



Briefing Document

Resolution: Segregation of the State Health Benefit Plan Fund Balance and Establishment of Contributions to the Georgia Retiree Health Benefit Fund

Effective Date: February 14, 2008

Estimated Cost Impact: Budget Neutral

Purpose: This resolution has three purposes:

A. Segregate the June 30, 2007 Healthcare Fund Balance and deposit an amount attributable to retirees in the Georgia Retiree Health Benefit Fund (the “Fund”).

Background

1. Senate Bill 172 was passed by the 2007 General Assembly and signed by the Governor on May 11, 2007 for a July 1, 2007 effective date. This legislation allows the Department to deposit revenue from retiree premiums in the Fund. Prior to July 1, 2007, the Department had statutory authority to only deposit revenue from employers on behalf of retirees into the Fund.
2. Because the State Health Benefit Plan’s (SHBP) Healthcare Fund Balance (HFB) is comprised of multiple revenue sources, including retiree premiums, the department was unable to segregate the fund balance between retirees and active employees prior to July 1, 2007.
3. It is the Department’s desire to segregate the June 30, 2007 HFB such that there is an amount attributable to retirees that can be deposited into the Fund.
4. Because the June 30, 2007 SHBP fund balance is the result of multiple years of accumulated assets in excess of liabilities, the department has no mechanism to identify which assets were previously attributable to retirees as compared to active employees. This is because the SHBP has historically been managed as one fund for both retirees and active employees.
5. The Department needs a method to segregate the fund balance and recommends the use of the percentage of the SHBP’s Incurred but Not Reported (IBNR) claims liabilities as of June 30, 2007 attributable to retirees.

IBNR for Active Members:	\$158,124,000 (77%)
IBNR for Retired Members:	<u>\$ 47,574,000</u> (23%)
Total IBNR	\$205,698,000

6. The June 30, 2007 HFB is calculated as follows:

SHBP Healthcare Fund	Allocated for Active IBNR	HFB Unallocated	Total HFB
Assets	\$158,124,000	\$328,586,952	\$486,710,952
Liabilities	\$158,124,000	\$80,878,628	\$239,002,628
HFB	\$0	\$247,708,324	\$247,708,324

7. To allocate the June 30, 2007 HFB based on the retire share of the June 30, 2007 IBNR would result in the following changes:

Georgia Retiree Health Benefit Fund	HFB Unallocated	% to the Fund	Total to the Fund
Assets	\$328,586,952	23%	\$75,995,856
Liabilities	\$80,878,628	23%	\$18,705,675
Total	\$247,708,324	23%	\$57,290,182

SHBP Healthcare Fund	Remaining in HFB Unallocated	Allocated for Active IBNR	Total to Remain in HFB
Assets	\$252,591,096	\$158,124,000	\$410,715,096
Liabilities	\$62,172,953	\$158,124,000	\$220,296,953
Total	\$190,418,143	\$0	\$190,418,143

8. Once the HFB is segregated and funds are deposited into the Fund, the department proposes to keep an amount equivalent to the June 30, 2007 IBNR for retirees and move any excess to the Division of Investment Services at the Teachers and Employees retirement systems for long term investment¹.

Georgia Retiree Health Benefit Assets as of June 30, 2007 (for IBNR)	\$47,574,000
Contribution to the Fund from the June 30, 2007 HFB	\$57,290,192
Total Assets	\$104,864,192
Retain cash for June 30, 2007 IBNR	\$47,574,000
Amount to move to DIS for Long Term Investment	\$57,290,192

¹ Once deposited into the Fund for long term investment, O.C.G.A. 45.18.102 (h) requires the department to utilize the investment services of the Division of Investment Services (DIS) of the Teachers Retirement Systems and the Employees Retirement System. In anticipation of the need for OPEB investment services from DIS, the department entered into an Interagency Agreement with DIS in November 2005.

B. Segregate plan revenues received after July 1, 2007 and deposit revenues attributable to retirees to the Fund.

Background

This is comparable to what was done in FY 2007; however, beginning in FY 2008, the Department is statutorily authorized to also deposit premium revenue received from retirees.

C. Charge expenditures incurred on or after July 1, 2007 on behalf of retirees to the Fund.

Background

This is comparable to what was done in FY 2007; however, beginning in FY 2008, the Department can charge the full amount of retiree expenses to the Fund since all revenue sources for retirees are now being deposited in the Fund.