

North Carolina Pension System

NC Pension System

- Valued at approximately \$90 billion
- Consistently ranked in the top 5 states for pension funding
- One of 10 states with a AAA bond rating from all three major agencies
- 12th largest pension fund in the US and the 26th largest in the World
- Supports more than 900,000 current and former public employees in North Carolina.
- Funded by employer contributions, employee contributions and investments earnings

NC Funding Situation

- 96% funded as of 2014
- Reasons:
 1. Contributions funded as recommended by actuaries in 76 out of 77 years
 2. Roughly half of average contribution comes from employees
 3. Conservative assumptions with greater than 50% chance of gains over much of history
 4. 12-year amortization of unfunded liability
 5. Benefit increases immediately increase the contribution rate

NC Actions Taken Since 2008

- Increased employer contribution
 - From 3.36% to 9.98% of pay.
 - Roughly \$650 million more every year (about 3% of State General Fund) in the midst of very tight budgets
 - Separate reform efforts have not been required due to long standing funding policies
- Contribution Rate Stabilization Policy
 - State contribution will increase by 0.35% of pay each year in the future.
 - Subject to a minimum equal to the contribution under the previous actuarial method.
 - Subject to a maximum equal to the contribution calculated at a discount rate equal to the yield on 30-year US Treasuries.
 - Additional funds are directed into improving system funding.

NC Actions Taken Since 2008

- Minimal benefit changes
 - Increased vesting from 5 to 10 years, then reversed this change.
 - Implemented anti-spiking provision.
- Minimal COLAs
 - 2% total increase in benefit since 2008, plus 1.6% one-time supplement in 2016.
 - Followed from ad-hoc nature of COLAs, did not require a separate statute change to reduce COLAs.

NC Challenges Today

Actuarial Assumptions

- Investment Return
 - Current assumption is 7.25%
 - Lower than many states
 - Good chance of achieving over 30 years
 - But, much harder to meet than in years past
 - Each reduction of 1% raises contribution by about 9% of pay (4.5% of total budget), so any change must be gradual
- Mortality
 - New tables developed by Society of Actuaries
 - Combined effect of new tables and other assumptions is 1.32% of employer contribution

NC Benefit Design

- Benefit generosity is roughly at median now relative to other states.
- Avoided significant benefit improvements in late 1990s.
- Have not made any significant changes in recent years.