



200 Jefferson Park, 2nd. Floor
Whippany, NJ 07981

August 29, 2025

Mr. Sam Watts
Executive Director
State of North Carolina
Department of State Treasurer
Retirement Systems Division
3200 Atlantic Avenue
Raleigh, NC 27604

**Disability Income Plan of North Carolina
GASB 74 Disclosure for Fiscal Year Ending June 30, 2025
Based on Valuation Date of December 31, 2024**

Dear Mr. Watts:

We have prepared the required accounting information for Governmental Accounting Standards Board (GASB) Statement No. 74 for the Disability Income Plan of North Carolina for the fiscal year ending June 30, 2025, based on a valuation date of December 31, 2024.

GASB Statement No. 74

GASB Statement No. 74 set forth certain Items of information to be disclosed in the financial statements of the Plan.

1. One such item is the distribution of the number of employees by type of membership, as follows:

Number of Active and Retired Participants as of 12/31/2024 ¹	
Disabled members currently receiving extended short-term and long-term disability benefits	3,257
Inactive plan members entitled to, but not currently receiving benefits	0
Active members, including those in the waiting period or on short-term disability	<u>321,613</u>
Total membership	324,870

¹ The membership data was collected as of the actuarial valuation date, December 31, 2024. Standard actuarial techniques were used to roll forward liabilities based on this data to the measurement date June 30, 2025.

2. Following is the schedule of changes in Net OPEB Liability

Schedule of Changes in Net OPEB Liability as of June 30, 2025	
Total OPEB Liability	
Service Cost	\$ 22,880,000
Interest	6,901,000
Changes in Benefit Terms	0
Differences Between Expected and Actual Experience	(21,825,000)
Changes of Assumptions	0
Net Benefits Payments	<u>(25,273,000)</u>
Net Change in Total OPEB Liability	\$ (17,317,000)
Total OPEB Liability – Beginning of Year	\$ 219,683,000
Total OPEB Liability – End of Year	\$ 202,366,000
Plan Fiduciary Net Position	
Employer Contributions	\$ 28,066,000
Member Contributions	N/A
Net Investment Income	13,553,000
Net Benefit Payments	(25,273,000)
Administrative Expenses	(1,241,000)
Other	<u>0</u>
Net Change in Plan Fiduciary Net Position	\$ 15,105,000
Plan Fiduciary Net Position – Beginning of Year	\$ 252,609,000
Plan Fiduciary Net Position – End of Year	\$ 267,714,000

Net OPEB Liability (Asset)		
	June 30, 2025	June 30, 2024
Total OPEB Liability	\$ 202,366,000	\$ 219,683,000
Plan Fiduciary Net Position	<u>267,714,000</u>	<u>252,609,000</u>
Net OPEB Liability (Asset)	\$ (65,348,000)	\$ (32,926,000)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	132.29%	114.99%

3. Following is the sensitivity of the Net OPEB liability to changes in the discount rate.

Sensitivity of the Net OPEB Liability/(Asset) to Changes in Discount Rate			
	1% Decrease	Current	1% Increase
Discount Rate	2.00%	3.00%	4.00%
Net OPEB Liability/(Asset)	\$ (62,208,000)	\$ (65,348,000)	\$ (68,670,000)

4. The discount rate used to measure the total OPEB liability was 3.00%. The projection of cash flows used to determine the discount rate assumed that System contributions will continue to follow the current funding policy. Investment earnings are based on actual returns through June 30, 2025, and on the assumed investment rate of return thereafter. Based on those assumptions, and the assumed investment return of 3.00% used in the actuarial valuation as of December 31, 2024, 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 A for additional detail.
5. The actuarially determined contribution rate for the fiscal year ending 6/30/2026 is documented in the Disability Income Plan of North Carolina Report on the Annual Valuation Prepared as of December 31, 2023, dated October 2024. Methods and assumptions used to calculate the projected actuarially determined contribution rates for fiscal years ending after 6/30/2026 are as follows:

Valuation Date	12/31/2024
Actuarial Cost Method	Aggregate
Amortization Method	Level percent of pay
Amortization Period	The aggregate cost method does not identify or separately amortize unfunded liabilities.
Asset Valuation Method	Asset returns 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*	3.00%
Projected Salary Increases**	3.25% - 8.05%
* Includes Inflation of	2.50%
** Includes Inflation and Productivity of	3.25%
Cost-of-living Adjustments	3.25% for gross long-term disability benefits. Disabilities that occurred before January 1, 1988 do not have cost-of-living adjustments. 2.50% for Social Security offsets.
Expected Administrative Expenses Included in Normal Cost	0.01% of payroll

Mr. Sam Watts
August 29, 2025

The June 30, 2025 total OPEB liability was determined by an actuarial valuation as of December 31, 2024, based on the assumptions adopted by the Board of Trustees on January 28, 2021, which are based on the experience study prepared as of December 31, 2019. 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. Based on recent economic conditions, returns on bond index funds are expected to exceed 3.00% over 10- and 20-year periods. As such, the investment rate of return of 3.00% includes a provision for adverse deviation. All actuarial assumptions, including the investment rate of return, will be reviewed in an experience study prepared as of December 31, 2024.

The plan sponsor selected the assumptions used for the accounting results in this letter. We believe that these assumptions are reasonable and comply with the requirements of GASB Statement No. 74. We prepared this letter in accordance with the requirements of this standard.

The June 30, 2025 total OPEB liability is based on the same plan provisions as used in the previous valuation. To the extent there have been changes to DIPNC provisions enacted by the legislature, they have been reviewed with staff of the Retirement Systems Division and were not considered material to the current valuation. To the extent the legislature enacts additional legislation that has a material impact on the valuation, revised GASB 74 disclosures may be required.

Administrative expenses assumed in the Projection of Fiduciary Net Position are based on the actual administrative expenses during fiscal year ending 6/30/2025, ratioed by the active headcount in each calendar year.

Full summaries of the assumptions, methods and plan provisions used in the previous valuation and for the June 30, 2025 total OPEB liability were provided in October 2024 in the "Report on the Actuarial Valuation Prepared as of December 31, 2023".

The actuarial cost method used to develop the total OPEB liability is the Entry Age Normal Cost method as required by GASB Statement No. 74. The funding span is from first funding age to the last age with a future benefit.

The results of this letter are based upon participant data supplied by the Retirement Systems Division and financial data supplied by the Financial Operations Division. Gallagher reviewed the data for reasonableness and consistency with data for the prior valuation but performed no audit of the data. The results of this letter are dependent on the accuracy of the data.

The primary purpose of this letter is to provide information that the Office of the State Controller (OSC) requires for its Annual Comprehensive Financial Report. This letter may also be used in conjunction with other materials for purposes of the plan audit. Use of this letter for any other purposes or by anyone other than OSC and its auditors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods, or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask us to review any statement you wish to make on the results contained in this report. Gallagher will not accept any liability for any such statement made without prior review by Gallagher.

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, Gallagher performed no analysis of the potential range of such future differences other than the sensitivity to changes in the discount rate required by GASB Statement No. 74.

Mr. Sam Watts
August 29, 2025

Actuarial Standard of Practice No. 56 (“ASOP 56”) provides guidance to actuaries when performing actuarial services with respect to designing, developing, selecting, modifying, using, reviewing, or evaluating models. Gallagher uses third-party software in the performance of annual actuarial valuations and projections. The model is intended to calculate the liabilities associated with the provisions of the Plan using data and assumptions as of the measurement date under the accounting rules specified in this report. The output from the third-party vendor software is used as input to an internally developed model that applies applicable accounting rules to the liabilities derived and other inputs, such as Plan assets and contributions, to generate many of the exhibits found in this report. Gallagher has an extensive review process whereby the results of the liability calculations are checked using detailed sample output, changes from year to year are summarized by source, and significant deviations from expectations are investigated. Other accounting outputs and the internal model are similarly reviewed in detail and at a high level for accuracy, reasonability, and consistency with prior results. Gallagher also reviews the third-party model when significant changes are made to the software. The review is performed by experts within the company who are familiar with applicable accounting rules as well as the manner in which the model generates its output. If significant changes are made to the internal model, extra checking and review are completed. Significant changes to the internal model that are applicable to multiple clients are generally developed, checked and reviewed by multiple experts within the company who are familiar with the details of the required changes.

Where presented, references to “net OPEB liability” and “fiduciary net position as a percentage of the total OPEB liability” may be appropriate for evaluating the need and level of future contributions but makes no assessment regarding the funded status of the Fund if the Fund were to settle (i.e., purchase annuities to cover) any portion of its liabilities.

This report was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. Barry is an Associate of the Society of Actuaries, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries. Christian is an Associate of the Society of Actuaries, and a Member of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. We are available to discuss this report with you at your convenience.

Please let us know if you require additional information.

Sincerely,

Gallagher Benefit Services, Inc. (“Gallagher”)



Barry J. Goldberg, ASA, MAAA, FCA
Principal, Consulting Actuary



Christian Hershey, ASA, MAAA
Senior Actuarial Consultant

Appendix A

Table 1 – Projection of Fiduciary Net Positions

(\$ in Thousands)

Calendar Year	Beginning Fiduciary Position	Member Contributions	Employer Contributions	Benefit Payments	Administrative Expense	Investment Earnings	Ending Fiduciary Position
2025	\$ 258,469	\$ 0	\$ 21,943	\$ 32,770	\$ 1,241	\$ 12,389	\$ 258,790
2026	258,790	0	13,319	37,027	1,104	7,394	241,372
2027	241,372	0	11,510	36,964	984	6,848	221,782
2028	221,782	0	11,720	35,456	883	6,287	203,450
2029	203,450	0	11,898	34,087	796	5,761	186,226
2030	186,226	0	11,228	32,696	718	5,256	169,296
2031	169,296	0	9,834	31,110	649	4,752	152,123
2032	152,123	0	8,553	29,216	587	4,247	135,120
2033	135,120	0	8,037	27,079	529	3,762	119,311
2034	119,311	0	7,528	24,845	476	3,314	104,832
2035	104,832	0	7,028	22,477	427	2,909	91,865
2036	91,865	0	6,540	20,275	383	2,546	80,293
2037	80,293	0	6,069	18,288	342	2,222	69,954
2038	69,954	0	5,615	16,343	305	1,934	60,855
2039	60,855	0	4,767	14,719	273	1,673	52,303
2040	52,303	0	4,001	13,221	244	1,428	44,267
2041	44,267	0	3,672	11,800	216	1,204	37,127
2042	37,127	0	3,349	10,351	191	1,007	30,941
2043	30,941	0	2,721	9,006	167	832	25,321
2044	25,321	0	2,164	7,747	145	674	20,267
2045	20,267	0	1,918	6,545	125	537	16,052
2046	16,052	0	1,473	5,463	107	421	12,376
2047	12,376	0	1,094	4,426	90	320	9,274
2048	9,274	0	934	3,491	75	239	6,881
2049	6,881	0	653	2,645	61	176	5,004
2050	5,004	0	432	2,015	49	126	3,498
2051	3,498	0	264	1,571	39	85	2,237
2052	2,237	0	137	1,089	30	52	1,307
2053	1,307	0	102	638	22	31	780
2054	780	0	69	232	14	21	624
2055	624	0	45	19	9	19	660
2056	660	0	30	15	6	20	689
2057	689	0	20	9	4	21	717
2058	717	0	14	6	2	22	745
2059	745	0	9	3	2	22	771
2060	771	0	6	1	1	23	798
2061	798	0	4	0	0	24	826
2062	826	0	3	0	0	25	854
2063	854	0	2	0	0	26	882
2064	882	0	1	0	0	26	909
2065	909	0	1	0	0	27	937
2066	937	0	1	0	0	28	966
2067	966	0	0	0	0	29	995
2068	995	0	0	0	0	30	1,025
2069	1,025	0	0	0	0	31	1,056
2070	1,056	0	0	0	0	32	1,088

Appendix A

Table 2 – Actuarial Present Values 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 3.00%	Unfunded Payments at 5.20%*	Using Single Discount Rate of 3.00%
2025	\$ 258,469	\$ 32,770	\$ 32,770	\$ 0	\$ 32,289	\$ 0	\$ 32,289
2026	258,791	37,027	37,027	0	35,421	0	35,421
2027	241,374	36,964	36,964	0	34,331	0	34,331
2028	221,785	35,456	35,456	0	31,971	0	31,971
2029	203,454	34,087	34,087	0	29,842	0	29,842
2030	186,231	32,696	32,696	0	27,790	0	27,790
2031	169,302	31,110	31,110	0	25,672	0	25,672
2032	152,130	29,216	29,216	0	23,407	0	23,407
2033	135,129	27,079	27,079	0	21,063	0	21,063
2034	119,320	24,845	24,845	0	18,762	0	18,762
2035	104,842	22,477	22,477	0	16,480	0	16,480
2036	91,875	20,275	20,275	0	14,432	0	14,432
2037	80,304	18,288	18,288	0	12,639	0	12,639
2038	69,965	16,343	16,343	0	10,966	0	10,966
2039	60,867	14,719	14,719	0	9,588	0	9,588
2040	52,316	13,221	13,221	0	8,362	0	8,362
2041	44,282	11,800	11,800	0	7,245	0	7,245
2042	37,142	10,351	10,351	0	6,171	0	6,171
2043	30,956	9,006	9,006	0	5,212	0	5,212
2044	25,337	7,747	7,747	0	4,353	0	4,353
2045	20,284	6,545	6,545	0	3,571	0	3,571
2046	16,070	5,463	5,463	0	2,894	0	2,894
2047	12,395	4,426	4,426	0	2,276	0	2,276
2048	9,294	3,491	3,491	0	1,743	0	1,743
2049	6,902	2,645	2,645	0	1,282	0	1,282
2050	5,025	2,015	2,015	0	948	0	948
2051	3,519	1,571	1,571	0	718	0	718
2052	2,259	1,089	1,089	0	483	0	483
2053	1,330	638	638	0	275	0	275
2054	805	232	232	0	97	0	97
2055	650	19	19	0	8	0	8
2056	687	15	15	0	6	0	6
2057	717	9	9	0	3	0	3
2058	746	6	6	0	2	0	2
2059	774	3	3	0	1	0	1
2060	801	1	1	0	0	0	0
2061	829	0	0	0	0	0	0
2062	858	0	0	0	0	0	0
2063	887	0	0	0	0	0	0
2064	916	0	0	0	0	0	0
2065	944	0	0	0	0	0	0
2066	973	0	0	0	0	0	0
2067	1,003	0	0	0	0	0	0
2068	1,033	0	0	0	0	0	0
2069	1,064	0	0	0	0	0	0
2070	1,096	0	0	0	0	0	0

* The municipal bond rate of 5.20% is based on the Bond Buyer 20 Bond GO Index as of June 30, 2025.