North Carolina
State Health Plan
FOR TEACHERS AND STATE EMPLOYEES

Actuarial Valuation of Retired Employees' Health Benefits

Board of Trustees Meeting

November 22, 2013

Based on report prepared by
The Segal Company
for
The Committee on Actuarial Valuation of Retired Employees' Health Benefits

A Division of the Department of State Treasurer

Presentation Overview

- Background
- Committee on Actuarial Valuation of Retired Employees’ Health Benefits
- Valuation Process
- Results

Background

- The Governmental Accounting Standards Board (GASB) sets accounting standards for public and governmental entities to provide uniformity in financial reporting
- GASB statements 43 and 45 require governmental entities to disclose information on liabilities associated with “Other Postemployment Benefits” (OPEB), notably retiree health benefits
- Objective: To report in today’s dollars the State’s liability associated with retiree health benefits

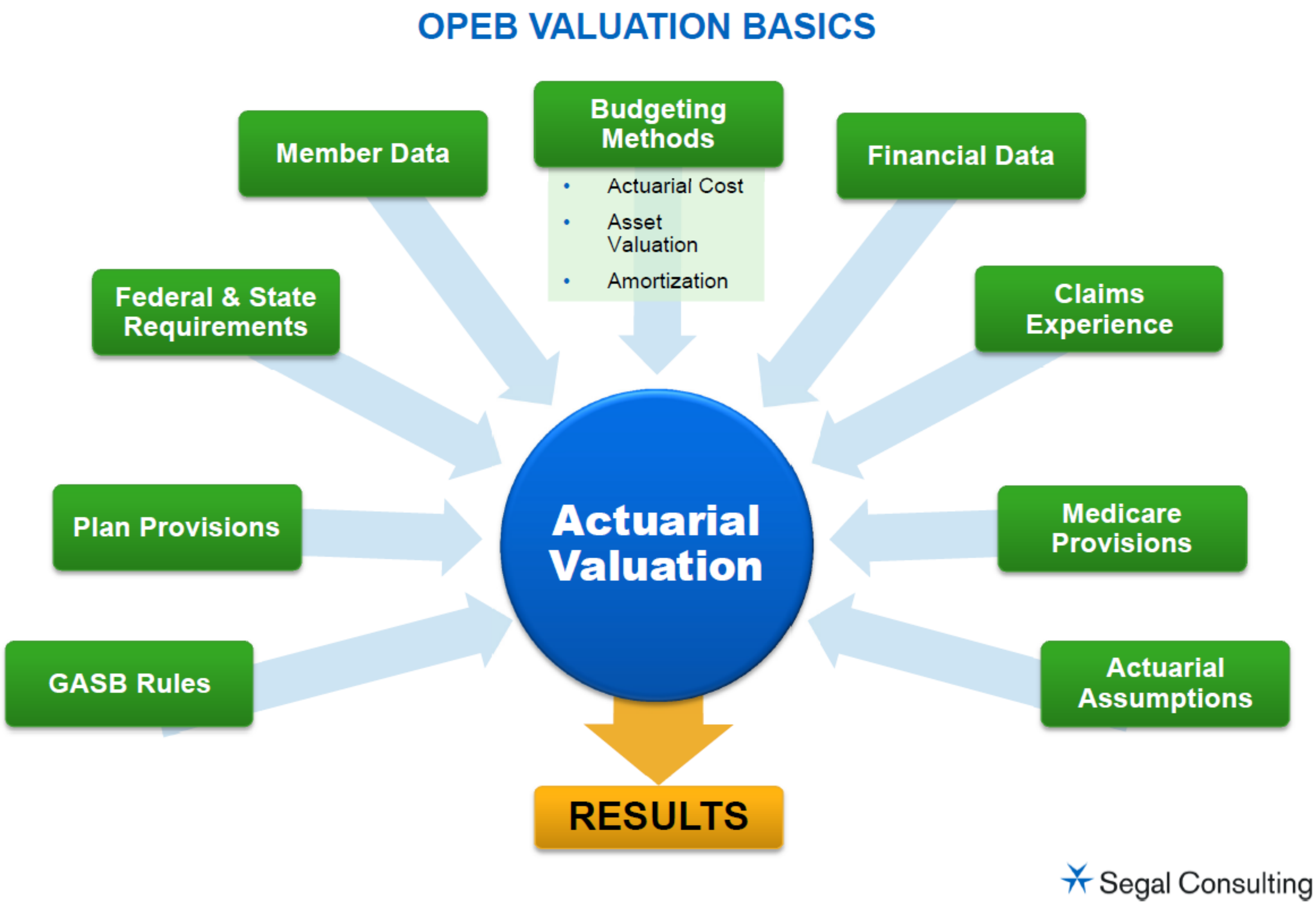
The Committee on Actuarial Valuation of Retired Employees' Health Benefits

- The Committee was established to conduct the annual OPEB valuation

- Committee consists of:
  - State Budget Officer (as Chair)
  - State Auditor
  - State Controller
  - State Treasurer
  - Executive Administrator of the State Health Plan

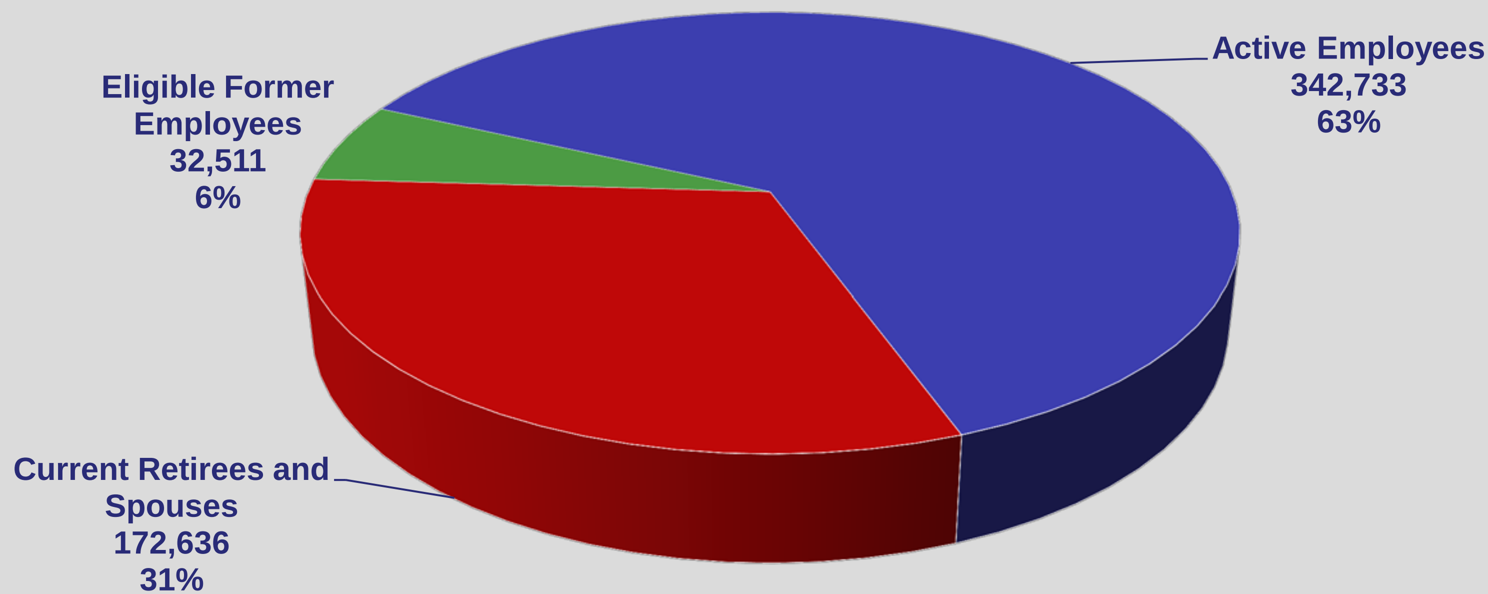
- Committee's responsibilities:
  - Select actuary (can choose the Plan's actuary or Retirement's actuary)
  - Collect data
  - Review actuarial assumptions to be used in the valuation
  - Report results

Valuation Process



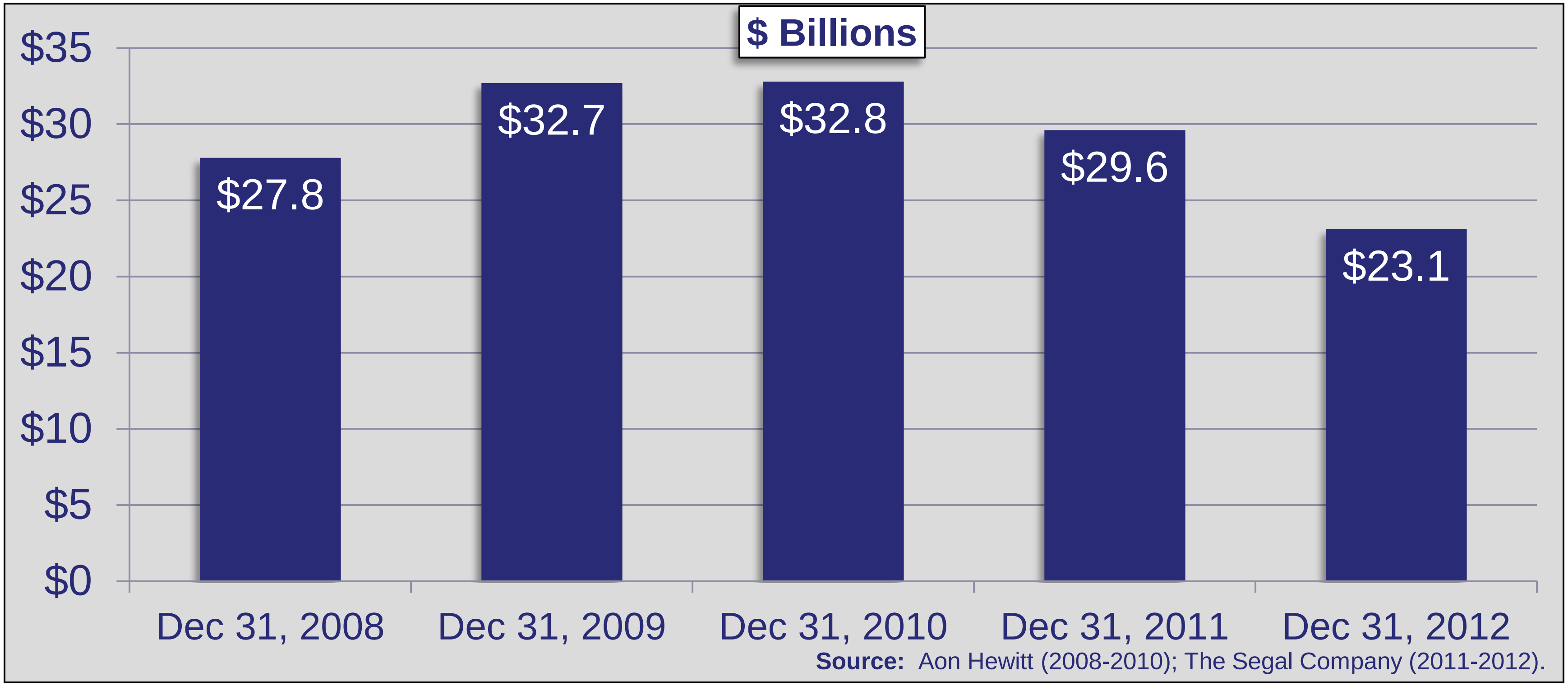
Valuation Census

- As of December 31, 2012, there were 547,880 employees and retirees eligible for retiree health benefits



Source: *Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of December 31, 2012*; The Segal Company.

Results: Unfunded Actuarial Accrued Liability (UAAL)



- UAAL declined $6.5 billion from 2011 to 2012
- 2012 UAAL was $8.3 billion less than projected last year due to:
  - Assumption changes ($4.8 billion decrease)
  - Plan changes ($4.6 billion decrease)
  - Offset by a $1.1 billion increase in actuarial experience (demographics, investment performance, contributions)

Results: Annual Required Contribution (ARC)

- ARC = Amortization of unfunded liability + normal costs
  - If the State were to amortize the UAAL over a 30-year period, the annual payment would be $854 million
  - Liability associated with future benefits earned in the current (valuation) year is the "normal cost." Normal cost for 2012 is $1.167 billion.

	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012
Amortization of Unfunded Liability	$1.0 b	$1.2 b	$1.2 b	$1.1 b	$0.8 b
Normal Cost	$1.7 b	$1.8 b	1.7 b	$1.4 b	$1.2 b
ARC	**$2.7 b**	**$3.0 b**	**$2.9 b**	**$2.5 b**	**$2.0 b**
As % of Payroll	17.5%	19.9%	19.3%	16.7%	13.5%

Results: Actuarial Gain/(Loss) on ARC

Description	Amount
Expected ARC	**$2.548 b**
Experience Loss	$225.0 m
Assumption Changes	($421.2 m)
Plan Changes	($331.0 m)
Total Change	($527.2 m)
2012 Actual ARC	**$2.021 b**

Source: The Segal Company

Board of Trustees/State Health Plan impact:

- Implementation of CDHP and MA-PDP in 2014 reduce the ARC by $331 million
- Positive claims experience contributes to the $421 million "assumption changes" reduction