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May 18, 2011

The Honorable Beverly Perdue
20301 Mail Service Center
Raleigh, NC 27699-0301

The Honorable Phil Berger
Legislative Building 2008
Raleigh, NC 27601

The Honorable Thom Tillis
Legislative Building 2304
Raleigh, NC 27601

The Plan has been asked to address certain premium recommendations in the Proposed Senate Committee Substitute (PCS) to House Bill 578. Specifically, Section 1 authorizes the Plan to offer the Basic 70/30 plan premium free to state employees and teachers in the upcoming biennium if there are sufficient cash reserves to do so.

Based on the latest actuarial forecasts, the Plan anticipates that it will end the current fiscal year with cash reserves which exceed our target reserve balance by approximately \$40-\$50 million dollars. These reserves should be sufficient to cover the delayed implementation of the benefit changes in Senate Bill 323, as well as provide the employee only tier of the Basic 70/30 plan to teachers and state employees on a premium free basis for fiscal year 2011-12.

Therefore, if Senate Bill 323, Ratified and the PCS to House Bill 578 become law, I, as the Executive Administrator of the Plan, will offer the employee only tier of the Basic 70/30 plan to active state employees and teachers premium free for fiscal year 2011-12. Provided that this legislation becomes law no later than May 31, 2011, I will implement all of the proposed changes, including the premium-free Basic 70/30 option effective September 1, 2011.

Since Senate Bill 323 transfers the administration and oversight of the Plan to the Department of State Treasurer and a newly appointed and empowered Board of Trustees effective January 1, 2012, it is most appropriate to defer decisions about premium rates for the second year of the biennium until after the transfer takes effect. By that time the Plan and its Board of Trustees will have additional financial experience on which to base its decision about continuing a premium free option.

Sincerely,

A handwritten signature in cursive script that reads "Jack W. Walker".

Jack W. Walker, PhD
Executive Administrator

Cc: The Honorable Janet Cowell, State Treasurer