

North Carolina Department of State Treasurer Raleigh, NC



Performance Audit Report

June 2025

State Auditor
Dave Boliek

*A Constitutional Office of the
State of North Carolina*





North Carolina Office of the State Auditor

Dave Boliek, State Auditor

Auditor's Transmittal

The Honorable Josh Stein, Governor
The Honorable Phil Berger, President Pro Tempore
The Honorable Destin Hall, Speaker of the House
Honorable Members of the North Carolina General Assembly
The Honorable Bradford B. Briner, State Treasurer

Ladies and Gentlemen:

The North Carolina State Health Plan for Teachers and State Employees - which provides health care coverage to nearly 750,000 state employees and retirees - is currently relying on actuarial projections which show a \$949 million cash deficit for the Plan by the end of 2027.

Given the seriousness and magnitude of the projections, the North Carolina Office of the State Auditor (OSA) has been working with the State Treasurer's Office in confirming and validating the projections. To do so, we conducted a performance audit to determine whether the projections were performed in accordance with appropriate practices and standards, and if the projections are reasonable and accurate. See page 3 of the audit report for details of our methodology.

Our audit confirms that the Plan's actuarial projections were both prepared in accordance with appropriate practices and standards, and the assumptions are reasonable and accurate. OSA performed procedures to validate that the underlying data used by the Treasurer's Office to make the projections was complete and accurate.

Actuarial models by their nature make assumptions based on surveys and data that consider current conditions. There is always a level of uncertainty, but the models show through our independent analysis that costs will outpace the current rate of inflows.

We hope this will be of use to the State Treasurer's Office and the Plan Board of Trustees as they navigate through managing the Plan's finances, and our office stands ready to assist in any other manner we can.

Respectfully submitted,

Dave Boliek
State Auditor

Executive Summary

The Office of the State Auditor (OSA) has completed a performance audit in accordance with Chapter 147, Article 5A of the North Carolina General Statutes regarding the financial projections of the North Carolina State Health Plan for Teachers and State Employees (the Plan).

The State of North Carolina administers the Plan, a healthcare plan exclusively for the benefit of employees of the State, the University of North Carolina System, community colleges, and certain other component units, Local Education Agencies, charter schools, and some select local governments.

The Plan develops the annual operating budget using projections of estimated future revenues (insurance premiums) and expenses (claims) as determined by external actuaries. The Plan relies on these actuarial projections when establishing premiums, deductibles, co-pays, and when recommending employer contribution rates to the General Assembly.

In October 2024, the Plan projected net losses of \$199 million, \$507 million, and \$862 million for calendar years 2025 through 2027. Based on these projected losses, the Plan estimated a \$949 million cash deficit for the Plan by the end of 2027.

The Plan attributed the projected net losses to the following factors:

- Medical and pharmacy costs increases;
- State biennial budget for fiscal years 2023-2025 providing \$240 million less funding than was requested; and
- More than \$316 million in COVID-19 expenditures that were not reimbursed by the State.

Objectives

The objectives of this performance audit were to determine:

- 1) If the Plan's financial projection for calendar years 2025 through 2027 was performed in accordance with practices prescribed by the Actuarial Standards Board, and whether the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.
- 2) The reasonableness and accuracy of the actuarial assumptions, methods, and results of the Plan's financial projection for the calendar years 2025 through 2027.

Results and Conclusions

The Plan's financial projection for the calendar years 2025 through 2027 was performed in accordance with practices prescribed by the Actuarial Standards Board, and the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures. Further, the actuarial assumptions, methods, and results of the Plan's financial projection for the calendar years 2025 through 2027 were reasonable and accurate.



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Chapter 147, Article 5A of the North Carolina General Statutes gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



Background

North Carolina State Health Plan



The State of North Carolina administers the Plan, a healthcare plan established to provide medical and pharmacy benefits exclusively for employees and retirees of the State, the University of North Carolina System, community colleges, and certain other component units, Local Education Agencies, charter schools, and some select local governments. The Plan provides health care coverage to nearly 750,000 teachers, state employees, retirees and their dependents¹.

The Plan is governed by a ten-member Board of Trustees (Board) including the State Treasurer, an ex officio member who serves as Chair and votes only in the event of a tie; the Director of the Office of State Budget and Management, a non-voting, ex officio member; two members appointed by the Governor; two members appointed by the State Treasurer; and four members appointed by the North Carolina General Assembly. The Board is responsible for approving certain benefit programs, premium rates, co-pays, and deductibles as recommended by the State Treasurer. The Board is also responsible for developing and maintaining a strategic plan for the Plan. The North Carolina General Assembly determines member eligibility rules and provides funding for the Plan through required employer and employee contributions.

Financial Projections

The Plan develops the annual operating budget using projections of estimated future revenues (insurance premiums) and expenses (claims) as determined by external actuaries. The Plan relies on these actuarial projections when establishing premiums, deductibles, co-pays, and when recommending employer and employee contribution rates to the North Carolina General Assembly. The Plan also uses these projections to assess the overall performance and sustainability of the Plan.

To develop their projections, actuaries must make certain assumptions about future events and trends. Actual experience may differ from these assumptions due to changes in the regulatory environment, market pressures, inflation rates, Plan contribution rates, and numerous other factors. Projections are not a guarantee of future results as they require making assumptions about future events that are not certain. The Appendix section of this report includes details on the key assumptions used in the Plan's 2025-2027 financial projection.

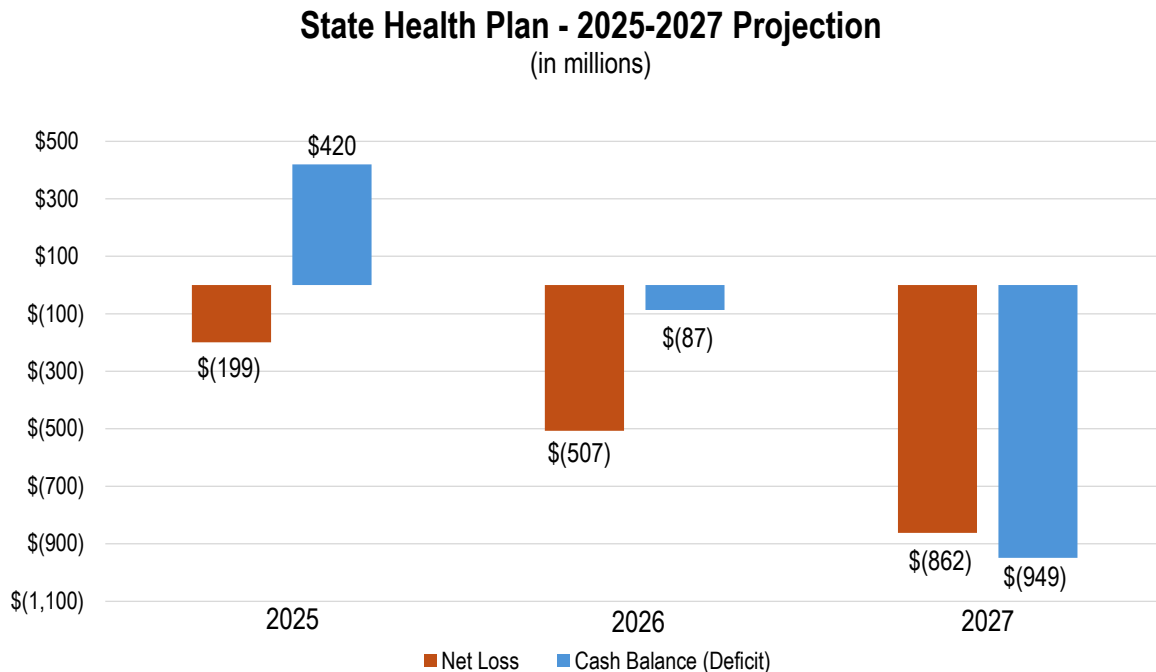
On October 3, 2023, the State enacted Session Law 2023-134 which established employer and employee contribution rates to the Plan for fiscal years 2024-2025. The statutorily established contribution rates were less than recommended by the Plan, resulting in reductions in requested contributions of \$50 million and \$190 million in fiscal years 2024 and 2025, respectively.

During their meeting on October 23, 2023, the Board was presented a comparison of the Plan's actual results to budget projections through August 2023. This comparison demonstrated that the Plan had a net loss of \$109.3 million through August 2023, which exceeded the projected loss by \$83.1 million.

¹ The statutory requirements of the Plan are codified in Chapter 135, Article 3B of the North Carolina General Statutes.

During their meeting on April 25, 2024, the Board was presented a financial projection of the Plan indicating projected net losses of \$107 million, \$323 million, and \$452 million for the calendar years 2024 through 2026. These projected losses would result in an estimated \$211 million cash deficit for the Plan by the end of 2026.

During their meeting on October 24, 2024, the Board was presented a financial projection of the Plan indicating projected net losses of \$199 million, \$507 million, and \$862 million in calendar years 2025 through 2027. These projected losses would result in an estimated \$949 million cash deficit for the Plan by the end of 2027.



The Plan has attributed the projected net losses to the following factors:

- Medical and pharmacy costs increases;
- State biennial budget for fiscal years 2023-2025 providing \$240 million less funding than was requested; and
- More than \$316 million in COVID-19 expenditures that were not reimbursed by the State.

The Plan continues to rely on actuarial projections as they evaluate potential strategies to address the expected future deficits.



Objectives, Scope, and Methodology

The objectives of this performance audit were to determine:

- 1) If the Plan's financial projection for calendar years 2025 through 2027 was performed in accordance with practices prescribed by the Actuarial Standards Board, and whether the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.
- 2) The reasonableness and accuracy of the actuarial assumptions, methods, and results of the Plan's financial projection for the calendar years 2025 through 2027.

The audit scope includes the Plan's actuarial projection for the calendar years 2025 through 2027. To accomplish our audit objectives, auditors performed the following audit procedures:

- 1) Reconciled the June 2024 cash basis revenues and expenditures used in the projection to the June 30, 2024 Annual Comprehensive Financial Report².
- 2) Ensured the claims and enrollment underlying data used in the projection were complete and accurate.
- 3) Utilized an independent actuary to review the Plan's projections for the calendar years 2025-2027. This included:
 - Determining whether the actuarial valuation was prepared in accordance with the principles and practices prescribed by the Actuarial Standards Board.
 - Validating the key assumptions used in the Plan's projections. Key assumptions evaluated include Trend Projections, Interest Rate, Administrative Costs, Wellness and Tobacco Credits, Membership, Enrollment, and Plan Minimum Value. Key assumptions are presented in the Appendix section.
 - Validating the analysis of the revenue and expenditures used to project the Plan income (loss) and ending cash balance (deficit). Calculations are presented in the Appendix section.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

² <https://www.ncosc.gov/public-information/2024-annual-comprehensive-financial-report>



Results and Conclusions

- 1. Was the Plan's actuarial projection for calendar years 2025 through 2027 prepared in accordance with practices prescribed by the Actuarial Standards Board, and were the actuarial calculations performed by qualified actuaries in accordance with accepted actuarial procedures?**

Yes.

The Plan's actuarial projection for the calendar years 2025 through 2027 was prepared in accordance with practices prescribed by the Actuarial Standards Board, and the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures.

- 2. Were the actuarial assumptions, methods, and results of the Plan's financial projection for the calendar years 2025 through 2027 reasonable and accurate?**

Yes.

The actuarial assumptions, methods, and results of the Plan's financial projection for the calendar years 2025 through 2027 were reasonable and accurate.



Appendix

Actuarial Assumptions for Calendar Year 2025-2028 Financial Projection

	2025	2026	2027	2028
Interest Rate	3.2%	2.6%	2.0%	2.0%
Trend Projection	2025	2026	2027	2028
Medical	6.0%	6.0%	6.0%	6.0%
Pharmacy Claims (Excluding GLP-1)	10.0%	9.5%	9.5%	9.5%
Pharmacy Rebates	7.0%	7.0%	7.0%	7.0%
MA Premiums Base*	\$ 33.00	\$ 126.46	\$ 159.00	\$ 166.95
MA Premiums Enhanced*	\$ 96.00	\$ 203.05	\$ 233.00	\$ 244.65
HIF Included in MA Premium	No	No	No	No
*Estimated MA Premium				
Administrative Costs	2025	2026	2027	2028
	3.0%	3.0%	3.0%	3.0%
Plan Premiums	2025	2026	2027	2028
EE 80/20 Base Premium	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00
EE 70/30 Base Premium	25.00	25.00	25.00	25.00
ER Rate - Non-Retiree	\$ 674.62	\$ 728.54	\$ 730.78	\$ 760.01
ER Rate - Retiree (Self-Insured)	452.08	484.74	489.58	509.16
ER Rate - Retiree (MAPD)	534.00	484.74	489.58	509.16
Plan Minimum Value	2025	2026	2027	2028
80/20 Plan				
Medical	57.5%	57.5%	57.5%	57.5%
Rx	26.4%	26.4%	26.4%	26.4%
Total	83.9%	83.9%	83.9%	83.9%
70/30 Plan				
Medical	54.6%	54.6%	54.6%	54.6%
Rx	25.2%	25.2%	25.2%	25.2%
Total	79.8%	79.8%	79.8%	79.8%

Actuarial Assumptions for Calendar Year 2025-2028 Financial Projection

Membership Assumptions	2025	2026	2027	2028
Active Members	-0.3%	-0.3%	-0.3%	-0.3%
COBRA/Individual Billing	0.0%	0.0%	0.0%	0.0%
Pre-65 Retirees	-2.5%	-2.5%	-2.5%	-2.5%
Non-MA Medicare Retirees	3.0%	3.0%	3.0%	3.0%
MA Medicare Retirees	3.0%	3.0%	3.0%	3.0%
Enrollment Assumptions	2025	2026	2027	2028
Active Subscribers				
80/20 Plan	57.0%	56.5%	56.0%	55.5%
70/30 Plan	43.0%	43.5%	44.0%	44.5%
COBRA Subscribers				
80/20 Plan	54.0%	54.0%	54.0%	54.0%
70/30 Plan	46.0%	46.0%	46.0%	46.0%
Pre-65 Retiree Subscribers				
80/20 Plan	42.9%	42.4%	41.9%	41.4%
70/30 Plan	57.1%	57.6%	58.1%	58.6%
Medicare Retiree Subscribers				
MA Base	75.0%	75.0%	75.0%	75.0%
MA Enhanced	10.0%	10.0%	10.0%	10.0%
70/30 Plan	15.0%	15.0%	15.0%	15.0%

Actuarial Assumptions for Calendar Year 2025-2028 Financial Projection

Other Assumptions and Factors Considered

Contribution income increase assumed to be effective January 1 in each calendar year.

Plan benefits based on SHP Board approved 2024 Plan Designs

Future enrollment trends are based on actual June 2024 membership and 2024 migration assumption.

Investment earnings are estimated at 3.81% of the average annual cash balance for 2024 and grading down to 2.0% in 2027.

Claim payments are based on experience from July 2023 through June 2024.

Pharmacy rebates are based on paid rebates between the 4th quarter of 2023 through the third quarter of 2024.

UNC Health members are assumed to be terminated at a rate of 5% each year.

Medical claim refunds set at 0.9%/2.1% of previous 3-month average of paid claims in first 2 months/last month of the quarter.

Guarantee improvement on pharmacy costs and rebates were based on the initial period (2023-2025) from most recent PBM RFP

2025 MA premiums are assumed to be \$33/\$96 for Base and Enhanced due to IRA. 2026-2027 MA premiums estimated based on preliminary Humana renewal.

Administrative cost trend is based on actual fiscal year 2024, trended 3% for fiscal year 2025 and beyond.

Savings from RFP provided by NCSHP are reflected starting 2023-2025.

Stabilization reserve is 9.0% of claim payments.

Offer Medicare Advantage Plan with Prescription Drug Plan effective January 1, 2014 with required premium adjustments.

	Projected 2025	Projected 2026	Projected 2027
PLAN REVENUE:			
Net Contribution Income	\$ 4,460,258,689	\$ 4,625,936,486	4,670,473,657
Wellness Surcharge/(Credit)	13,136,072	13,104,430	13,072,440
Medicare Advantage Subsidy	92,921	668,750	688,806
Premium Change due to Movement	2,574,109	4,169,617	4,351,119
Medicare Part D	8,488,229	7,915,416	7,581,998
Investment Earnings	16,603,310	5,070,878	-
Additional Revenue	-	-	-
Total Plan Income	4,501,153,330	4,656,865,577	4,696,168,020
PLAN EXPENSE:			
Medical Claims Payment	3,439,539,070	3,623,799,544	3,815,192,130
Claim Refunds	(43,946,822)	(46,839,815)	(48,830,970)
Adjustment for Changes	(19,899,302)	(23,496,296)	(24,593,181)
Additional Medical Expenses	-	-	-
Net Medical Claims	3,375,692,946	3,553,463,433	3,741,767,979
Medicare Advantage Premium	90,581,152	311,292,062	396,688,958
Pharmacy Claims Payment	1,770,903,348	1,931,278,680	2,106,519,464
Rebates	(705,366,770)	(775,397,228)	(827,373,276)
PBM RFP Improvement on Claims	(4,366,547)	(4,760,331)	(5,195,376)
Adjustment for Changes	(28,134,923)	(33,714,895)	(38,132,748)
Additional Rx Expenses	-	-	-
Net Pharmacy Claims	1,033,035,108	1,117,406,226	1,235,818,064
Total Claims	4,499,309,206	4,982,161,721	5,374,275,001
Administrative Costs	201,292,267	181,599,501	184,295,066
Total Plan Expense	4,700,601,473	5,163,761,222	5,558,570,067
Plan Income (Loss)	\$ (199,448,143)	\$ (506,895,645)	\$ (862,402,047)
Transfer to RHBT	-	-	-
COVID-19 Reimbursement	-	-	-
Beginning Cash Balance (Deficit)	619,468,189	420,020,046	(86,875,599)
Ending Cash Balance (Deficit)	420,020,046	(86,875,599)	(949,277,646)
Target Stabilization Reserve (TSR) - CY (9%)	396,785,525	420,378,269	447,982,744
Cash Balance Over (Under) CY TSR	23,234,521	(507,253,868)	(1,397,260,391)



Response From Department of State Treasurer



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

BRADFORD B. BRINER
STATE TREASURER OF NORTH CAROLINA

June 23, 2025

The Honorable Dave Boliek, State Auditor
Office of the State Auditor
20601 Mail Service Center
Raleigh, North Carolina 27699

Dear Auditor Boliek:

On behalf of the North Carolina Department of State Treasurer and the North Carolina State Health Plan, I am writing in response to the performance audit conducted by the Office of the State Auditor regarding the financial projections of the State Health Plan.

The audit found that "The Plan's financial projection for the calendar years 2025 through 2027 was performed in accordance with practices prescribed by the Actuarial Standards Board, and the actuarial calculations were performed by qualified actuaries in accordance with the accepted actuarial procedures. Further, the actuarial assumptions, methods, and results of the Plan's financial projection for the calendar years 2025 through 2027 were reasonable and accurate."

Conducting financial projections with qualified actuaries in accordance with accepted actuarial procedures is essential for ensuring the accuracy, consistency, and reliability of forecasts, particularly for the State Health Plan which provides health coverage to so many North Carolinians. Adhering to these standards not only enhances transparency and credibility but also helps our team make informed decisions to ensure the financial solvency of the Plan.

We continue to receive high-quality actuarial services through The Segal Company, and we recently extended our contract with them through 2028.

We are appreciative of your office's work on this important matter, and we agree with the findings.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradford B. Briner", is written over a horizontal line.

Bradford B. Briner, North Carolina State Treasurer

ORDERING INFORMATION

Copies of this report may be obtained by contacting:



Office of the State Auditor
State of North Carolina
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Fax: 919-807-7647
Internet: www.auditor.nc.gov



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Telephone: 1-800-730-8477

Internet: www.auditor.nc.gov/about-us/state-auditors-tipline

This audit required 155 hours of auditor effort at an approximate cost of \$24,025. The cost of the specialist's effort was \$9,000. As a result, the total cost of this audit was \$33,025.