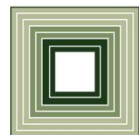


***Long-term Liabilities for
Retired Employee Health Benefits***

**House Select Committee on Legacy Costs
from the State Health Plan, Pensions, and ESC**

December 13, 2011



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Outline of Presentation

- 1) Benefits Overview**
- 2) Financial Status**
- 3) Funding Projections**
- 4) Comparison to Other Employers**



Benefits Overview

- **Most retired State employees pay premiums of \$0 to \$22 per month to participate in the State Health Plan ***
- **Retiree's portion of the premium represents at most 5% of the total premium paid by the State and the retiree**
- **Retiree pays the full stated premium for dependent coverage if retiree elects to cover dependents**

*** Those hired on or after October 1, 2006 will pay a much larger premium if they retire with less than 20 years of service, but they constitute a small fraction of current retirees.**

Benefits Overview

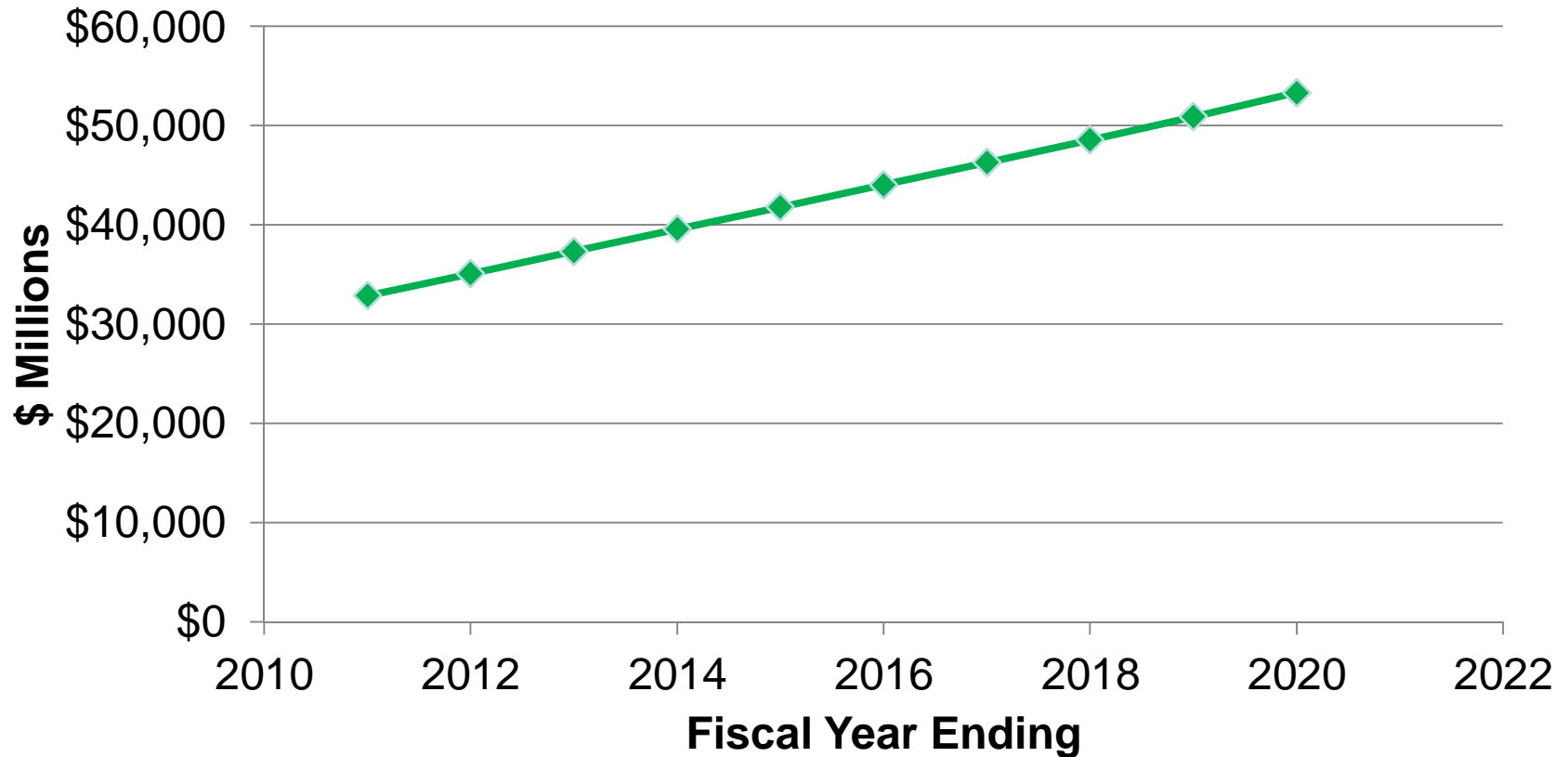
- **When the retiree becomes eligible for Medicare, the State Health Plan coverage becomes secondary and the retiree is expected to enroll in Medicare Parts A and B, but not D**
- **Services covered and network of providers are comparable to those in plans typically provided to active employees by large public and private employers**
- **Out-of-pocket requirements are somewhat higher than average among large employers**

Financial Status

Measure	Value at Dec 31, 2010
Accrued Liability for Active Employees (pro-rated share of total value of future benefits)	\$18,112 Million
Accrued Liability for Retired and Inactive Employees	<u>\$15,382 Million</u>
Total Accrued Liability	\$33,495 Million
Assets	<u>- \$655 Million</u>
Unfunded Liability	\$32,839 Million

Financial Status

Unfunded Accrued Liability



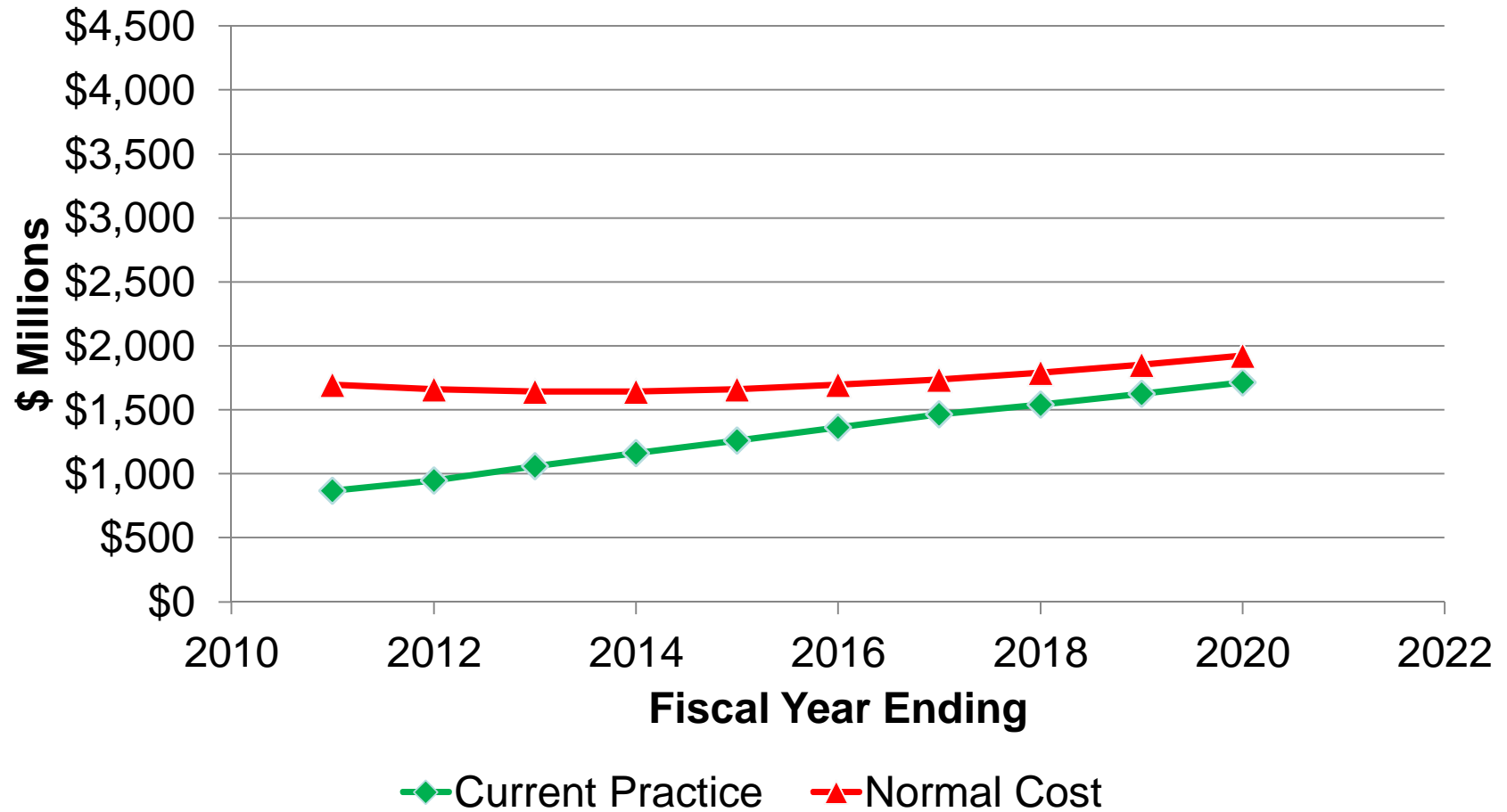
Assumes current contribution practice and benefits package.

Funding Projections

Current contribution practice:

- **Current contribution for retiree medical benefits is set in the Appropriations Act**
- **Usually enough to pay claims and administrative expenses for current retirees plus a small cushion**

Funding Projections

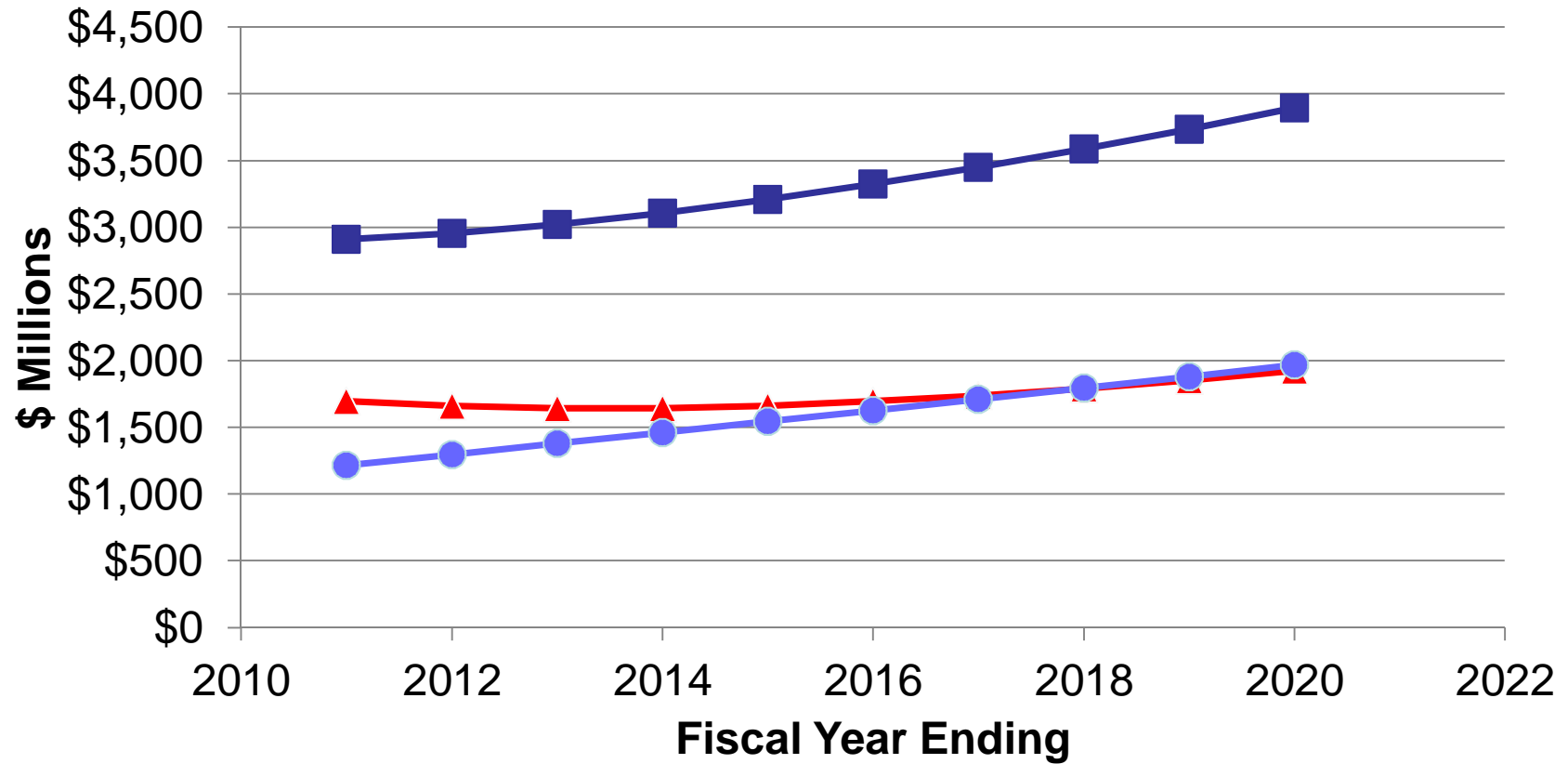


Funding Projections

Annual Required Contribution:

- **Amount calculated by actuary under government accounting standards (GASB 43/45)**
- **Sum of:**
 - **Normal Cost: amount to pay for benefits accrued in current year by active employees**
 - **Amortization of Unfunded Liability: amount to pay off unfunded liability over 30 years**

Funding Projections



▲ Normal Cost ● UAL Amortization ■ Annual Required Contribution

Annual Required Contribution assumes current contribution practice and benefits package.

Comparison to Other Employers

Other States

- **All 50 states offer retiree medical benefits to at least some employees**
- **Differences are mostly in:**
 - **Who is eligible**
 - **How coverage changes upon Medicare eligibility**
 - **Share of premium paid by retiree**
- **N.C.'s per capita unfunded liability is 9th highest in the U.S.**
- **About 70% of states require more than a nominal premium from the retiree**
- **Few states have set aside significant assets to pay future benefits**

Comparison to Other Employers

Neighboring States - Examples

- **South Carolina:**
 - Retirees hired before 2008 are eligible for full employer subsidy with 10 years of service.
 - Employee-only premium is \$9 per month in S.C.'s Savings Plan and \$93 per month in S.C.'s Standard Plan.
 - Per capita unfunded accrued liability is only slightly smaller than N.C.'s.

- **Virginia:**
 - State provides premium subsidy of \$4 per month per year of service, retiree pays the remainder of the premium.
 - Per capita unfunded accrued liability is less than 10% of N.C.'s.

Comparison to Other Employers

Private Sector

- **In 2010, 28% of large firms and 3% of small firms that offered medical benefits to employees also offered them to retirees**
- **In 1988, 66% of large firms offered retiree medical benefits**
- **Of those that do offer retiree medical, over 40% require retiree to pay the full premium. Another 30% have capped employer contribution at a fixed dollar amount.**
- **Number of employers offering retiree medical may decline further in 2014 if everyone is guaranteed access to coverage through exchanges, although some might still provide credits to purchase insurance**
- **Few companies have set aside significant assets to pay future benefits**

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