Teachers' and State Employees' Retirement System Board of Trustees

State Contribution Rate Stabilization Policy for the North Carolina National Guard Pension Fund

I. Policy Purpose

This policy provides for continued operation of a State Contribution Rate Stabilization Policy (SCRSP) for the North Carolina National Guard Pension Fund (NCNGPF). On January 31, 2019, the Board of Trustees (Board) of the Teachers' and State Employees' Retirement System (TSERS), which administers the provisions of the NCNGPF as set forth in G.S. 127A-40, directed staff of the Retirement Systems Division of the Department of State Treasurer (RSD) to develop a proposed SCRSP for the NCNGPF, "which would include both a multi-year contribution pattern and conditions under which the Board would recommend benefit improvements." The SCRSP was adopted by the Board on April 25, 2019.

The 2019 version of the SCRSP provided that it would be "effective through the fiscal year ending June 30, 2022." Having adopted the Experience Study of the 2015-2019 calendar years on January 28, 2021, which will be effective for plan funding purposes for fiscal years ending 2023 and later, the Board wishes to institute an SCRSP effective for contributions during the five fiscal years ending 2023 through 2027.

II. Policy Objectives

This policy establishes how the Board will develop an annual appropriation amount to recommend to the General Assembly to fund the NCNGPF, and the conditions under which the Board will consider or recommend benefit improvements for the NCNGPF.

III. Definitions

<u>Actuarial Measurement:</u> The result of an analysis by the Board's consulting actuary, presented to the Board in a public report, based on actuarial assumptions and methods adopted by the Board for purposes of funding of the NCNGPF, without regard to any "direct rate smoothing" of changes in the Board's assumptions and methods.

<u>Benefit Improvement Funding Requirement:</u> An amount equal to (1) the Actuarial Measurement of the full increase in the NCNGPF actuarial accrued liability and normal cost expected from a proposed benefit increase, <u>plus</u> (2) the NCNGPF actuarial accrued liability according to the most recently accepted valuation report of the consulting actuary, <u>less</u> (3) the NCNGPF actuarial value of assets according to the most recently accepted valuation report of the consulting actuary, <u>plus</u> (4) the Underlying ADEC for the upcoming fiscal year, <u>less</u> (5) the Policy Contribution Without Benefit Increase for the upcoming fiscal year. However, the Benefit Improvement Funding Requirement will be no less than $0, and no greater than the amount in part (1) of the definition prior to adjustment for parts (2) through (5). The intention of parts (2)

through (5) is to provide for a possible reduction in the Benefit Improvement Funding Requirement if there is a funding surplus (parts (2) and (3)) or if the Board's appropriation recommendation under this policy will exceed the Underlying ADEC (parts (4) and (5)).

Funded Percentage: The NCNGPF's actuarial value of assets, divided by its actuarial accrued liability, according to the most recently accepted valuation report of the consulting actuary.

Policy Contribution Without Benefit Increase: The State appropriation to be recommended by the Board under this policy, prior to any increase for the cost of benefit improvements that the Board may recommend under Sections V or VI of this policy.

Underlying Actuarially Determined Employer Contribution (Underlying ADEC): The amount developed annually by the Board's consulting actuary, representing a funding requirement according to the Board's actuarial assumptions and methods before applying this policy.

IV. Annual Appropriation Recommendation

This policy calls for continuing the pattern of annual recommended appropriations under the formula used for the fiscal years ending 2020 through 2022, as long as the Funded Percentage is less than 100%. This may result in an appropriation recommendation exceeding the Underlying ADEC. Accordingly, for each year that this policy is in effect:

- **If the Funded Percentage is greater than or equal to 100%,** the Policy Contribution Without Benefit Increase recommended by the Board for an upcoming fiscal year will be equal to the Underlying ADEC.

- **If the Funded Percentage is less than 100%,** the Policy Contribution Without Benefit Increase recommended by the Board for an upcoming fiscal year will be the greater of (1) the appropriation recommended by the Board for the current fiscal year, or (2) the Underlying ADEC for the upcoming fiscal year plus $2 million[1]. In developing Parts (1) and (2) of this definition, this policy provides the following guidance:

    - In Part (1), the appropriation that was recommended for the current fiscal year should exclude any portion of the Board's recommendation specifically intended to cover a one-year payment of the costs of a benefit improvement, as described below under "Further Increase to Fund Benefit Improvement."
    - In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (increased) to include the cost of any benefit improvements enacted by the General Assembly, for which the General Assembly did not appropriate funding during the current fiscal year at least equal to the Benefit Improvement Funding Requirement. This increase should be equal to the Benefit Improvement Funding Requirement, reduced for any funding appropriated by the

[1] The amount of $2 million corresponds to more than one percent of the Actuarial Accrued Liability that is expected to exist during the period of this policy. Therefore, the appropriation amount recommended under this policy, if enacted, will improve the Funded Percentage by at least one percentage point in each year while the Funded Percentage remains less than 100%, relative to the Funded Percentage if only the Underlying ADEC had been contributed.

General Assembly during the current fiscal year toward the enacted benefit improvement.

- In Part (1), the appropriation that was recommended for the current fiscal year should be adjusted (either increased or reduced) for the effect of any changes in actuarial assumptions or methods adopted by the Board that were not incorporated in the Board's recommendation for the current fiscal year. The adjustment should be equal to the Actuarial Measurement of the effect on the Underlying ADEC, except that it may include direct rate smoothing to the extent the Board adopted direct rate smoothing of the relevant assumption or method change for NCNGPF funding purposes.
- In Part (2), the Underlying ADEC for the upcoming fiscal year should exclude any portion attributable to a one-year payment of costs of a benefit improvement.

Further Increase to Fund Benefit Improvement: The appropriation recommended by the Board for the upcoming fiscal year will be further adjusted if the Board recommends to the General Assembly a benefit improvement as described in Sections V or VI of this policy. Such adjustment will be at least equal to the Benefit Improvement Funding Requirement. Under such a recommendation, the full actuarial cost of any benefit improvement would be funded within one year through the upcoming year's appropriation, rather than amortized over multiple years.

The Policy Contribution Without Benefit Increase, added to the Benefit Improvement Funding Requirement associated with any benefit improvement enacted by the General Assembly effective for a fiscal year, will be deemed by the Board to be the annual actuarially determined employer contribution (funding ADEC) for the NCNGPF.

V. Recommended Increases to Benefit at Retirement

As of April 2021, the NCNGPF provides a pension equal to $105 per month for members with 20 years of creditable service, plus $10.50 per month for each additional year of such service, provided that the total pension shall not exceed $210 per month. This section of the policy describes the conditions under which the Board may consider a recommendation of an improvement to the benefit formula, meaning the calculation of the initial pension benefit for members who have not yet retired.

Under this policy, the Board may consider a recommendation to the General Assembly that the benefit amounts be improved, provided that both of the following conditions are met:

1. The increase in the benefit amount is not greater than the most recent June-over-June one-year change in the Consumer Price Index for all Urban Consumers (CPI-U), U.S. City Average, all items, not seasonally adjusted, standard reference base, as published by the Bureau of Labor Statistics of the U.S. Department of Labor.

2. The Benefit Improvement Funding Requirement is included in the appropriation recommended by the Board for the upcoming fiscal year.

VI. Recommended Increases for Cost-of-Living Adjustments (COLAs)

This section of the policy describes the conditions under which the Board may consider a recommendation of a COLA, meaning an increase to existing retirees' pension amounts, whether that be a permanent, ongoing increase to each retiree's pension or a one-time supplemental payment.

- **If the Funded Percentage is greater than or equal to 90%,** any recommendations of the Board regarding (1) whether a COLA increase should be granted, (2) the percentage increase in retirement benefits due to the COLA, and (3) the term of amortization will be the same as the Board's recommendations taking effect at the same time regarding TSERS. If it is not administratively feasible for RSD staff to implement the same adjustment for the NCNGPF as for TSERS, then the Board will recommend that some pension adjustment of similar value for retirees be implemented.

- **If the Funded Percentage is less than 90%,** the Board may consider recommending a COLA for NCNGPF retirees only under the conditions described in Section V above. That is, any COLA recommendation should not be greater than the inflationary increase described in Section V, and it should be accompanied by a recommended appropriation increase at least equal to the Benefit Improvement Funding Requirement.

VII. Policy Effective Date

This policy, if adopted by the Board, will be effective through the fiscal year ending June 30, 2027. The Board may vote to extend it for any period of time.