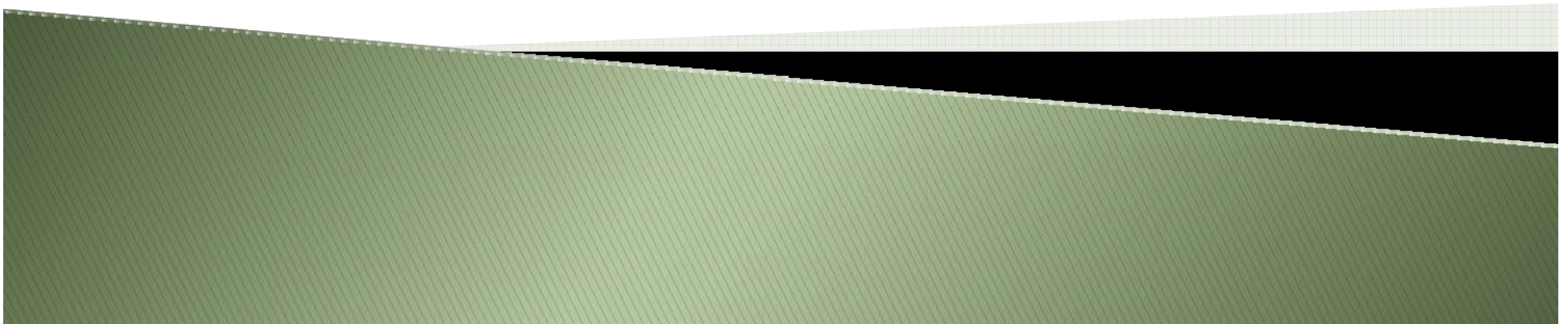


# Department of State Treasurer

## Presentation to Joint Legislative Commission on Government Operations

- ✓ Update on Investment Returns
- ✓ Summary of Actions Taken Pursuant to Expanded Investment Authority Granted Under Senate 703 (S.L. 2009–98)
- ✓ 2009 Debt Affordability Study,
- ✓ Funding the Pension System
- ✓ Additional Items To Consider



## NCRS Has Experienced Above Median Returns and Below Median Risk

PUBLIC FUND RISK/RETURN COMPARISON				
RETURNS	1 Year	3 Year	5 Year	10 Year
25th Percentile	21.95%	0.01%	4.26%	4.48%
Median	19.20%	-1.13%	3.71%	4.03%
75th Percentile	16.36%	-2.07%	3.13%	3.44%
NCRS	15.47%	0.38%	3.87%	4.27%
RISK (Std. Dev.)				
25th Percentile	13.07	13.9	11.44	10.77
Median	11.95	13.06	10.84	10.21
75th Percentile	10.06	12.04	10.02	8.91
NCRS	10.66	11.17	9.23	8.87
SOURCE: BNY Mellon Total Funds - Public Funds \$1+ Billion (Gross of Fees)				

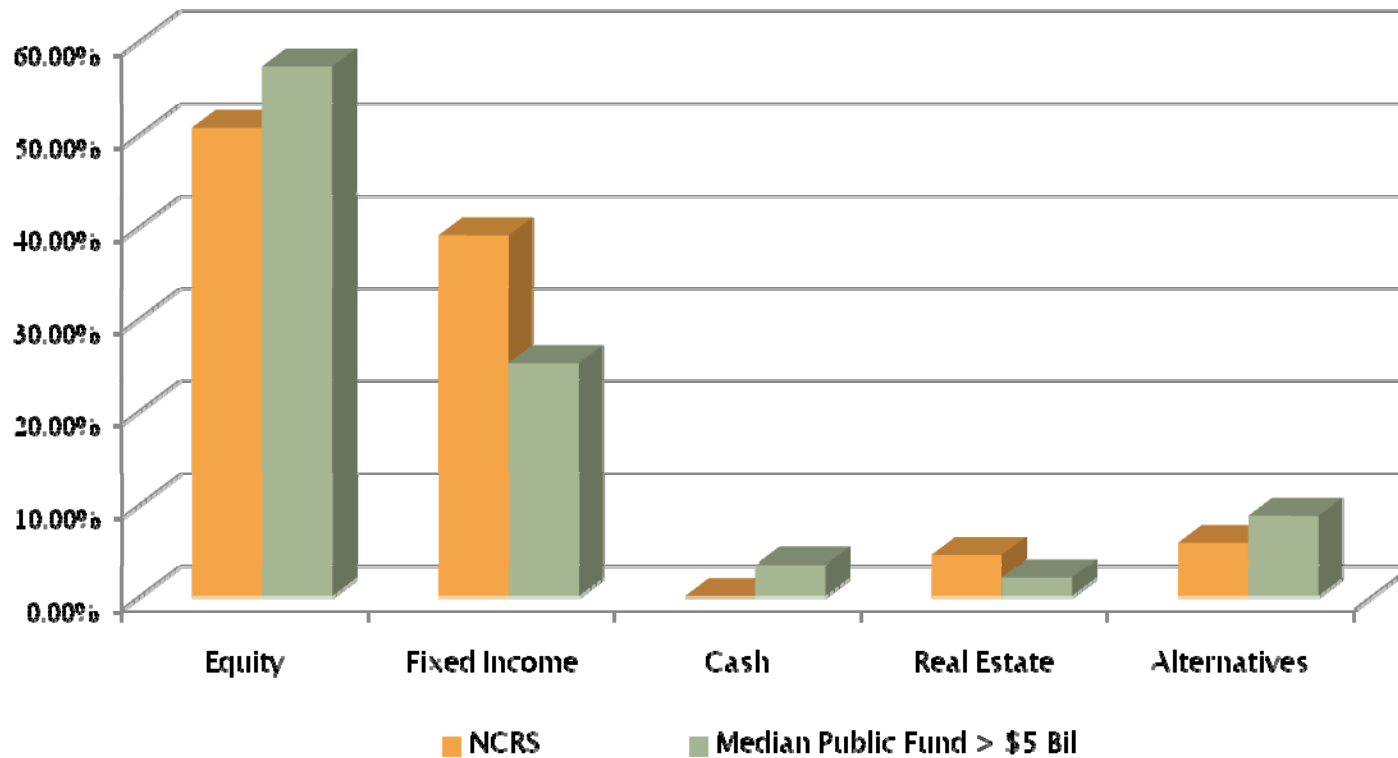
## North Carolina's Target Investment Rate is One of the Most Conservative

### Exhibit 12 INVESTMENT RETURN ASSUMPTIONS

Rate	Number of states at that rate	
<b>7.25%</b>	<b>2</b>	NC, SC
<b>7.50%</b>	<b>7</b>	GA, IN, IA, KY, TN, VA, WV
<b>7.75%</b>	<b>7</b>	CA, FL, ID, ME, MD, SD, UT
<b>7.80%</b>	<b>1</b>	WI
<b>8.00%</b>	<b>22</b>	AL, AZ, AR, DE, HI, KS, MI, MS, MO, MT, NE, NV, NM, NY, ND, OH, OK, OR, PA, TX, WA, WY
<b>8.25%</b>	<b>6</b>	AK, LA, MA, NJ, RI, VT
<b>8.50%</b>	<b>5</b>	CO, CT, IL, MN, NH

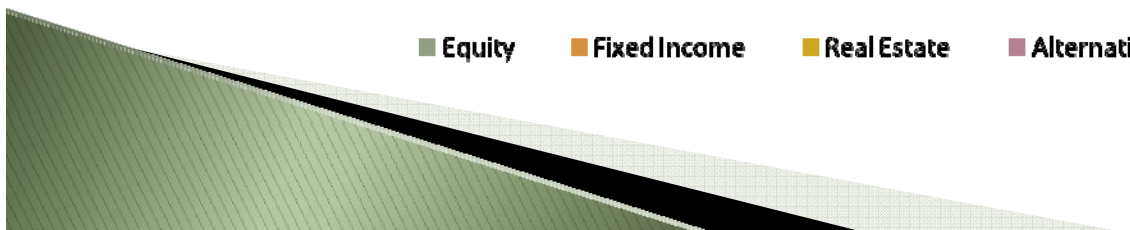
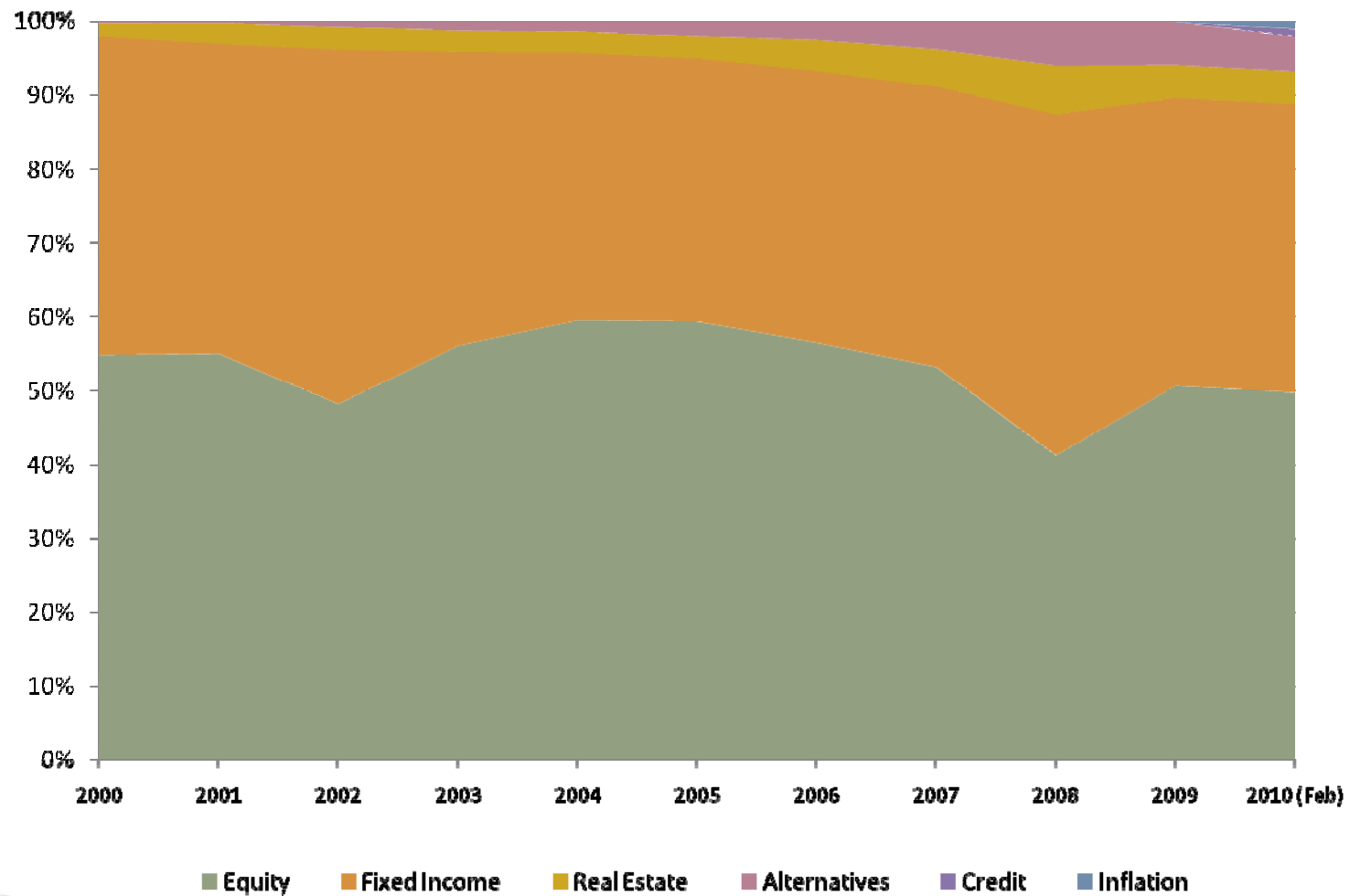
SOURCE: Pew Center on the States, 2010.

## North Carolina Has A Higher Percentage of Fixed Income In Its Portfolio



SOURCE: Wilshire TUCS

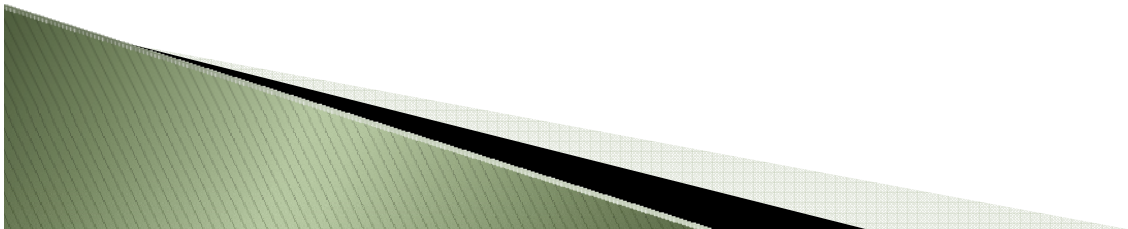
## New Authority Has Not Significantly Altered Asset Allocation



# Limited Activity Based on New Authority

- We have made no investments in our inflation-hedge portfolio.
- We have made two new investments in our credit portfolio. They are:  
Angelo Gordon: \$150 million  
Wilbur Ross: \$150 million
- We have transferred existing money managers into new allocation buckets: They are:

Credit Strategies Portfolio <u>Managers</u>	Rate of Return <u>1-Year</u>
AG Global Debt Strategy	48.02%
GSO Cap Opportunities	16.40%
AG Commercial RE Debt	-50.40%
AG TALF	NA
AG Cap Recovery V	8.79%
AG Cap Recovery VI	16.78%

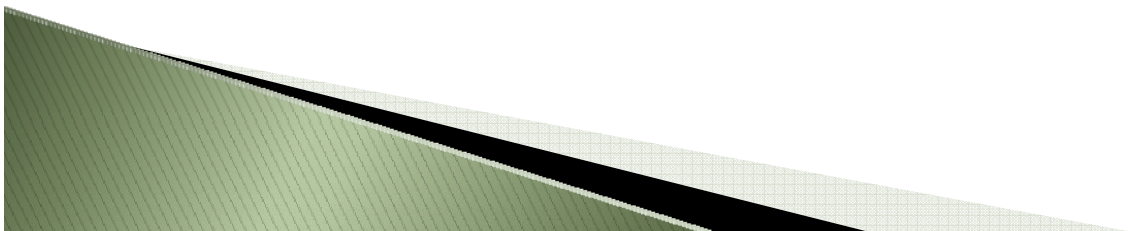


# AAA – Easy To Lose, Hard to Regain

Only seven states have the highest rating from the 3 major rating agencies. They are: Delaware, Georgia, Maryland, Missouri, North Carolina, Utah and Virginia

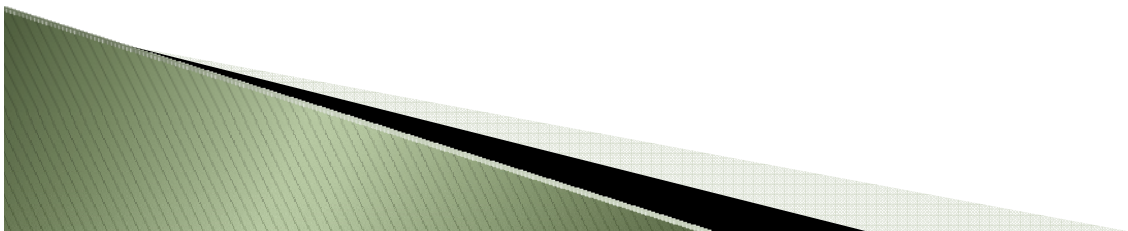
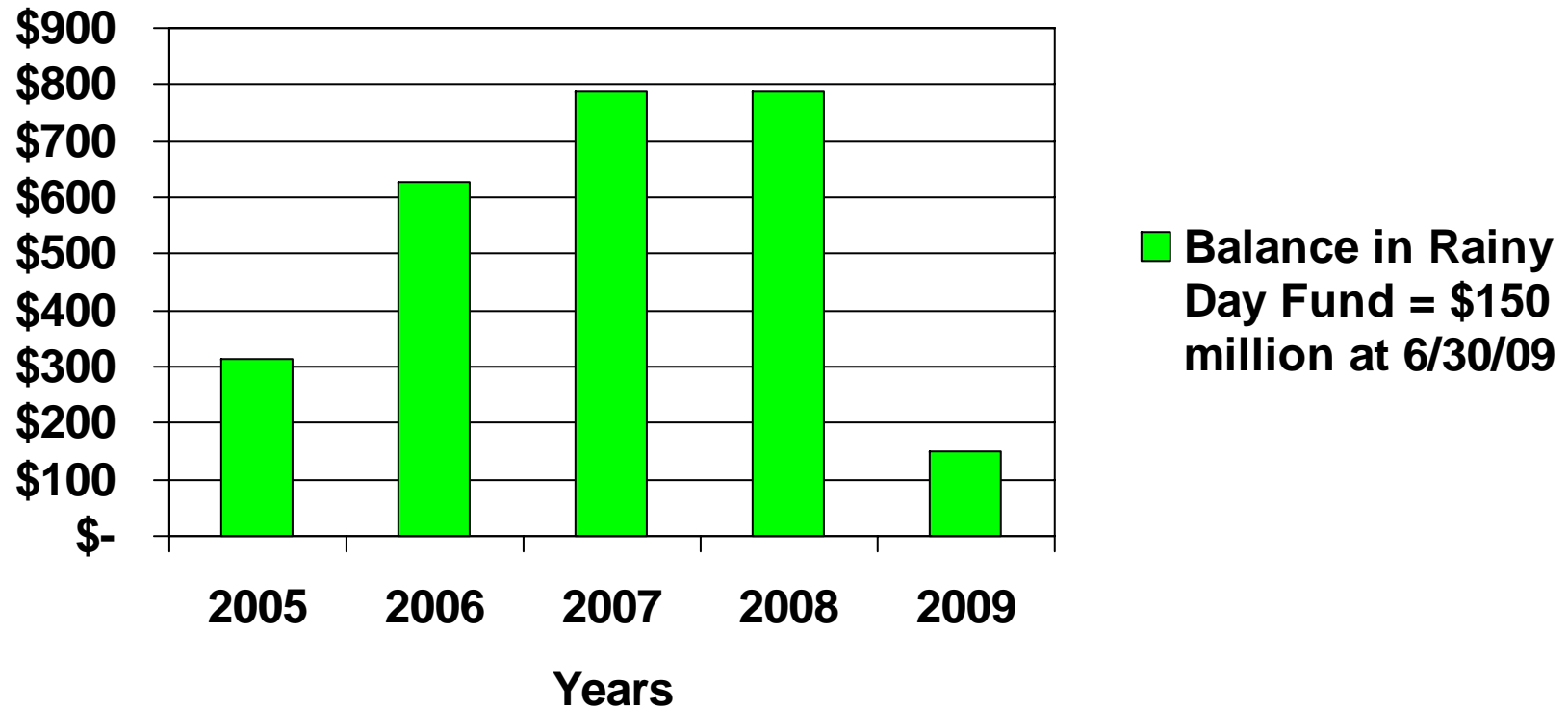
AAA ratings are based on, but not limited to, the following factors:

- Level of reserves
- Stability, diversity, and structural balance in the revenue system
- Debt management
- Management of other long-term liabilities



# Rainy Day Fund

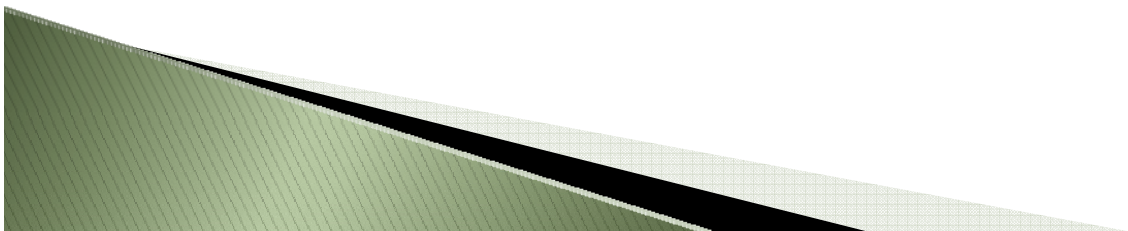
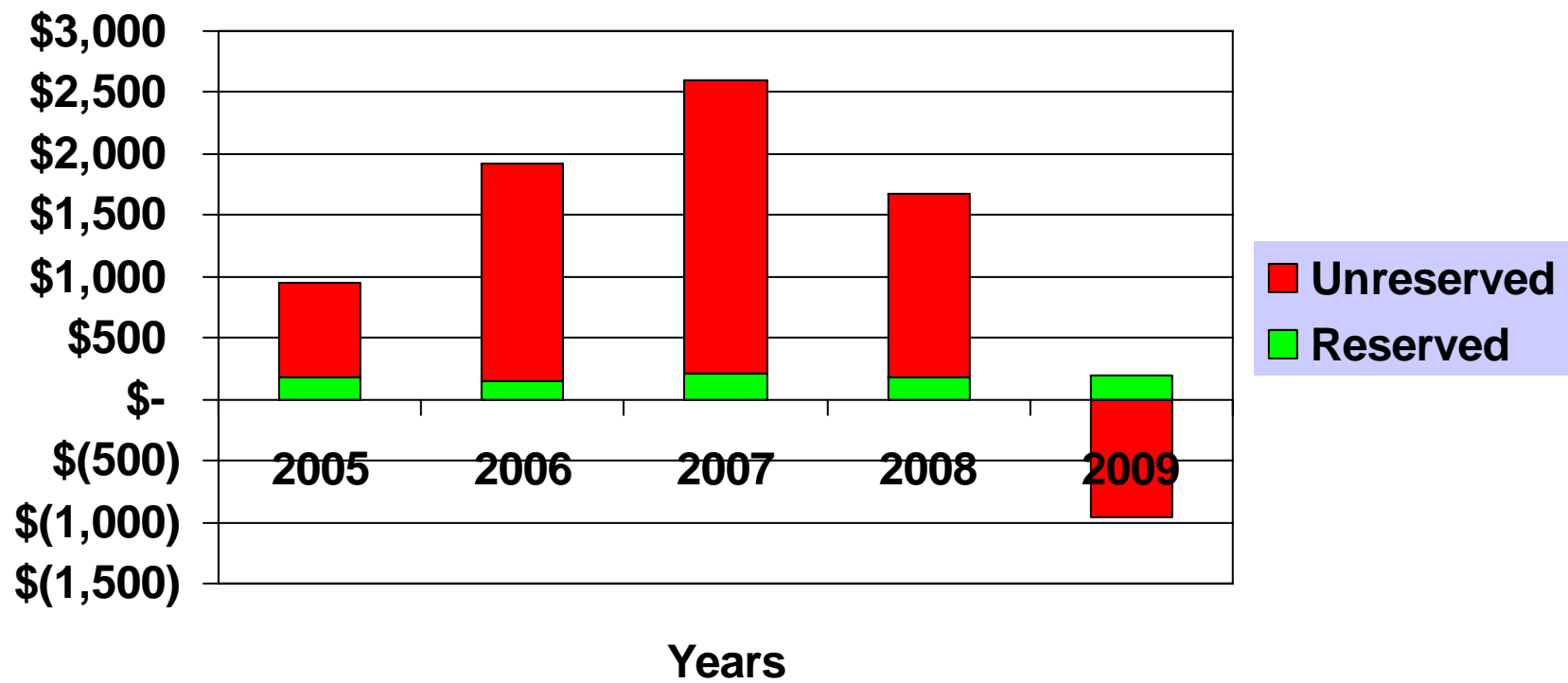
(in millions)





# We Have A Structural Budget Imbalance

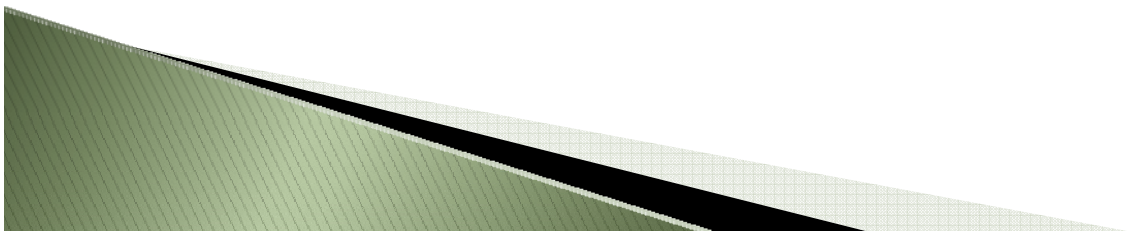
(in millions)



# Authorized but Unissued Tax-Supported Debt

As of December 31, 2009

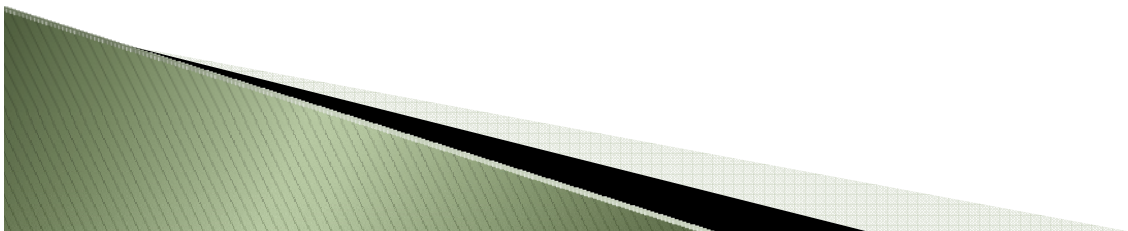
<b>Total</b>	<b>General Obligation</b>	<b>Special Indebtedness</b>
<b>\$1,901.0 million</b>	<b>\$487.7 million</b>	<b>\$1,413.3 million</b>



# 2009 GA Session New Debt Authorizations

(in millions)

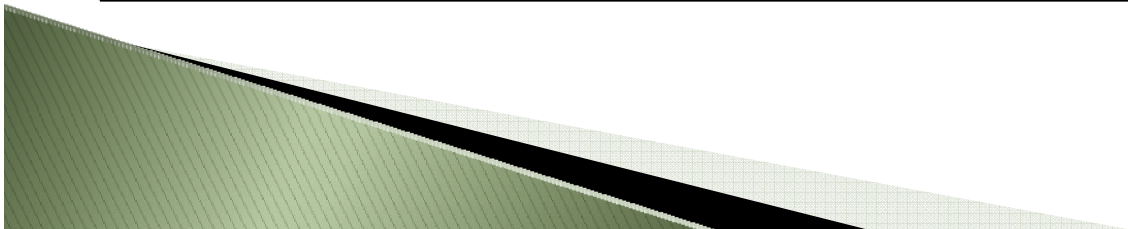
Maury Correctional Institution	\$ 16
Biomedical Research Imaging Center	\$223
Repair & Renovation Projects	<u>\$ 50</u>
Subtotal	\$289
Less project savings, etc.	<u>- 131</u>
Total net new authorizations	\$158



## Debt Affordability Study: General Fund Results (in millions)

<b>4 %</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total Capacity	\$18.1	\$0	\$91	\$626	\$361
Annual Capacity	\$9.1	\$9.1	\$9.1	\$9.1	\$9.1

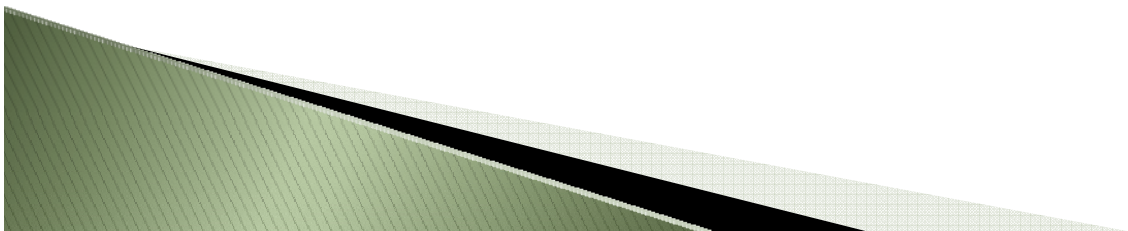
<b>4.75%</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total Capacity	\$1,644	\$0	\$177	\$712	\$415
Annual Capacity	\$575	\$575	\$575	\$575	\$575



# Debt Affordability Study

## Transportation Capacity (in millions)

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total Capacity	\$0	<b>\$0</b>	<b>\$33</b>	<b>\$21</b>	\$299
Annual Capacity	\$0	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	\$0
Actual Ratios	3.92%	<b>6.90%</b>	<b>6.41%</b>	<b>6.17%</b>	5.94%



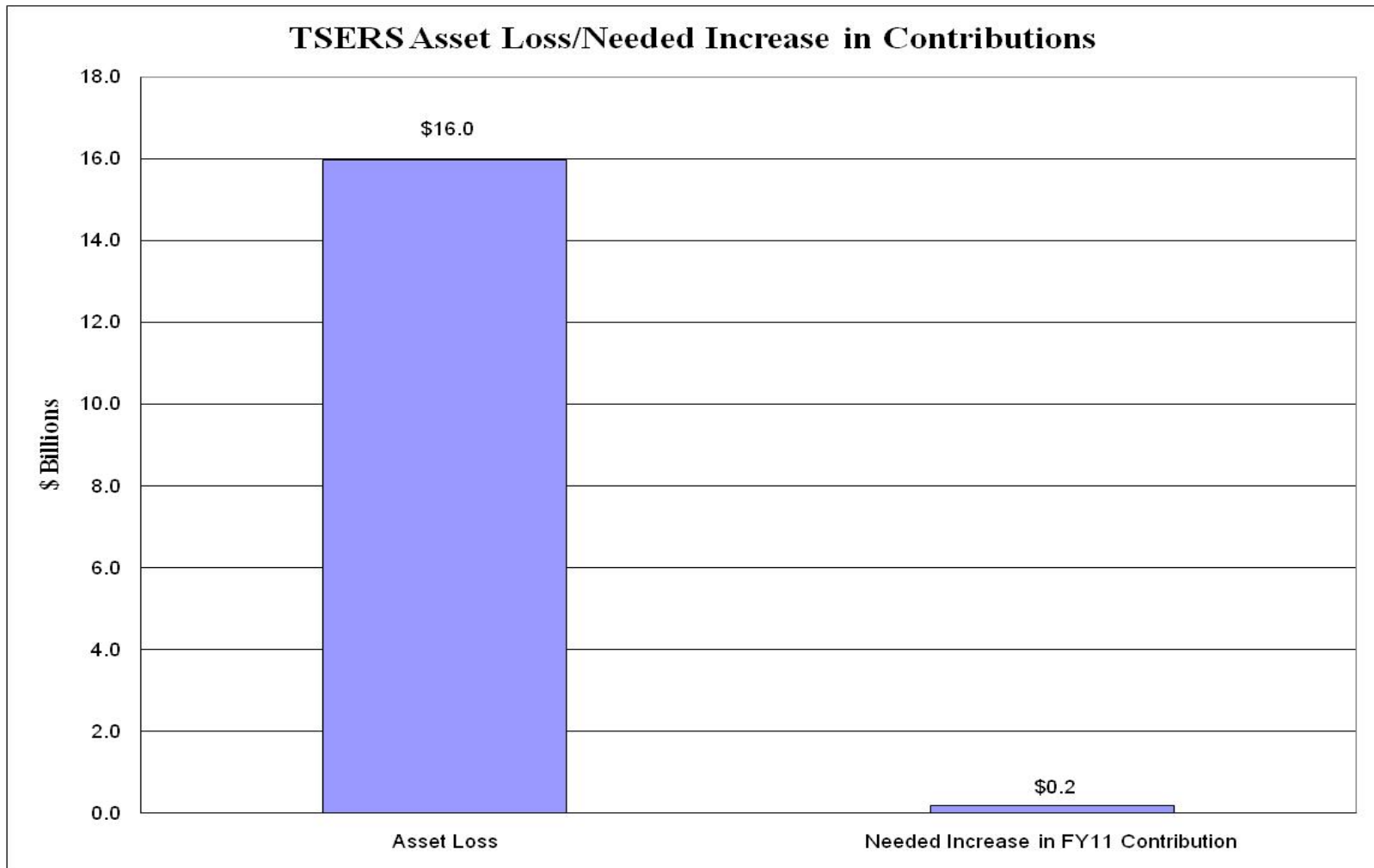
# Combined General Fund and Transportation Tax-Supported Debt Burden

<b>2012 actual projection</b>	<b>Target D.S. % Revenues*</b>	<b>Ceiling*</b>
General Fund (3.99%)	4.0%	4.75%
Transportation (6.41%)	6.0%	6.0%
Combined Result (4.30%)	4.27%	4.92%
*Based on 2007 revenues		

# FY 10–11 Pension Contributions

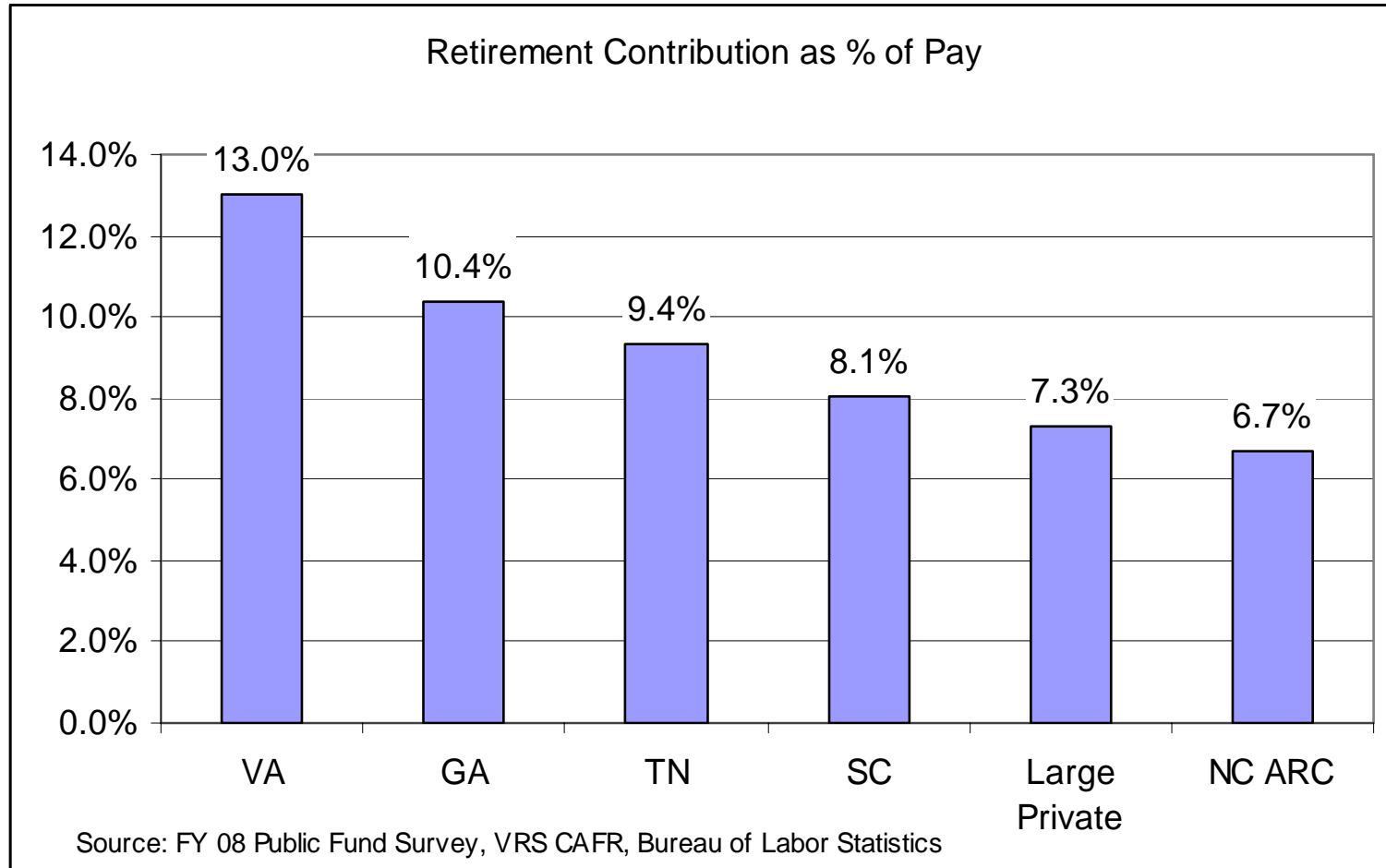
	TSERS
Estimated Salaries	\$10,193M (GF Only)
FY09-10 Actual	3.57% = \$364M
Currently Appropriated FY10-11 Rate	4.93% = \$503M
FY10-11 ARC	6.71% = \$684M (\$181M more than \$503M)

## Meeting The ARC is Still Only A Small Percentage of the Total Asset Losses

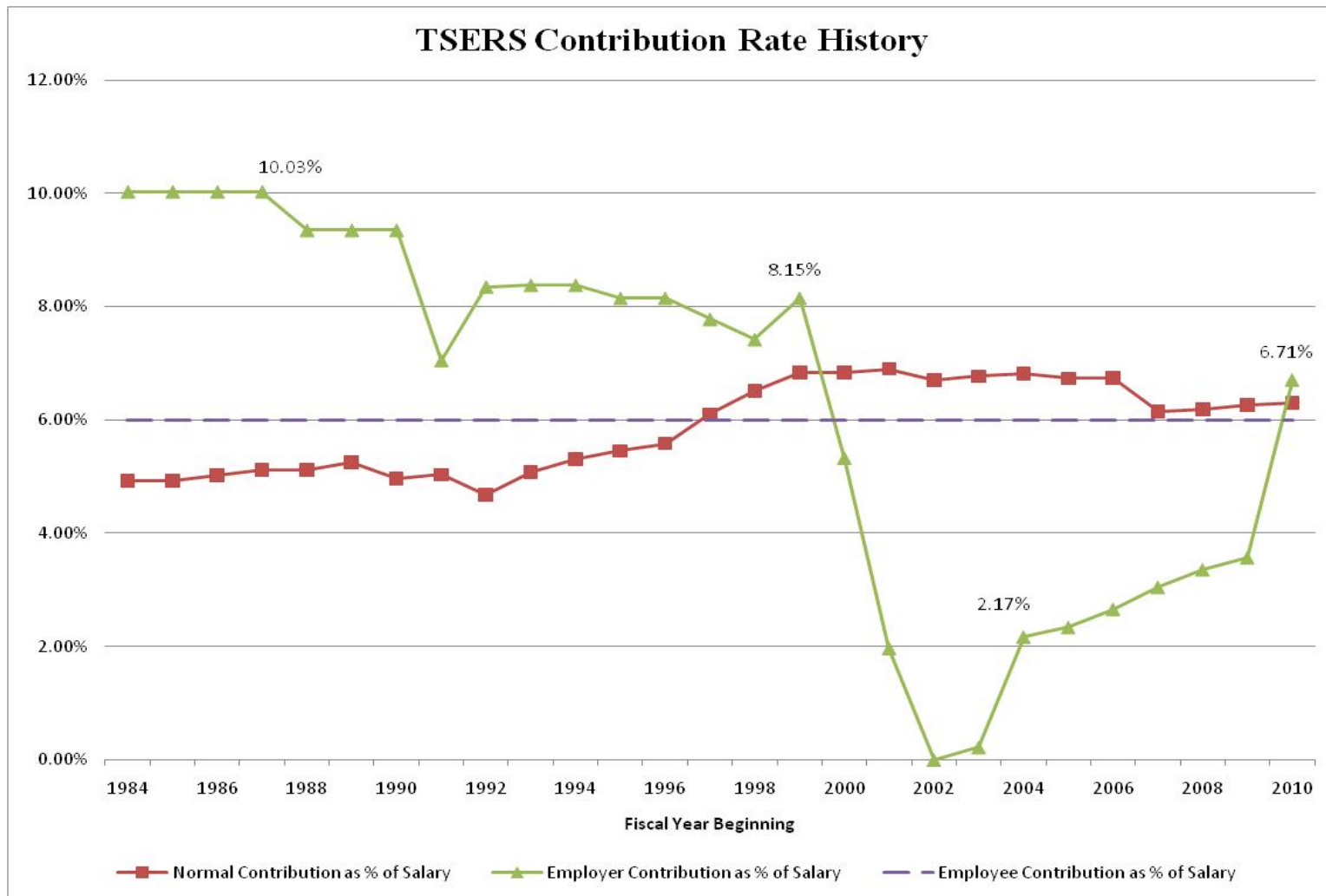




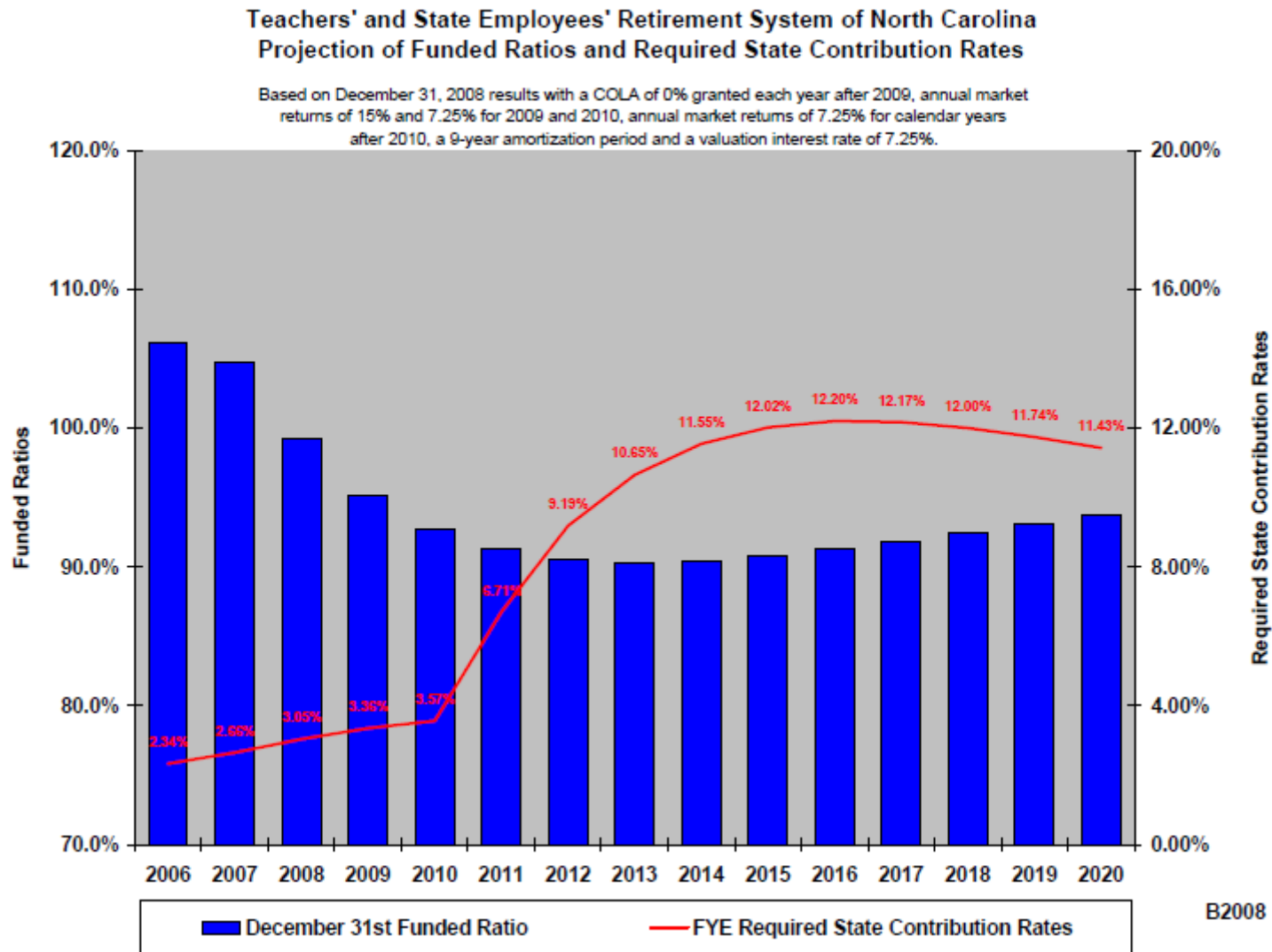
## NC Employer Contribution Is Relatively Low Compared to Other Funds



# Employer, Employee and Normal Contribution Rates Compared



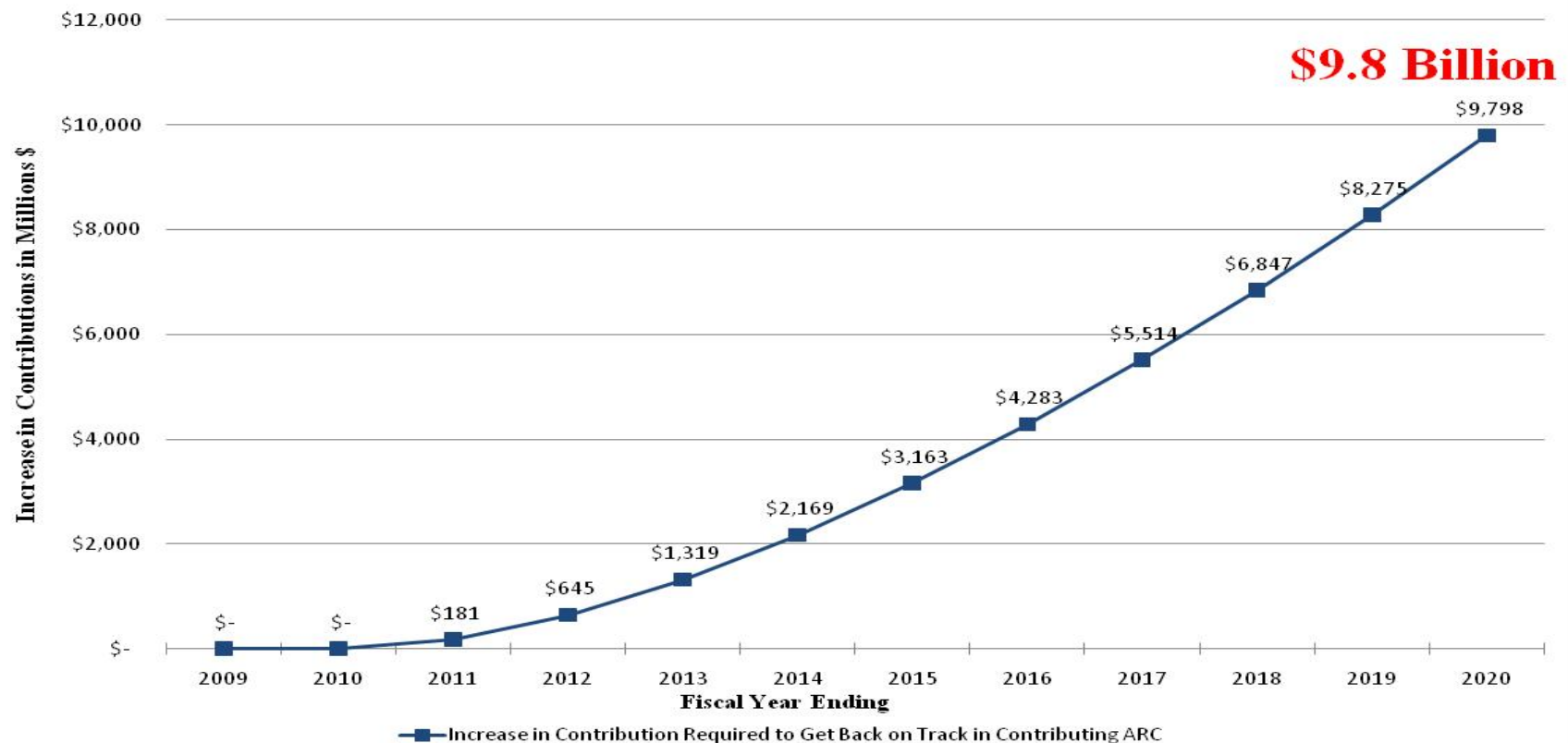
# Projected Contributions at Current Assumption of 7.25% Return



# What Happens if We Delay Making the Actuarial Required Contribution

## Teachers' and State Employees' Retirement System of North Carolina Projection of Funded Ratios Contribution Gap

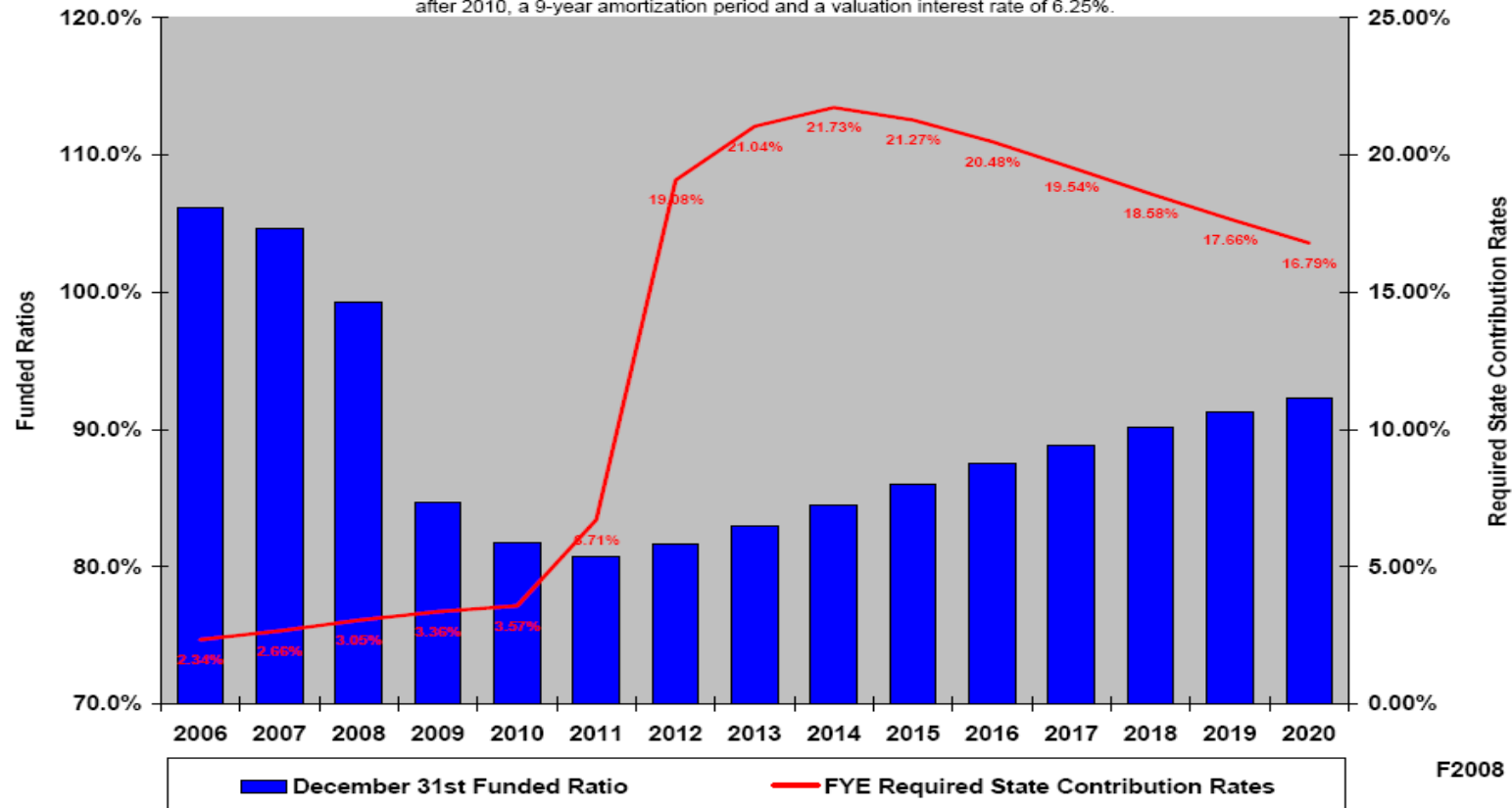
Based on December 31, 2008 results with an actual state contribution rate of 4.93% as of July 1, 2010 and beyond,  
a COLA of 0% granted each year after 2009, annual market returns of 15% and 7.25% for 2009 and 2010,  
annual market returns of 7.25% for calendar years after 2010 and a valuation interest rate of 7.25%.



# Projection of Contribution Rates with a Market Return of 6.25%

## Teachers' and State Employees' Retirement System of North Carolina Projection of Funded Ratios and Required State Contribution Rates

Based on December 31, 2008 results with a COLA of 0% granted each year after 2009, annual market returns of 15% and 6.25% for 2009 and 2010, annual market returns of 6.25% for calendar years after 2010, a 9-year amortization period and a valuation interest rate of 6.25%.



# We Are Accumulating Debt to Pay Unemployment

- According to the N.C. Employment Security Commission, during 2009 North Carolina paid out \$2.5 billion in Unemployment Insurance benefits.
- At current rates of borrowing, North Carolina will owe the federal government between \$3.2 and \$3.5 billion by the end of 2010.
- The borrowed funds are interest free until December 31<sup>st</sup>, 2010. After that an interest rate of 4.36% would apply.
- At that interest rate, North Carolina will owe an additional \$153 million in interest to the Federal Government.

