Committee members attending: State Budget Director Charles Perusse (Chair), State Treasurer Dale Folwell, State Controller Dr. Linda Combs, and State Health Plan Executive Director Dee Jones.

Others attending: Jim Dolan, Elizabeth Colcord, Tony Scroggins, and Virginia Sisson (State Controller); Joan Fontes and Fran Lawrence (State Treasurer); Matt Rish, Patrick Kinlaw, and Charles Sceiford (State Health Plan); Taylor Coburn, Michael Arnold, Kristin Walker, and Lanier McRee (OSBM); David Vanderweide (FRD); and Danny Rhodes and Stuart Wohl (Segal).

The Committee met by conference call and convened at 2:00 p.m. Mr. Perusse welcomed those in attendance.

Mr. Perusse read the Ethics Awareness and Conflict of Interest Reminder statement. No member indicated a conflict. Mr. Perusse invited Committee members to share any opening remarks. Controller Combs shared her appreciation for the staff and Committee members as she ends her term as State Controller on June 30, 2022. Dee Jones asked Matt Rish to provide comments on the process; he discussed the Working Group process and thanked them for their diligence before turning the meeting over to Danny Rhodes, the lead actuary at Segal.

Mr. Rhodes reviewed their presentation, noting that it has been updated based on Working Group feedback and that today’s discussion will review the highlights of the assumption recommendations. He noted that certain assumptions are tied to pension plan assumptions, some are set by Segal as the health actuary, and some are required by GASB.

Mr. Rhodes noted that the valuation will reflect the new State Health Plan contribution rate structure implemented in FY2021-22 and the change to retiree health eligibility for employees hired after December 31, 2020, and will adjust for recent lags in medical payment from Blue Cross Blue Shield of North Carolina. He also noted that the valuation will reflect recent increases in general inflation.

On Page 12, Mr. Rhodes reviewed GASB 74 and 75 methods for accounting that the state is required to use including the Actuarial Cost Method, the discount rate, expense methodology, etc. He noted that despite recent transfers and appropriations to the plan, until there is a formal policy or a statutory requirement for contributions, the discount rate must be based on the 20-year, general obligation, municipal bond index rate as of June 30, 2022. The 2022 discount rate is expected to increase sharply relative to 2021, which will have a significant impact on the liability calculation. A blended rate is an option if there is consistent funding to the plan, based on a 5-year history, or a funding policy is established for the plan; this is an issue for further consideration outside of the valuation process.

Mr. Perusse asked the Committee if there were any further questions or comments. Treasurer Folwell asked for an estimate of the impact of all the changes on the liability. Segal indicated that they expect the liability to decline by few billion dollars. In response to additional questions from Treasurer Folwell, Segal confirmed that the valuation would include the impact of the Pharmacy Benefit Manager (PBM) contract beginning this year and that changes to the Medicare Advantage contract, expected to be renegotiated in 2026, would likely be incorporated in the December 31, 2024, valuation conducted in 2025 as a clearer picture of the Medicare Advantage landscape is available. Ms. Jones inquired as to the impact of the funding structure and eligibility changes and additional transfers. Segal noted that
these changes will take several years to be seen in the valuation and that one of the outstanding questions is if the plan ceases to be a pay-as-you-go plan. Mr. Perusse noted changes in state employee trends and demographics such as increased turnover, retirement eligibility, shorter employee tenure, etc. and the expectation that these will also affect the plan in the future.

Mr. Perusse asked for a motion to approve the assumptions and timing. Dr. Linda Combs made the motion, and Dee Jones seconded the motion. The motion passed with all members voting aye.

The Committee expressed their thanks for Controller Combs’ service to the Committee and her insights and patience in working with this and other committees. They wished her all the best in her retirement. The Committee adjourned in appreciation of Controller Combs’ 8 years of service to the State and 40+ years of government service.

The Committee adjourned at 2:51 pm.

Lanier McRee
May 31, 2022