



North Carolina Committee on Actuarial
Valuation of Retired Employees' Health Benefits

Review of Assumptions for December 31, 2025 OPEB Valuation

May 28, 2026 / Robert Burrell, ASA, FCA, EA, MAAA and Kenneth C. Vieira, FSA, FCA, MAAA

OPEB Actuarial Valuation Assumptions for the December 31, 2025 Valuation

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Valuation Purpose

GASB Statements 74 and 75

- Measure State obligations to provide other postemployment benefits (OPEB)
- Provide information for the Plan Audit (GASB 74)
- Determine the Actuarially Determined Contribution (ADEC)
- Annual OPEB Expense for fiscal 2027, and fiscal 2027 disclosure information (GASB 75)
- Provide exhibits useful for preparing required financial statement recognition and disclosure items

Dates for this valuation

- Valuation Date is December 31, 2025
- Measurement Date is June 30, 2026
- GASB 74 Reporting Date is June 30, 2026
- GASB 75 Reporting Date is June 30, 2027

Deliverables for this valuation

- 2026 GASB 74 report (late August)
- 2027 GASB 75 report, with allocations (mid-December)
- Auditor requests (as needed)

Accounting and Funding Methodology

GASB 75 Budgeting Methods for Expense

- Mandated by GASB 75
- Actuarial cost method — Entry Age Level Percent of Pay
- Asset valuation method — market value
- Recognition of Changes in Net OPEB Liability
 - Plan changes are recognized immediately
 - Asset gains and losses are recognized over 5 years
 - Other changes are over 5 years (Total Future Service/All Participants)
 - Period will slowly move down over time, due to plan being closed to new actives

Funding Assumptions and Methods for the Actuarially Determined Contribution (ADEC)

- Current funding policy is essentially a pay-as-you-go process
 - Occasional ad hoc payments made since FY 2020
- The ADEC is not required, but is a measure of how large the contribution would be if the Plan were to be pre-funded
- The State can periodically reset the method for calculating the ADEC
- Demographic assumptions are generally the same as for GASB, but the ADEC can be based on a different cost method and the discount rate can differ
- Decisions about the ADEC are after the assumptions section

Assumptions/Methods set by the State Periodically

- Relationship between Valuation Date, Measurement Date and Reporting Date
- Demographic and Certain Economic Assumptions
 - Should be consistent with the pension plan valuations
 - Update in OPEB valuation when changes are adopted for pension valuations
 - Typically reset every five years in a study by the pension actuary, and approved by the State for use
 - Pension actuary presented results of new experience study in October 2025
 - Recommendations were adopted during the January 2026 Board meeting
 - Results will be used with December 31, 2025 pension valuations
 - Applicable updates will also be reflected in the December 31, 2025 OPB valuation
- Determination of Basis for Allocation of Costs to Agencies
- Funding Policy for the Actuarially Determined Contribution
 - Actuarial Cost Method
 - Discount Rate (Long-term Rate of Return or Discount Rate for GASB 75)
 - Amortization Period (Years, Level \$ or Percent of Pay, and Open/Closed)

Pension Economic Assumptions set by the State Periodically

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|--|---|---|---|--|
| Inflation | A building block component for several items | 2.50% | No change | Latest experience study recommended no change |
| Long-Term Rate of Return on Plan Assets | Investment return Used for OPEB Expense | 6.50% | No change | Latest experience study recommended no change. |
| Assumed Payroll Growth | General wage increases Used for the ADEC | 3.25% | No change | Latest experience study recommended no change. |
| Salary Growth | The salary growth by individual, equal to merit increases plus general wage growth Used for actuarial cost method (Entry Age Normal Level Percentage of Pay) | Teachers: 7.30% grading down to 3.25% Other Education: 7.50% grading down to 3.25% Law Enforcement: 8.05% grading down to 3.25% General Employees: 6.25% grading down to 3.25% | Teachers: 8.25% grading down to 3.25% Other Education: 8.00% grading down to 3.25% Law Enforcement: 9.00% grading down to 3.25% General Employees: 7.25% grading down to 3.25% | Latest experience study recommended increased rates for merit increases. |

Pension Demographic Assumptions set by the State Periodically

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|----------------------------------|---|---|---|--|
| Pre-retirement mortality | Probability of death while active | Use Pub-2010 tables, based on public plan experience, with adjustments Separate tables for Law Enforcement and General (including Teachers) | Use Pub-2016 tables, based on public plan experience, with adjustments Separate tables for Law Enforcement and General (including Teachers) | Latest experience study recommended updating to the latest tables, with adjustments. |
| Post-retirement mortality | Probability of post-employment death | Use Pub-2010 tables, based on public plan experience, with adjustments Separate tables for Law Enforcement, Teachers, and General Separate tables for contingent annuitants | Use Pub-2016 tables, based on public plan experience, with adjustments Separate tables for Law Enforcement, Teachers, and General Separate tables for contingent annuitants | Latest experience study recommended updating to the latest tables, with adjustments. |
| Mortality improvement | Scale applied to tables to reflect future mortality improvement | MP-2019 scale | MP-2021 | Latest experience study recommended updating to the latest projection scale. |

Pension Demographic Assumptions set by the State Periodically (continued)

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|------------------------------|--|---|--|--|
| Turnover | Probability of terminating service prior to retirement eligibility each year prior to retirement eligibility | Based on age, service, gender, and employment classification | Based on age, service, gender, and employment classification | Latest experience study recommended updates. |
| Disability | Probability of becoming disabled prior to retirement eligibility each year prior to retirement eligibility | Based on age, service, gender, and employment classification | Based on age, service, gender, and employment classification | Latest experience study recommended updates. |
| Retirement | Probability of retiring each year after meeting the age and service eligibility requirements | Based on age, service, gender, and employment classification | Based on age, service, gender, and employment classification | Latest experience study recommended updates. |
| Spouse age difference | Actual data is used for retirees, but active employees are valued based on assumption at retirement | Husbands are assumed to be three years older than their wives | Husbands are assumed to be two years older than their wives | Latest experience study recommended updates. |

Assumptions set by the Health Actuary Annually

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|---------------------------|---|---|--|---|
| Substantive Plan | Plan documents, SPDs, Notices, Ordinances, Past Practices and Public Law that describe the benefits due and that are expected to be due to participants | Detailed in the valuation report | Same process as last year | Reviewed by the State |
| Plan Changes | Change in plan terms must be recognized immediately in OPEB expense under GASB 75 | Plan changes as of January 1, 2026 known at this time (no material impact expected on claims costs) | Plan changes as of January 1, 2027 known at this time and will be reflected in the valuation | Adjustments to deductibles and other policy limits to be reflected in current valuation. |
| Claims Cost Rates | Derivation of the average expected rates for each coverage | Separate rates for Non-Medicare (70/30, 80/20) and Medicare (70/30, MA Base, MA Enhanced) | Being developed in conjunction with Q1 Financial Projections | |
| Medicare Advantage | Fully insured rates originally guaranteed for five years effective January 1, 2021, extended to 2027 | Incorporate rate for 2026 and project premiums in 2027 and beyond | Incorporate rate for 2027 and project premiums in 2028 and beyond | Continuing to assess the potential impact of Inflation Reduction Act (IRA) on MA-PD rates |

Assumptions set by the Health Actuary Annually (continued)

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|--|--|--|---|--|
| Short Term Health Trend | The expected increases in health care costs | Separate trends for Medical, Rx, MA Plans, Retiree Contributions and Admin | Medical: 6.00% Pharmacy Claims: 9.50% Rebates: 9.50% | Year 1 trends consistent with Q1 financial projections, with step down over time to ultimate trend rates |
| Participation Rate | The assumed percentage of active employees that retire and elect to be covered under the Plan | 100% for employees, 10% for spouses | No change | Active employees hired after December 31, 2020 not eligible for OPEB |
| Migration Assumption | The assumed movement of participants between plans | See next slide | See next slide | |
| Tobacco Attestation | Different retiree contributions apply for those in 80/20 Plan based on completing attestation of tobacco use | 99.1% of participants in 80/20 Plan assumed to complete attestation | Surcharge no longer applies effective January 1, 2026 | Based on Q1 2026 monthly average |
| Administrative Expense Rates | Separate from the expenses included in the premiums, applies to self-funded plans | Per participant expenses (retiree and spouses) calculated | Baseline trend of 0.92% in CY 2026, then 3.0% annually thereafter | Reflects flat fees for Aetna fees for self-funded plans through 2027 |
| Employer and Employee Contributions | Applies to participants who contribute towards OPEB | Consistent with Q1 2025 Financial Projections | Consistent with Q1 2026 Financial Projections | Based on known legislative actions and anticipated future rate changes |

Assumptions set by the Health Actuary Annually

Migration Assumption 2025 Valuation (from Q1 2025 projections)

| | 2025 | 2026 | 2027 | 2028 | 2029+ |
|-----------------------------|-------|-------|-------|-------|-------|
| Non-Medicare Retiree | | | | | |
| 80/20 Plan | 42.5% | 42.0% | 41.5% | 41.0% | 40.5% |
| 70/30 Plan | 57.5% | 58.0% | 58.5% | 59.0% | 59.5% |
| Medicare Retiree | | | | | |
| MA Base | 75.7% | 75.0% | 75.0% | 75.0% | 75.0% |
| MA Enhanced | 8.5% | 10.0% | 10.0% | 10.0% | 10.0% |
| 70/30 Plan | 15.8% | 15.0% | 15.0% | 15.0% | 15.0% |

2026 Valuation (from Q1 2026 projections)

| | 2026 | 2027 | 2028 | 2029+ |
|-----------------------------|-------|-------|-------|-------|
| Non-Medicare Retiree | | | | |
| 80/20 Plan | 39.3% | 39.3% | 39.3% | 39.3% |
| 70/30 Plan | 60.7% | 60.7% | 60.7% | 60.7% |
| Medicare Retiree | | | | |
| MA Base | 73.0% | 75.0% | 75.0% | 75.0% |
| MA Enhanced | 8.5% | 10.0% | 10.0% | 10.0% |
| 70/30 Plan | 18.5% | 15.0% | 15.0% | 15.0% |

Assumptions set by the Health Actuary Periodically

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|------------------------------|--|---------------------------------|---------------------------------|---|
| Ultimate Health Trend | <p>The final entry in the Health Trend that is projected for 80+ years</p> <p>This is the expectation for US medical spending in general. Components:</p> <ul style="list-style-type: none"> • Inflation • Historic measures (excess of health care increases over CPI) • Limiting factor that medical expenses will flatten out as a percentage of GDP | 5.00% | No change | |
| Medicare Eligibility | Some hires prior to 1988 were not required to be covered under Medicare, resulting in larger over age 65 claims | 100% eligible | No change | |
| Morbidity | A required process of allocating average claims to each age and gender | Updated Segal Standard Table | No change | Segal updated standard morbidity table based on review of claims experience in data warehouse in 2023 |

GASB 74/75 Assumptions/Methods for Accounting

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|---|---|--|--|---|
| Actuarial Cost Method | Basis for assigning costs accruals to active employees | Entry Age Normal Level Percentage of Pay | No Change | No choice, prescribed by GASB 74/75 |
| Discount Rate | The rate used to discount future projected benefit payments to the valuation date 20-year, general obligation, municipal bond index rate as of the Measurement Date, unless pre-funding, in which case that same rate is blended with the long-term rate of return | 3.93% as of June 30, 2024, and 5.20% as of June 30, 2025 | 5.20% as of June 30, 2025, and market rate as of June 30, 2026 (as required by GASB) | No choice (for unfunded plans), prescribed by GASB 74/75 This assumption has significant impact on the liability calculation - as the rates move downward, the liability will increase See next slide |
| Expense Methodology | The development of the OPEB Cost from the benefit liabilities and assets | GASB 75 Basis | No Change | No choice, prescribed by GASB 75 |
| Allocation of Expense to Contributing Employers (Agencies) | The basis the OPEB expense is allocated to contributing divisions. | Based on the Present Value of Future Salaries | No Change | Consistent with the pension plans methodology. The Cost Method is a level percent of salary cost method, which led to this basis. |

Discount Rate and Prefunding

- As noted on prior slide, GASB mandates use of a municipal bond index rate for calculating the Net OPEB Liability of an unfunded (“pay-as-you-go”) plan
- Traditionally, the State’s OPEB plan has been essentially pay-as-you-go
 - General Assembly sets appropriation for each year to be slightly higher than expected expenses
- Since FY 2020, additional assets have been transferred to RHBTF
- Segal first completed a study with SHP during 2023 to look at the impact of pre-funding on the discount rate
- Segal calculated the Net OPEB Liability assuming a fully funded plan
 - Analysis used 6.5% for the discount rate, which is the assumed rate of return on plan assets used for the retirement system valuations
 - Also included a “blended” rate based on current and projected funding levels
- Segal understands that the Committee still considers the plan “pay-as-you-go”, and will keep the same methodology for selecting the discount rate as before (GO-Bond rate) for GASB disclosures
- Segal was asked to include supplemental material in an appendix to the valuation report this year
 - Net OPEB Liability as of the measurement date using a fully funded rate, and other discount rates as requested (for sensitivity analysis)
 - Actuarially determined contribution in order to fully fund the plan over 30 years
 - Additional information on the plan’s assets

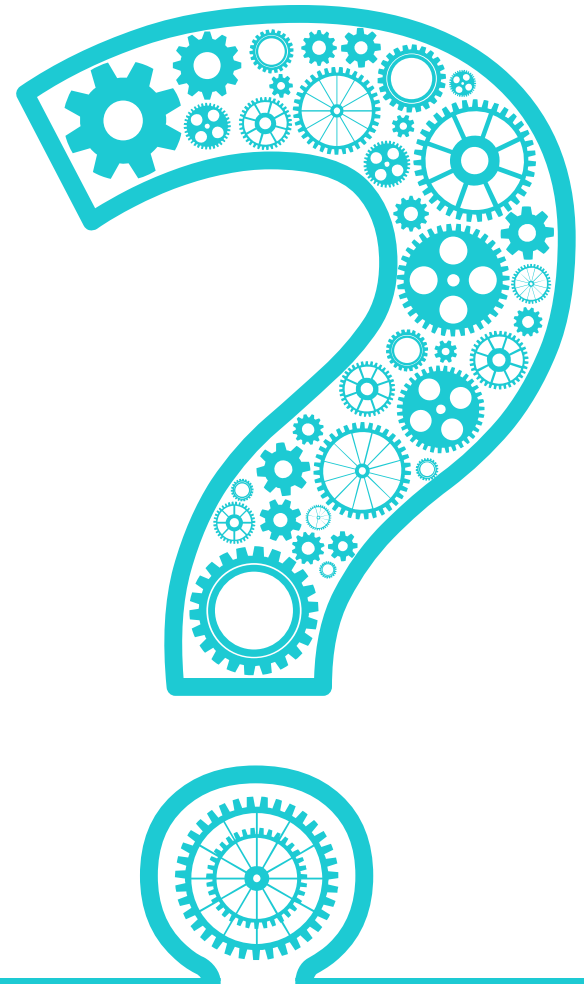
Assumptions/Methods for Funding

Generally, the Actuarially Determined Contribution is the annual accrual (Normal Cost), plus a recognition of the unfunded liability, plus an adjustment for timing.

| | Descriptor | December 31, 2024 Assumption | December 31, 2025 Assumption | Comments |
|-----------------------------------|---|--|--|--|
| Actuarial Cost Method | Basis for assigning costs accruals to active employees | Entry Age Level Percent of Payroll | Entry Age Level Percent of Payroll | Could consider other cost methods if plan were actually prefunded |
| Discount Rate | The rate used to discount future projected benefit payments to the valuation date | GASB 74/75 discount rate as of fiscal year end | GASB 74/75 discount rate as of fiscal year end | Could consider using long-term return assumption if plan were actually prefunded |
| Amortization Methodology | Method for recognizing the unfunded liability | 30-year, open, level percent of pay | 30-year, open, level percent of pay | Could consider a closed funding period if plan were actually prefunded |
| Projecting to Future Years | ADEC is not calculated on a projected basis since there is no funding policy in place | Calculated the ADEC for fiscal 2025 | Calculate the ADEC for fiscal 2026 | |

Other Items and Committee Concerns

- Questions or concerns from previous valuations of which Segal should be aware
- Other State changes or directions that need to be reflected in this valuation



Proposed 2026 Process and High Level Timeline



* FOD is simultaneously verifying the GASB 75 Report and Allocation Tables as well as other Reports (i.e., DIPNC, TSERS, LGERS, etc) for the ACFR from December to February. It could be possible that FOD provides feedback to the actuary prior to 2/5/2027 where FOD would expect a final GASB Report and Allocation Tables within 2 weeks of the final comments.

Thank You

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