North Carolina State Health Plan

FOR TEACHERS AND STATE EMPLOYEES

Joint Legislative Program Evaluation Oversight Committee
Retiree Health Report

Board of Trustees Meeting

November 20, 2015

A Division of the Department of State Treasurer

Program Evaluation Division Report

- At the direction of the Joint Legislative Program Evaluation Oversight Committee (Joint Committee), the General Assembly's Program Evaluation Division (PED) prepared a report on the unfunded liability for retiree health benefits

Unfunded Actuarial Liability for Retiree Health is Large, but State Could Save Up to $64 Million Annually by Shifting Costs to Medicare Advantage Plans

(July 2015)

http://www.ncleg.net/PED/Reports/2015/RetireeHealth.html

- Joint Committee met on October 7th to take action on the report

- Report recommends General Assembly "direct the State Treasurer and State Health Plan Board" to require Medicare retirees to be on Medicare Advantage plans
  - PED meeting on November 23rd, to review potential legislation

PED Report on Retiree Health Benefits

- The State has an unfunded actuarial liability for retiree health benefits of $25.5 billion
  - Board reviewed the 2015 OPEB report in August
- Governmental accounting standards will soon require states to report their unfunded liability on annual financial statements
  - North Carolina will have to report the liability in its Fiscal Year 2018 Comprehensive Annual Financial Report (CAFR)
- Like most states, North Carolina funds retiree health benefits on a “pay-as-you-go” basis
  - Therefore, unlike the method for supporting pension benefits, funds are not set aside to cover the future costs of benefits as they accrue
- A non-contributory benefit is available to a large proportion of state retirees
- North Carolina ranks poorly relative to other states on its retiree health benefit funded status

PED Report Options for Reducing the Unfunded Liability

1. Increase appropriations
2. Shift more costs to the federal government through Medicare Advantage
3. Transition to a defined contribution model
4. Reduce the number of retirees eligible for the benefit
5. Require active employees to contribute
6. Increase the amount retirees pay for the benefit through higher premiums or greater out-of-pocket costs

"To address the unfunded liability, the General Assembly:

- should direct the State Treasurer and State Health Plan Board of Trustees to shift costs to the federal government by requiring eligible retirees to be on Medicare Advantage plans, generating an estimated savings of up to $64 million annually, and
- could appoint a joint committee to determine which of the other options to pursue …."

Medicare Advantage Savings Estimate

- PED reports a potential savings of up to $64 million annually
- A Segal forecast* came to a similar conclusion with respect to potential expenditure reductions for Calendar Years 2016 and 2017, but
  - Does not account for the impact on revenues, and
  - Annual savings projected for future years decrease to $40-$50 million in CY 2018-19 and $30-$40 million in CY 2020-21
- Actual savings will depend on:
  - Number of Medicare retirees remaining in the Traditional 70/30 Plan; and
  - Future Medicare Advantage premiums
- Plan staff believes the overall annual savings from requiring Medicare members to enroll in an MA offering would be significant but somewhat lower than the $64 million referenced in the PED report

*The Segal forecast used for this analysis was not done with the specific intent of identifying savings from a mandated MA program.

Next Steps

- JLPEOC meets November 23rd to discuss potential legislation
- JLPEOC is considering a study to determine the financial impacts various legislative approaches may have on the unfunded liability
- SHP will update its savings estimate to reflect the results of the CY 2016 annual enrollment