger than the amount of Retirement System assets held in the trust. The next step is for the actuary to apply the Funding Policy as adopted by the Board to determine the employer contributions to be made to the Retirement System so that the gap between the PVFB and assets is systematically paid off over time. The Funding Policy is adopted by the Board based on discussions with the actuary. When the Board develops a funding policy, a balance between contributions which are responsive to the needs of the Retirement System yet stable should be struck. There are many different funding policies for the Board to consider, and the actuary is responsible for discussing the various features of the funding policies under consideration. Funding Policies are generally reviewed during an experience review, but it is not uncommon to review a funding policy in between, particularly during period where large increases or decreases in contributions are expected. The Funding Policy is composed of three components: the actuarial cost method, the asset valuation method, and the amortization method.

Once the PVFB is developed, an actuarial cost method is used to allocate the PVFB. Under the actuarial cost method, the PVFB is allocated to past, current and future service, respectively known as the actuarial accrued liability (AAL), normal cost (NC) and present value of future normal costs (PVFNC). The actuary computes the liability components (PVFB, NC, AAL, and PVFNC) for each participant in the Retirement System at the valuation date. These liability components are then totaled for the Retirement System. There are many actuarial cost methods. Different actuarial methods will produce different contribution patterns, but do not change the ultimate cost of the benefits. The entry age normal cost method is the most prevalent method used for public sector plans in the United States, because the expected normal cost is calculated in such a way that it will tend to stay level as a percent of pay over a member's career.

The actuarial accrued liability (AAL) is also referred to as the amount of money the Retirement System should ideally have in the trust. The unfunded actuarial accrued liability (UAAL) is the portion of actuarial accrued liability that is not covered by the assets of the Retirement System. The UAAL can be a negative number, which means that the Retirement System has more assets than actuarial accrued liability. We refer to this condition as overfunded liability in this summary. Having UAAL does not indicate that the Retirement System is in failing actuarial health. Most retirement systems have UAAL. Another related statistic of the Retirement System is the funded ratio. The funded ratio is the percent of the actuarial accrued liabilities covered by the actuarial value of assets. The assets used for these purposes are an actuarial value of assets (AVA), not market. The actuarial value of assets is based on the asset valuation method as recommended by the actuary and adopted by the Board. An actuarial value of assets is a smoothed, or averaged, value of assets, which is used to limit employer contribution volatility. Typically, assets are smoothed, or averaged, over a period of 3 to 5 years. By averaging returns, the UAAL is not as volatile, which we will see later results in contributions that are not as volatile as well. The North Carolina Retirement Systems use an actuarial value of assets with a smoothing period of 5 years.

While having UAAL is common, it is acceptable only if it is systematically being paid off. The method by which the UAAL is paid off is known as the amortization method. The concept is similar to that of a mortgage payment. The Board adopts the amortization method used to pay off the UAAL over a period of time. The amortization method is composed of the amortization period, the amount of payment increase, whether the period is open or closed and by the amount of amortization schedules. The amortization period is the amount of time over which the UAAL will be paid off. This is generally a period of thirty years or less, but actuaries are beginning to recommend shorter periods. The payments can be developed to stay constant from year to year like a mortgage, but often they are developed to increase each year at the same level payroll increases. Amortization type can be closed or open. Under a closed period, the UAAL is expected to be paid off over the amortization period. This is similar to a typical mortgage. Under an open period, the amortization period remains unchanged year after year. The concept is similar to re-mortgaging annually. In many instances, an amortization schedule is developed, whereby the UAAL is amortized over a closed period from the point the UAAL is incurred. Finally, some amortization methods are defined by a schedule of payments, where a new schedule of payments is added with each valuation. Regardless of the amortization type or period, the funding policy should generate a contribution that pays off the UAAL, which results in the funded ratio trending to 100% over time. Caution should be used when an open method is used, because typically an open amortization policy does not result in the UAAL being paid off. North Carolina pays off a much larger amount of UAAL compared to other states. While many states struggle to pay a 30-year level percent of pay UAAL contribution, which doesn't even reduce the amount of UAAL, North Carolina pays down the UAAL with level dollar payments over a 12 year period. This aggressive payment schedule of the UAAL results in North Carolina being home to many of the best funded Public Retirement Systems in the United States.

To satisfy the requirements of the State of North Carolina, the actuary calculates the total annual contribution to the Retirement System as the normal cost plus a contribution towards UAAL. Said another way, this contribution is sufficient to pay for the cost of benefits accruing during the year (normal cost) plus the mortgage payment (UAAL payment). The total contribution is reduced by the amount of member contributions, if any, to arrive at the employer contribution. Continuing to follow the aggressive North Carolina contribution policy will keep the North Carolina Retirement Systems among the best funded in the United States.

Appendix A: Valuation Process and Glossary of Actuarial Terms

An actuarial valuation report is produced annually, which contains the contribution for the fiscal year as well as the funded ratio of the Retirement System. The primary purpose of performing an actuarial valuation annually is to replace the estimated activities from the previous valuation, which were based on assumptions, with the actual experience of the Retirement System for the prior year. The experience gain (loss) is the difference between the expected and the actual UAAL of the Retirement System. An experience loss can be thought of as the amount of additional UAAL over and above the amount that was expected from the prior year due to deviation of actual experience from the assumption. Similarly, an experience gain can be thought of as having less UAAL than that which was expected from the prior year assumptions. As an example, if the Retirement System achieves an asset return of 15% when the assumption was a 6.50% return, an actuarial gain is said to have happened, which typically results in lower contributions and higher funded ratio, all else being equal. Alternatively, a return of 2% under the same circumstances would result in an actuarial loss, requiring an increase in contributions and a funded ratio that is lower than anticipated. Experience gains and losses are common within the valuation process. Typically gains and losses offset each other over time. To the extent that does not occur, the reasons for the gains and losses should be understood, and appropriate recommendations should be made by the actuary after an experience review to adjust the assumptions.

The actuarial valuation report will contain histories of key statistics from prior actuarial valuation reports. In particular, a history of the funded ratio of the Retirement System is an important exhibit. Trustees should understand the reason for the trend of the funded ratio of the Retirement System over time. The actuary will discuss the reasons for changes in the funded ratio of the Retirement System with each valuation report. To the extent that there are unexplained changes in funded ratio corrective action should be explored and the actuary will make recommendations as to whether there should be changes in the assumptions, funding policy, or some other portion of the actuarial valuation process.

In addition to historical information, projections of contributions and funded ratio based on current assumptions can sometimes be found in an actuarial valuation report. Projections of contributions can allow the employer to plan their budget accordingly. Surprises in Retirement System contributions to be paid by the employer serve no one. A one-year projection based on “bad” asset returns can provide ample time for the employer to plan, or allow for a discussion of changing the funding policy to occur. Contribution surprises are a primary contributor to employers considering pension reform. It is important to keep the employer apprised of future contribution requirements. A projection of funded ratio can serve the Trustees by illustrating the trend of the funded ratio over time. The funded ratio, under a prudent funding policy, should trend to 100% over a period of less than 30 years. (It is worthwhile to note that while 30 years has served as an industry standard for the longest period over which 100% funding should be achieved, that period is coming under scrutiny by the actuarial community and will likely be shortened.) If a projection of funded ratio does not trend to 100% over time, consideration should be given to fixing the funding policy to achieve this goal. For the North Carolina Retirement Systems, projections are generally performed for the January board meetings.

Appendix A: Valuation Process and Glossary of Actuarial Terms

The actuarial report will contain schedules of information about the census, plan and asset information submitted by Retirement System staff upon which the actuarial valuation is based. It is important that the Board of Trustees review that information and determine if the information is consistent with their understanding of the Retirement System. If after questioning staff, the Board of Trustees is not comfortable that the information provided is correct, the actuary should be notified to determine if the actuarial valuation report should be corrected.

Finally, the valuation report and/or presentation should contain sufficient information in an understandable fashion to allow the Board to take action and adopt the contribution rate for the upcoming year. It should also allow stakeholders to understand key observations over the past year that resulted in contributions increasing (or decreasing) and where contributions are headed. The actuary is always open to making the results understandable. CMC works with the North Carolina Retirement Systems Division to make your reports and presentations understandable and actionable. If something doesn't make sense – speak up!!

Appendix A: Valuation Process and Glossary of Actuarial Terms

Glossary

Note that the first definitions given are the "official" definitions of the term. For some terms there is a second definition, in italics, which is the unofficial definition.

Actuarial Accrued Liability (AAL). The portion of the Present Value of Projected Benefits (PVFB) allocated to past service. Also difference between (i) the actuarial present value of future benefits, and (ii) the present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability." The amount of money that should be in the fund. The funding target.

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, retirement, investment income and salary increases. Demographic ("people") assumptions (rates of mortality, separation, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic ("money") assumptions (salary increases and investment income) consist of an underlying rate appropriate in an inflation-free environment plus a provision for a long-term average rate of inflation. Estimates of future events used to project what we know now- current member data, assets, and benefit provisions –into an estimate of future benefits.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the Present Value of Projected Benefits (PVFB) between the normal costs to be paid in the future and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Methods. The collective term for the Actuarial Cost Method, the Amortization Payment for UAAL Method, and the Asset Valuation Method used to develop the contribution requirements for the Retirement System. *The funding policy*.

Actuarial Equivalent. Benefits whose actuarial present values are equal.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial Value of Assets (AVA). A smoothed value of assets which is used to limit contribution volatility. Also known as the funding value of assets. *Smoothed value of assets.*

Amortization Payment for UAAL. Payment of the unfunded actuarial accrued liability by means of periodic contributions of interest and principal, as opposed to a lump sum payment. The components of the amortization payment for UAAL include:

- Amortization Period Length – Generally amortization periods up to 15 to 20 years (and certainly not longer than 30) are allowed. Similar to a mortgage, the shorter the amortization period, the higher the payment and the faster the UAAL is paid off.
- Amortization payment increases – Future payments can be level dollar, like a mortgage, or as a level percent of pay. Most Retirement Systems amortize UAAL as a level percent of pay which when combined with the employer normal cost that is developed as a level percent of pay can result in contributions that are easier to budget.
- Amortization type – An amortization schedule can be closed or open. A closed amortization schedule is similar to a mortgage – at the end of the amortization period the UAAL is designed to be paid off. An open amortization period is similar to refinancing the UAAL year after year.
- Amortization schedule – UAAL can be amortized over a single amortization period, or it can be amortized over a schedule.

The amortization payment for UAAL can be thought of as the UAAL mortgage payment.

Appendix A: Valuation Process and Glossary of Actuarial Terms

Asset Valuation Method. The components of how the actuarial value of assets is to be developed. LRS uses a five-year smoothing of asset gains and losses, which is the most commonly used method

Experience Gain (Loss). A measure of the difference between actual experience and experience anticipated by a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used. *The experience Gain (Loss) represents how much the actuary missed the mark in a given year.*

Funded Ratio. The percent of the actuarial accrued liabilities covered by the actuarial value of assets. Also known as the funded status. *The ratio of how much money you actually have in the fund to the amount you should have in the fund.*

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." An amortization payment toward the unfunded actuarial accrued liability is paid in addition to the normal cost to arrive at the total contribution in a given year. *The cost of benefits accruing during the year*.

Present Value of Future Normal Cost (PVFNC). The portion of the Present Value of Projected Benefits (PVFB) allocated to future service. *The value in today's dollars of the amount of contribution to be made in the future for benefits accruing for members in the Retirement System as of the valuation date.*

Present Value of Future Benefits (PVFB). The projected future benefit payments of the plan are discounted into today's dollars using an assumed rate of investment return assumption to determine the Present Value of Future Benefits (PVFB) of the Retirement System. The PVFB is the discounted value of the projected benefits promised to all members as of a valuation date, including future pay and service for members which has not yet been earned. *If the Retirement System held assets equal to the PVFB and all the assumptions were realized, there would be sufficient funds to pay off all the benefits to be paid in the future for members in the Retirement System as of the valuation date.*

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability (UAAL). The difference between the actuarial accrued liability (AAL) and actuarial value of assets (AVA). The UAAL is sometimes referred to as "unfunded accrued liability." *Funding shortfall, or prefunded amount if negative.*

Valuation Date. The date that the actuarial valuation calculations are performed as of. *Also known as the "snapshot date".*

Appendix B: Detailed Tabulation of Member Data

Table B-1: The Number and Average Reported Compensation of Active Members Distributed by Age and Service as of December 31, 2020

Age	Years of Service										
	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	Total
Under 25	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0
25 to 29	0	1	0	0	0	0	0	0	0	0	1
	0	20,659	0	0	0	0	0	0	0	0	20,659
30 to 34	1	3	1	0	0	0	0	0	0	0	5
	9,385	20,659	20,659	0	0	0	0	0	0	0	18,404
35 to 39	2	4	4	0	0	0	0	0	0	0	10
	15,150	20,659	20,659	0	0	0	0	0	0	0	19,557
40 to 44	0	7	2	1	0	0	0	0	0	0	10
	0	20,659	22,850	31,771	0	0	0	0	0	0	22,208
45 to 49	1	8	4	1	0	0	0	0	0	0	14
	7,553	20,659	20,659	20,659	0	0	0	0	0	0	19,723
50 to 54	0	9	4	2	3	0	0	0	0	0	18
	0	20,659	20,659	22,850	32,142	0	0	0	0	0	22,816
55 to 59	1	12	2	2	0	1	0	0	0	0	18
	16,216	19,317	20,659	20,659	0	20,659	0	0	0	0	19,518
60 to 64	0	10	6	5	1	0	0	0	0	0	22
	0	20,659	20,659	22,881	20,659	0	0	0	0	0	21,164
65 to 69	1	6	13	4	3	1	0	0	0	0	28
	8,886	20,659	20,659	20,659	22,119	55,107	0	0	0	0	21,625
70 & Over	2	9	13	15	2	2	0	1	0	0	44
	7,268	20,659	20,659	20,951	20,659	20,659	0	20,659	0	0	20,150
Total	8	69	49	30	9	4	0	1	0	0	170
	10,860	20,426	20,748	21,692	24,973	29,271	0	20,659	0	0	20,742

Appendix B: Detailed Tabulation of Member Data

Table B-2: The Number and Reported Compensation of Active Members Distributed by Age as of December 31, 2020

Age	Men		Women	
	Number	Compensation	Number	Compensation
26	1	20,659	0	0
27	0	0	0	0
28	0	0	0	0
29	0	0	0	0
30	2	30,044	0	0
31	0	0	0	0
32	1	20,659	0	0
33	1	20,659	0	0
34	1	20,659	0	0
35	2	41,318	0	0
36	2	41,318	1	15,494
37	0	0	1	20,659
38	2	41,318	1	14,805
39	1	20,659	0	0
40	0	0	0	0
41	3	66,358	1	20,659
42	3	61,977	1	20,659
43	1	20,659	0	0
44	1	31,771	0	0
45	1	20,659	1	20,659
46	4	69,530	0	0
47	2	41,318	0	0
48	2	41,318	0	0
49	2	41,318	2	41,318
50	6	162,783	0	0
51	1	20,659	3	61,977
52	4	82,636	0	0
53	2	41,318	0	0
54	1	20,659	1	20,659
55	3	61,977	1	20,659
56	4	66,531	1	20,659
57	0	0	1	16,216
58	1	20,659	1	20,659
59	5	103,295	1	20,659
60	3	61,977	2	52,430
61	3	61,977	0	0

Table B-2: The Number and Reported Compensation of Active Members Distributed by Age as of December 31, 2020 (continued)

Age	Men		Women	
	Number	Compensation	Number	Compensation
62	2	41,318	2	41,318
63	4	82,636	1	20,659
64	3	61,977	2	41,318
65	5	107,676	2	41,318
66	5	103,295	1	20,659
67	2	41,318	1	20,659
68	2	75,766	3	50,203
69	6	123,954	1	20,659
70	6	123,954	0	0
71	6	128,335	1	20,659
72	4	82,636	1	20,659
73	2	27,143	1	20,659
74	3	61,977	0	0
75	2	41,318	1	20,659
76	2	41,318	3	61,977
77	2	41,318	2	41,318
78	1	20,659	0	0
79	2	28,711	0	0
80	0	0	0	0
81	3	61,977	1	20,659
82	0	0	0	0
83	0	0	0	0
84	0	0	1	20,659
85	0	0	0	0
86	0	0	0	0
87	0	0	0	0
88	0	0	0	0
Total	127	2,653,954	43	872,213

Appendix B: Detailed Tabulation of Member Data

Table B-3: The Number and Reported Compensation of Active Members Distributed by Service as of December 31, 2020

Service	Men		Women	
	Number	Compensation	Number	Compensation
0	4	31,475	4	55,401
1	4	82,636	0	0
2	30	619,769	11	227,249
3	0	0	2	41,318
4	17	335,097	5	103,295
5	2	41,318	0	0
6	13	268,566	4	82,636
7	3	61,977	1	20,659
8	18	376,242	5	103,295
9	3	61,977	0	0
10	16	341,655	2	41,318
11	1	20,659	1	20,659
12	5	107,676	1	31,771
13	0	0	0	0
14	2	45,699	2	41,318
15	1	20,659	0	0
16	4	87,017	2	41,318
18	1	55,107	1	20,659
20	2	75,766	0	0
22	1	20,659	0	0
24	0	0	1	20,659
32	0	0	1	20,659
Total	127	$ 2,653,954	43	$ 872,213

Table B-4: The Number and Deferred Retirement Allowance of Terminated Vested Members Distributed by Age as of December 31, 2020

Age	Men		Women	
	Number	Allowances	Number	Allowances
35	1	8,305	0	0
37	1	4,983	0	0
42	0	0	1	8,433
43	1	8,997	0	0
46	2	17,418	0	0
47	1	4,706	0	0
48	0	0	1	5,217
49	1	14,672	0	0
50	0	0	1	4,983
51	2	9,412	0	0
52	2	11,789	0	0
53	2	11,627	1	4,983
54	1	6,021	1	4,983
55	1	10,234	1	4,983
56	2	13,288	0	0
57	5	35,434	1	8,651
58	4	28,342	0	0
59	1	11,627	0	0
60	3	31,702	0	0
61	1	4,637	2	21,870
62	1	10,218	1	5,191
63	2	16,817	0	0
64	5	42,841	0	0
65	1	11,001	0	0
66	1	6,298	0	0
68	2	15,503	0	0
69	0	0	1	9,343
71	1	6,644	0	0
73	1	6,921	1	14,603
Total	45	349,435	12	93,238

Appendix B: Detailed Tabulation of Member Data

Table B-5: The Number of Accumulated Contributions of Non-Vested Terminated Members Distributed by Age as of December 31, 2020

Age	Men		Women	
	Number	Contributions	Number	Contributions
38	3	11,665	0	0
39	2	4,664	1	6,019
40	1	7,184	0	0
41	1	5,081	0	0
44	1	7,698	0	0
45	1	5,525	0	0
46	1	6,642	0	0
47	2	10,516	0	0
49	4	22,423	0	0
51	2	14,101	0	0
52	1	7,321	0	0
53	3	11,887	0	0
54	2	16,758	0	0
55	1	8,404	0	0
56	1	4,037	2	3,866
57	1	7,716	0	0
58	3	20,728	0	0
60	1	5,128	0	0
61	2	11,595	0	0
62	1	2,146	0	0
63	2	17,829	1	6,366
64	2	18,270	1	1,801
65	1	5,331	1	4,367
66	1	3,191	0	0
67	1	6,571	0	0
68	2	15,046	0	0
69	1	5,525	0	0
70	1	5,525	1	5,976
75	1	3,299	0	0
Total	46	271,807	7	28,395

Appendix B: Detailed Tabulation of Member Data

Table B-6: The Number and Annual Retirement Allowances of Retired Members and Survivors of Deceased Members Distributed by Age as of December 31, 2020

Age	Men		Women	
	Number	Allowances	Number	Allowances
41			1	28,943
50	1	10,333		
53			2	15,118
58			3	11,912
60	1	4,236		
61			1	12,059
62	1	4,236	1	11,720
63	2	14,573	2	31,738
64	2	9,658	1	1,923
65	4	29,674		
66	1	14,725	1	7,240
67	5	38,757		
68	3	9,883	3	11,116
69	3	21,271	5	26,139
70	4	41,156	1	4,044
71	5	37,302	8	41,964
72	11	93,585	2	27,342
73	5	50,571	6	37,551
74	7	74,988	6	48,693
75	10	87,216	6	42,571
76	8	67,710	6	32,283
77	7	55,443	6	50,505
78	10	70,732	5	28,101
79	9	56,047	2	9,885
80	5	30,048	3	16,526
81	3	33,164	4	37,297
82	7	54,230	4	38,093
83	4	34,418	4	27,780

Table B-6: The Number and Annual Retirement Allowances of Retired Members and Survivors of Deceased Members Distributed by Age as of December 31, 2020 (continued)

Age	Men		Women	
	Number	Allowances	Number	Allowances
84	12	119,832	4	32,259
85	6	56,506	3	20,551
86	7	74,299	3	21,021
87	3	30,915	4	26,117
88	7	44,104	2	27,853
89	1	10,657	5	26,827
90	3	44,014	3	39,740
91	2	29,337	2	14,164
92	2	1,907	2	4,726
93	1	3,652	2	9,652
94	1	3,869	1	763
95	2	14,631		
96	1	23,886	2	12,036
97	1	10,188		
98	1	644	1	2,347
100			1	8,490
Total	168	1,412,393	118	847,089

Table B-7: The Number and Annual Retirement Allowances of Retired Members and Survivors of Deceased Members Distributed by Annuity Type as of December 31, 2020

Annuity Type	Men		Women	
	Number	Allowances	Number	Allowances
Maximum	71	657,892	46	368,898
Option 2	86	640,606	8	49,152
Option 3	9	89,931		
Survivors of Deceased Members	2	23,964	64	429,039
Total	168	1,412,393	118	847,089

All members of the General Assembly are eligible for membership.

"Compensation" means salary and expense allowance paid for service as a legislator in the General Assembly, exclusive of travel and per diem. "Highest annual compensation" means the 12 consecutive calendar months of compensation during a member's final legislative term for the highest position that a member held as a member of the General Assembly. "Creditable service" includes all service rendered as a member of the General Assembly.

Benefits:

Service Retirement Allowance

Conditions for Allowance	A service retirement allowance is payable to any member who retires from service and: (a) has attained age 50 and completed 20 or more years of creditable service; or (b) has attained age 60 and completed five or more years of creditable service. (c) Members retiring on or after September 1, 2005 are not entitled to a retirement allowance from this system while employed in a contributing position in the Teachers' and State Employees' Retirement System or the Consolidated Judicial Retirement System
Unreduced Allowance	An unreduced annual service retirement allowance is payable to a member who has attained age 65 and completed five years of creditable service. The Service Retirement Allowance is equal to 4.02% of a member's highest annual compensation multiplied by the number of years of creditable service.
Reduced Allowance	A reduced annual service retirement allowance is payable to a member who retires from service after attaining age 60 and completing five years of creditable service. The reduced amount is an allowance as computed above reduced by 1/4% for each month that the member's retirement date precedes the date upon which the member would have attained age 65 had he remained in service. OR A reduced annual service retirement allowance is payable to a member who retires from service after attaining age 50 and completing 20 years of creditable service. The reduced amount is an allowance as computed above reduced by 5/12 of 1% for each month that the member's retirement date precedes the date upon which the member would have attained age 60, plus 1/4% for each month that the date upon which the member would have attained age 60 precedes the date upon which the member would have attained age 65.

Maximum Amount	The maximum annual service retirement allowance (on an unreduced basis) is 75% of the member's highest annual compensation.
Disability Retirement Allowance	
Condition for Allowance	Any member who becomes permanently and totally disabled prior to the attainment of age 60 and who has completed at least five years of creditable service may be retired by the Board of Trustees on a disability retirement allowance.
Amount of Allowance	The disability retirement allowance is computed as an unreduced service retirement allowance based on the number of years of creditable service the member would have had had he or she remained in service to age 60.
Deferred Allowance	Any member who separates from service after completing five years of creditable service and who leaves his or her total accumulated contributions in the system may receive a deferred allowance, beginning at age 50, computed in the same way as a service retirement allowance on the basis of his creditable service and compensation to the date of separation.
Return of Contributions	Upon the withdrawal of a member without a retirement allowance and upon his request, the member's contributions are returned, together with accumulated regular interest. Upon the death of a member before retirement, the member's contributions, together with the full accumulated regular interest thereon, are paid to the estate or to person(s) designated by the member unless the designated beneficiary, if eligible, elects the survivor's alternate benefit described below. The current interest rate on member contributions is 4%.
Survivor's Alternate Benefit	Upon the death of a member in service who has met conditions (a) or (b) below, the designated beneficiary may elect to receive a benefit equal to that which would have been payable under the provisions of Option 2 had the member retired on the first day of the month following death and elected such option, in lieu of the member's accumulated contributions, provided the member had not instructed the Board of Trustees in writing that he or she did not wish the alternate benefit to apply (a) attainment of age 60 and completion of five years of creditable service; (b) completion of 12 years of creditable service.

Lump Sum Death Benefit	Upon the death of a member in active service after completing one year of creditable service, a lump sum payment equal to the deceased member's highest annual compensation to a maximum of $15,000 is made to his designated beneficiary or estate. This benefit is payable from the Teachers' and State Employees' Retirement System Death Benefit Fund.
Death After Retirement	Upon the death of a beneficiary who did not retire under an effective election of Option 2 or Option 3, an amount equal to the excess if any, of his accumulated contributions at retirement over the retirement allowance payments received is paid to a designated person or to the beneficiary's estate. Upon the death of the survivor of a beneficiary who retired under an effective election of Option 2 or Option 3, an amount equal to the excess, if any, of the beneficiary's accumulated contributions at retirement over the total retirement allowance payments received is paid to such other person designated by the beneficiary or to the beneficiary's estate.
Optional Arrangements at Retirement	In lieu of the full retirement allowance, any member may elect to receive a reduced retirement allowance equal in value to the full allowance, with the provision that: Option 2 - At the death of the member his allowance shall be continued throughout the life of such other person as the member shall have designated at the time of retirement, or Option 3 - At the death of the member one-half of the allowance shall be continued throughout the life of such other person as the member shall have designated at the time of retirement
Post-Retirement Increases in Allowance	Future increases in allowances may be granted at the discretion of the State.

Contributions	
Member Contributions	Each member contributes 7% of annual compensation.
Employer Contributions	The State makes annual contributions consisting of a normal contribution and an accrued liability contribution. The normal contribution covers the liability on account of current service and is determined by the actuary after each valuation. The accrued liability contribution covers the liability on account of service rendered before the establishment of the retirement system and the liability on account of increases in benefits for service rendered prior to the effective date of any amendment.
Changes Since Prior Valuation	None

Appendix D: Actuarial Assumptions and Methods

Assumptions are based on the experience investigation prepared as of December 31, 2019 and adopted by the Board of Trustees on January 28, 2021 for use beginning with the December 31, 2020 annual actuarial valuation.

Interest Rate: 6.50% per annum, compounded annually.

Price Inflation: 2.50% per annum, compounded annually.

Real Wage Growth: 0.75% per annum.

Annual Rate of Salary Increase: 3.25%.

Separations Before Retirement: Representative values of the assumed annual rates of separation are as follows:

Annual Rate of				
Age	Disability	Base Mortality*		Withdrawal
		Male	Female	
25	.0001	.00028	.00009	.100
30	.0004	.00036	.00015	.100
35	.0010	.00047	.00023	.100
40	.0029	.00066	.00036	.100
45	.0049	.00098	.00056	.100
50	.0084	.00149	.00083	.100
55	.0144	.00219	.00123	.100
60		.00319	.00186	.100
64		.00433	.00269	.100

** Base mortality rates as of 2010

Service Retirements: Representative values of the assumed annual rates of separation for members with at least 5 years of service are as follows:

Annual Rates of Retirement	
Age	Rate
60	0.100
65	0.100
70	0.130
75	0.150
80	1.000

Appendix D: Actuarial Assumptions and Methods

Post-Retirement Mortality: Representative values of the assumed post-retirement mortality rates as of 2010 prior to any mortality improvements are as follows:

Annual Rate of Death after Retirement (Retired Members and Survivors of Deceased Members)						
	Retirees (Healthy at Retirement)		Survivors of Deceased Members		Retirees (Disabled at Retirement)	
Age	Male	Female	Male	Female	Male	Female
55	.00387	.00275	.00824	.00446	.02114	.01742
60	.00552	.00371	.01012	.00622	.02503	.01956
65	.00820	.00595	.01384	.00899	.03044	.02256
70	.01381	.01032	.02129	.01353	.03901	.02862
75	.02437	.01827	.03382	.02151	.05192	.04003
80	.04391	.03260	.05360	.03573	.07348	.06007

Deaths After Retirement (Healthy at Retirement): Mortality rates are based on the Pub-2010 General Retirees Above-Median Amount-Weighted Mortality.

Deaths After Retirement (Disabled Members at Retirement): Mortality rates are based on the Pub-2010 General Disabled Retirees Amount-Weighted Mortality.

Deaths After Retirement (Survivors of Deceased Members): Mortality rates are based on the Pub-2010 General Contingent Survivors Amount-Weighted Mortality.

Deaths Prior to Retirement: Mortality rates are based on the Pub-2010 General Employees Amount-Weighted Mortality.

Mortality Projection: All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

Marriage Assumption: 100% married with male spouses three years older than female spouses.

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.

Liability for Inactive Members: The liability for members who terminated prior to five years of creditable service is estimated to be 100% of the member's accumulated contributions. The liability for members who terminated after completing five years of creditable service is estimated based on the member's current age and the service and reported compensation at termination of employment.

Timing of Assumptions: All withdrawals, deaths, disabilities, retirements and salary increases 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: 1.00% of payroll, added to the normal cost.

Reported Compensation: Calendar year compensation as furnished by the system's office.

Valuation Compensation: Reported compensation adjusted to reflect the assumed rate of pay as of the valuation date and the probability of decrement during the year.

Appendix D: Actuarial Assumptions and Methods

Compensation Limits: No compensation limits are applied.

Actuarial Cost Method: Entry age normal cost method. Entry age is established on an individual basis.

Amortization Period: 12-year closed, level-dollar amount. The first amortization base was created for the contribution payable for fiscal year ending 2018.

Asset Valuation Method: Actuarial value, as developed in Table 8. The 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 Actuarial Value of Assets was reset to the market value of assets at December 31, 2014. 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 Since Previous Valuation:

The assumptions used for the December 31, 2020 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. Material assumptions and methods that were changed since the prior valuation:

- The investment return assumption was lowered from 7.00% to 6.50%
- The inflation assumption was lowered from 3.00% to 2.50%
- The real wage growth assumption was increased from 0.50% to 0.75%
- The payroll growth assumption was lowered from 3.50% to 3.25%
- The withdrawal rates, retirement rates, mortality assumption and annual rate of salary increase assumption were changed
- The marriage assumption was changed from assuming male spouses are four years older than female spouses to assume that male spouses are three years older than female spouses

Appendix E: GASB 67 Fiduciary Net Position Projection

Table E-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
2021	30,703	267	827	2,453	38	1,951	31,257
2022	31,257	232	723	2,509	33	1,981	31,650
2023	31,650	217	562	2,537	31	2,000	31,862
2024	31,862	205	408	2,550	29	2,008	31,904
2025	31,904	187	283	2,601	27	2,005	31,750
2026	31,750	170	169	2,624	24	1,990	31,430
2027	31,430	155	68	2,625	22	1,965	30,971
2028	30,971	143	19	2,636	20	1,933	30,411
2029	30,411	132	-	2,658	19	1,895	29,761
2030	29,761	125	-	2,655	18	1,853	29,065
2031	29,065	116	-	2,637	17	1,808	28,335
2032	28,335	107	-	2,614	15	1,761	27,575
2033	27,575	100	-	2,584	14	1,712	26,789
2034	26,789	94	-	2,543	13	1,663	25,990
2035	25,990	88	-	2,498	13	1,612	25,178
2036	25,178	83	-	2,435	12	1,561	24,376
2037	24,376	77	-	2,386	11	1,510	23,565
2038	23,565	72	-	2,313	10	1,460	22,774
2039	22,774	68	-	2,244	10	1,410	21,998
2040	21,998	65	-	2,189	9	1,362	21,227
2041	21,227	61	-	2,107	9	1,314	20,486
2042	20,486	57	-	2,024	8	1,268	19,780
2043	19,780	54	-	1,937	8	1,225	19,114
2044	19,114	52	-	1,872	7	1,184	18,471
2045	18,471	48	-	1,807	7	1,144	17,850
2046	17,850	44	-	1,712	6	1,107	17,282
2047	17,282	39	-	1,627	6	1,072	16,760
2048	16,760	36	-	1,558	5	1,041	16,273
2049	16,273	33	-	1,482	5	1,011	15,830
2050	15,830	30	-	1,418	4	984	15,423
2051	15,423	27	-	1,362	4	960	15,044
2052	15,044	24	-	1,289	3	937	14,713
2053	14,713	22	-	1,219	3	918	14,431
2054	14,431	19	-	1,151	3	902	14,198
2055	14,198	16	-	1,082	2	889	14,019
2056	14,019	14	-	1,030	2	879	13,879
2057	13,879	12	-	966	2	872	13,795
2058	13,795	10	-	904	1	868	13,768
2059	13,768	8	-	846	1	868	13,797
2060	13,797	7	-	799	1	871	13,875
2061	13,875	5	-	745	1	878	14,012
2062	14,012	4	-	694	1	889	14,210
2063	14,210	3	-	647	-	903	14,469
2064	14,469	2	-	600	-	921	14,793
2065	14,793	2	-	557	-	944	15,182
2066	15,182	2	-	515	-	970	15,639
2067	15,639	1	-	475	-	1,001	16,167
2068	16,167	1	-	437	-	1,037	16,768
2069	16,768	-	-	401	-	1,077	17,444
2070	17,444	-	-	366	-	1,122	18,200

Table E-1: Projection of Fiduciary Net Positions (in thousands) (continued)

Calendar Year	Beginning Fiduciary Position	Member Contributions	Employer Contributions	Benefit Payments	Administrative Expenses	Investment Earnings	Ending Fiduciary Position
2071	18,200	-	-	335	-	1,172	19,037
2072	19,037		-	304	-	1,228	19,961
2073	19,961		-	275	-	1,289	20,975
2074	20,975		-	248	-	1,355	22,082
2075	22,082		-	224	-	1,428	23,287
2076	23,287		-	200	-	1,507	24,594
2077	24,594		-	178	-	1,593	26,008
2078	26,008		-	158	-	1,685	27,535
2079	27,535		-	140	-	1,785	29,181
2080	29,181		-	123	-	1,893	30,951
2081	30,951		-	107	-	2,008	32,853
2082	32,853		-	92	-	2,132	34,893
2083	34,893		-	79	-	2,266	37,079
2084	37,079		-	68	-	2,408	39,420
2085	39,420		-	57	-	2,560	41,923
2086	41,923		-	48	-	2,723	44,598
2087	44,598		-	40	-	2,898	47,456
2088	47,456		-	33	-	3,084	50,507
2089	50,507		-	27	-	3,282	53,762
2090	53,762		-	22	-	3,494	57,234
2091	57,234		-	17	-	3,720	60,937
2092	60,937		-	14	-	3,960	64,884
2093	64,884		-	11	-	4,217	69,090
2094	69,090		-	8	-	4,491	73,573
2095	73,573		-	6	-	4,782	78,348
2096	78,348		-	5	-	5,092	83,436
2097	83,436		-	3	-	5,423	88,856
2098	88,856		-	2	-	5,776	94,629
2099	94,629		-	2	-	6,151	100,778
2100	100,778		-	1	-	6,551	107,328
2101	107,328		-	1	-	6,976	114,303
2102	114,303		-	1	-	7,430	121,732
2103	121,732		-	0	-	7,913	129,645
2104	129,645		-	0	-	8,427	138,071
2105	138,071		-	0	-	8,975	147,046
2106	147,046		-	0	-	9,558	156,604
2107	156,604		-	0	-	10,179	166,783
2108	166,783		-	0	-	10,841	177,624
2109	177,624		-	0	-	11,546	189,169
2110	189,169		-	0	-	12,296	201,465
2111	201,465		-	0	-	13,095	214,561
2112	214,561		-	0	-	13,946	228,507
2113	228,507		-	0	-	14,853	243,360
2114	243,360		-	0	-	15,818	259,178
2115	259,178		-	0	-	16,847	276,025
2116	276,025		-	0	-	17,942	293,967
2117	293,967		-	0	-	19,108	313,074
2118	313,074		-	-	-	20,350	333,424
2119	333,424		-	-	-	21,673	355,097
2120	355,097		-	-	-	23,081	378,178

Appendix E: GASB 67 Fiduciary Net Position Projection

Table E-2: Actuarial Present Value 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%	Present Value of Benefit Payments: Unfunded Payments at 2.16%	Present Value of Benefit Payments: Using Single Discount Rate of 6.50%
2021	30,703	2,453	2,453	-	2,377	-	2,377
2022	31,257	2,509	2,509	-	2,283	-	2,283
2023	31,650	2,537	2,537	-	2,167	-	2,167
2024	31,862	2,550	2,550	-	2,046	-	2,046
2025	31,904	2,601	2,601	-	1,959	-	1,959
2026	31,750	2,624	2,624	-	1,856	-	1,856
2027	31,430	2,625	2,625	-	1,744	-	1,744
2028	30,971	2,636	2,636	-	1,644	-	1,644
2029	30,411	2,658	2,658	-	1,557	-	1,557
2030	29,761	2,655	2,655	-	1,460	-	1,460
2031	29,065	2,637	2,637	-	1,361	-	1,361
2032	28,335	2,614	2,614	-	1,267	-	1,267
2033	27,575	2,584	2,584	-	1,176	-	1,176
2034	26,789	2,543	2,543	-	1,087	-	1,087
2035	25,990	2,498	2,498	-	1,002	-	1,002
2036	25,178	2,435	2,435	-	917	-	917
2037	24,376	2,386	2,386	-	844	-	844
2038	23,565	2,313	2,313	-	768	-	768
2039	22,774	2,244	2,244	-	700	-	700
2040	21,998	2,189	2,189	-	641	-	641
2041	21,227	2,107	2,107	-	579	-	579
2042	20,486	2,024	2,024	-	523	-	523
2043	19,780	1,937	1,937	-	470	-	470
2044	19,114	1,872	1,872	-	426	-	426
2045	18,471	1,807	1,807	-	386	-	386
2046	17,850	1,712	1,712	-	344	-	344
2047	17,282	1,627	1,627	-	307	-	307
2048	16,760	1,558	1,558	-	276	-	276
2049	16,273	1,482	1,482	-	246	-	246
2050	15,830	1,418	1,418	-	221	-	221
2051	15,423	1,362	1,362	-	200	-	200
2052	15,044	1,289	1,289	-	177	-	177
2053	14,713	1,219	1,219	-	157	-	157
2054	14,431	1,151	1,151	-	140	-	140
2055	14,198	1,082	1,082	-	123	-	123
2056	14,019	1,030	1,030	-	110	-	110
2057	13,879	966	966	-	97	-	97
2058	13,795	904	904	-	85	-	85
2059	13,768	846	846	-	75	-	75
2060	13,797	799	799	-	66	-	66
2061	13,875	745	745	-	58	-	58
2062	14,012	694	694	-	51	-	51
2063	14,210	647	647	-	44	-	44
2064	14,469	600	600	-	39	-	39
2065	14,793	557	557	-	34	-	34
2066	15,182	515	515	-	29	-	29
2067	15,639	475	475	-	25	-	25
2068	16,167	437	437	-	22	-	22
2069	16,768	401	401	-	19	-	19
2070	17,444	366	366	-	16	-	16

Appendix E: GASB 67 Fiduciary Net Position Projection

Table E-2: Actuarial Present Value of Projected Benefit Payments (in thousands) (continued))

Calendar Year	Beginning Fiduciary Position	Benefit Payments	Funded Benefit Payments	Unfunded Benefit Payments	Present Value of Benefit Payments: Funded Payments at 6.50%	Present Value of Benefit Payments: Unfunded Payments at 2.16%	Present Value of Benefit Payments: Using Single Discount Rate of 6.50%
2071	18,200	335	335	-	14	-	14
2072	19,037	304	304	-	12	-	12
2073	19,961	275	275	-	10	-	10
2074	20,975	248	248	-	9	-	9
2075	22,082	224	224	-	7	-	7
2076	23,287	200	200	-	6	-	6
2077	24,594	178	178	-	5	-	5
2078	26,008	158	158	-	4	-	4
2079	27,535	140	140	-	4	-	4
2080	29,181	123	123	-	3	-	3
2081	30,951	107	107	-	2	-	2
2082	32,853	92	92	-	2	-	2
2083	34,893	79	79	-	2	-	2
2084	37,079	68	68	-	1	-	1
2085	39,420	57	57	-	1	-	1
2086	41,923	48	48	-	1	-	1
2087	44,598	40	40	-	1	-	1
2088	47,456	33	33	-	-	-	-
2089	50,507	27	27	-	-	-	-
2090	53,762	22	22	-	-	-	-
2091	57,234	17	17	-	-	-	-
2092	60,937	14	14	-	-	-	-
2093	64,884	11	11	-	-	-	-
2094	69,090	8	8	-	-	-	-
2095	73,573	6	6	-	-	-	-
2096	78,348	5	5	-	-	-	-
2097	83,436	3	3	-	-	-	-
2098	88,856	2	2	-	-	-	-
2099	94,629	2	2	-	-	-	-
2100	100,778	1	1	-	-	-	-
2101	107,328	1	1	-	-	-	-
2102	114,303	1	1	-	-	-	-
2103	121,732	0	0	-	-	-	-
2104	129,645	0	0	-	-	-	-
2105	138,071	0	0	-	-	-	-
2106	147,046	0	0	-	-	-	-
2107	156,604	0	0	-	-	-	-
2108	166,783	0	0	-	-	-	-
2109	177,624	0	0	-	-	-	-
2110	189,169	0	0	-	-	-	-
2111	201,465	0	0	-	-	-	-
2112	214,561	0	0	-	-	-	-
2113	228,507	0	0	-	-	-	-
2114	243,360	0	0	-	-	-	-
2115	259,178	0	0	-	-	-	-
2116	276,025	0	0	-	-	-	-
2117	293,967	0	0	-	-	-	-
2118	313,074	-	-	-	-	-	-
2119	333,424	-	-	-	-	-	-
2120	355,097	-	-	-	-	-	-

Appendix F: Data for Section 2 Graphs

The tables below provide the numbers associated with the graphs in Section 2 of this report.

Graph 1: Market Value of Assets and Asset Returns

	Market Value of Assets	Asset Return
2016	26,605,157	6.13%
2017	28,554,239	13.46%
2018	26,543,448	-1.30%
2019	28,800,055	14.58%
2020	30,702,732	10.88%

Graph 3: Actuarial Value and Market Value of Assets

	Actuarial Value of Assets	Market Value of Assets
2016	27,976,706	26,605,157
2017	28,193,658	28,554,239
2018	27,909,801	26,543,448
2019	28,028,978	28,800,055
2020	29,252,976	30,702,732

Graph 4: Asset Returns

	Actuarial Value Value of Assets	Market Value Asset Return
2016	5.25%	6.13%
2017	6.42%	13.46%
2018	5.00%	-1.30%
2019	5.97%	14.58%
2020	8.71%	10.88%

Appendix F: Data for Section 2 Graphs

Graph 5: Actuarial Accrued Liability

Fiscal Year Ending	Active	Deferred	Retired	Total
2016	7,081,370	2,502,807	19,595,683	29,179,860
2017	7,357,199	2,556,411	20,483,773	30,397,383
2018	8,428,752	2,404,874	19,494,673	30,328,299
2019	7,514,236	2,877,651	19,877,116	30,269,003
2020	7,021,813	3,501,026	19,375,257	29,898,096

Graph 6: Actuarial Accrued Liability and Actuarial Value of Assets

	Actuarial Accrued Liability	Actuarial Value of Assets
2016	29,179,860	27,976,706
2017	30,397,383	28,193,658
2018	30,328,299	27,909,801
2019	30,269,003	28,028,978
2020	29,898,096	29,252,976

Graph 7: Funded Ratios

	Funded Ratio (Actuarial Basis)	Funded Ratio (Market Value Basis)
2016	95.9%	91.2%
2017	92.8%	94.0%
2018	92.0%	87.5%
2019	92.6%	95.1%
2020	97.8%	102.7%