



*North Carolina*  
**State Health Plan**  
FOR TEACHERS AND STATE EMPLOYEES



## **Actuarial Valuation of Retired Employees' Health Benefits Other Postemployment Benefits as of December 31, 2015**

Based on report prepared by  
The Segal Company  
for the

Committee on Actuarial Valuation of Retired  
Employees' Health Benefits

***Board of Trustees Meeting***

**December 1, 2016**

---

*A Division of the Department of State Treasurer*

# Presentation Overview

---

- Background
- Committee on Actuarial Valuation of Retired Employees' Health Benefits
- Valuation Process
- Results
- Summary
  - GASB Statements 74 and 75

# 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
- GASB statements 74 and 75 – approved on June 2, 2015 – will alter OPEB calculations and reporting in the coming years

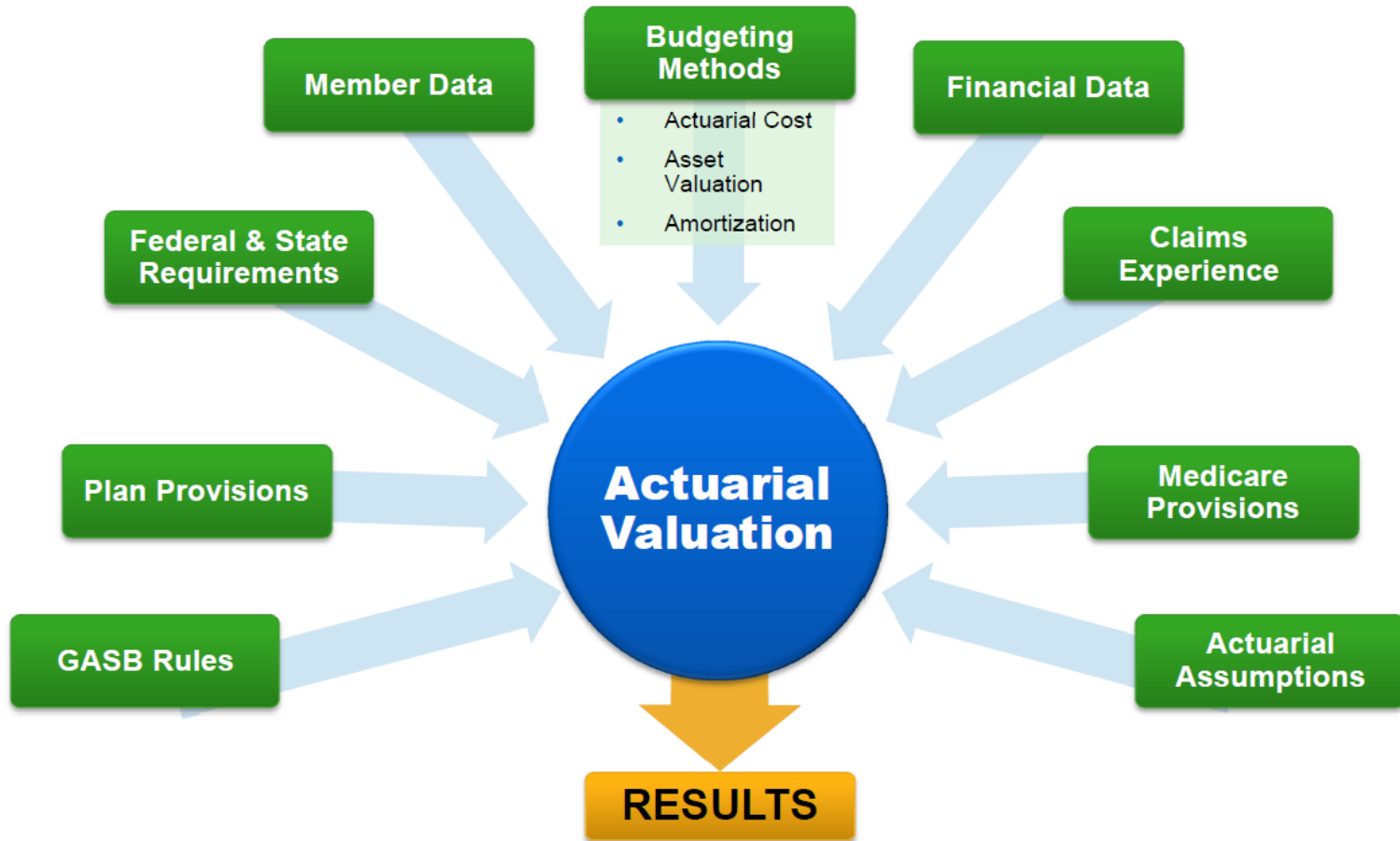
# Committee on Actuarial Valuation of Retired Employees' Health Benefits

---

- Established to conduct the annual OPEB valuation
- Committee consists of:
  - State Budget Officer (as Chair)
  - 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

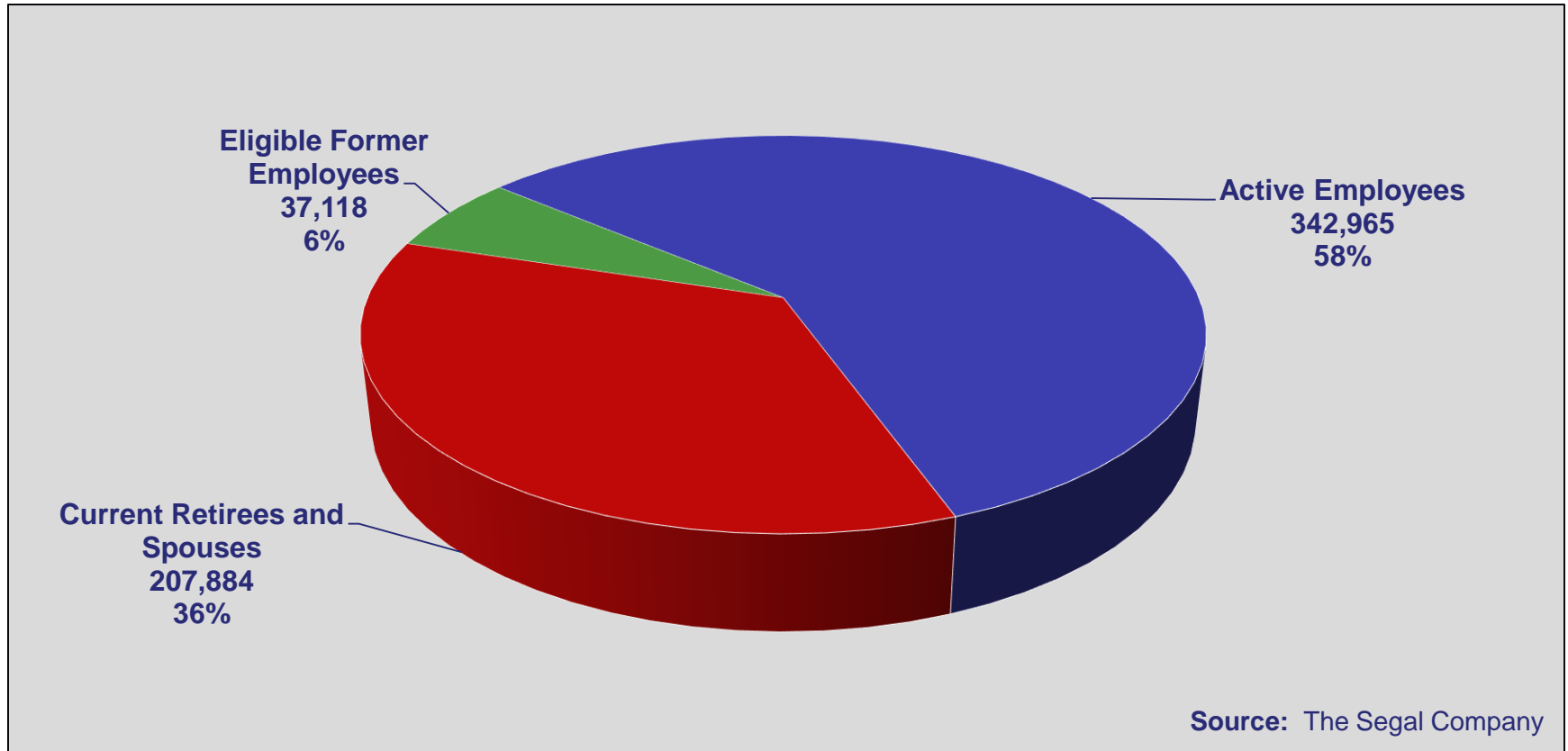
## OPEB VALUATION BASICS



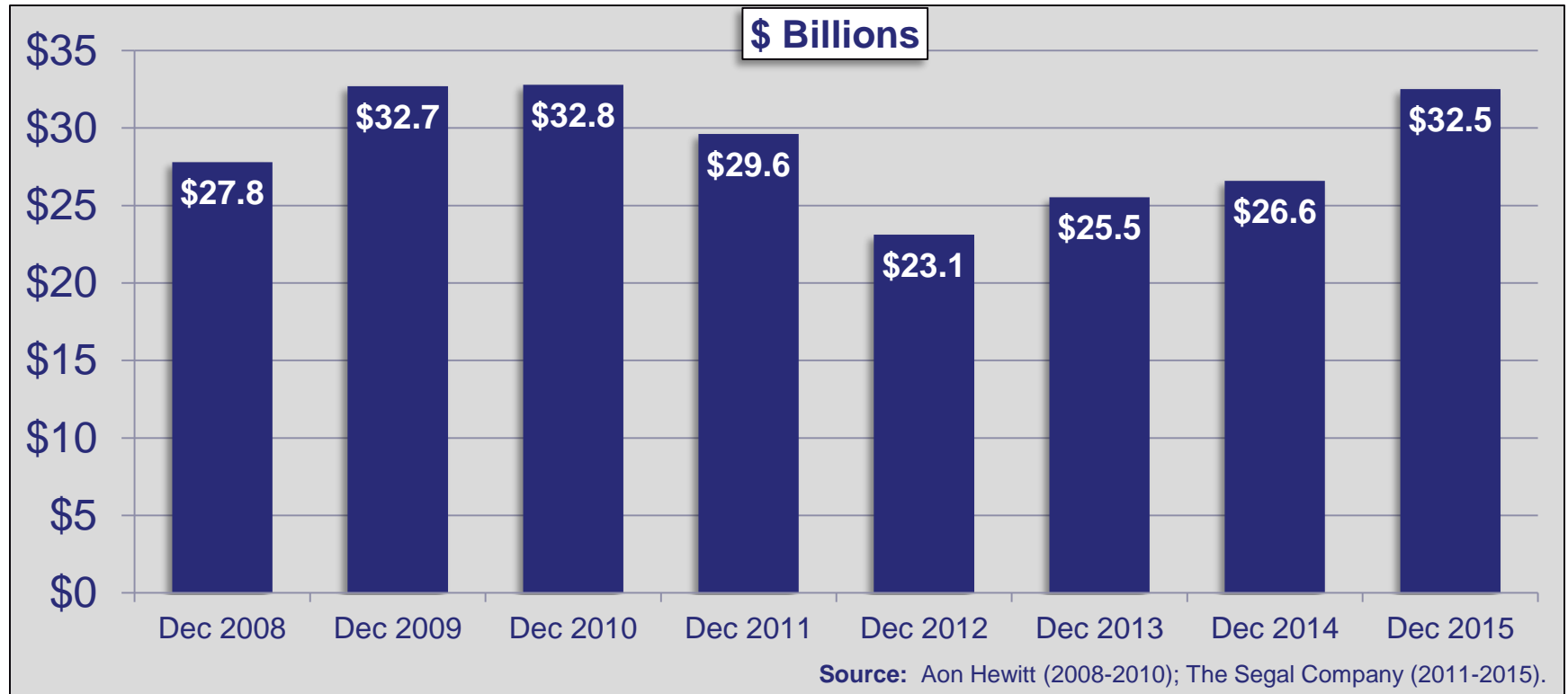
★ Segal Consulting

# Valuation Census

- As of December 31, 2015, there were 587,967 employees, former employees, and retirees eligible for retiree health benefits



# Results: Unfunded Actuarial Accrued Liability (UAAL)



- UAAL increased \$5.9 billion from December 31, 2014, to December 31, 2015
- The biggest impact on the UAAL was an experience study completed last year for the State Retirement System that impacted retiree mortality expectations
  - Pharmacy costs and trend also played a role in the increase
  - Plan design changes and medical claims experience reduced the UAAL slightly

# Results: Annual Required Contribution (ARC)

- The ARC would be comprised of two components:
  - The cost to finance the UAAL over a 30-year period
    - The annual payment for this component would be \$1.201 billion
  - The cost for the additional liability that is accrued in the current year (also called the “normal cost”)
    - The normal cost for 2015 is estimated at \$1.310 billion
- As shown in the chart below, the total ARC would be \$2.5 billion and would have required the commitment of 16.0% of payroll in FY 2015-16

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Amortization of Unfunded Liability	\$1.0 b	\$1.2 b	\$1.2 b	\$1.1 b	\$0.8 b	\$0.9 b	\$1.0 b	\$1.2 b
Normal Cost	\$1.7 b	\$1.8 b	1.7 b	\$1.4 b	\$1.2 b	\$1.3 b	\$1.2 b	\$1.3 b
<b>ARC</b>	<b>\$2.7 b</b>	<b>\$3.0 b</b>	<b>\$2.9 b</b>	<b>\$2.5 b</b>	<b>\$2.0 b</b>	<b>\$2.2 b</b>	<b>\$2.2 b</b>	<b>\$2.5 b</b>
As % of Payroll	17.5%	19.9%	19.3%	16.7%	13.5%	14.8%	14.2%	16.0%



# Key Takeaways: December 31, 2015 Valuation

---

- The unfunded OPEB liability is \$5.9 billion higher than the previous year
  - The largest driver of the increase is an experience study completed last year for the State Retirement System
  - Even with the new demographic data from the experience study, the liability remains just below the 2009 and 2010 valuations
- Like the unfunded liability, the ARC is higher than it was last year
  - Increase from \$2.2 billion to \$2.5 billion
  - The percent of payroll necessary to pay the ARC increased from 14.21% in Fiscal Year 2014-15 to 16.00% in Fiscal Year 2015-16
- OPEB liabilities are currently **noted** on the State's Comprehensive Annual Financial Report (CAFR) but are not part of the State's balance sheet
- **GASB statements 74 and 75:**
  - Require OPEB liabilities to be listed as balance sheet items beginning with Fiscal Year 2017-18
  - Introduce greater standardization of the assumptions used to calculate OPEB liabilities
  - Will likely push states to think about and begin developing long-term OPEB funding strategies