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MEMORANDUM

To: North Carolina State Health Plan OPEB Committee

From: David A. Berger

Date: November 18, 2019

Re: Revised June 30, 2019 GASB 74 OPEB Report

A detailed management review of the assumptions and methods used in the August 30, 2019 version of the 2019 GASB 74 OPEB Report was performed by the Department of State Treasurer after the report was issued. The report was revised as a result of a detailed management review of the prior version of our report, conducted by Charles Sceiford, ASA, Health and Benefits Actuary for the State Health Plan. His review and comments were greatly appreciated.

The review uncovered four items that will be reflected as assumption changes. The total change to the Total OPEB Liability (TOL) was an increase of $410 million, or 1.25%.

The initial valuation results were to have been put in the June 30, 2019 CAFR, but the changes were found prior to the completion of the review. The revisions will be reflected in lieu of the understated TOL.

The Department of the State Treasurer asked to review sample lives for the valuation. This is where it was discovered that there were four changes that could be made to improve results. This was the first time such a review had been done by the Department of State Treasurer, after having had an Actuarial Audit of the 2018 GASB 74 Valuation.

The four changes reflected, and the associated change in Total OPEB Liability, are summarized in the following chart:

Total OPEB Liability as of June 30, 2019	$ millions
Total OPEB Liability displayed in the August 30, 2019 report	$32,685
Item 1. Effect of adding administrative fees to spouses	98
Item 2. Effect of reducing the trend on contributions	222
Item 3. Effect of changing the retirement rates to add service and age mid-year	62
Item 4. Effect of not valuing Wellness surcharge for 70/30 plan Non-Medicare plan	28
Revised Total OPEB Liability	$33,095

A description of the above four items appears below.

Item 1: The calculation of the administrative fees was changed this year, from an average cost per contract, to a split between pre-65 and post-65 administrative fees. This allows the lower Medicare Advantage administrative fees to be projected post-65. With this change, we split the administrative fees between retirees and spouses and intended to project them per covered adult life, rather than per contract. Segal did not reflect the administrative fees for spouses in our August 30, 2019 report. The impact was about 0.3%.

Item 2: The trend issue was an incorrect trend was being applied to the non-Medicare retiree and spouse contributions, and the ultimate trend rate was not 5.00% for these contributions. This item was identified during Segal's review process but the correction to the valuation program was unintentionally reverted and did not make it into the August 30, 2019 valuation report. This change occurred with the blending of costs and trends that is associated with the migration of participants across the health plan options. That is, it occurred outside the valuation programming and in the development of blending the claims and trends that is actually used in the projections of benefit payments and retiree contributions. This was the largest impact, at approximately 0.7%.

Item 3: The retirement assumption was changed to reflect a service accrual for mid-year eligibility. Segal's standard methodology of the application of mid-year decrements varied from that of the State's pension actuary, so we adjusted our methodology to better align with the pension plan. The most significant change is whether the participant is eligible for benefits when they have 29.5 years of service as of the valuation date, or 30 years of service as of the valuation date (24.5 and 25 for Law Enforcement). The impact was less than 0.2%.

Item 4: The Wellness Surcharge change was in regards to the 70/30 Plan for non-Medicare retirees. Segal valued a surcharge for retirees in the 70/30 Plan for participants that did not complete a Tobacco Attestation (similar to the 80/20 Plan), which should not have applied. This was the smallest of the changes, resulting in less than 0.1% increase.

The side-by-side comparison of the reconciliation to the Net OPEB Liability is summarized in the chart on the following page. The items that were change are highlighted to show the differences between the previous and current report.

Net OPEB Liability Reconciliation from June 30, 2018 to June 30, 2019		
	After Changes	**Before Changes**
Service cost	$1,539,091,679	$1,539,091,679
Interest	1,192,810,301	1,192,810,301
Change of benefit terms	(72,358,137)	(72,358,137)
Differences between expected and actual experience	(156,654,727)	(156,654,727)
Changes of assumptions	1,824,891,986	1,414,831,213
Benefit payments, including refunds of member contributions	(1,030,956,211)	(1,030,956,211)
Net change in Total OPEB Liability	$3,296,824,891	$2,886,764,118
Total OPEB Liability – beginning	29,798,358,029	29,798,358,029
(a) Total OPEB Liability – ending	$33,095,182,920	$32,685,122,147
Plan Fiduciary Net Position		
Contributions – employer	$1,104,901,608	$1,104,901,608
Contributions – employee	0	0
Net investment income	71,780,132	71,780,132
Benefit payments, including refunds of member contributions	(1,030,956,211)	(1,030,956,211)
Administrative expense	(214,656)	(214,656)
Other	0	0
Net change in Plan Fiduciary Net Position	$145,510,873	$145,510,873
Plan Fiduciary Net Position – beginning	1,310,172,550	1,310,172,550
(b) Plan Fiduciary Net Position – ending	$1,455,683,423	$1,455,683,423
(c) Net OPEB Liability – ending (a) – (b)	$31,639,499,497	$31,229,438,724
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	4.40%	4.45%
Covered employee payroll	$17,622,000,000	$17,622,000,000
Plan Net OPEB Liability as percentage of covered employee payroll	179.55%	177.22%

As a result of this management review, we would recommend the following changes to improve our processes:

- We will have an internal meeting to review the blending of the claims costs and trends spreadsheet – the "migration" spreadsheet. This will involve the two health actuaries, the two retirement actuaries, and the overseeing actuary. This would have addressed the trend and administrative cost issues. This can happen after the claims analysis is completed, and before we get the last bit of information to finalize the participant data.
- We will have this same group meet to review a selection of test lives together. This could be done after the data is complete, and when the assets information is received by Segal.

With the above complete, we will deliver the 2020 draft report by the target date (which was August 15th for the current year's report), noting that the timeline for 2019 only allowed for seven days after producing the final data necessary to complete a valuation. In the spring of 2020, we will work with the State on a detailed timeline that incorporates these and other changes that we have been considering.

cc: Daniel J. Rhodes
Stuart I. Wohl