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). The SCRSP was first adopted by the Teachers' and State Employees' Retirement System (TSERS) Board of Trustees (Board), which administers the provisions of the NCNGPF as set forth in G.S. 127A-40, on April 25, 2019, and was effective through fiscal year ending 2022. The SCRSP for fiscal years ending 2023 through 2027 was adopted on April 29, 2021, and amended on January 25, 2024. Having adopted the Experience Study of the 2020-2024 calendar years on January 29, 2026, which will be effective for plan funding purposes for fiscal years ending 2028 and later, the Board wishes to adopt an SCRSP effective for contributions during the five fiscal years ending 2028 through 2032.

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

Actuarial Measurement: 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.

Benefit Improvement Funding Requirement: 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, plus
(2) the NCNGPF actuarial accrued liability according to the most recently accepted valuation report of the consulting actuary, less
(3) the NCNGPF actuarial value of assets according to the most recently accepted valuation report of the consulting actuary, plus
(4) the Underlying ADEC for the upcoming fiscal year subject to the exception that if item (3) is greater than item (2), then this item (4) is to include only the normal cost component of the Underlying ADEC, less
(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 guidelines used for the fiscal years ending 2025 through 2027. 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 Normal Cost used to calculate the underlying ADEC, including any provisions included in the Normal Cost for anticipated new entrants and administrative expenses, and including any increase to the Normal Cost from a benefit improvement after the publication of the actuary's report. The intent of this provision is that, if a benefit improvement decreases the funded percentage from at least 100% to below 100%, an amount at least equal to the Benefit Improvement Funding Requirement will be contributed as described in Section V below, and in no case will the State contribution be less than the Actuarially Determined Employer Contribution.

- **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

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

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 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.

<u>Further Increase to Fund Benefit Improvement:</u> 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. <u>Recommended Increases to Benefit at Retirement</u>

Based on statutory provisions as of July 2026, the NCNGPF pension amount will increase effective January 1, 2027. For members with 20 years of creditable service, it will increase from $105 to $110 per month. For each additional year of such service, the incremental additional pension will increase from $10.50 to $11.00 per month. The maximum benefit, which would be reached after 30 years of creditable service, will increase from $210 to $220 per month. This section of the policy describes the conditions under which the Board may consider a recommendation of further benefit improvements, meaning improvements in 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:

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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.

   If the Board recommends a benefit improvement to be effective during the first year of a State budget biennium, but the General Assembly does not enact the recommendation by the time the Board is making recommendations for the second year of the biennium, then the Board's recommended increase effective during the second year of the biennium may incorporate the prior recommendation as a starting point; however, the recommended increase should be no greater than the prior recommendation increased by the most recent June-over-June increase in the CPI-U.[2]

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.

The Board may recommend a COLA for already-retired members corresponding to the increase recommended for non-retired members under Section V above, provided that the value of the COLA is incorporated in the calculation of the Benefit Improvement Funding Requirement.

If the Board is not recommending a benefit improvement for non-retired members under Section V above, the Board should only consider recommending a COLA for retirees if the Funded Percentage is greater than or equal to 90%. In that event, 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

[2] For example: Suppose the CPI-U increase from June 2025 to June 2026 is 3.0%; the Board recommends in January 2027 that the benefit after 20 years of creditable service be improved from $110 to $113 per month effective in the fiscal year ending 2028 (with corresponding changes to the benefit amounts after 20 years of creditable service); and the General Assembly does not enact the recommendation before January 2028. Suppose also that the CPI-U increase from June 2026 to June 2027 is 3.5%. When the Board is considering its alternatives under this policy in January 2028 for the fiscal year ending 2029, which is the second year of a State budget biennium, the Board could recommend under this policy that the benefit after 20 years of creditable service be improved from $110 to $116 per month effective in the fiscal year ending 2029. In this example, the policy would allow the $116 recommendation because it is no greater than $113 (the previously recommended, but not yet enacted, amount) increased by 3.5%. The recommended increase from $110 to $116 should still be reviewed to ensure it meets criterion #2 regarding the Benefit Improvement Funding Requirement. In this same example, when the Board is considering its alternatives under this policy in January 2029, for the fiscal year ending 2030, any prior recommendations that were not enacted should be disregarded, because the fiscal year ending 2030 is the first year of a new State budget biennium.

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.

VII. Policy Effective Date

This policy, if adopted by the Board, will be effective through the fiscal year ending June 30, 2032. The Board may vote to extend it for any period of time.

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