

# Financial Update

Board of Trustees Meeting

October 26, 2023



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STATE TREASURER OF NORTH CAROLINA  
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# Financial Results: Actual vs. Budgeted Calendar Year to Date August 2023

Calendar Year 2023	Actual thru AUG 2023	Projection (per Segal 05-2022)	Variance Fav/(Unfav) to Projection
<b>Beginning Cash Balance</b>	<b>\$849.1m</b>	<b>\$822.5m</b>	<b>\$26.6m</b>
<b>Plan Revenue</b>	<b>\$2.611b</b>	<b>\$2.649b</b>	<b>(\$37.9m)</b>
Net Claims Payments	\$2.621b	\$2.568b	(\$52.1m)
Medicare Advantage Premiums	\$10.3m	\$12.0m	\$1.8m
Net Administrative Expenses	\$89.4m	\$94.5m	\$5.1m
<b>Total Plan Expenses</b>	<b>\$2.720b</b>	<b>\$2.675b</b>	<b>(\$45.2m)</b>
<b>Net Income/(Loss)</b>	<b>(\$109.2m)</b>	<b>(\$26.1m)</b>	<b>(\$83.1m)</b>
<b>Non-Operating Cash Transfer</b>	<b>\$34.5m</b>	<b>-</b>	<b>(\$34.5m)</b>
<b>Ending Cash Balance</b>	<b>\$705.3m</b>	<b>\$796.4m</b>	<b>(\$91.0m)</b>
<b>Target Stabilization Reserve (TSR)</b>	<b>\$359.9m</b>	<b>\$359.9m</b>	<b>\$0</b>

# Financial Results: Calendar Year to Date August 2023 [CY23/CY22]

Calendar Year 2023	Actual thru AUG 2023	Actual thru AUG 2022	Variance Fav/(Unfav)
<b>Beginning Cash Balance</b>	<b>\$849.1m</b>	<b>\$590.7b</b>	<b>\$258.4m</b>
<b>Plan Revenue</b>	<b>\$2.611b</b>	<b>\$2.644b</b>	<b>(\$33.4)m</b>
Net Claims Payments	\$2.620b	\$2.414b	(\$206.9m)
Medicare Advantage Premiums	\$10.3m	\$10.0m	(\$269.1k)
Net Administrative Expenses	\$89.4m	\$82.7m	(\$6.7m)
<b>Total Plan Expenses</b>	<b>\$2.720b</b>	<b>\$2.506b</b>	<b>(\$213.9m)</b>
<b>Net Income/(Loss)</b>	<b>(\$109.3m)</b>	<b>\$138.1m</b>	<b>(\$247.3m)</b>
<b>Non-Operating Cash Transfer</b>	<b>\$34.5m</b>	<b>\$69.0</b>	<b>\$34.5m</b>
<b>Covid-19 Reimbursement</b>	<b>-</b>	<b>\$215.0</b>	<b>(\$215.0m)</b>
<b>Ending Cash Balance</b>	<b>\$705.3m</b>	<b>\$874.8m</b>	<b>(\$169.5m)</b>
<b>Target Stabilization Reserve (TSR)</b>	<b>\$359.9m</b>	<b>\$359.9m</b>	<b>\$0m</b>

# Benefits with Escalating Cost

- GLP-1 Weight Loss Drugs
- Gender Dysphoria
- Top 25 Drugs

# GLP-1 Weight Loss Drugs

- Brands: Wegovy and Saxenda (chemicals: semaglutide and liraglutide).
- Since January 2015, the Plan has covered the GLP-1 classification of drugs for weight loss. This includes Saxenda on its prescription drug formulary, with Wegovy being added in October 2021. The Plan also covers the same chemical compounds sold under different names, e.g. Victoza and Ozempic, for use in the treatment of diabetes.
- The cost to the Plan for GLP-1s prescribed for weight loss has increased from approximately \$3 million per month, three years ago, to over \$14 million per month in 2023 (before manufacturer rebates).

# Gender Dysphoria Costs July 2022 – August 2023

2022	Sum of Unique Members	Charged Amount	Allowed Amount	Member Liability	Paid Amount
07-July	2	\$92.00	\$31.90	\$0.00	\$31.90
08-August	35	\$13,333.64	\$4,621.46	\$1,280.42	\$3,341.04
09-September	105	\$117,939.65	\$48,985.21	\$12,178.78	\$36,806.43
10-October	52	\$80,904.73	\$36,279.58	\$3,338.71	\$32,940.87
11-November	32	\$61,572.04	\$24,259.81	\$4,623.81	\$19,636.00
12-December	31	\$46,670.97	\$16,072.27	\$2,591.06	\$13,481.21
<b>2022 Subtotal</b>	<b>257</b>	<b>\$320,513.03</b>	<b>\$130,250.23</b>	<b>\$24,012.78</b>	<b>\$106,237.45</b>
2023	Total of Unique Members	Charged Amount	Allowed Amount	Member Liability	Paid Amount
01-January	78	\$128,330.09	\$65,180.42	\$16,231.91	\$48,948.51
02-February	78	\$142,055.92	\$56,650.50	\$9,363.19	\$47,151.66
03-March	62	\$130,202.11	\$82,050.12	\$14,300.08	\$67,750.04
04-April	52	\$653,207.04	\$204,998.44	\$13,360.83	\$191,637.61
05-May	47	\$274,693.75	\$152,899.39	\$19,913.01	\$132,954.14
06-June	47	\$137,692.34	\$71,389.98	\$16,464.80	\$54,925.18
07-July	36	\$268,845.90	\$151,901.30	\$22,619.70	\$129,281.60
08-August	34	\$593,226.15	\$244,770.18	\$28,624.58	\$216,145.60
09-September	36	\$767,946.82	\$386,603.62	\$29,531.44	\$356,913.08
<b>Grand Total</b>	<b>470</b>	<b>\$3,096,200.12</b>	<b>\$1,416,443.95</b>	<b>\$170,409.54</b>	<b>\$1,245,707.42</b>
<b>Total Medical Claims To-Date</b>		<b>\$3,416,713.15</b>	<b>\$1,546,694.18</b>	<b>\$194,422.32</b>	<b>\$1,351,944.87</b>
<b>Total Pharmacy Claims (Thru 8/31/23)</b>	<b>193</b>				<b>\$715,097.25</b>
<b>GRAND TOTAL</b>					<b>\$2,067,042.12</b>

In January 2021, Segal projected a range of \$440,000 to \$1,150,000 per year for adult members. Rolling 12 month costs exceed the high end of this estimate by 76%.

# New State Law: Session Law 2023-111

- 143C-6-5.6(b). “No State funds may be used, directly or indirectly, for the performance of or in furtherance of surgical gender transition procedures, or to provide puberty-blocking drugs or cross-sex hormones to a minor, or to support the administration of any governmental health plan or government-offered insurance policy offering surgical gender transition procedures, puberty-blocking drugs, or cross-sex hormones to a minor.”
- 143C-6-5.6(c). “Subsection (b) of this section shall not apply to the State Health Plan for Teachers and State Employees.”
- “Subsection (c) of G.S. 143C-6-5.6, as enacted by Section 3 of this act, expires 30 days after the Memorandum and Order, dated June 10, 2022, or the permanent injunction ordered therein in *Kadel v. Folwell*, 1:19CV272 is vacated, overturned, or is no longer in force.”

# Gender Dysphoria Age Banding January – September 2023

## Medical Claims

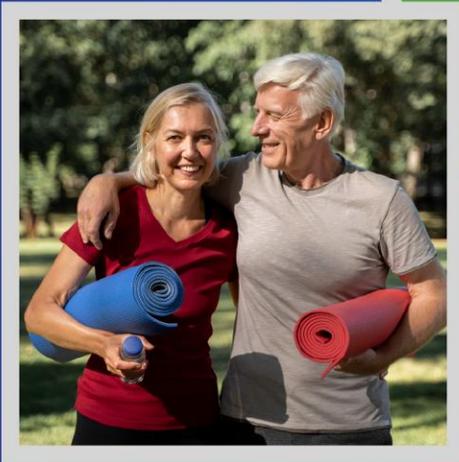
Age Buckets	Total of Unique Members	
0-14	19	4.0%
15-17	46	9.8%
18-24	231	49.1%
25-34	110	23.4%
35-54	52	11.1%
55+	12	2.6%
<b>Grand Total</b>	<b>470</b>	<b>100.0%</b>

*Excludes pharmacy claims.*

# Top 25 Drugs

- E.g.
  - Stelara
    - Gross Cost: \$45,927,307
    - AWP Inflation: 5.3%
  - Otezla
    - Gross Cost: \$13,257,728
    - AWP Inflation: 10.3%
  - Skyrizi
    - Gross Cost: \$26,238,489
    - AWP Inflation: 7.1%
  - Ajoovy
    - Gross Cost: \$6,025,237
    - AWP Inflation: 5.0%

*From Calendar Year 2022 Review*



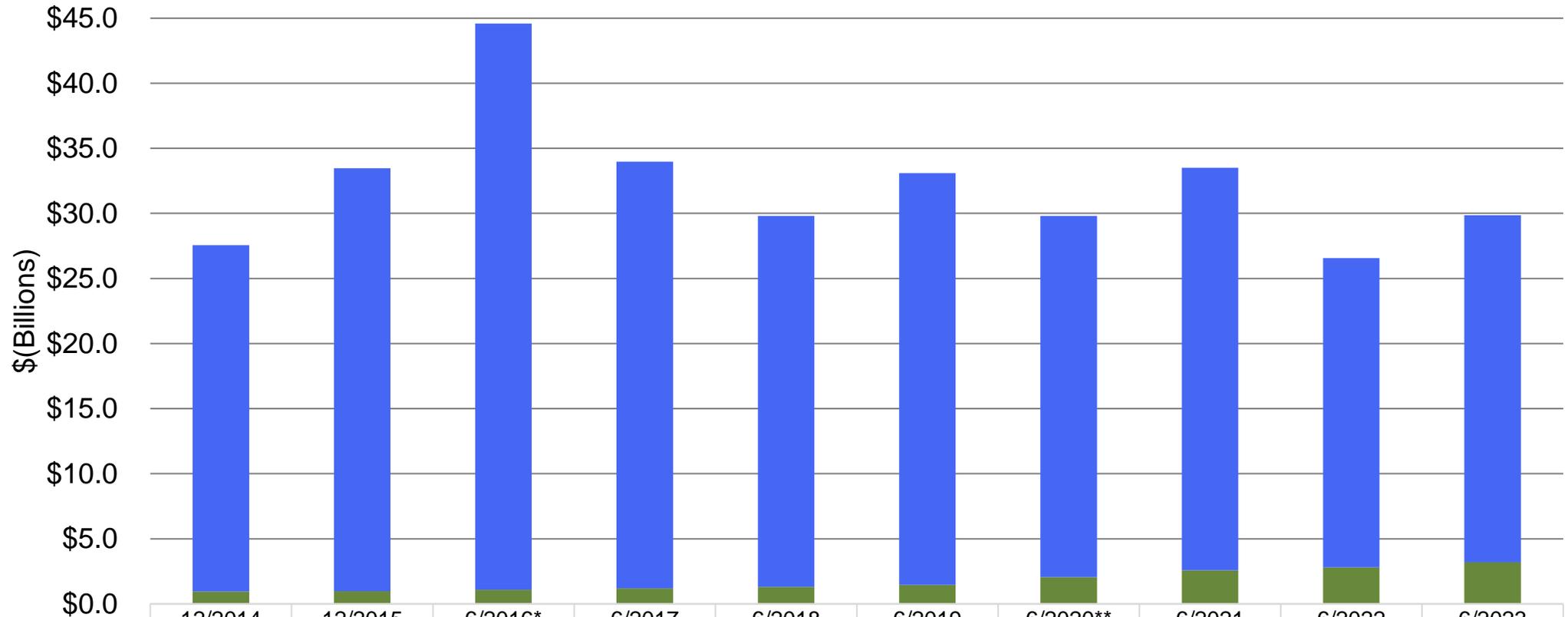
# OPEB Summary

# OPEB Overview

- OPEB = Retiree Health coverage for current and future retirees
  - **Other Post-Employment Benefits** (other than pension)
- OPEB Liability = estimated current value of the current and future health care costs of current and future retirees
  - Liability as of 6/30/23: \$29.8B
- Retiree Health Benefits Trust Fund (RHBTF) was created to offset OPEB Liability and pay for the cost of health care for retirees.
  - The RHBTF is funded by a % of salary of employers as stated in the Appropriations Legislation (SL 2023-134: FY 2023: 7.14%; FY 2024 6.99%)
  - The RHBTF pays for retiree health coverage based on premiums approved by the SHP Board of Trustees to stay within the FY limits set in Appropriations Legislation. (CY 2024: \$448.74 adopted by Board in July to stay within FY24 \$5,525 from SL 2023-134)
  - RHBTF as of 6/30/23: \$3.2B
- OPEB is 10.7% funded with \$26.6B Unfunded Liability.
- SL. 2020-48 allowed transfers to RHBTF totaling 868.7M since FY 2020.

# OPEB History

## Retiree Health Benefit Fund - Liability



	12/2014	12/2015	6/2016*	6/2017	6/2018	6/2019	6/2020**	6/2021	6/2022	6/2023
■ Unfunded Liability	\$26.6	\$32.5	\$43.5	\$32.8	\$28.5	\$31.6	\$27.7	\$30.9	\$23.7	\$26.6
■ Assets	\$0.9	\$1.0	\$1.1	\$1.2	\$1.3	\$1.5	\$2.1	\$2.6	\$2.8	\$3.2
Funding Ratio	3.4%	2.9%	2.4%	3.5%	4.4%	4.4%	6.9%	7.7%	10.6%	10.7%

\* 2016 Implemented GASB 74 changes

\*\*2020 First Year of PEHBF Transfers

■ Assets      ■ Unfunded Liability

# OPEB Funding Shortfalls

- Actuarially Determined Contribution (ADC) = Actuarially calculated contribution if made over 30 years would fully fund the OPEB Plan.

Fiscal Year	ADC (\$Billions)	Actual Contribution (\$Billions)	Excess/ (Shortfall) (\$Billions)
2019	\$3.0	\$1.1	(\$1.9)
2020	2.8	1.2	(1.6)
2021	3.0	1.2	(1.8)
2022	2.1	1.2	(0.9)
2023	2.3	1.4	(0.9)

- Historically, the funding of OPEB liability has been on a “pay as you go” basis.
  - Contributions to RHBTF is roughly equal to premiums paid.
- No prefunding is included in Appropriations Legislation.
- The ADC is fully funded for Pension Benefits (for example TSERS).
  - TSERS as of 12/31/2021 is 90% funded with \$83.1 B in Assets and 92.4 B in Liability

# OPEB Risks

- Minimal Funding from Appropriation Legislation
  - If the OPEB was prefunded, the Liability calculation could use a higher discount rate reducing liability (Using 6.5% Investment assumption, Unfunded Liability would be ~\$18B)
- Funding is dependent on a percentage of Salary of Employees, but coverage is closed to new hires after 2021.
  - If this funding methodology continues, Employers will eventually be paying into the RHBTF with no employees eligible for benefits.
- If Retiree Health reopens to new hires again, there will be additional OPEB Liability and higher ADC required to be funded.
- Employers leaving Retiree Health Coverage have current retirees and actives eligible for retirement benefits, but will have no contributions into the fund.
  - UNC Health Care and ECU Health Care are allowed to leave as stated in SL 2023-134.
  - UNCHC share of Unfunded Liability is in excess of \$1B; ECU HC share is ~\$40M.
- Health Claims continue to increase and expected retiree claim payments are not expected to decline until 2051.
  - Increases in retiree claims payments also include adding in retirements of eligible actives.

# State Budget Update (SL 2023-134)

# Employer & RHBTF Contribution to PEHBF

Requested Letter				
FY Annual Contribution				
	2023	2024	2025	
Actives	7,397	7,654	8,493	
Retirees	5,118	5,616	5,728	
CY Monthly Rates (\$)				
Actives	584.96	690.70	724.80	
Retirees	472.08	463.92	490.74	
EE / RHBTF FY Cont. (\$B)				Total FY 24-25
Actives	2.23	2.30	2.54	4.84
Retirees	1.18	1.29	1.34	2.63
Total	3.40	3.59	3.88	7.47

SL. 2023-134 (HB 259)				
FY Annual Contribution				
	2023	2024	2025	
Actives	7,397	7,557	8,095	
Retirees	5,118	5,525	5,405	
CY Monthly Rates (\$)				
Actives	584.96	674.54	674.62	
Retirees	472.08	448.74	452.08	
EE / RHBTF FY Cont. (\$B)				Total FY 24-25
Actives	2.23	2.27	2.43	4.70
Retirees	1.18	1.27	1.26	2.53
Total	3.40	3.54	3.69	7.23
Comparison to Letter		(0.05)	(0.19)	(0.24)

- We requested FY Contribution Rates which would have yielded \$7.47B in Employer and RHBTF contributions over FY 2024 – 2025.
- Session Law 2023-134 was passed resulting in an expected reduction of requested contributions of \$50M expected in FY 2024 and an additional \$190M in FY 2025.