
NOTES TO THE FINANCIAL STATEMENTS

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

A. Health Care for Long-Term Disability Beneficiaries and Retirees

The North Carolina Teachers' and State Employees' Comprehensive Major Medical Plan (the Plan) provides postemployment health insurance to former employees of the State, the University of North Carolina System, community colleges, certain participating proprietary component units, and Local Education Agencies (LEAs) which are not part of the reporting entity. Those former employees who are eligible to receive health care as an other postemployment benefit are long-term disability beneficiaries of the Disability Income Plan of North Carolina (DIPNC) and retirees of the Teachers' and State Employees' Retirement System (TSERS), the Consolidated Judicial Retirement System (CJRS), the Legislative Retirement System (LRS), and the University Employees' Optional Retirement Program (UEORP), with five or more years of contributory membership service in the Retirement System prior to disability or retirement. For the fiscal year ended June 30, 2006, the numbers of participants currently eligible to receive health care as an other postemployment benefit are 53,862 TSERS and DIPNC members (excluding LEA members), 311 CJRS members, 186 LRS members, 1,237 UEORP members, and 75,619 LEA members. The health insurance plan is the same as for active employees as described in Note 14, except that the coverage becomes secondary when former employees become eligible for Medicare.

The funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. These health care benefits are funded by employer contributions that are established in the biennial Appropriations Bill by the General Assembly. The State, participating component units and LEAs contributed a monthly amount equal to 3.8% of active employees' salaries to the Retiree Health Benefit Fund (the Fund). The Fund pays the full cost of coverage for long-term disability beneficiaries and retirees enrolled in the Plan. For the fiscal year ended June 30, 2006, the Fund paid \$2,853 for each Medicare-eligible long-term disability beneficiary and retiree and \$3,748 for each non-Medicare-eligible long-term disability beneficiary and retiree. At June 30, 2006, net assets of the Fund available for future other postemployment benefits for eligible beneficiaries were \$171.13 million.

For the fiscal year ended June 30, 2006, contributions on behalf of former employees were made to the Fund as follows (dollars in thousands):

Primary government	\$	110,766
University of North Carolina System		94,523
Community Colleges		24,342
Certain participating proprietary component units		781
Total contributions by the reporting entity		230,412
Contributions made by LEAs		246,510
Total contributions	\$	476,922

These benefits are established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly.

B. Disability Income

As discussed in Note 14, short-term and long-term disability benefits are provided to the eligible members of the Teachers' and State Employees' Retirement System and the University Employees' Optional Retirement Program through the Disability Income Plan of North Carolina (DIPNC). It is reported in this CAFR as a pension and other employee benefit trust fund. Long-term disability benefits are payable as an other postemployment benefit from DIPNC after the conclusion of the short-term disability period or after salary continuation payments cease, whichever is later, for as long as an employee is disabled. An employee is eligible to receive long-term disability benefits provided the following requirements are met: (1) the employee has five or more years of contributing membership service in the Teachers' and State Employees' Retirement System of North Carolina (Retirement System) or the University Employees' Optional Retirement Program, earned within ninety-six months prior to the end of the short-term disability period or cessation of salary continuation payments, whichever is later; (2) the employee must make application to receive long-term benefits within 180 days after the conclusion of the short-term disability period or after salary continuation payments cease or after monthly payments for Workers' Compensation cease (excluding monthly payments for permanent partial benefits), whichever is later; (3) the employee must be certified by the Medical Board to be mentally or physically disabled for the further performance of his/her usual occupation; (4) the disability must have been continuous, likely to be permanent, and incurred at the time of active employment; (5) the employee must not be eligible to receive an unreduced retirement benefit from the Retirement System; and (6) the employee must terminate employment as a permanent, full-time employee. An employee is eligible to receive an unreduced retirement benefit from the Retirement System after (1)

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reaching the age of 65 and completing five years of creditable service, or (2) reaching the age of 60 and completing 25 years of creditable service, or (3) completing 30 years of creditable service, at any age.

The monthly long-term disability benefit is equal to 65% of one-twelfth of an employee's annual base rate of compensation last payable to the participant or beneficiary prior to the beginning of the short-term disability period, plus the like percentage of one twelfth of the annual longevity payment to which the participant or beneficiary would be eligible. The monthly benefits are subject to a maximum of \$3,900 per month reduced by any primary Social Security disability benefits and by monthly payments for Workers' Compensation to which the participant or beneficiary may be entitled, but the benefits payable shall be no less than \$10 a month. When an employee qualifies for an unreduced service retirement allowance from the Retirement System, the benefits payable from DIPNC will cease, and the employee will commence retirement under the Teachers' and State Employees' Retirement System or the University Employees' Optional Retirement Program.

Long-term disability income benefits are advance-funded and actuarially based using the one-year term cost method. Although the DIPNC operates on a calendar year, disability income benefits are funded by employer contributions that are established in the Appropriations Bill by the General Assembly and coincide with the state fiscal year. For the fiscal year ended June 30, 2006, the actuary recommended contribution rate was .52% of member compensation. However, the Appropriations Bill required the State, the University of North Carolina System, community colleges, certain participating component units, and LEAs to contribute .52% of active employees' salaries to fund the disability benefits. The contributions cannot be separated between the amounts that relate to other postemployment benefits and employment benefits for active employees.

At December 31, 2005 (the most recent actuarial valuation date), DIPNC had 5,639 members, including 2,501 LEA members, who were currently eligible to receive disability benefits as an other postemployment benefit out of a total of 332,752 active plan participants. Those individuals who are receiving extended short-term disability benefit payments cannot be separated from the number of members currently eligible to receive disability benefits as an other postemployment benefit.

Actuarial Assumptions for the calendar year ended**December 31, 2005:**

Discount rate	7.25%
Rate of return on investments assumption	7.25%
Projected salary increase assumption	4.5-16.1%
Projected social security benefits increase assumption	3.75%
Social security assumption	50%

The required and actual contributions made for the current fiscal year are as follows (dollars in thousands):

Annual required contribution for the reporting entity	\$	31,233
Annual required contribution for LEAs		33,733
Total required contributions	\$	<u>64,966</u>
Actual contribution made by:		
Primary Government	\$	14,861
University of North Carolina System		12,934
Community Colleges		3,331
Certain participating component units		107
Total actual contribution made by the reporting entity		<u>31,233</u>
Actual contribution made by LEAs		33,733
Total actual contribution made	\$	<u>64,966</u>

The basis for estimating the actuarial liabilities for unpaid claims is discussed in Note 14. The market related actuarial value of the assets of DIPNC at December 31, 2005, was \$279.29 million creating an actuarial deficit of \$39.96 million. The actual fair value of the assets for DIPNC at December 31, 2005 was \$275.07 million. The assets are available for future other postemployment benefits and benefits for eligible active employees.

These benefits are established by Chapter 135, Article 6, of the General Statutes and may be amended only by the North Carolina General Assembly.