



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Actuarial Note

Health Benefits

Short Title: 2021 Appropriations Act.
Bill Number: Senate Bill 105 (Fifth Edition)
Sponsor(s):

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 105, V. 5 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
State Impact					
General Fund	6,603	19,762	26,442	31,992	36,797
Highway Fund	161	482	645	781	898
Other/Receipts	1,566	4,685	6,269	7,585	8,724
TOTAL STATE EXPENDITURES	8,330	24,929	33,356	40,358	46,419

ACTUARIAL IMPACT SUMMARY

Section 39.25 has a potential actuarial impact on a program of medical or related benefits provided for teachers and State employees.

Section 39.25: Establishes a new NC Retirement Health Reimbursement Arrangement (HRA) for permanent employees of entities that participate in a State retirement system and who first earn contributory retirement service on or after January 1, 2021 or withdraw retirement service earned prior to that point.

The employing entity would contribute a credit amount each pay period that would be attributed to the individual employee's account. The General Assembly would establish the annual amount of such credits for each year and the bill sets the credit at \$500 per year for calendar years 2022 and 2023. The employing entity contributions would be deposited by the State Treasurer in a newly created trust called the NC Retirement HRA Fund. The funds would become available to the employee, along with accumulated investment earnings less accumulated administrative expenses, when they retire under a State retirement system. The funds could be used for any purpose allowed for HRA funds under federal law. If the employee or participating retiree withdraws their contributions or dies, they would forfeit the balance in the account.

The General Assembly reserves the right to alter, amend, or repeal the law governing the HRA and the employee or retiree shall have no entitlement, contract right, or any other right to any benefit created by the law.

Hartman & Associates, the consulting actuary for the General Assembly, estimates that this section will result in the additional total net cash flow from participating employers shown in the following table. This net cash flow is equal to the HRA credits minus forfeitures due to withdrawal and death.

Year	Net Cash Flow
FY 2021-22	\$8,329,720
FY 2022-23	\$24,929,248
FY 2023-24	\$33,355,944
FY 2024-25	\$40,358,108
FY 2025-26	\$46,419,369

Hartman & Associates also estimates that the ultimate net cash flow would be roughly \$150 million per year once all active employees are eligible for the HRA in about 40 years.

The source of the net cash flow (General Fund, Highway Fund, or other) would be the same as the funding source for the position in which the individual is employed.

ASSUMPTIONS AND METHODOLOGY

The actuarial analysis used by the consulting actuary is on file with the Fiscal Research Division. A copy of the consulting actuary's analysis, including assumptions, are also attached to the original copy of this Legislative Actuarial note.

Hartman & Associates used the following assumptions in preparing its note:

- The annual credit will continue at \$500 per year after 2023.
- The total employee population of approximately 349,000 will remain constant.
- Demographic assumptions used in the December 31, 2019 valuation of the Teachers' and State Employees' Retirement System.
- 30% of terminations (not including retirements) assumed to withdraw employee retirement contributions and forfeit HRA benefit.
- A distribution of hire dates by month based on data from 2019.
- An investment return of 5.0%, net of administrative expenses

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

-Actuarial Note, Hartman & Associates, "Special Provision 2021-SHP-H1A: Establish NC Retirement Health Reimbursement Arrangement", August 10, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State employee health benefit programs and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
August 11, 2021



Signed copy located in the NCGA Principal Clerk's Offices