

**RETIREMENT SYSTEMS DIVISION****STEVEN C. TOOLE**  
EXECUTIVE DIRECTOR

April 20, 2017

TO: TSERS/LGERS Boards of Trustees

FM: Steve Toole, Executive Director

RE: Proposed Reduction in Investment Return Assumption for December 31, 2016 Valuations

In the October 2015 Board meeting, Conduent presented Experience Review results for the North Carolina Retirement Systems. The experience review summarized Buck's recommendations for assumptions to be used for valuations beginning with December 31, 2015. As part of the review, Conduent discussed the investment return assumption. You may recall that there is no singular assumption that should be considered appropriate but rather a range of assumptions. Conduent presented alternatives of 7.25% and 7.00%, but other returns could be considered.

Staff is proposing that the investment return assumption for the December 31, 2016 valuations be reduced from 7.25% to 7.20%. In addition, Staff will review alternative returns that may be used for the December 31, 2017 valuations. Conduent agrees that the 7.20% return is reasonable, and looks forward to continuing the discussion. This change would require a vote of each Board.

Six Retirement Systems under the North Carolina Retirement Systems utilize a discount rate of 7.25%:

- North Carolina Teachers' and State Employees' Retirement System (TSERS)
- North Carolina Local Governmental Employees' Retirement System (LGERS)
- North Carolina Consolidated Judicial Retirement System (CJRS)
- North Carolina Legislative Retirement System (LRS)
- North Carolina National Guard Pension Fund
- North Carolina Firefighters' and Rescue Squad Workers' Pension Fund

**Impact on TSERS**

Projections of employer contribution rates and funded status were presented at the January 2017 Board meeting. The January 2017 projections reflected:

- December 31, 2015 valuation results
- December 31, 2015 valuation assumptions and methods to project future valuation results, including
  - An investment return assumption of 7.25%, and
  - Estimated asset returns of 6.00% during calendar year 2016.

Additional details on the basis of these projections are outlined in the January 2017 Board Presentation ("Teachers' and State Employees' Retirement Systems of North Carolina Employer Contribution Rate Projections").

The January 2017 projections resulted in the following projected December 31, 2016, valuation results:

- Projected employer contribution rate for fiscal year ending 2019 of 10.93%, and
- Projected funded ratio of TSERS as of December 31, 2016 of 91.6%.

Lowering the investment return assumption from 7.25% to 7.20%, would change the projection of December 31, 2016 valuation results as follows:

- Projected employer contribution rate for fiscal year ending 2019 of 11.42%, and
- Projected funded ratio of TSERS as of December 31, 2016 of 91.1%.

<b>Summary of Impact on TSERS</b>	<b>FY 2018-19 Employer Contribution Rate</b>	<b>12/31/2016 Funded Ratio</b>
January 2017 projection at 7.25% interest rate assumption	10.93% of pay	91.6%
Projection at 7.20% interest rate assumption	11.42% of pay	91.1%

#### **Impact on LGERS**

Projections of employer contribution rates and funded status were presented at the January 2017 Board meeting. The January 2017 projections reflected:

- An investment return assumption of 7.25%, and
- Estimated asset returns of 6.00% during calendar year 2016.

Additional details on the basis of these projections are outlined in the January 2017 Board Presentation (“North Carolina Local Governmental Employees’ Retirement System Contribution Rate Projections”).

The January 2017 projections resulted in the following projected December 31, 2016, valuation results, reflecting the Employer Contribution Rate Stabilization Policy (ECRSP) for LGERS:

- Projected employer contribution rate for fiscal year ending 2019 of 7.75% for General Employees and Firefighters, and 8.50% for Law Enforcement Officers, and
- Projected funded ratio of LGERS of 95.9% as of December 31, 2016.

<b>Summary of Impact on LGERS</b>	<b>FY 2018-19 Employer Contribution Rate</b>	<b>12/31/2016 Funded Ratio</b>
January 2017 projection at 7.25% interest rate assumption	7.75% of pay General/Firefighters  8.50% of pay Law Enforcement	95.9%
Projection at 7.20% interest rate assumption	7.75% of pay General/Firefighters  8.50% of pay Law Enforcement	95.4%

The ECRSP for LGERS specifies increases of 0.25% in the employer contribution rate each year, unless a specific threshold is exceeded. Decreasing the investment return assumption from 7.25% to 7.20% as of December 31, 2016, does not result in increases in the underlying actuarially determined employer contribution (ADEC) that would exceed such threshold. As a result, the projected employer contribution rates reflecting the ECRSP policy of 7.75% and 8.50% for December 31, 2016 are unaffected by a decrease in the discount rate from 7.25% to 7.20%. The projected funded ratio of LGERS as of December 31, 2016, would decrease to about 95.4%