

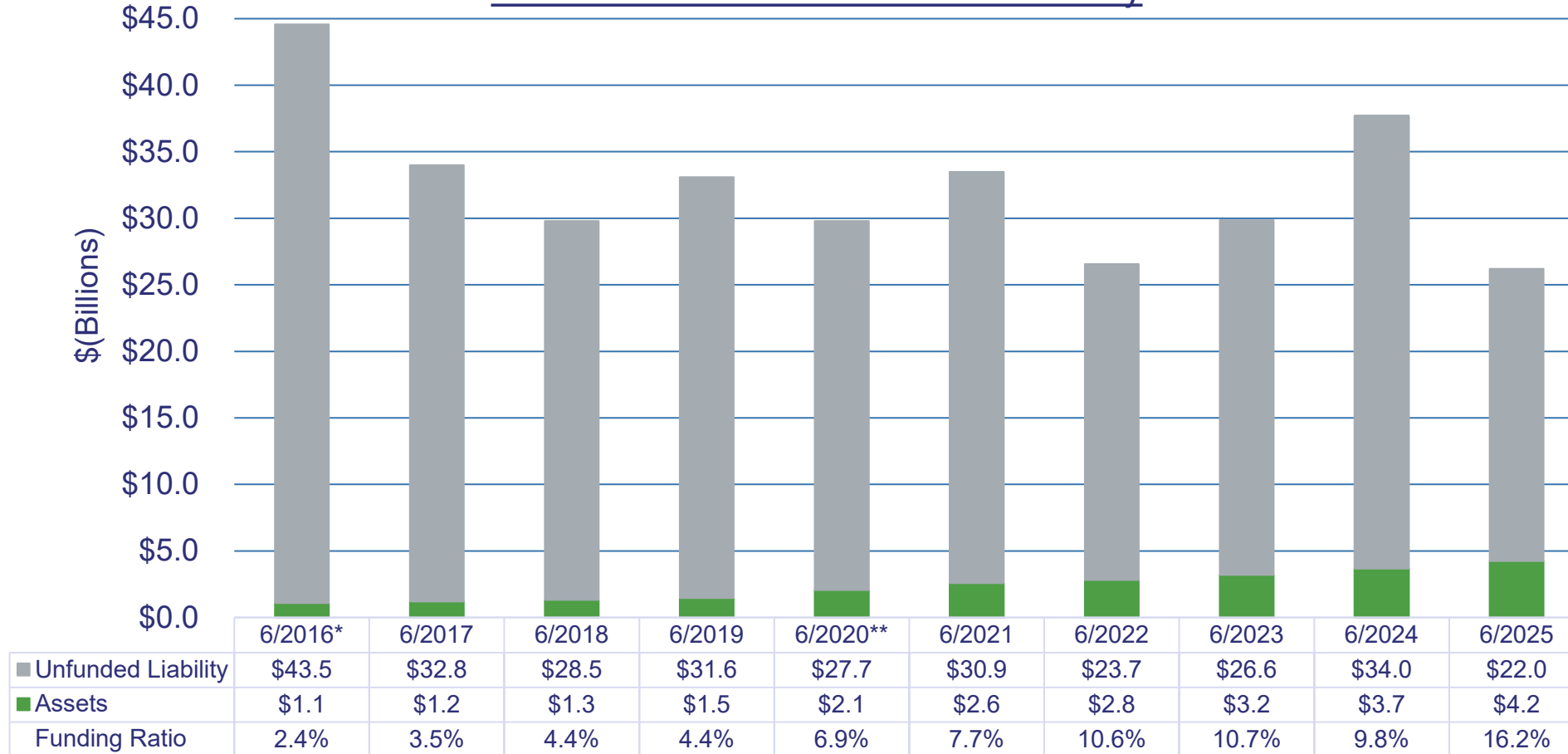


 **North Carolina
State Health Plan**
FOR TEACHERS AND STATE EMPLOYEES
A Division of the Department of State Treasurer

Retiree Health Benefit OPEB Update

OPEB History

Retiree Health Benefit - Total Liability



* 2016 Implemented GASB 74/75

** 2020 First year of PEHBF transfers

OPEB Context

2023 OPEB Statistics of Comparable AAA Rated States

State	Total OPEB Liability (\$B)	Fiduciary Net Pos. (\$B)	Net OPEB Liability (\$B)	Funding Percentage
Ohio	\$14.8	\$17.4	(\$2.6)	117.8%
Tennessee	1.2	0.9	0.3	74.2%
Virginia	7.4	4.0	3.4	53.9%
Georgia	15.0	4.2	10.8	27.9%
North Carolina	30.1	3.4	26.7	11.5%
South Carolina	14.8	1.7	13.1	11.4%
Missouri	2.9	0.2	2.7	6.9%
Texas	66.6	4.1	62.5	6.1%
Maryland	11.6	0.5	11.1	4.0%
Florida	18.9	0.5	18.4	2.8%
Washington	4.3	0.0	4.3	0.0%

Source: 2023 ACFRs and State GASB 74 Reports

RHBT

TOL: \$29.85
FNP: 3.20
NOL: 26.65
Fund: 10.7%

DIPNC

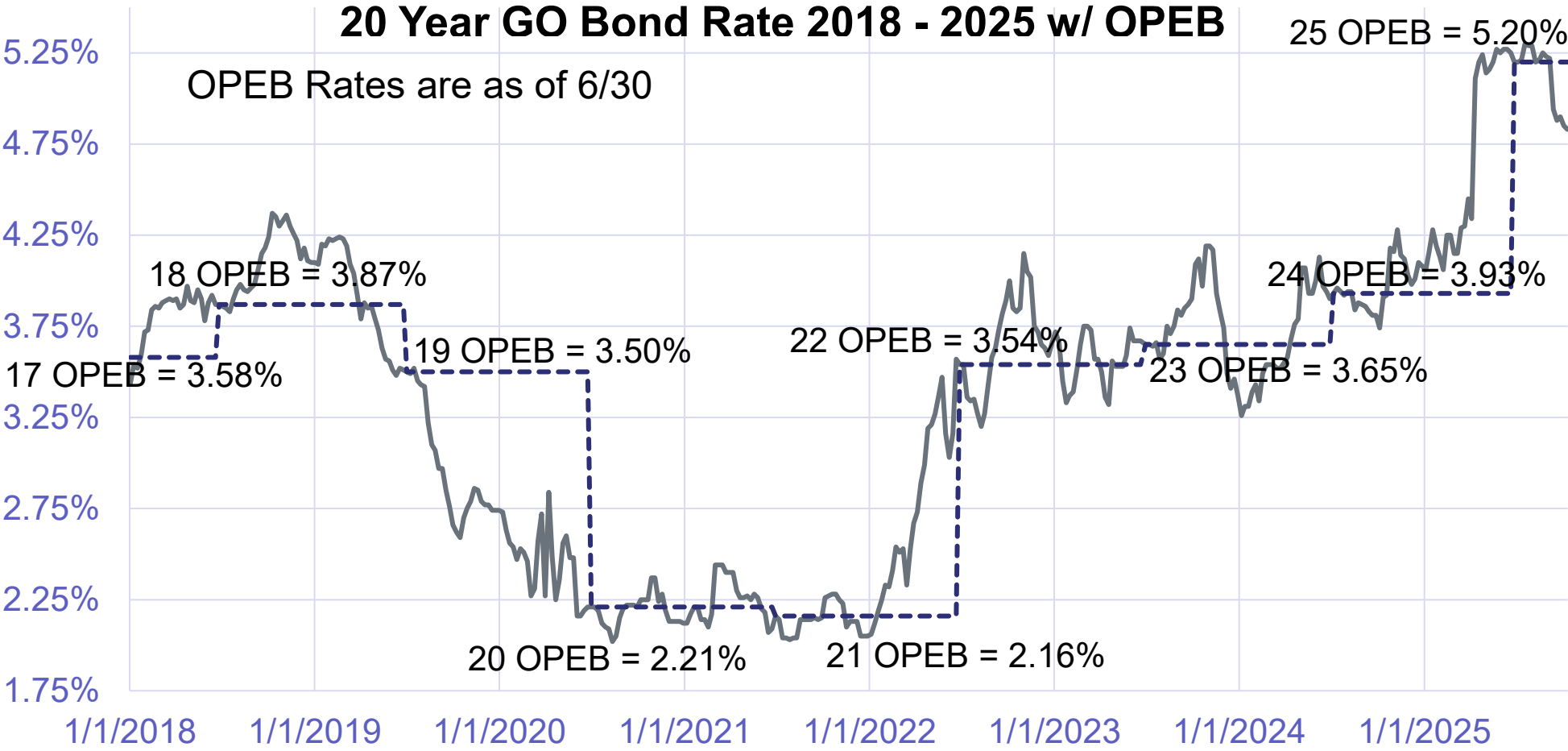
TOL: \$0.283
FNP: 0.257
NOL: 0.03
Fund: 90.6%

GASB 74/75 Funding Rules

- OPEB follows funding guidelines from GASB 74 and 75
 - Similar to Pension following guidelines from GASB 67 and 68
- Part of GASB 74/75 rules mandate what Discount Rate is used when calculating Total Liability.
 - **IF there is a funding policy** or reasonable expectation of pre-funding the Trust fund, the actuary may use the Investment Rate or a blend of 20-Year General Obligation (GO) Bond Rate and the Investment Rate.
 - **IF there is NO funding policy** and the plan is funded on a Pay As You Go basis (contributions are relatively equal to payments), then the actuary **MUST use the 20-Year GO Bond Rate**.

Year	2018	2019	2020	2021	2022	2023	2024	2025
20 Yr GO Bond Rate	3.87%	3.50%	2.21%	2.16%	3.54%	3.65%	3.93%	5.20%
Liability Gain/(Loss) (\$B)	\$1.38	(\$1.82)	(\$5.16)	(\$0.26)	\$6.11	\$0.48	\$1.66	\$5.14

20 Year GO Bond History



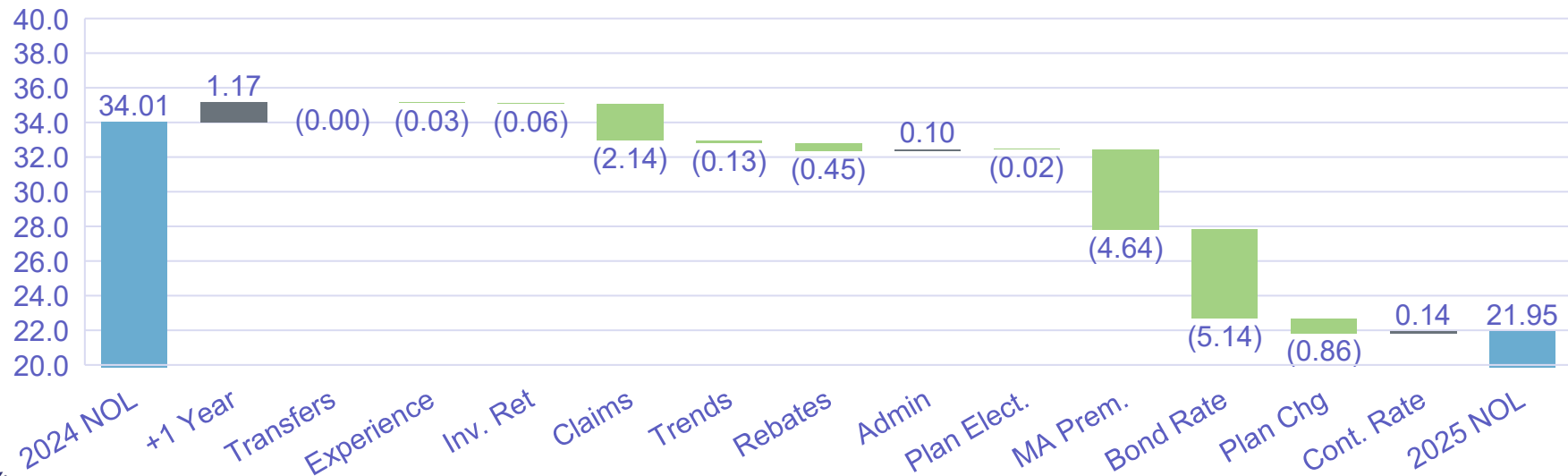
Factors of OPEB Liability Change

- Medicare Advantage (MA) Premiums (Supplemental Medicare benefit):
 - ~85% of Medicare Eligible Members (older than 65) have MA Coverage
 - 2020: New RFP reducing PMPM premiums \$90 PMPM to \$0 effective 2021: **\$6.2B Gain**
 - 2024: Increase MA rates from Inflation Reduction Act (2022): **8.8B Loss**
 - 2025: Decrease MA rates (vendor negotiation \$50 reduction): **\$4.6B Gain**
- Federal Law Changes:
 - 2020: Removed Health Insurance Tax on MA insurers (\$20 PMPM): **\$2.4B Gain**
 - 2020: Removed PPACA Excise Tax for rich benefits: **\$1.6B Gain**
 - 2024: Inflation Reduction Act: See above for impact on MA Premiums: **Same as above**
- SHP Board of Trustees:
 - New Vendors Contracts: 2022 PBM: **\$2.2B Gain**; 2023 TPA: **\$0.7B Gain**
 - Plan Changes: 2024: **\$1.4B Gain**; 2025: **\$0.9B Gain**
 - Member Contributions for Eligibility: not more than 0.5B gain or less than 0.5B Loss

Factors (Cont.) & 2025 Liability Changes

- Member Experience
 - Claims Experience: 2025 **\$2.1B Gain**
 - Member Plan Election: 2021 **\$1.5B Loss**
- Future Trend Growth
 - 2021: **\$1.0B Loss** 2023: **\$1.3B Loss**

2024 to 2025 NOL Changes



Retiree Health Benefit Trust Fund

- Retiree Health Benefit Trust (RHBTF) is codified by G.S. 135-7(f)
- Funded by a % of Salary in Appropriations Legislation: FY 2026: 4.93% to RHBTF
- RHBTF transfers money monthly to Public Employee Health Benefit Fund (PEHBF that SHP uses for operations) to pay for retiree benefits.
- The PEHBF has also transferred money to the RHBTF 2020: \$475.2B; 2021: \$187.0B; 2022: \$172.0B; 2023: \$34.5B

Fiduciary Net Position History

\$ Billions	2022	2023	2024	2025
Cash & Rec.	1.36	1.34	1.36	1.32
Investments	1.45	1.86	2.33	2.92
Total FNP	2.81	3.20	3.69	4.24

Fiduciary Net Position Changes

\$ Millions	2022	2023	2024	2025
BOY	2,584.6	2,810.3	3,202.7	3,690.1
Contribution	1,197.2	1,366.9	1,483.9	1,524.3
Expense	(1,044.1)	(1,120.7)	(1,222.7)	(1,280.6)
Investment Ret.	(107.9)	111.2	215.9	308.4
Additional Funds	180.5	35.0	10.3	0.0
EOY	2,810.3	3,202.7	3,690.1	4,242.2

Similarities to Pension

- **Same Population (some exceptions)**
 - Covers retirees enrolled in DIPNC, TSERS, CJRS, LRS, UEORP, and some LGERS.
 - There was a limit on allowing Local Governments to cover retirees and is now closed to additional Local Governments
 - Actives are only eligible if they have service prior to 1/1/2021
- **Experience Study assumptions as approved by TSERS Board of Trustees**
 - Retirement, Disability, Termination, Mortality assumptions
 - Marriage Assumptions
 - Investment Return
 - Salary Increase
- **RHBTF Receives % of Salary Contributions from Appropriations**
 - Contribution is not based on OPEB Liability or Actuarial Determined Contribution and is more of a “Pay As You Go” basis

Differences from Pension

- **Benefits (Health costs) are estimated**
 - Plan provisions can be modified
 - Large cost shift at age 65 when a member becomes Medicare eligible
- **Healthcare Trends** (Assume costs increase annually by at least 5%)
- **Plan Election** (may change coverage during Open Enrollment)
- **Retirees may pay for health coverage.**
 - These contributions offset future liability
- **RHBTF receives Solvency Fund and direct transfers from PEHBF**
- **An OPEB Committee approves OPEB Assumptions and Report**
 - Codified by G.S. 135-48.12 to be comprised of State Budget Director (chair), State Controller, State Treasurer, and SHP Executive Administrator.