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North Carolina Department of State Treasurer

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FOR IMMEDIATE RELEASE
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Cowell Announces 20 Percent Drop in Pension Fund Value

RALEIGH – State Treasurer Janet Cowell announced today a 19.7 percent decline in the value of the state's pension fund.

The market value of the fund now stands at \$60 billion, down from \$77 billion reported on December 31, 2007.

While the loss is significant, retiree benefits are not at risk.

“North Carolina has a defined benefit system,” Cowell said. “That means that every person who is entitled to retirement benefits will receive them. It is their money and it will not be taken away.”

Plunging stock market losses at 39.9 percent coupled with bond gains of 7.4 percent accounted for the current total.

The state's conservative investment philosophy, which is designed to protect the benefits of workers and retirees, invests a much higher percentage of the plan's funds in bonds than the typical public pension plan. That approach capped the state's losses to 20 percent. Stock market losses were close to 40 percent.

The state's portfolio is expected to take further hits in the first quarter of this year as we realize the decline in real estate values, which make up a small portion of the fund.

“As the 10th largest state pension fund in the country, we have broad exposure to U.S. and global investor markets,” Cowell said. “However, industry practices in public pensions allow the loss to be absorbed over the next five years.”

How the plan is funded:

Funding for the pension fund is a three-legged stool. It is composed of pension earnings, employee contributions, and employer contributions.

Lower investment returns will have an impact and most pension plans are expected to experience higher required contributions as a result of market declines.

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Employee contributions:

Employees contribute 6 percent of their salary to the retirement system. This percentage is fixed and does not change.

Employer contributions:

In light of lower investment returns, the employer contribution to the pension plan will go up. This affects both state and local government budgets.

The state's actuary called on the General Assembly this month, to contribute \$29 million to keep the plan fully funded.

The required contribution in future years will increase by significant amounts. The extent of that will depend on investment returns this year and next. Cowell is currently working with staff experts to determine the minimum required contributions for future budget years.

Investment strategy:

In terms of the fund's investment strategy for 2009 and beyond, Cowell will examine all options. To start, she will review every relationship in the portfolio, hire an outside auditor to review business and investment practices, and hold true to established principles of conservative, prudent long-term investing.

"During times of market volatility, we don't 'double down' in search of more risk to compensate for our losses," said Cowell, quoting a recent retirement investment industry report. "We buckle down and continue a careful approach focused on a long-term strategy that ultimately benefits the people of North Carolina."

About the pension fund:

The North Carolina Retirement Systems, the formal name for the pension fund, is the tenth largest state pension in the country. It provides retirement benefits and savings for more than 820,000 North Carolinians, including teachers, state employees, firefighters, police officers and other local public workers.

For more information about the status of the pension fund, go to www.nctreasurer.com