

**NOTES TO THE FINANCIAL STATEMENTS****NOTE 14: OTHER POSTEMPLOYMENT BENEFITS**

The State administers two postemployment benefit plans, the Retiree Health Benefit Fund and the Disability Income Plan of North Carolina as pension and other employee benefit trust funds. Although the assets of the administered plans are commingled for investment purposes, each plan's assets may be used only for payment of benefits to members of that plan and for related administrative costs. The plans in this note do not issue separate financial statements. The financial statements and other required disclosures are presented in Note 16 and in the *Required Supplementary Information* section of this Annual Comprehensive Financial Report (ACFR).

**A. Summary of Significant Accounting Policies and Plan Asset Matters**

The financial statements of these plans are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

Pursuant to North Carolina General Statutes, the State Treasurer is the custodian and administrator of the other postemployment benefit funds. The State Treasurer maintains various investment portfolios in its External Investment Pool. The Retiree Health Benefit Fund participates in the External Investment Pool. The Disability Income Plan is invested in the Short-term Investment Portfolio of the External Investment Pool and the Bond Index External Investment Pool.

Additionally, the securities lending balance represents assets occurring from securities lending transactions that result from the funds' participation in the External Investment Pool. The investments of the State Treasurer are discussed in Note 3.

**B. Plan Descriptions*****Cost-Sharing, Multiple-Employer, Defined Benefit Plans*****1. HEALTH BENEFITS**

*Plan administration.* The State of North Carolina administers the North Carolina State Health Plan for Teachers and State Employees, referred to as the State Health Plan (the Plan), a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units. In addition, Local Education Agencies (LEAs), charter schools, and some select local governments that are not part of the financial reporting entity also participate. The Plan is reported as a major component unit. Management of the Plan is vested in the State Health Plan Board of Trustees, which consists of 10 members – two appointed by the Governor, two appointed by the State Treasurer, two appointed by the state Senate, two appointed by the state House of Representatives, and the State Treasurer and the Director of State Budget and Management who serve as ex officio members. Health benefit programs and premium rates are determined by the State Treasurer upon approval of the Board of Trustees.

The Retiree Health Benefit Fund (RHBF) has been established by Chapter 135-7, Article 1 of the General Statutes as a fund to provide health benefits to retired and disabled employees and their applicable beneficiaries. RHBF is a cost-sharing, multiple-employer, defined benefit healthcare plan, exclusively for the benefit of former employees of the State, the University of North Carolina System, and community colleges. In addition, LEAs, charter schools and some select local governments that are not part of the financial reporting entity also participate. At June 30, 2021, the number of participating employers was as follows:

State of North Carolina	1
LEAs	116
Charter Schools	57
Community Colleges	58
University of North Carolina System	19
Other Component Units	5
Local governments	11
	<u>267</u>

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**NOTES TO THE FINANCIAL STATEMENTS**

By statute, RHBF is administered by the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members. RHBF is supported by a percent of payroll contribution from participating employing units. Each year the percentage is set in legislation, as are the maximum per retiree contributions from RHBF to the State Health Plan. The State Treasurer, with the approval of the State Health Plan Board of Trustees, then sets the employer contributions (subject to the legislative cap) and the premiums to be paid by retirees, as well as the health benefits to be provided through the State Health Plan.

*Benefits provided.* Plan benefits received by retired employees and disabled employees from RHBF are other postemployment benefits (OPEB). The healthcare benefits for retired and disabled employees who are not eligible for Medicare are the same as for active employees as described in Note 15. The plan options change when the former employees become eligible for Medicare. The benefits provided include medical and pharmacy coverage for employees and their dependents. Non-Medicare eligible members have two self-funded options administered by the State Health Plan while Medicare members have three options, including one self-funded option and two fully-insured Medicare Advantage/Prescription Drug Plan options. Self-funded medical and pharmacy claims costs are shared between the covered member and the State Health Plan. If the self-funded plan is elected by a Medicare eligible member, the coverage is secondary to Medicare. Fully-insured claims include cost sharing from covered members with the remaining balance paid by the fully-insured carrier.

Those former employees who are eligible to receive medical benefits from RHBF are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), the University Employees' Optional Retirement Program (ORP), and a small number of local governments, with five or more years of contributory membership service in their retirement system prior to disability or retirement, with the following exceptions: for employees first hired on or after October 1, 2006, and members of the General Assembly first taking office on or after February 1, 2007, future coverage as retired employees and retired members of the General Assembly is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with 10 but less than 20 years of retirement service credit are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. Employees first hired on or after October 1, 2006 and members of the General Assembly first taking office on or after February 1, 2007 with five but less than 10 years of retirement service credit are eligible for coverage on a fully contributory basis.

Section 35.21 (c) & (d) of Session Law 2017-57 repeals retiree medical benefits for employees first hired on or after January 1, 2021. The legislation amends Article 3B of Chapter 135 of the General Statutes to require that retirees must earn contributory retirement service in the Teachers' and State Employees' Retirement System (or in an allowed local system unit), the Consolidated Judicial Retirement System, or the Legislative Retirement System prior to January 1, 2021, and not withdraw that service, in order to be eligible for retiree medical benefits under the amended law. Consequently, members first hired on and after January 1, 2021 will not be eligible to receive retiree medical benefits.

RHBF's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3B of the General Statutes and may be amended only by the North Carolina General Assembly. RHBF does not provide for automatic post-retirement benefit increases.

*Contributions.* By General Statute, accumulated contributions from employers to RHBF and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. By statute, contributions to the RHBF are irrevocable. Also by law, RHBF assets are dedicated to providing benefits to retired and disabled employees and their applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to RHBF. However, RHBF assets may be used for reasonable expenses to administer RHBF, including costs to conduct required actuarial valuations of state-supported retired employees' health benefits. Contribution rates to RHBF, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal year ended June 30, 2021, the State and the other employers contributed the legislatively mandated 6.68% of covered payroll. This amount, combined with investment income, funds the benefits received during the year. RHBF is reported as an employee benefit trust fund. Actual contributions are reported in Section F of this note.

**NOTES TO THE FINANCIAL STATEMENTS****2. DISABILITY INCOME**

*Plan administration.* As discussed in Note 15, short-term and long-term disability benefits are provided through the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to the eligible members of the Teachers' and State Employees' Retirement System which includes employees of the State, the University of North Carolina System, community colleges, certain participating component units and Local Education Agencies (LEAs) which are not part of the reporting entity, and the University Employees' Optional Retirement Program. At June 30, 2021, the number of participating employers was as follows:

State of North Carolina	1
LEAs	116
Charter Schools	57
Community Colleges	58
University of North Carolina System	19
Other Component Units	<u>5</u>
	<u>256</u>

By statute, the DIPNC is administered by the Department of State Treasurer and the Board of Trustees of the Teachers' and State Employees' Retirement System, which consists of 13 members – eight appointed by the Governor, one appointed by the state Senate, one appointed by the state House of Representatives, and the State Treasurer, the State Superintendent and the Director of the Office of State Human Resources who serve as ex officio members.

*Benefits provided.* Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System (TSERS) or the University Employees' Optional Retirement Program, earned within 96 months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the TSERS; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the TSERS after (1) reaching the age of 65 and completing five years of membership service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

For employees who had five or more years of membership service as of July 31, 2007, during the first 36 months of the long-term disability period, the monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one-twelfth of the annual longevity payment and local supplements to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. After the first 36 months of the long-term disability, the long-term benefit is calculated in the same manner as described above except the monthly benefit is reduced by an amount equal to a monthly primary Social Security disability benefit to which the participant or beneficiary might be entitled had Social Security disability benefits been awarded. When an employee qualifies for an unreduced service retirement allowance from the TSERS, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

For employees who had less than five years of membership service as of July 31, 2007, and meet the requirements for long-term disability on or after August 1, 2007, during the first 36 months of the long-term disability period, the monthly long-term benefit shall be reduced by an amount equal to the monthly primary Social Security retirement benefit to which the employee might be entitled should the employee become age 62 during the first 36 months. This reduction becomes effective as of the first day of the month following the month of initial entitlement to Social Security benefits. After the first 36 months of the long-term disability, no further benefits are payable under the terms of this section unless the employee has been approved and is in receipt of primary Social Security disability benefits.

**NOTES TO THE FINANCIAL STATEMENTS**

*Contributions.* Although the DIPNC operates on a calendar year, disability income benefits are funded by actuarially determined employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2021, the State and the other employers made a statutory contribution of 0.09% of covered payroll. This was equal to the actuarially determined contribution. Actual contributions are reported in Section F of this note.

The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

Benefit and contribution provisions are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

**C. Plan Membership**

The following tables summarize membership information by plan at the actuarial valuation date:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
Retired members and beneficiaries currently receiving benefits	237,033	N/A
Retired members and survivors of deceased members currently receiving benefits	N/A	5,328
Terminated members entitled to but not yet receiving benefits	47,306	-
Active members	344,085	324,037
Total	628,424	329,365
Date of valuation	12/31/20	12/31/20
N/A - Not Applicable		

**D. Investments**

*Investment policy.* The OPEB plans' policy in regard to the allocation of invested assets is established and may be amended by the State Treasurer. Plan assets are managed by the Investment Management Division of the North Carolina Department of the State Treasurer (IMD) under the direction of the State Treasurer. It is the policy of the State Treasurer to invest plan assets with a focus on protection through diversification, achievement of stable and consistent returns that meet or exceed benchmarks and actuarial assumptions over a long-term projection, with a primary objective of ensuring that all liability payments and obligations are met. The target asset allocation is developed based upon analysis of optimized portfolios, utilizing risk and return characteristics of eligible asset classes, and selecting the most efficient portfolio for a given level of risk.

**NOTES TO THE FINANCIAL STATEMENTS**

The adopted asset allocation policies for the Disability Income Plan of North Carolina are primarily in the Bond Index Investment Pool as of June 30, 2021 as described in Note 3. The following table displays the adopted asset allocation policy for the Retiree Health Benefit Fund as of June 30, 2021:

<u>Asset Class</u>	<u>Target Allocation</u>
Fixed Income	29%
Global Equity	42%
Real Estate	8%
Alternatives	8%
Opportunistic Fixed Income	7%
Inflation Sensitive	6%
<b>Total</b>	<b>100%</b>

*Rate of return.* For the year ended June 30, 2021, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense was:

	<u>Cost-Sharing, Multiple-Employer</u>	
	<u>Retiree Health Benefit Fund</u>	<u>Disability Income Plan of N.C.</u>
Money-weighted Rate of Return	10.96%	(0.41%)

The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**E. Net OPEB Liability (Asset) of Participating Employers**

The components of the net OPEB liability (asset) of the participating employers at June 30, 2021, were as follows (dollars in thousands):

	<u>Retiree Health Benefit Fund</u>	<u>Disability Income Plan of N.C.</u>
Total OPEB liability	\$ 33,500,219	\$ 315,388
Plan fiduciary net position	<u>2,584,626</u>	<u>331,722</u>
Net OPEB liability (asset)	<u>\$ 30,915,593</u>	<u>\$ (16,334)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.72%	105.18%

**NOTES TO THE FINANCIAL STATEMENTS**

*Actuarial Assumptions.* The total OPEB liabilities for RHBF and DIPNC were determined by actuarial valuations as of December 31, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified. The total OPEB liabilities were then rolled forward to June 30, 2021 utilizing update procedures incorporating the actuarial assumptions.

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
	(1)	(1)
Valuation Date	12/31/2020	12/31/2020
Inflation	2.5%	2.5%
Salary Increases	3.25% - 8.05%	3.25% - 8.05%
Investment Rate of Return (2)	6.5%	3.00%
Healthcare Cost Trend Rate - Medical	6% grading down to 5% by 2026	6% grading down to 5% by 2026
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2030	9.5% grading down to 5% by 2030
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

(1) - Salary increases include 3.25% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

N/A - Not Applicable

The OPEB plans currently use mortality tables that vary by age, gender, employee group (i.e. teacher, other educational employee, general employee, or law enforcement officer) and health status (i.e. disabled or not disabled). The current mortality rates are based on published tables and studies that cover significant portions of the U.S. public plan population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. DIPNC is primarily invested in the Bond Index Investment Pool as of June 30, 2021.

Best estimates of real rates of return for each major asset class included in the RHBF's target asset allocation as of June 30, 2021 (see the discussion of the OPEB plans' investment policy in Section D) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.4%
Global Equity	5.3%
Real Estate	4.3%
Alternatives	8.9%
Opportunistic Fixed Income	6.0%
Inflation Sensitive	4.0%

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**NOTES TO THE FINANCIAL STATEMENTS**

The information in the preceding table is based on 30-year expectations developed with the consulting actuary as part of a study conducted in 2016, and is part of the asset, liability and investment policy of the North Carolina Retirement Systems. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.05%. Return projections do not include any excess return expectations over benchmark averages. All rates of return and inflation are annualized. The long-term expected real rate of return for the Bond Index Investment Pool as of June 30, 2021 is 1.3%.

Actuarial valuations of the plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The results of the valuations fluctuate from year to year as actual experience differs from assumptions. This includes demographic experiences (i.e., mortality and retirement) that differ from expected. This also includes financial experiences (i.e., member medical costs and contributions) that vary from expected trends. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial assumptions used for RHBF are consistent with those used to value the pension benefits of the TSERS where appropriate. These assumptions are based on the most recent pension valuations available. The discount rate used for RHBF reflects a pay-as-you-go approach.

Projections of benefits for financial reporting purposes of the plans are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Historically, the benefits have been funded solely by employer contributions applied equally to all retirees. Currently, as described earlier in the note, benefits are dependent on membership requirements.

The actuarial methods and assumptions used for DIPNC include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the December 31, 2020 valuations were generally based on the results of an actuarial experience study prepared as of December 31, 2019, as amended for updates to certain assumptions (such as the long-term investment return, medical claims, and medical trend rate assumptions) implemented based on annual reviews that have occurred since that experience study.

*Discount rate.* The discount rate used to measure the total OPEB liability for RHBF was 2.16% at June 30, 2021 compared to 2.21% at June 30, 2020. The projection of cash flow used to determine the discount rate assumed that contributions from employers would be made at the current statutorily determined contribution rate. Based on the above assumptions, the plan's fiduciary net position was not projected to be available to make projected future benefit payments to current plan members. As a result, a municipal bond rate of 2.16% was used as the discount rate used to measure the total OPEB liability. The 2.16% rate is based on the Bond Buyer 20-year General Obligation Index as of June 30, 2021.

The discount rate used to measure the total OPEB liability for DIPNC was 3.00%. The projection of cash flow used to determine the discount rate assumed that contributions from plan members would be made at the current contribution rate and that contributions from employers would be made at statutorily required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments to the current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net OPEB liability or asset to changes in the discount rate.* The following presents the net OPEB liability or asset of the plans at June 30, 2021, as well as what the plans' net OPEB liability or asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate (dollars in thousands):

	1% Decrease (1.16%)	Current Discount Rate (2.16%)	1% Increase (3.16%)
RHBF net OPEB liability	\$ 36,773,649	\$ 30,915,593	\$ 26,171,227
	1% Decrease (2%)	Current Discount Rate (3%)	1% Increase (4%)
DIPNC net OPEB asset	\$ (10,313)	\$ (16,334)	\$ (21,904)

*Sensitivity of the net OPEB liability or asset to changes in the healthcare cost trend rates.* The following presents the net OPEB liability or asset of the plans, as well as what the plans' net OPEB liability or asset would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates (dollars in thousands):

	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Med. Advantage - 5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Med. Advantage - 6%, Administrative - 4%)
RHBF net OPEB liability	\$ 25,036,417	\$ 30,915,593	\$ 38,714,862
	1% Decrease (Medical - 4% - 5%, Pharmacy - 4% - 8.5%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6%, Pharmacy - 5% - 9.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7%, Pharmacy - 6% - 10.5%, Administrative - 4%)
DIPNC net OPEB asset	\$ (17,192)	\$ (16,334)	\$ (15,265)



**NOTES TO THE FINANCIAL STATEMENTS****F. GASB Statement 75 Employer Reporting****1. EMPLOYER AND NONEMPLOYER CONTRIBUTIONS**

The following table presents the primary government's and component units' contributions recognized by the OPEB plans at June 30, 2021 (dollars in thousands):

	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Total
Primary Government	\$ 271,833	\$ 3,588	\$ 275,421
Component Units			
University of North Carolina System	\$ 302,715	\$ 4,079	\$ 306,794
Community Colleges	60,847	847	61,694
Other Component Units	2,156	29	2,185
Total Contributions	<u>\$ 637,551</u>	<u>\$ 8,543</u>	<u>\$ 646,094</u>

In fiscal year 2020, the State Health Plan (the Plan) transferred \$475.2 to the Retiree Health Benefit Fund as a result of cost savings to the Plan over a span of six years. For financial reporting purposes, the transfer was recognized as a nonemployer contributing entity contribution. The contribution was allocated among the RHBF employers and recorded as noncapital contributions. For the fiscal year ended June 30, 2021, the primary government and component units recognized noncapital contributions for the RHBF as follows (dollars in thousands):

	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
Noncapital Contributions \$	93,004	\$ 119,629	\$ 22,339	\$ 1,472

**2. OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB**

As of June 30, 2021, the primary government and component units reported net OPEB liabilities and net OPEB assets for defined benefit OPEB plans administered by the State as follows (dollars in thousands):

	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
Proportionate Share of the Net OPEB Liability				
Retiree Health Benefit Fund	<u>\$ 5,429,965</u>	<u>\$ 7,025,953</u>	<u>\$ 1,304,098</u>	<u>\$ 43,564</u>
	Primary Government	University of North Carolina System	Community Colleges	Other Component Units
Proportionate Share of the Net OPEB Asset				
Disability Income Plan of N.C.	<u>\$ 9,458</u>	<u>\$ 12,715</u>	<u>\$ 2,356</u>	<u>\$ 80</u>

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Each net OPEB liability (asset) was measured as of June 30, 2020, and the total OPEB liability used to calculate each net OPEB liability (asset) was determined by an actuarial valuation as of December 31, 2019. Update procedures were used to roll forward the total OPEB liability to June 30, 2020. For RHBF and DIPNC, the primary government's and each component unit's proportion of the collective net OPEB liability (asset) was based on a projection of the present value of future salaries relative to the projected present value of future salaries of all participating employers, actuarially determined. The primary government's proportion of the collective net OPEB liability (asset) was further allocated to individual proprietary funds based on each fund's proportionate share of the total prior year OPEB contributions.

The primary government's and component units' proportions of the collective net OPEB liability for the Retiree Health Benefit Fund and the collective net OPEB asset for the Disability Income Plan of N.C. as of June 30, 2020 and 2019 were as follows:

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
Retiree Health Benefit Fund				
Proportion – June 30, 2020	19.57%	25.33%	4.70%	0.16%
Proportion – June 30, 2019	19.38%	25.12%	4.86%	0.15%
Change – Increase (Decrease)	0.19	0.21	(0.16)	0.01
Disability Income Plan of N.C.				
Proportion – June 30, 2020	19.23%	25.85%	4.79%	0.16%
Proportion – June 30, 2019	18.85%	25.35%	4.92%	0.15%
Change – Increase (Decrease)	0.38	0.50	(0.13)	0.01

For the fiscal year ended June 30, 2021, the primary government and component units recognized OPEB expense for defined benefit OPEB plans administered by the State as follows (dollars in thousands):

	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
OPEB Expense				
Retiree Health Benefit Fund	\$ (67,074)	\$ (211,165)	\$ (66,405)	\$ 1,281
Disability Income Plan of N.C.	7,704	9,315	1,896	64
Total OPEB Expense	<u>\$ (59,370)</u>	<u>\$ (201,850)</u>	<u>\$ (64,509)</u>	<u>\$ 1,345</u>

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2021, the primary government and component units reported deferred outflows of resources related to defined benefit OPEB plans administered by the State from the following sources (dollars in thousands):

	Deferred Outflows of Resources		
	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Total
<b>Primary Government:</b>			
Difference between actual and expected experience	\$ 4,919	\$ 6,853	\$ 11,772
Changes of assumptions	238,138	736	238,874
Net difference between projected and actual earnings on OPEB plan investments	11,438	—	11,438
Change in proportion and differences between agency's contributions and proportionate share of contributions	413,087	1,304	414,391
Contributions subsequent to the measurement date	271,833	3,588	275,421
Total	<u>\$ 939,415</u>	<u>\$ 12,481</u>	<u>\$ 951,896</u>
<b>Component Units:</b>			
<b>University of North Carolina System</b>			
Difference between actual and expected experience	\$ 6,365	\$ 9,211	\$ 15,576
Changes of assumptions	308,128	989	309,117
Net difference between projected and actual earnings on OPEB plan investments	14,801	—	14,801
Change in proportion and differences between agency's contributions and proportionate share of contributions	610,461	190	610,651
Contributions subsequent to the measurement date	302,715	4,079	306,794
Total	<u>\$ 1,242,470</u>	<u>\$ 14,469</u>	<u>\$ 1,256,939</u>
<b>Community Colleges</b>			
Difference between actual and expected experience	\$ 1,181	\$ 1,707	\$ 2,888
Changes of assumptions	57,192	183	57,375
Net difference between projected and actual earnings on OPEB plan investments	2,747	—	2,747
Change in proportion and differences between agency's contributions and proportionate share of contributions	41,332	484	41,816
Contributions subsequent to the measurement date	60,847	847	61,694
Total	<u>\$ 163,299</u>	<u>\$ 3,221</u>	<u>\$ 166,520</u>
<b>Other Component Units</b>			
Difference between actual and expected experience	\$ 39	\$ 57	\$ 96
Changes of assumptions	1,911	6	1,917
Net difference between projected and actual earnings on OPEB plan investments	92	—	92
Change in proportion and differences between agency's contributions and proportionate share of contributions	9,760	11	9,771
Contributions subsequent to the measurement date	2,156	29	2,185
Total	<u>\$ 13,958</u>	<u>\$ 103</u>	<u>\$ 14,061</u>

**NOTES TO THE FINANCIAL STATEMENTS**

At June 30, 2021, the primary government and component units reported deferred inflows of resources related to defined benefit OPEB plans administered by the State from the following sources (dollars in thousands):

	Deferred Inflows of Resources		
	Retiree Health Benefit Fund	Disability Income Plan of N.C.	Total
<b>Primary Government:</b>			
Difference between actual and expected experience	\$ 212,434	\$ —	\$ 212,434
Changes of assumptions	2,203,499	745	2,204,244
Net difference between projected and actual earnings on OPEB plan investments	—	1,602	1,602
Change in proportion and differences between agency's contributions and proportionate share of contributions	144,334	475	144,809
Total	<u>\$ 2,560,267</u>	<u>\$ 2,822</u>	<u>\$ 2,563,089</u>
<b>Component Units:</b>			
<b>University of North Carolina System</b>			
Difference between actual and expected experience	\$ 274,864	\$ —	\$ 274,864
Changes of assumptions	2,851,243	1,001	2,852,244
Net difference between projected and actual earnings on OPEB plan investments	—	2,154	2,154
Change in proportion and differences between agency's contributions and proportionate share of contributions	385,753	1,140	386,893
Total	<u>\$ 3,511,860</u>	<u>\$ 4,295</u>	<u>\$ 3,516,155</u>
<b>Community Colleges</b>			
Difference between actual and expected experience	\$ 51,018	\$ 186	\$ 51,204
Changes of assumptions	529,224	—	529,224
Net difference between projected and actual earnings on OPEB plan investments	—	399	399
Change in proportion and differences between agency's contributions and proportionate share of contributions	145,658	49	145,707
Total	<u>\$ 725,900</u>	<u>\$ 634</u>	<u>\$ 726,534</u>
<b>Other Component Units</b>			
Difference between actual and expected experience	\$ 1,704	\$ —	\$ 1,704
Changes of assumptions	17,679	6	17,685
Net difference between projected and actual earnings on OPEB plan investments	—	13	13
Change in proportion and differences between agency's contributions and proportionate share of contributions	880	15	895
Total	<u>\$ 20,263</u>	<u>\$ 34</u>	<u>\$ 20,297</u>

**NOTES TO THE FINANCIAL STATEMENTS**

Amounts reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (asset) in the year ended June 30, 2022. These amounts are found in the preceding Deferred Outflows of Resources table. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows (dollars in thousands):

## Retiree Health Benefit Fund

Year Ending June 30	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
2022	\$ (683,070)	\$ (1,008,242)	\$ (214,352)	\$ (3,661)
2023	(682,474)	(1,007,471)	(214,209)	(3,657)
2024	(289,935)	(254,483)	(92,027)	(805)
2025	(77,075)	(85,580)	(50,153)	170
2026	(160,131)	(216,329)	(52,707)	(508)

## Disability Income Plan of N.C.

Year Ending June 30	Primary Government	Component Units		
		University of North Carolina System	Community Colleges	Other Component Units
2022	\$ 2,084	\$ 2,438	\$ 550	\$ 16
2023	1,441	1,573	390	10
2024	787	694	227	5
2025	1,203	1,254	331	8
2026	147	17	65	—
Thereafter	409	119	177	1

Restricted and unrestricted net position have been significantly affected by transactions that resulted in the recognition of deferred outflows of resources and deferred inflows of resources related to the defined benefit OPEB plans administered by the State. The effect of these transactions on restricted and unrestricted net position is presented as follows (dollars in thousands):

	Governmental Activities	Business- type Activities	Total Primary Government	Component Units
<b>Unrestricted net position</b>	<u>\$ 2,066,305</u>	<u>\$ 4,948,223</u>	<u>\$ 7,014,528</u>	<u>\$ (435,728)</u>
Effect on unrestricted net position RHBF	\$ (7,863,844)	\$ (126,387)	\$ (7,990,231)	\$ (12,631,636)
<b>Restricted net position</b>	<u>\$ 1,811,362</u>	<u>\$ 255,800</u>	<u>\$ 2,067,162</u>	<u>\$ 7,907,269</u>
Effect on restricted net position DIPNC	\$ 6,572	\$ 66	\$ 6,638	\$ 10,187

**NOTES TO THE FINANCIAL STATEMENTS**

*Actuarial assumptions.* The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Retiree Health Benefit Fund	Disability Income Plan of N.C.
	(1)	(1)
Valuation Date	12/31/20219	12/31/2019
Inflation	3%	3%
Salary Increases	3.5% - 8.1%	3.5% -8.1%
Investment Rate of Return (2)	7%	3.75%
Healthcare Cost Trend Rate - Medical	6.5% grading down to 5% by 2024	6.5% grading down to 5% by 2024
Healthcare Cost Trend Rate - Prescription Drug	9.5% grading down to 5% by 2029	9.5% grading down to 5% by 2029
Healthcare Cost Trend Rate - Medicare Advantage	5%	N/A
Healthcare Cost Trend Rate - Administrative	3%	3%

(1) - Salary increases include 3.5% inflation and productivity factor

(2) - Investment rate of return is net of OPEB plan investment expense, including inflation.

N/A - Not Applicable

The following table presents the adopted asset allocation policy and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Opportunistic Fixed Income	7%	6.0%
Inflation Sensitive	6%	4.0%
<b>Total</b>	<b>100%</b>	

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net OPEB liability or asset to changes in the discount rate.* The following presents the primary government's and component units' net OPEB liability or asset calculated using the discount rate, as well as what the proportionate share of the net OPEB liability or asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (dollars in thousands):

	<u>Net OPEB Liability</u>		
	Current		
	1% Decrease	Discount	1% Increase
	<u>(1.21%)</u>	<u>Rate (2.21%)</u>	<u>(3.21%)</u>
Retiree Health Benefit Fund			
Proportionate Share			
Primary Government	\$ 6,439,594	\$ 5,429,965	\$ 4,616,539
University of North Carolina System	8,332,336	7,025,953	5,973,444
Community Colleges	1,546,578	1,304,098	1,108,740
Other Component Units	51,664	43,564	37,038
	<u>Net OPEB Asset</u>		
	Current		
	1% Decrease	Discount	1% Increase
	<u>(2.75%)</u>	<u>Rate (3.75%)</u>	<u>(4.75%)</u>
Disability Income Plan of N.C.			
Proportionate Share			
Primary Government	\$ (8,169)	\$ (9,458)	\$ (10,712)
University of North Carolina System	(10,982)	(12,715)	(14,399)
Community Colleges	(2,035)	(2,356)	(2,668)
Other Component Units	(68)	(80)	(89)

**NOTES TO THE FINANCIAL STATEMENTS**

*Sensitivity of the net OPEB liability or asset to changes in the healthcare cost trend rates.* The following presents the primary government's and component units' net OPEB liability or asset calculated using the healthcare cost trend rates, as well as what the proportionate share of the net OPEB liability or asset would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current health care cost trend rates (dollars in thousands):

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%, Med. Advantage - 4% - 5.5%, Administrative - 2%)	Current Healthcare Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%, Med. Advantage - 5% - 6.5%, Administrative - 3%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%, Med. Advantage - 6% - 7.5%, Administrative - 4%)
Retiree Health Benefit Fund			
Proportionate Share			
Primary Government	\$ 4,377,533	\$ 5,429,965	\$ 6,836,680
University of North Carolina System	5,664,189	7,025,953	8,846,135
Community Colleges	1,051,339	1,304,098	1,641,945
Other Component Units	35,120	43,564	54,850

	1% Decrease (Medical - 4% - 5.5%, Pharmacy - 4% - 8.5%)	Current Healthcare Trend Rates (Medical - 5% - 6.5%, Pharmacy - 5% - 9.5%)	1% Increase (Medical - 6% - 7.5%, Pharmacy - 6% - 10.5%)
Disability Income Plan of N.C.			
Proportionate Share			
Primary Government	\$ (9,474)	\$ (9,458)	\$ (9,446)
University of North Carolina System	(12,736)	(12,715)	(12,697)
Community Colleges	(2,360)	(2,356)	(2,353)
Other Component Units	(79)	(80)	(79)