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North Carolina State Health Plan Issues Report on Retiree Health Benefits

RALEIGH, N.C. -- Health benefits for retirees under North Carolina's retirement system have created an unfunded liability of \$23.8 billion, an actuarial study for the State Health Plan indicates.

The study says the state, as of December 31, 2005, is facing expected health care costs for retirees of \$23.9 billion, essentially what the state "owes" today for future retiree health care costs. Only about \$139 million has been set aside in advance for those costs, so the remaining unfunded liability amounts to \$23.8 billion. The benefits, provided through the State Health Plan, were earned through past service by North Carolina state employees and teachers who are now retired or already vested in the retirement system.

The study indicates that the plan would begin operating on an actuarially sound basis if contributions to support retiree health benefits were increased. The study estimates that an annual required contribution of \$2.4 billion is actuarially required to support the retiree medical benefits of the State Health Plan. As indicated in the study, this contribution amount is valid for only two years and subject to change by subsequent studies.

The State Retirement System provides monthly pension payments using a pension fund that now represents 106 percent of future obligations. Investment income from that pension fund helps reduce the costs of pension payments to the state. A similar, separate fund was created for retiree health benefits two years ago, but has a balance of only \$139 million.

Retiree health claims are paid by the State Health Plan and financed by premiums set by the General Assembly. These premiums are paid to the State Health Plan by state agencies, universities, community colleges and the local education authorities. Historically, premiums finance claim payments on a pay-as-you-go basis. The study expects that during 2006 claims paid for retirees will total \$539 million.

In an effort to manage the liability for retiree health benefits, the General Assembly this year increased the service requirements for future retirees to receive health care benefits. Since these changes were effective October 1, 2006, they had no effect on the new study, but they are expected to reduce health obligations in the future.

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The legislative changes provide that employees hired after October 1, 2006 must work 20 years to receive non-contributory health care benefits in retirement. Employees with 10, but less than 20 years of service, must pay 50 percent of the premium for retiree health care benefits. Employees with less than 10 years of service will not receive retiree health benefits. Prior to this legislation, the state paid 100 percent of these premiums for retirees who had at least five years of state service.

The study was prepared for the State Health Plan, which administers health programs for public school teachers, state employees and retirees. The study was conducted because changes in national accounting standards require all governmental plans and employers to include their liability for post-employment benefits, like retiree health care, in their financial disclosures beginning in 2007.

About the State Health Plan:

The North Carolina State Health Plan covers approximately 615,000 teachers, state employees, retirees, current and former lawmakers, state university and community college personnel, state hospital staff and their dependents. More than 310,000 active employees; more than 146,000 dependents; more than 157,000 retirees and their dependents, with one or more members covered primarily by Medicare; and finally, more than 2,000 COBRA participants and their dependents. Dependents include spouses and unmarried children under age 19 (or under age 26 if full-time students). The State Health Plan is self-insured and exempt from ERISA as a government-sponsored plan. Access the State Health Plan online at www.shpnc.org.

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