



BRADFORD B. BRINER  
STATE TREASURER OF NORTH CAROLINA



REPORT ON  
ESCHEAT FUND  
FINANCIAL STATUS

June 30, 2025

## **Statutory Reporting Requirement**

This report is being provided in accordance with N.C.G.S. §147-69.2A(d):

*The State Treasurer shall engage a third-party professional consultant to conduct an assessment and projection of the financial status of the Escheat Fund. The associated costs for the services may be directly charged to the Escheat Fund. The State Treasurer shall communicate the assessment of the consultant in an annual report to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the chairs of the respective appropriations and appropriate substantive committees of each chamber. The annual report shall evaluate claims by owners upon the Escheat Fund, current and projected investment returns, and projected contributions to the Escheat Fund, current and projected legislative appropriations, and authorized expenses. In the report, the State Treasurer shall assess the status of utilizing the Escheat Fund as an endowment fund and shall recommend an annual amount available for the funding of scholarships, loans, and grants from the Fund. The annual report shall be presented no later than December 31 of each year.*

This year's report and analysis was produced by internal staff at DST and is as of fiscal year ended June 30, 2025. With the passage of House Bill 506 effective January 1, 2026, future assessments shall be performed by the State Treasurer, in coordination with the North Carolina Investment Authority. If needed, a third-party professional consultant may be engaged to conduct the required assessment.

## **Department of State Treasurer's Assessment and Recommendation**

As the designated Escheat Officer, the Department of State Treasurer (DST) has the duty to preserve and maintain unclaimed property in perpetuity for the rightful owners. Over the past year, DST has made a concentrated effort in proactively connecting property with its true owners. This included pilot programs using artificial intelligence to help accelerate the process. Our goal remains to get 100% of the unclaimed property back into the hands of its owners.

Although the interest off the Escheat Fund is used for the good of the state, withdrawing principal over the years has created an imbalance in what we hold versus property that could, in theory, be paid out. In total, the Escheat Fund is \$1.61 billion short of being able to pay out all claims. This is because over the last 22 years, principal/corpus has been appropriated from the Escheat Fund to support grants, loans and scholarships for North Carolina students attending public universities. But while this theoretical imbalance exists, it should also be noted for FY 24-25 DST collected nearly \$200 million more than was paid out.

Moving forward, there is no mechanism to systematically extinguish that \$1.61 billion potential shortfall, as earnings from the invested assets are, by state constitution, required to fund administrative expenses, with the remainder sent to the State Education Assistance Authority (SEAA). If ongoing principal transfers occur at the recent rate of roughly \$50 to \$60 million per year, ten years from now the imbalance of what is held versus what is owed will be \$2.11 billion to \$2.21 billion.

DST requests this imbalance is considered in all decisions moving forward. The reduction or elimination of principal appropriations would help to increase future earnings of the Escheat Fund through a combination of a higher investment balance, along with the higher expected investment returns anticipated by shifting into long horizon strategies and out of a largely cash focused investment strategy.

## **Overview of Escheat Fund**

The DST is designated as the Escheat Officer for the State of North Carolina. By law, unclaimed property is escheated, or turned over, to DST for safekeeping. The UPD is responsible for recovering and returning such property to all rightful owners. The administration of the UPD and the Escheat Fund is governed principally by Chapter 116B of the North Carolina General Statutes.

The unclaimed property that is turned over to DST was previously held by financial institutions, insurance companies, government agencies and other businesses, referred to as "holders", in the form of wages, utility deposits, insurance policy proceeds, and other sources of funds. Property is considered unclaimed when the apparent owner fails to communicate interest in it for a period called the "dormancy" period. Once the property has met its dormancy limit and the holder has made a good faith effort to locate an apparent owner, any funds remaining with the holder must be escheated to UPD and maintained in

the Escheat Fund pursuant to state law. UPD actively seeks to locate the owners and promote public awareness of the program.

The investment earnings from the Escheat Fund pays for the administrative expenses of the UPD, and all remaining investment earnings are sent to SEAA, to provide grants, loans and scholarships for North Carolina students who attend public universities. Also, an amount specified in the biennial Budget is transferred annually from the Escheat Fund's principal to fund additional scholarships for those who are enrolled in North Carolina public institutions of higher education. See N.C.G.S. §§ 116B-6, 116B-7. Article IX, Section 10 of the State Constitution provides:

*All property that, after June 30, 1971, shall accrue to the State from escheats, unclaimed dividends, or distributive shares of the estates of deceased persons shall be used to aid worthy and needy students who are residents of this State and are enrolled in public institutions of higher education in this State. The method, amount, and type of distribution shall be prescribed by law.*

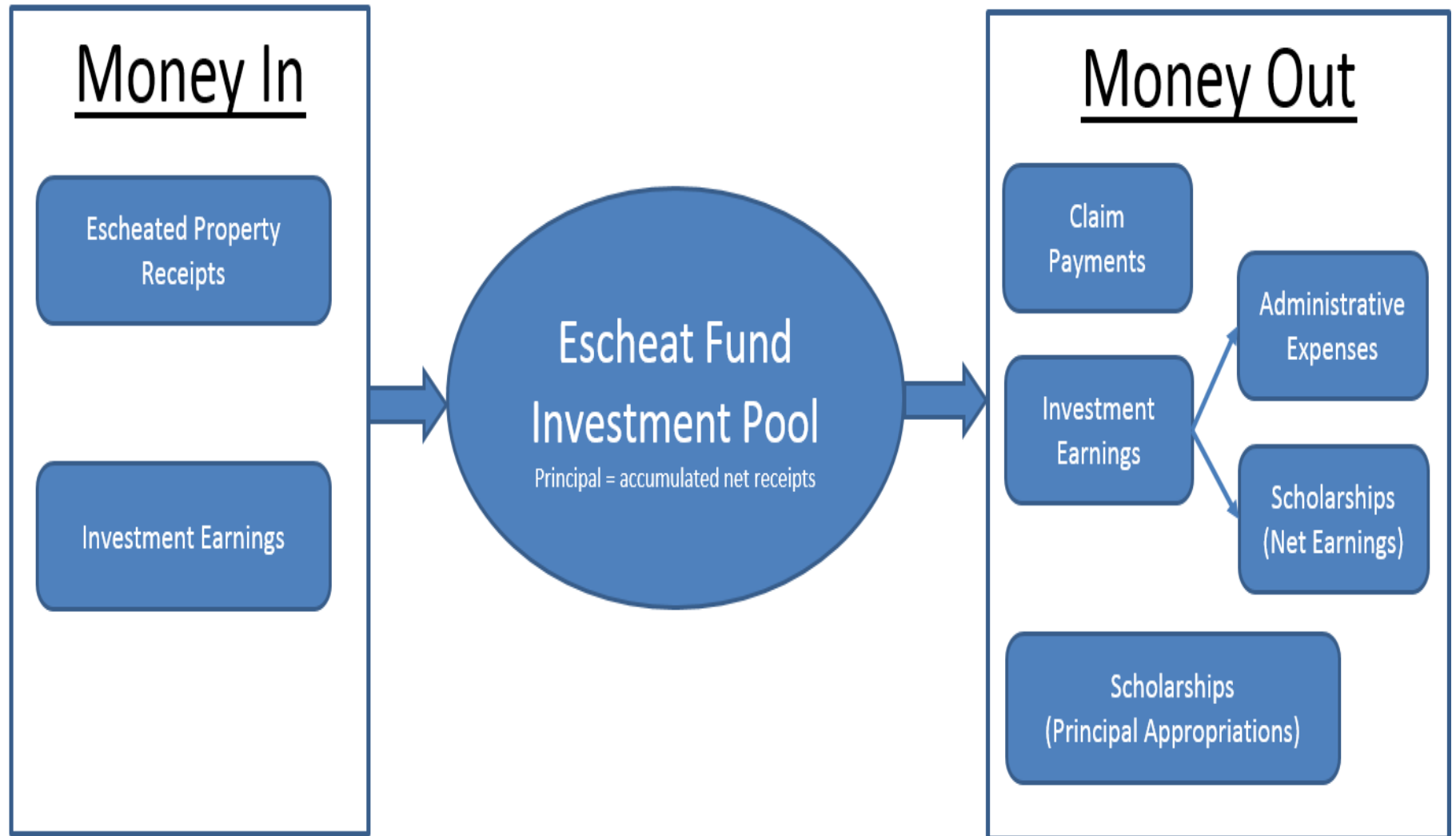
For Fiscal Year 2024-25, a total of \$50.6 million from investment earnings and \$38.1 million from the principal of the Escheat Fund was sent to SEAA. The General Assembly mandated that additional principal from the Escheat Fund of \$0.5 million go to the State Board of Community Colleges.

As of June 30, 2025, the market value of investments within the Escheat Fund was valued at \$1.56 billion. This value excludes \$180 million of escheated securities that have yet to be liquidated and pooled with the investments within the Escheat Fund. As the custodian of these funds, North Carolina remains liable to the rightful owners for the full amount of unclaimed property reported to DST.

In September of 2020, the DST launched an effort to return more money than ever to North Carolina citizens. With the passage of North Carolina Session Law 2020-80, 2021-3, and 2021-13 unclaimed property statutes were amended to authorize the State Treasurer to pay claims valued at \$5,000 or less without requiring a signed claim form.

Through this expedited payment initiative and regular claims process, for Fiscal Year 2024-25 the UPD paid 106,000 claims totaling \$102 million. With the ability to pay certain claims without a signed claim form and other outreach efforts, the UPD projects total annual claims payments will exceed \$110 million in Fiscal Year 2025-26 and beyond.

Diagram of Monetary Flows for the Escheat Fund



Source: DST

## Historical Analysis of the Escheat Fund

**Exhibit 1: Historical Escheat Fund Monetary Flows and Investment Balance by Fiscal Year (rounded \$ millions)**

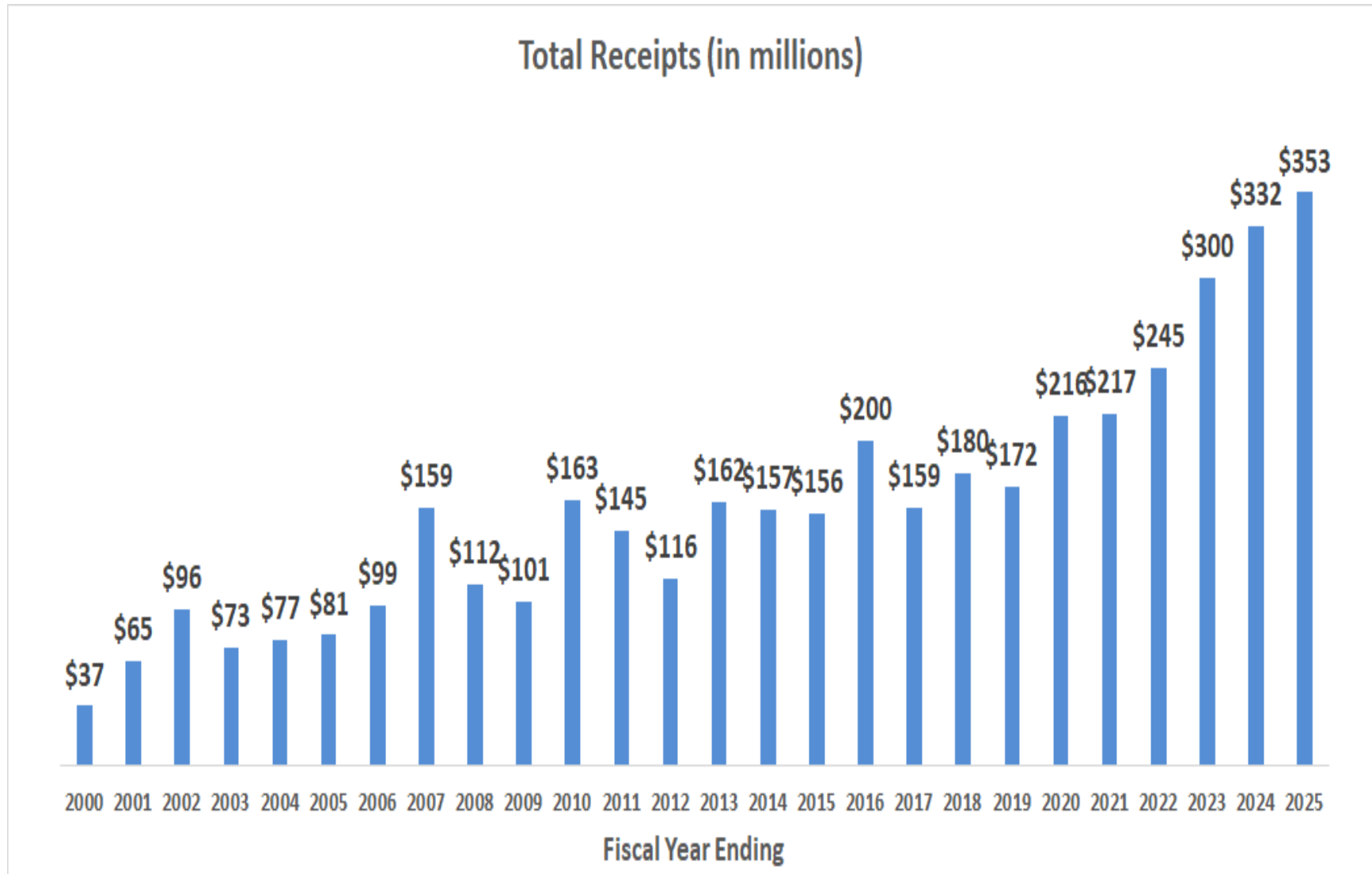
|  | <b><u>FY 2020-21</u></b> | <b><u>FY 2021-22</u></b> | <b><u>FY 2022-23</u></b> | <b><u>FY 2023-24</u></b> | <b><u>FY 2024-25</u></b> |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>Money In</b>                                  |                          |                          |                          |                          |                          |
| Receipts   | \$217                    | \$245                    | \$300                    | \$332                    | \$353                    |
| Investment Earnings                              | \$18                     | \$0                      | \$22                     | \$47                     | \$69                     |
| <b>Total Money In</b>                            | <b>\$235</b>             | <b>\$245</b>             | <b>\$322</b>             | <b>\$379</b>             | <b>\$422</b>             |
| <b>Money Out</b>                                 |                          |                          |                          |                          |                          |
| Claims   | \$70                     | \$105                    | \$109                    | \$115                    | \$102                    |
| Administrative Expenses                          | \$5                      | \$5                      | \$5                      | \$5                      | \$6                      |
| Total Scholarships                               | \$63                     | \$65                     | \$65                     | \$90                     | \$89                     |
| <i>Net Earnings for Scholarships</i>             | <i>\$10</i>              | <i>\$7</i>               | <i>\$16</i>              | <i>\$29</i>              | <i>\$51</i>              |
| <i>Principal Appropriations for Scholarships</i> | <i>\$53</i>              | <i>\$57</i>              | <i>\$49</i>              | <i>\$60</i>              | <i>\$39</i>              |
| <b>Total Money Out</b>                           | <b>\$138</b>             | <b>\$175</b>             | <b>\$178</b>             | <b>\$210</b>             | <b>\$197</b>             |
| <b>Assets</b>                                    |                          |                          |                          |                          |                          |
| Investment Balance                               | \$945                    | \$1,017                  | \$1,162                  | \$1,334                  | \$1,562                  |

Source: DST

Note: The year over year change in Investment Balance may not reconcile with the net Money In due to accrual and timing issues. Investment Balance is as reported by BNY Mellon.

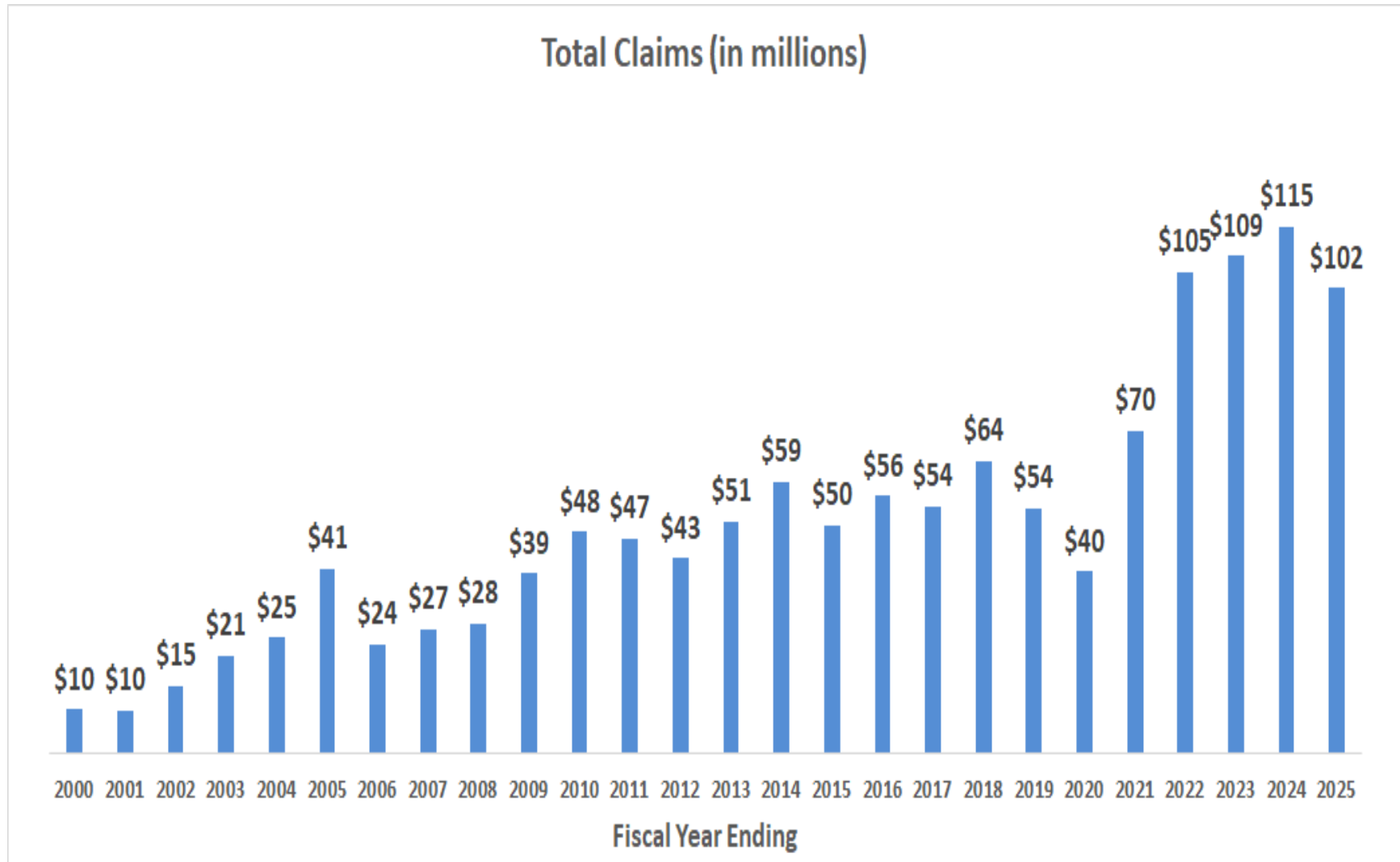
Note: The summarization of scholarship amounts may not equal Total Scholarships due to rounding.

**Exhibit 2: Receipts by Fiscal Year since 2000**



Source: DST

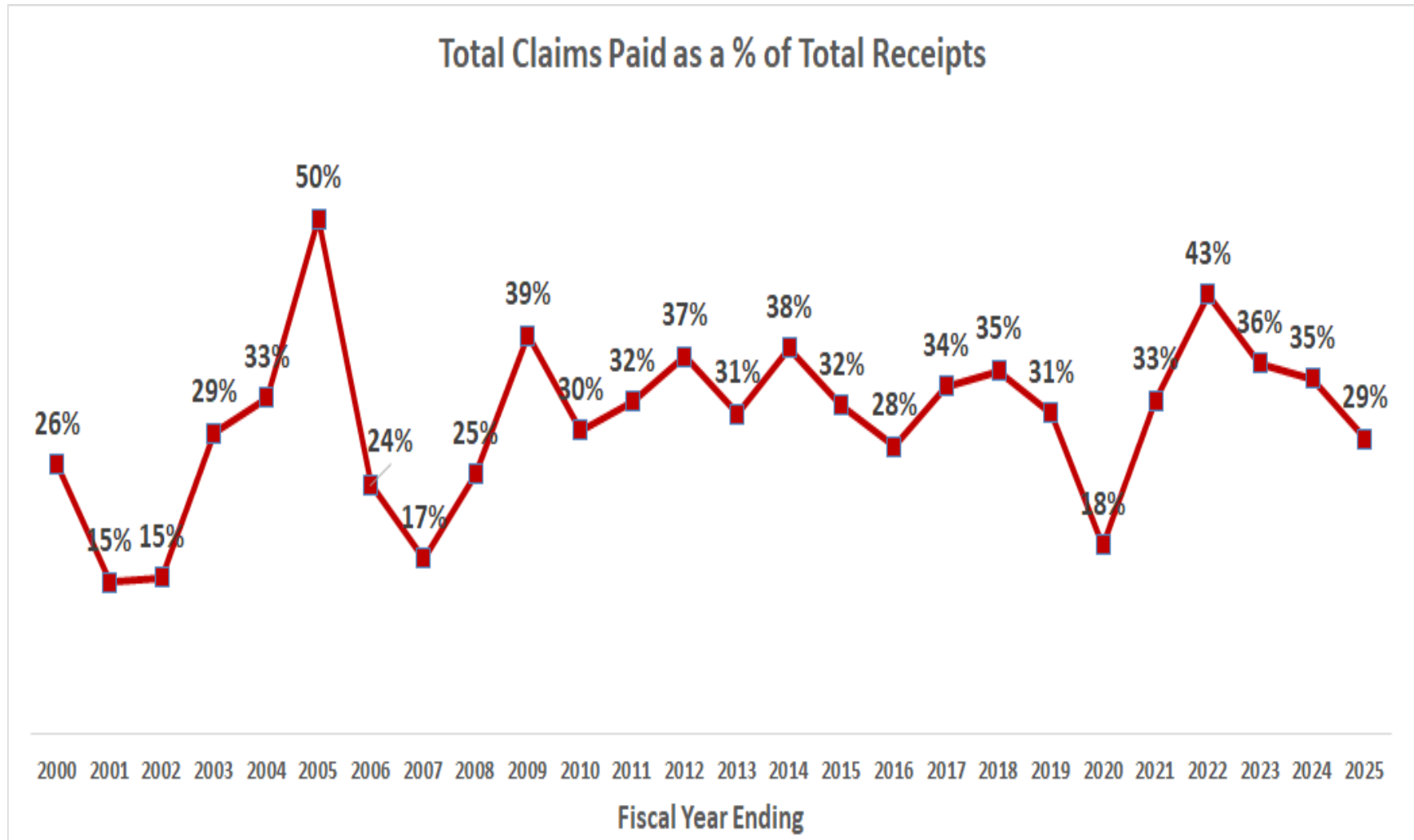
**Exhibit 3: Claims Paid by Fiscal Year since 2000**



Source: DST

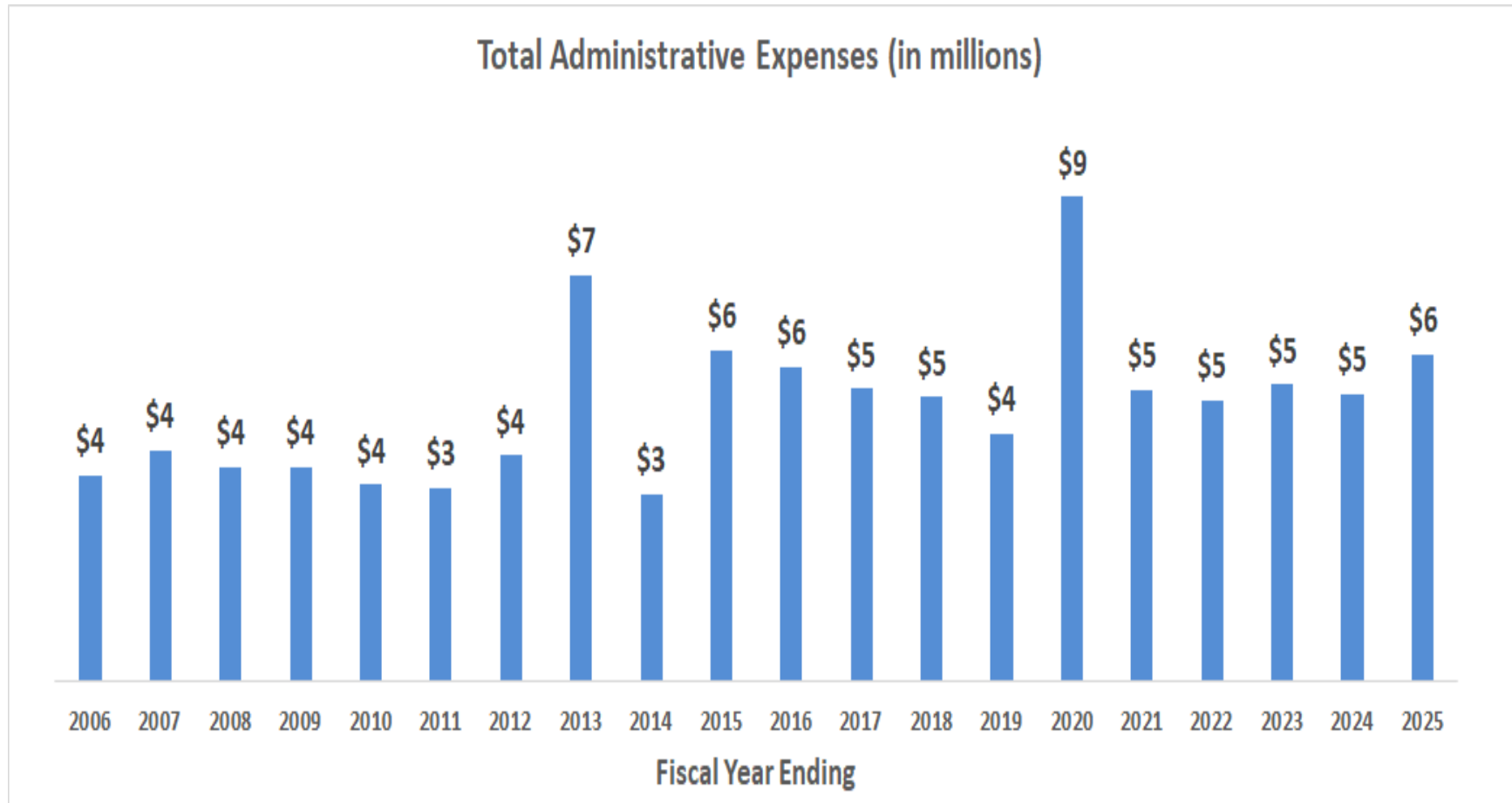


**Exhibit 4: Claims Paid as a Percent of Total Receipts by Fiscal Year since 2000**



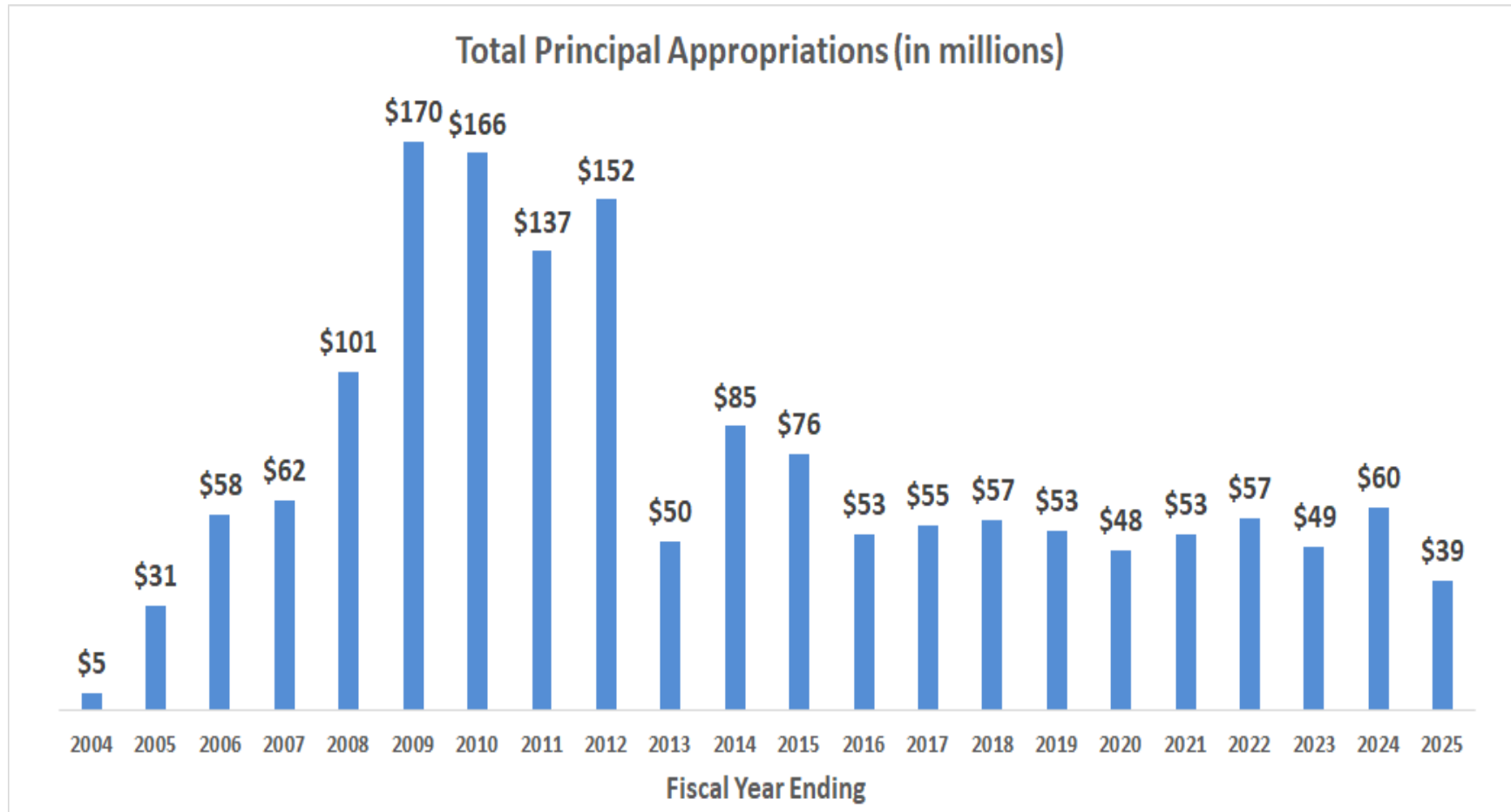
Source: DST

**Exhibit 5: Administrative Expenses by Fiscal Year since 2006**



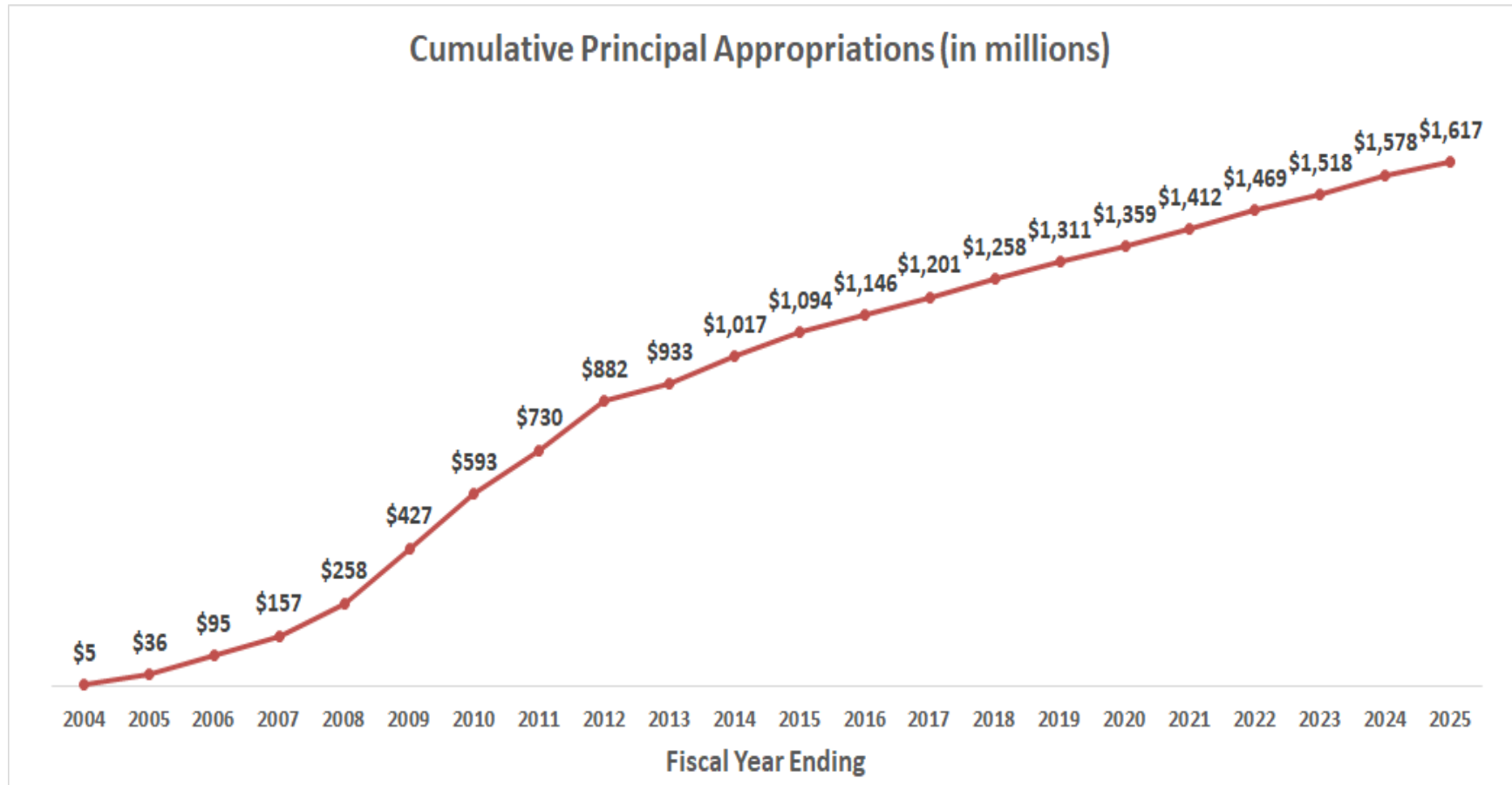
Source: DST

**Exhibit 6: Principal Appropriations by Fiscal Year since 2004**



Source: DST

**Exhibit 7: Cumulative Principal Appropriations (Unfunded Principal) by Fiscal Year since 2004**



Source: DST

## Exhibit 8: Investment Performance and Asset Allocation

The table below shows the historical performance and current asset allocation of the invested balance of the Escheat Fund over various periods ending June 30, 2025 (i.e., excluding the securities held in kind on behalf of claimants). Pursuant to N.C.G.S. § 147-69.2(b)(12)a and N.C.G.S. § 147-69.2(b)(12)c, up to 20 percent of the Escheat Fund's assets can be invested in the authorized Public Equity, Real Estate, Private Equity, Opportunistic Fixed Income, and Inflation Protection asset classes. The remainder must be invested in the authorized Investment-Grade Fixed Income asset class, which includes the Short Term and Long-Term Fixed Income investments. On June 30, 2025, the Escheat Fund had a total portfolio market value of \$1.56 billion, with \$1.51 billion invested in Investment Grade-Fixed Income, and \$48 million invested in Alternatives.

The Escheat Fund has prioritized Short-Term Fixed Income investments due to significant principal appropriations over the last decade. If this trend continues, a high allocation to these investments will ensure liquidity for appropriations and future claims. Consequently, the potential earnings to sustainably fund scholarships will be reduced.

### Escheat Fund Annualized Net of Fee Performance for Periods ended June 30, 2025

| Asset Class                    | Market Value<br>(millions) | Total Return  |                |                |                 |
|--------------------------------|----------------------------|---------------|----------------|----------------|-----------------|
|                                |                            | 1 Year<br>(%) | 3 Years<br>(%) | 5 Years<br>(%) | 10 Years<br>(%) |
| Short Term Fixed Income (STIF) | \$ 1,378                   | 4.34          | 3.53           | 2.24           | 1.82            |
| Long Term Fixed Income         | 136                        | 5.84          | 2.47           | (0.76)         | 1.96            |
| Alternatives                   | 48                         | 4.23          | (1.54)         | 4.72           | 3.47            |
| <b>Total</b>                   | <b>\$ 1,562</b>            | <b>4.49</b>   | <b>3.12</b>    | <b>2.06</b>    | <b>2.08</b>     |

Source: DST

Note: The summation of the asset class market values in the table above may not foot to the total because of decimal rounding. Values are from BNY Mellon.

# **Forecasted Analysis of the Escheat Fund**

## **Modeling Approach and Scenario Descriptions**

To forecast how key financial metrics of the Escheat Fund may evolve, DST developed a deterministic financial model that forecasts annual values for 10 years. The model forecasts unclaimed property receipts, claims, administrative expenses, net earnings available for scholarships, investment balance, principal appropriations for scholarships, and unfunded principal corpus (represents the accumulated principal appropriations).

DST modeled 12 total scenarios with 4 (1, 2, 3, 4) high level scenarios that change forecasted net receipts by altering claims, along with 3 (A, B, C) sub scenarios that alter annual principal appropriations. The results of these scenarios provide a wide spectrum of potential outcomes for each of the forecasted metrics. All scenarios assume a 3.8% investment return and \$5 million of annual administrative expenses. Modeling assumes principal appropriations and investment earnings go to \$0 when the investment balance goes negative. The following exhibits display the forecasted results.

### **Scenario Set:**

#### **1.) Annual Net Receipts of -\$50 million:**

- A. \$0 million in annual principal appropriations
- B. \$30 million in annual principal appropriations
- C. \$60 million in annual principal appropriations

#### **2.) Annual Net Receipts of \$0 million:**

- A. \$0 million in annual principal appropriations
- B. \$30 million in annual principal appropriations
- C. \$60 million in annual principal appropriations

#### **3.) Annual Net Receipts of \$100 million:**

- A. \$0 million in annual principal appropriations
- B. \$30 million in annual principal appropriations
- C. \$60 million in annual principal appropriations

#### **4.) Annual Net Receipts of \$150 million:**

- A. \$0 million in annual principal appropriations
- B. \$30 million in annual principal appropriations
- C. \$60 million in annual principal appropriations

### **Key Observations**

- 1.) Greater net receipts lead to a higher investment balance and higher investment earnings available to sustainably fund scholarships.
- 2.) Greater principal appropriations lead to a lower investment balance, lower earnings available to sustainably fund scholarships, and a higher unfunded principal corpus that represents a potential shortfall in the claims paying ability of the Escheat Fund.

## Summary Scenario Matrices

The matrices below show the values of the key financial metrics at the end of the 10-year horizon for each scenario. This allows for a quick comparison across scenarios. The green shaded cells in the matrix point to the scenarios that result in the most favorable outcome for the metric, while the red shaded cells point to the least favorable scenarios. The exhibits on the following pages provide the year-by-year analysis for each scenario.

### Unfunded Principal Corpus: At Forecast Year 10

|                          |                  | Principal Appropriations (Annual) |          |          |
|--------------------------|------------------|-----------------------------------|----------|----------|
| (in \$ millions)         |                  | A: \$0m                           | B: \$30m | C: \$60m |
| Net Receipts<br>(Annual) | 1: <b>-\$50m</b> | \$ 1,617                          | \$ 1,917 | \$ 2,217 |
|                          | 2: \$0m          | \$ 1,617                          | \$ 1,917 | \$ 2,217 |
|                          | 3: \$100m        | \$ 1,617                          | \$ 1,917 | \$ 2,217 |
|                          | 4: \$150m        | \$ 1,617                          | \$ 1,917 | \$ 2,217 |

### Investment Balance: At Forecast Year 10

|                          |                  | Principal Appropriations (Annual) |          |          |
|--------------------------|------------------|-----------------------------------|----------|----------|
| (in \$ millions)         |                  | A: \$0m                           | B: \$30m | C: \$60m |
| Net Receipts<br>(Annual) | 1: <b>-\$50m</b> | \$ 1,064                          | \$ 764   | \$ 464   |
|                          | 2: \$0m          | \$ 1,564                          | \$ 1,264 | \$ 964   |
|                          | 3: \$100m        | \$ 2,564                          | \$ 2,264 | \$ 1,964 |
|                          | 4: \$150m        | \$ 3,064                          | \$ 2,764 | \$ 2,464 |

### Net Earnings for Scholarships: At Forecast Year 10

|                          |                  | Principal Appropriations (Annual) |          |          |
|--------------------------|------------------|-----------------------------------|----------|----------|
| (in \$ millions)         |                  | A: \$0m                           | B: \$30m | C: \$60m |
| Net Receipts<br>(Annual) | 1: <b>-\$50m</b> | \$ 38                             | \$ 27    | \$ 17    |
|                          | 2: \$0m          | \$ 55                             | \$ 45    | \$ 34    |
|                          | 3: \$100m        | \$ 90                             | \$ 79    | \$ 69    |
|                          | 4: \$150m        | \$ 107                            | \$ 97    | \$ 86    |

**Exhibit 9: Scenario 1A (Annual Net Receipts of -\$50m, \$0 of Annual Principal Transfers) in \$ millions**

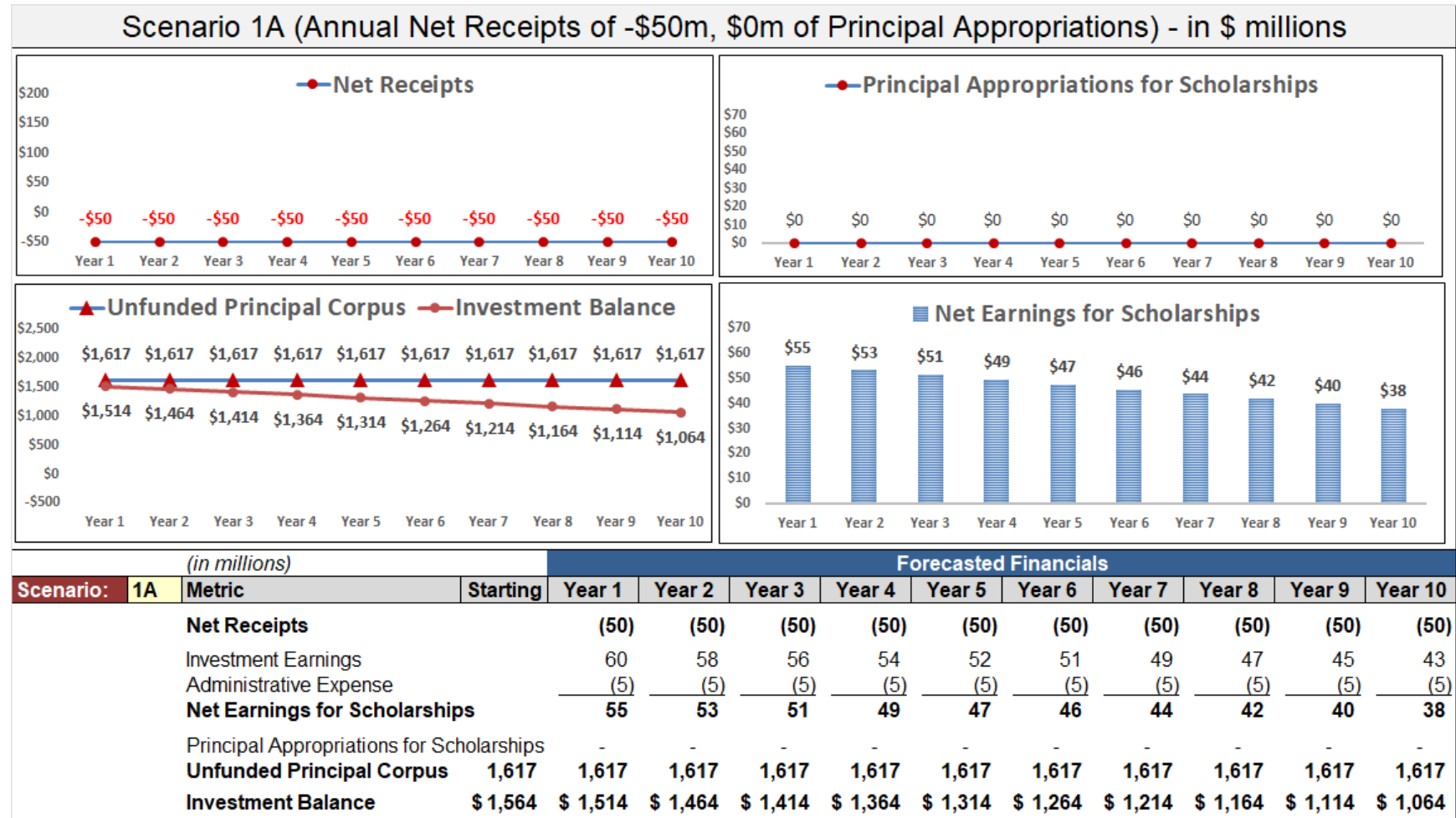




Exhibit 10: Scenario 1B (Annual Net Receipts of -\$50m, \$30m of Annual Principal Transfers) in \$ millions

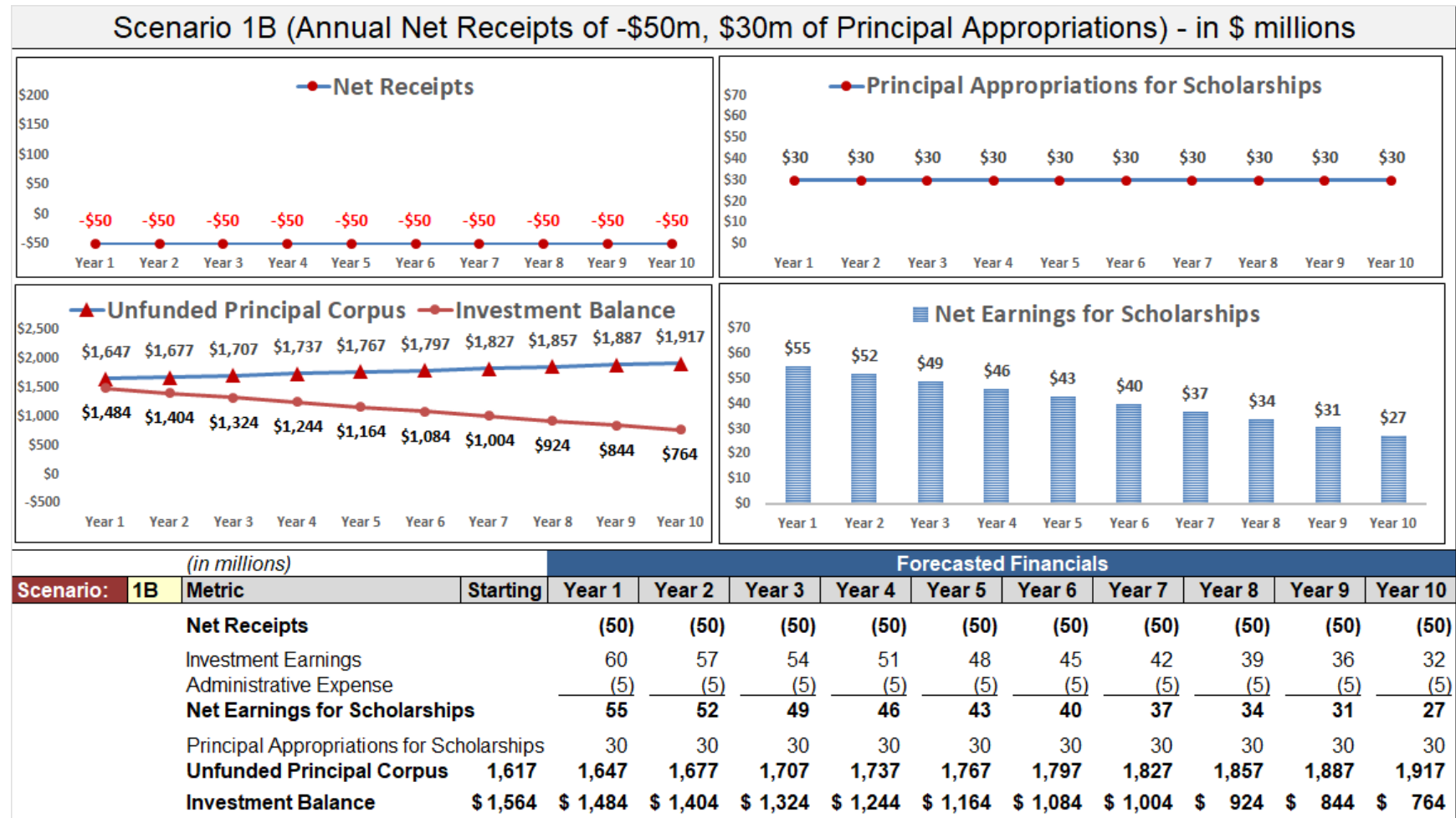


Exhibit 11: Scenario 1C (Annual Net Receipts of -\$50m, \$60m of Annual Principal Transfers) in \$ millions

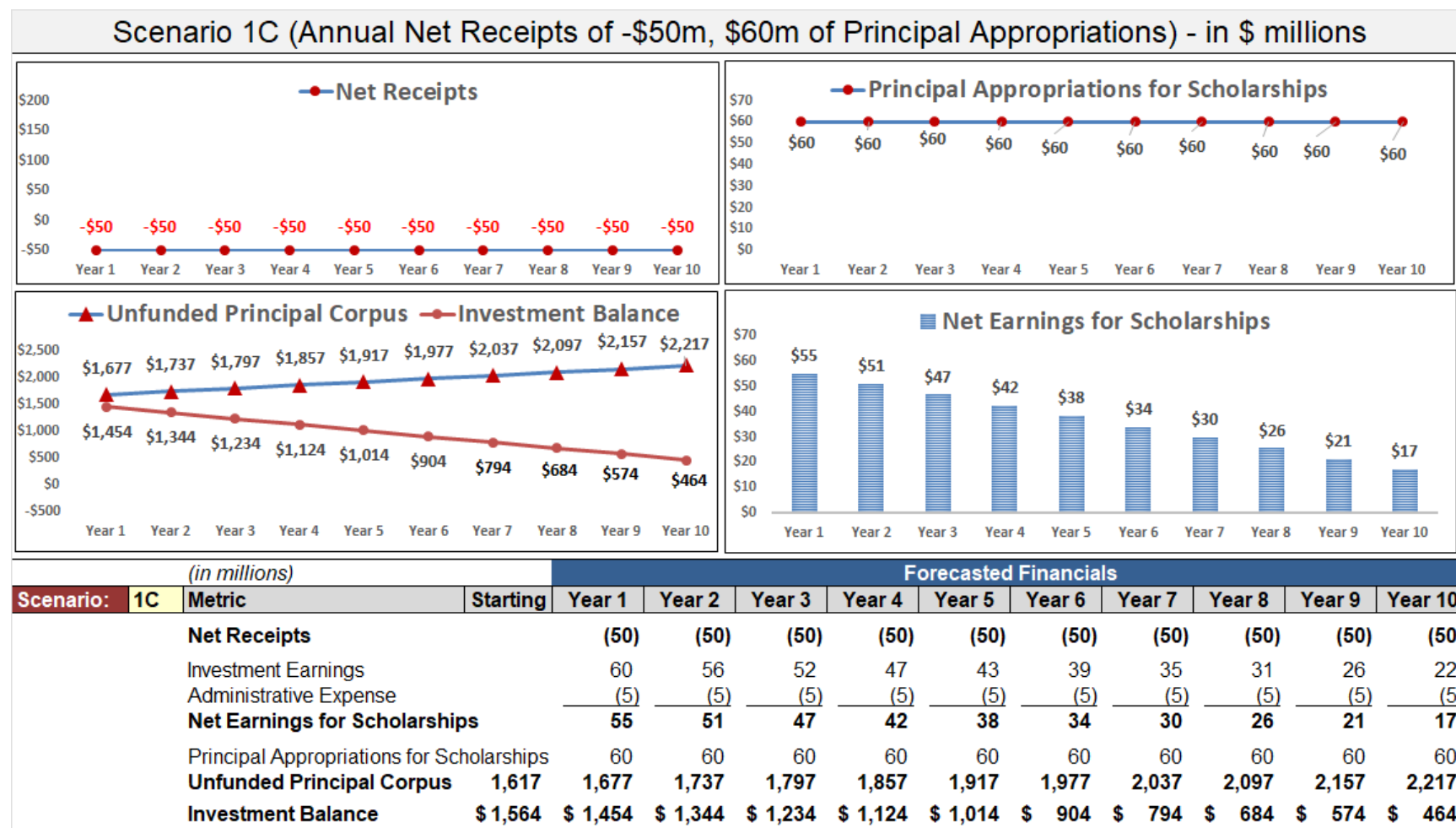


Exhibit 12: Scenario 2A (Annual Net Receipts of \$0m, \$0m of Annual Principal Transfers) in \$ millions

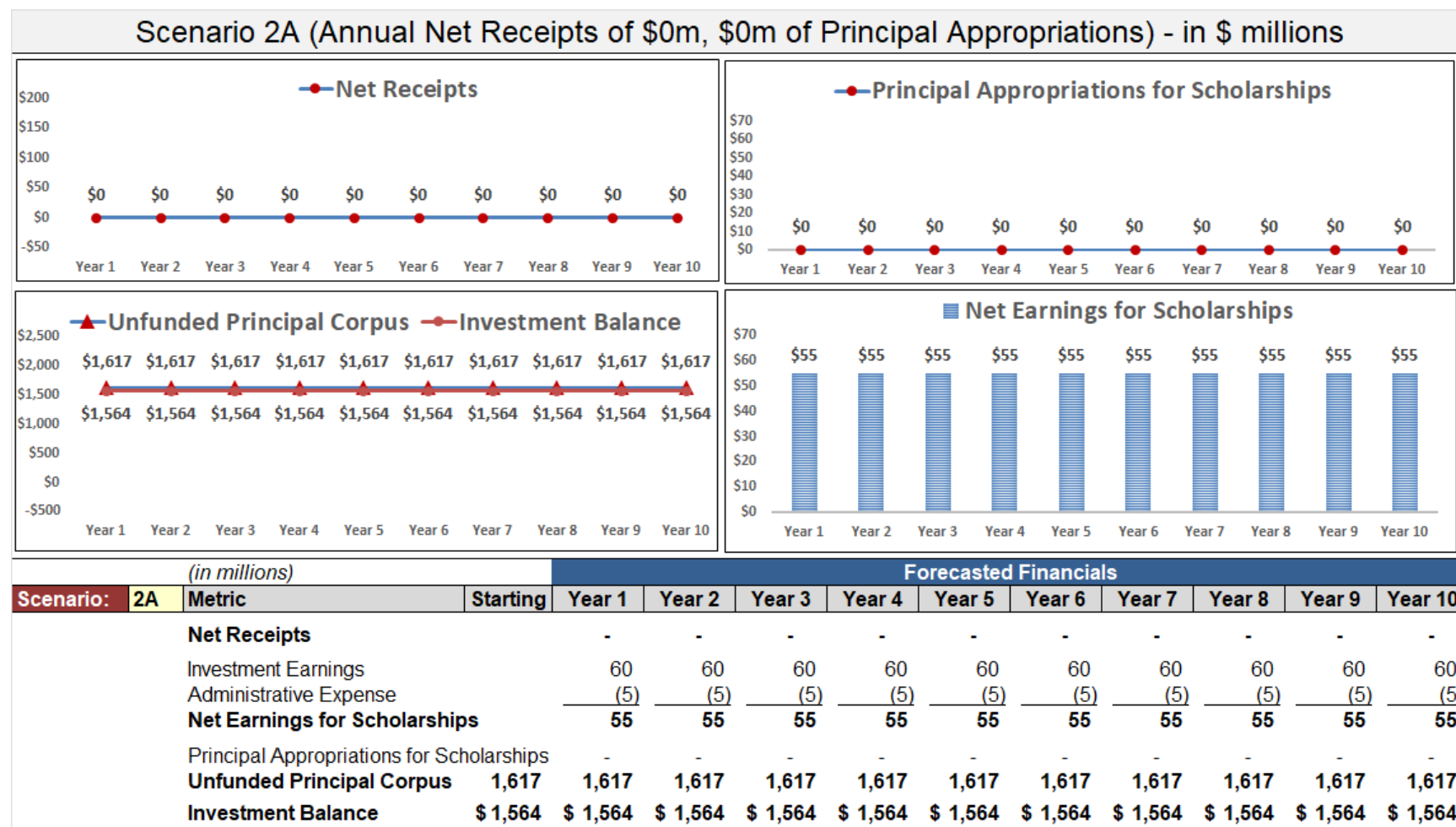


Exhibit 13: Scenario 2B (Annual Net Receipts of \$0m, \$30m of Annual Principal Transfers) in \$ millions

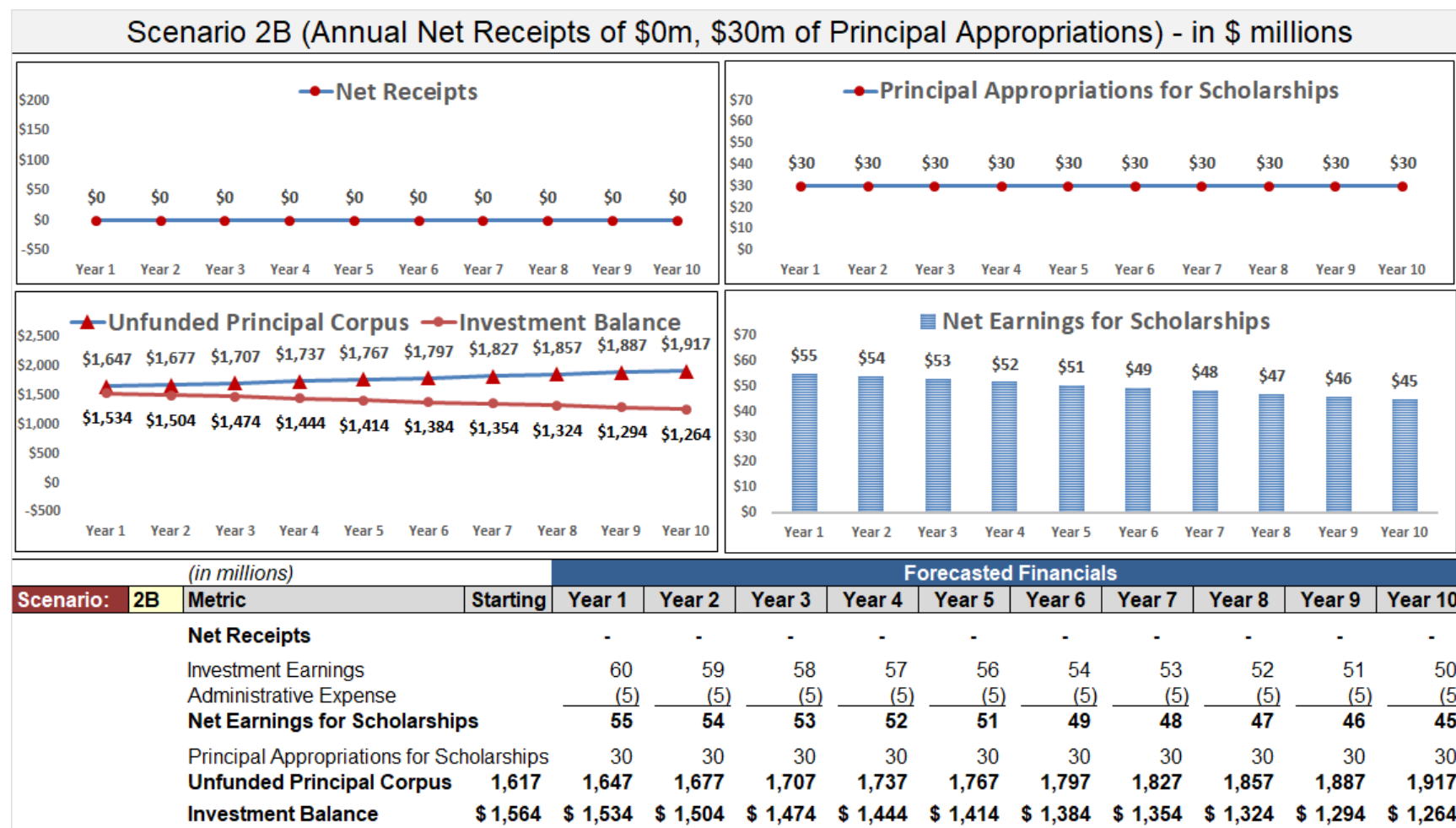


Exhibit 14: Scenario 2C (Annual Net Receipts of \$0m, \$60m of Annual Principal Transfers) in \$ millions

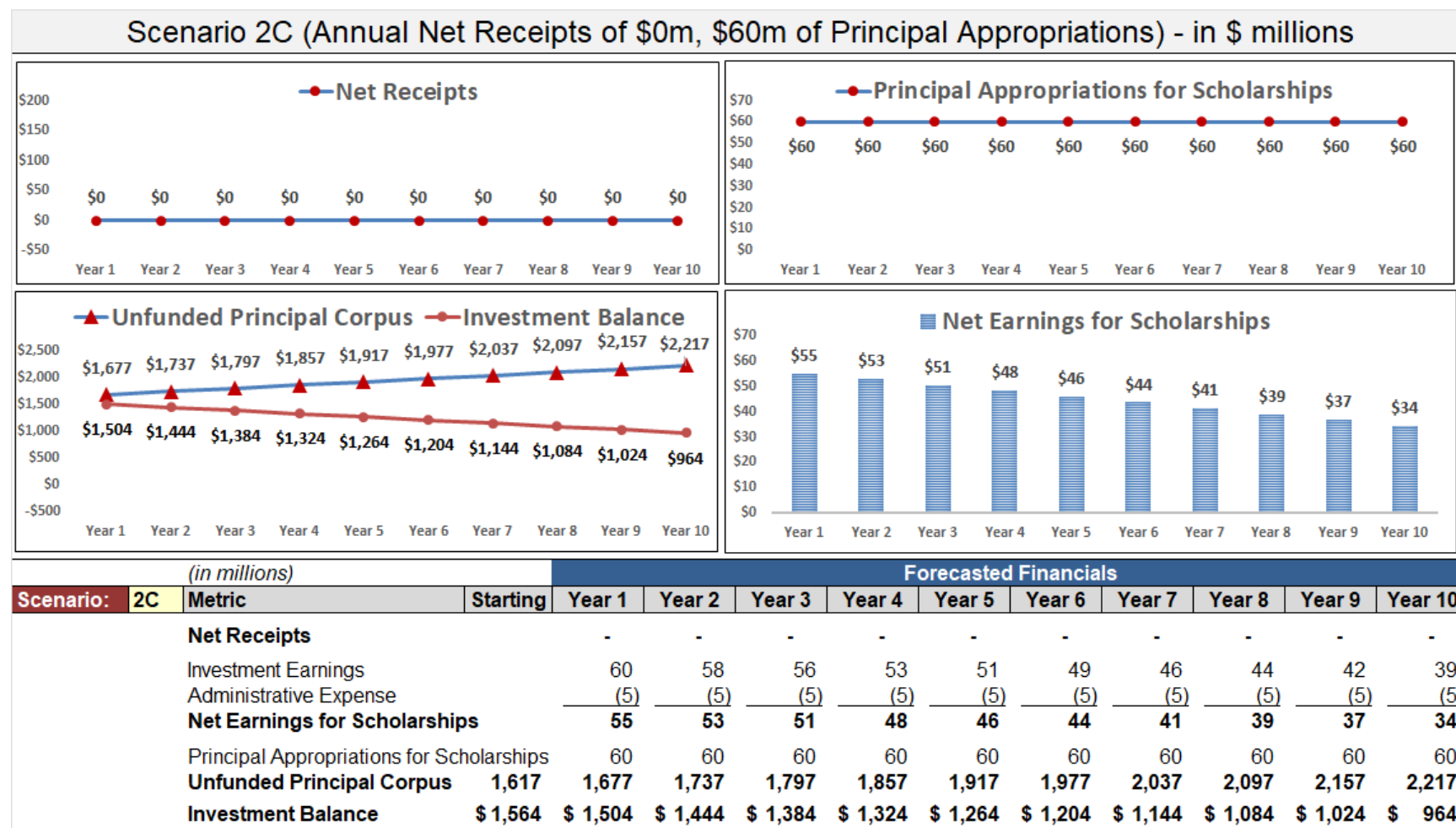


Exhibit 15: Scenario 3A (Annual Net Receipts of \$100m, \$0m of Annual Principal Transfers) in \$ millions

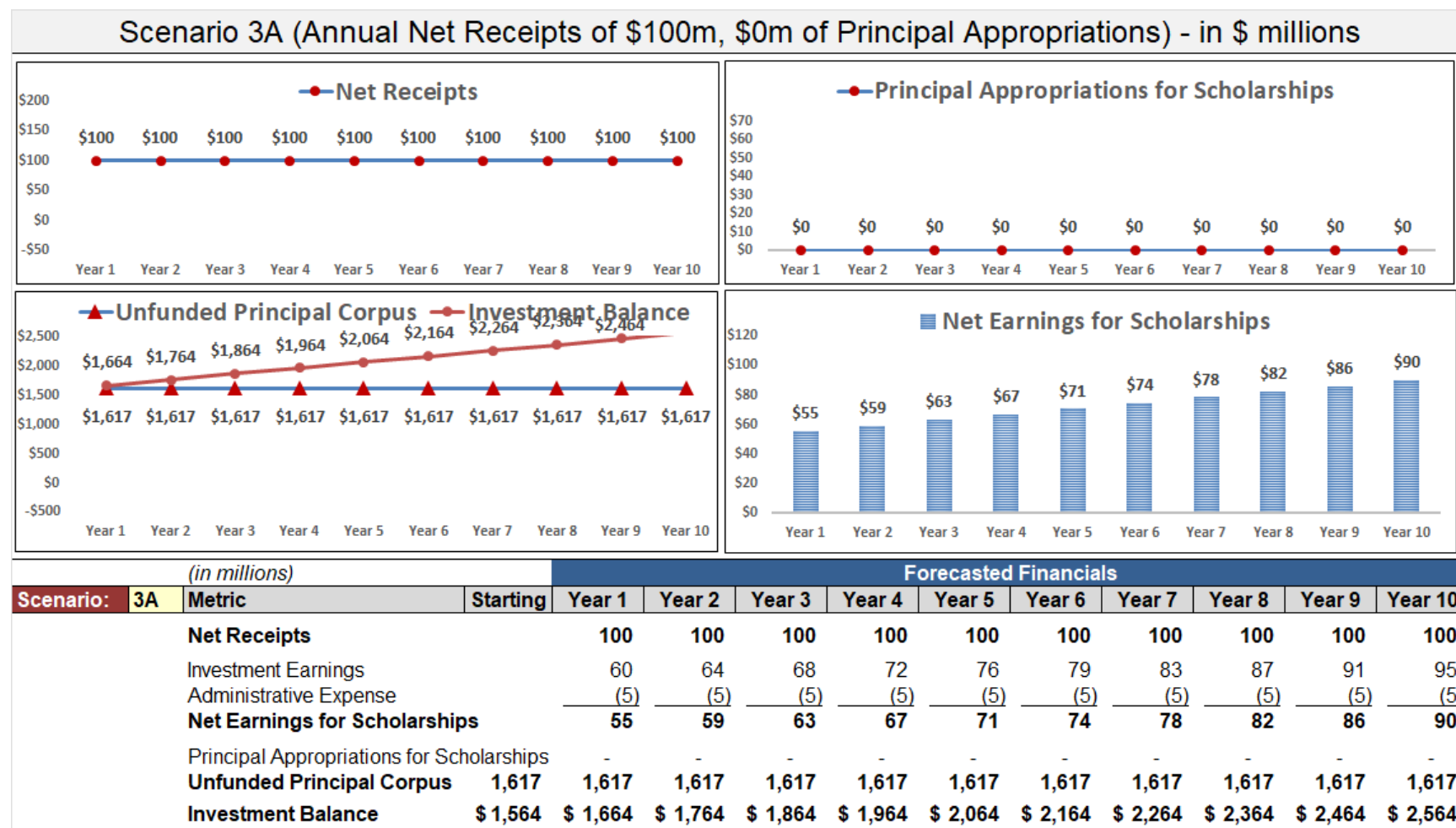


Exhibit 16: Scenario 3B (Annual Net Receipts of \$100m, \$30m of Annual Principal Transfers) in \$ millions

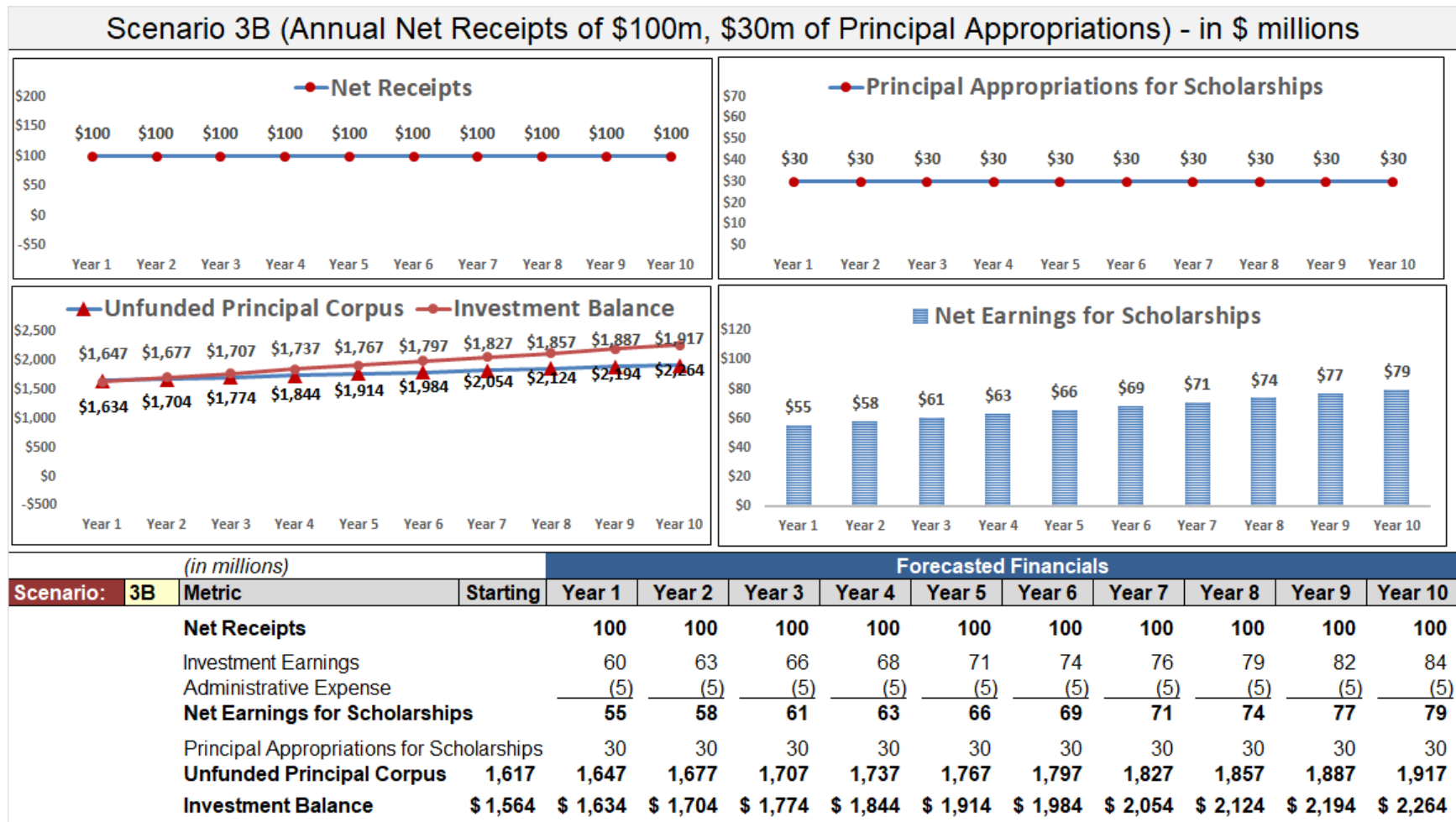




Exhibit 17: Scenario 3C (Annual Net Receipts of \$100m, \$60m of Annual Principal Transfers) in \$ millions

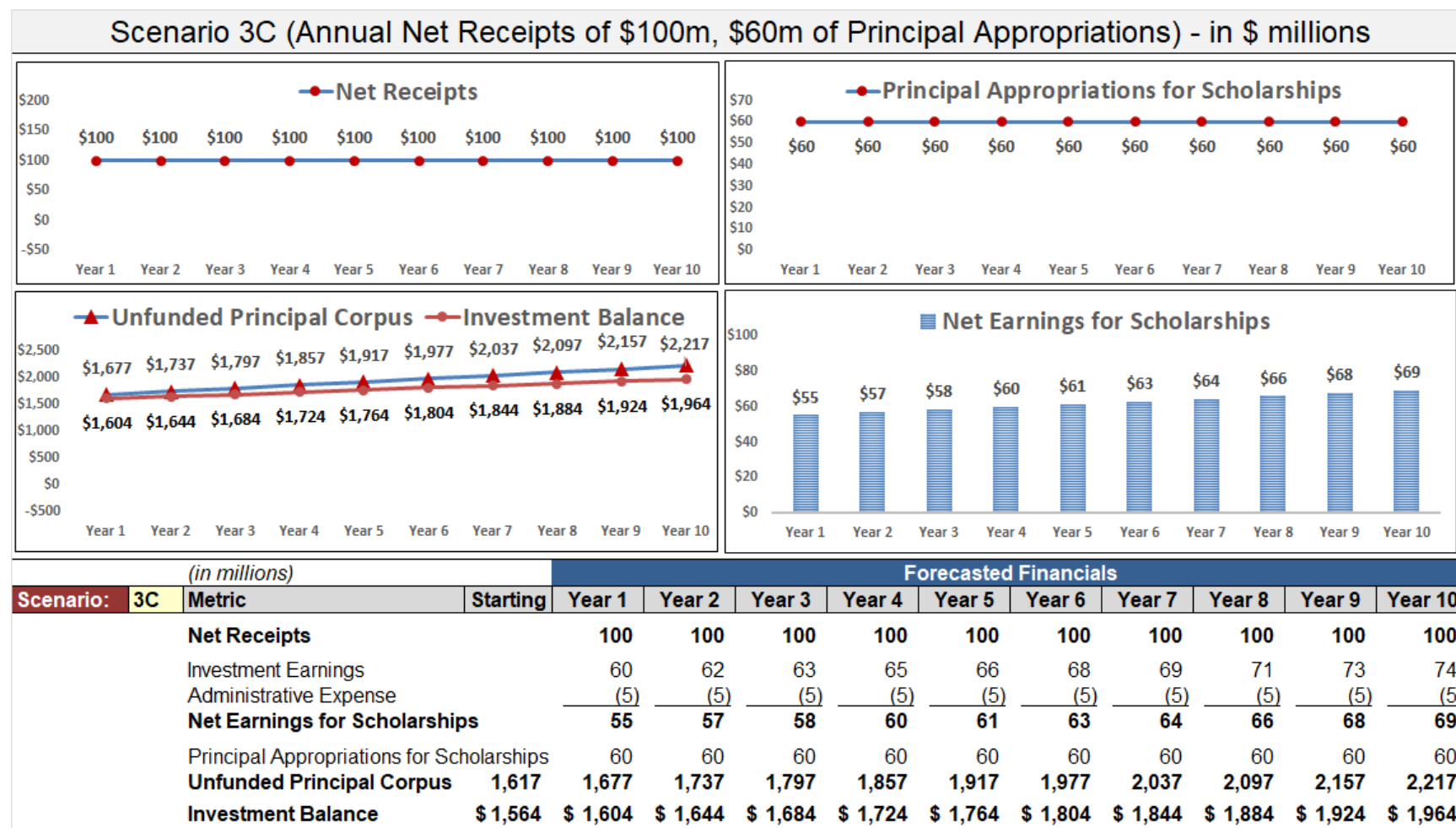




Exhibit 18: Scenario 4A (Annual Net Receipts of \$150m, \$0m of Annual Principal Transfers) in \$ millions

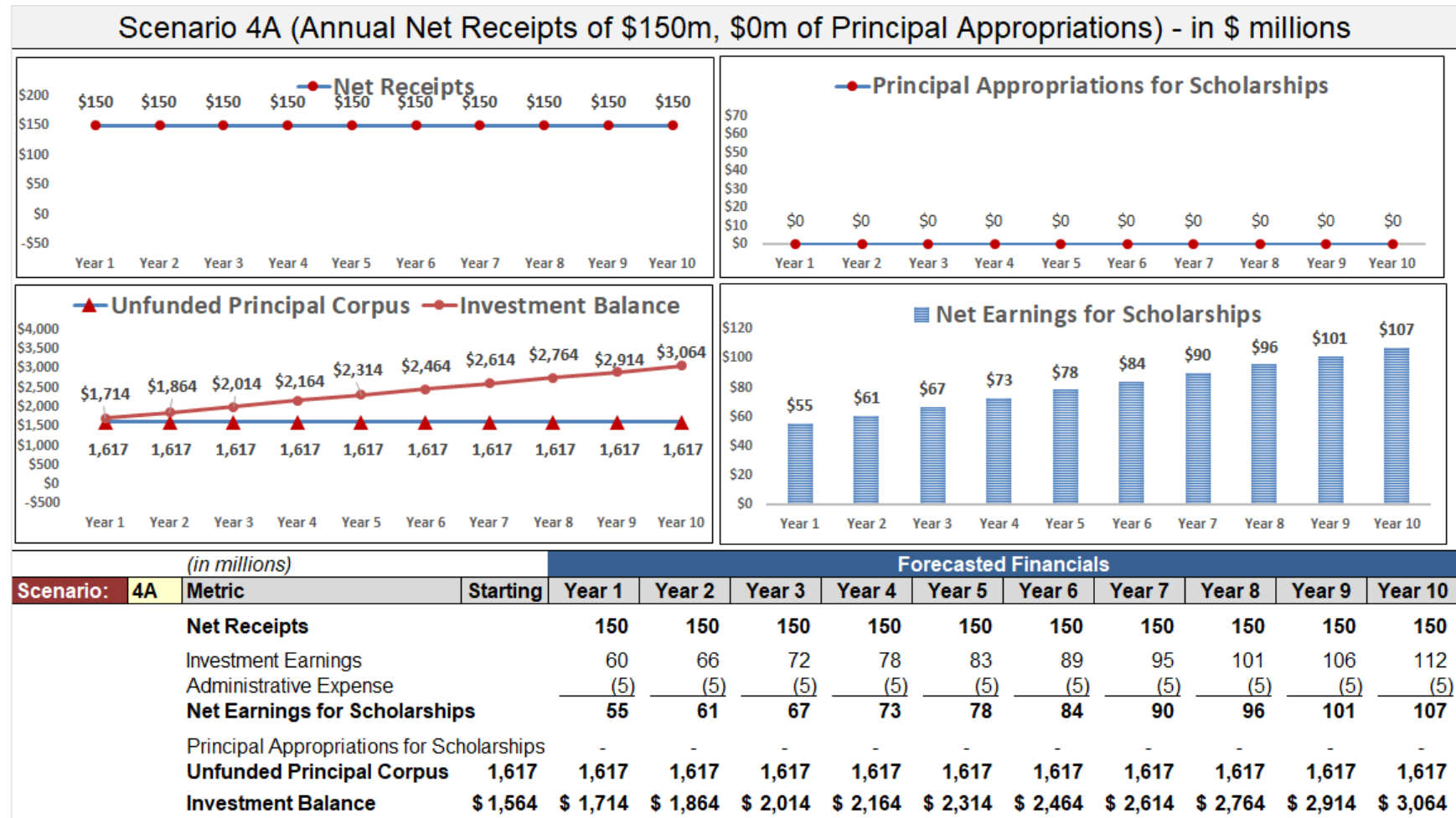


Exhibit 19: Scenario 4B (Annual Net Receipts of \$150m, \$30m of Annual Principal Transfers) in \$ millions

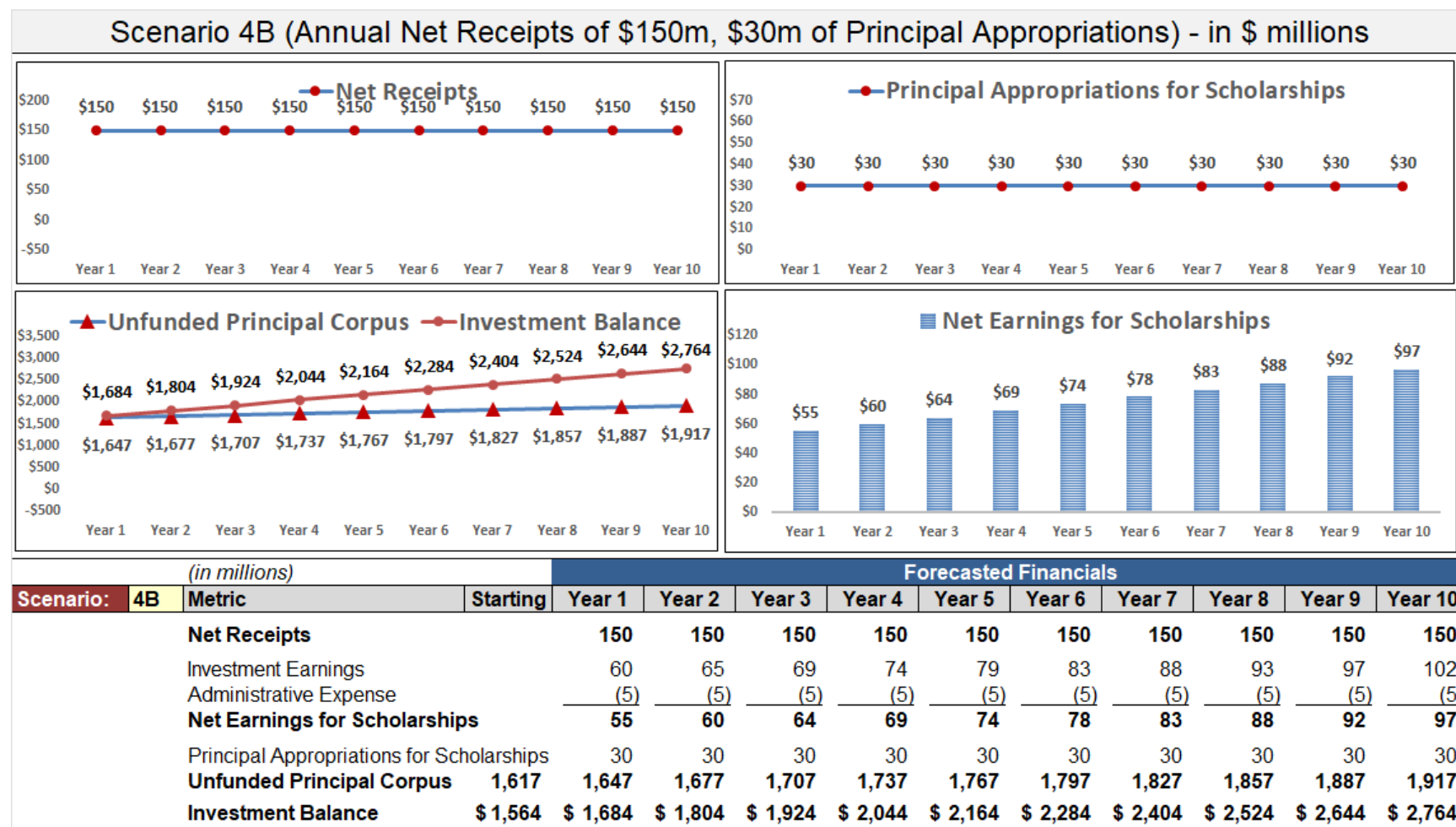


Exhibit 20: Scenario 4C (Annual Net Receipts of \$150m, \$60m of Annual Principal Transfers) in \$ millions

