

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE ACTUARIAL NOTE

BILL NUMBER: House Bill 1669

SHORT TITLE: Improve Disability Income Plan

SPONSOR(S): Representatives Russell and Hurley

SYSTEM AFFECTED: Disability Income Plan of North Carolina

BILL SUMMARY: :

Section 1. Under present law, the Department of State Treasurer and the Board of Trustees is authorized to designate a Medical Board to be composed of between three and five doctors. This section amends the provision relating to the administration of the Disability Income Plan to allow the Department and the Board of Trustees to designate more than one Medical Board and to increase the maximum number of doctors on the Medical Boards from five to ten. It also clarifies that it is the responsibility of the participant to provide medical proof of disability, and also adds language to clarify that, in the event the Medical Board retains an independent medical consultant to provide information, it may determine the fees to be paid to the independent consultant.

Section 2. Amends the description of "eligible participants" to clarify that a beneficiary of disability benefits who returns to State employment does not again become a participant in the Plan and is ineligible to receive additional disability benefits as a result of becoming disabled from the second State employment.

Section 3. Makes several changes to the provision governing eligibility for short-term disability benefits, including:

- creating a requirement that the participant apply for disability benefits within 90 days after the onset of disability, the cessation of salary continuation payments, or the cessation of Workers' Compensation payments, whichever is later;
- changing the party responsible for making the determination of disability from the participant's employer and physician to the Medical Board. This is the way the determination is made for long term disability, except that the filing period is 180 days in the long term disability context;
- authorizing the Board of Trustees to extend the 90 day filing period up to an additional 90 days, if it determines that the application was delayed by employer error;
- creating a 90 day filing requirement for extension of short-term disability benefits, with authorization for the Board to extend it up to an additional 180 days.

Section 4. Makes a conforming change to delete reference to a section of law which is being added to this Article by a subsequent amendment.

Section 5. Adds a new provision to this Article entitled **Protection against fraud.** This provision makes it a Class 1 misdemeanor to knowingly make false statements or to falsify records in an attempt to defraud the Plan. The new provision also authorizes the Board of Trustees to contract with private investigators to investigate reports of abuse or

fraud. The Board may determine usual, customary and reasonable fees for any private investigator which it retains.

EFFECTIVE DATE: October 1, 1998.

ESTIMATED IMPACT There would not be any cost to the Disability Income Plan since this bill does not increase any benefits. There would be a significant increase in the administrative cost.

ASSUMPTIONS AND METHODOLOGY: Disability Income Plan of North Carolina for Teacher's & State Employees: Claim cost for LTD benefits were calculated using the one-year term cost method, i.e., the cost of coverage is the present value of all LTD benefit payments that will be made on expected claims incurred during the year following the calculation date. Claims cost for STD benefits were calculated on a pay-as-you-go basis. LTD claim liabilities are equal to the present value as of the valuation date of all future LTD payments to be made for disabilities incurred up to that date, net of Plan offsets payable. The present value of claim liabilities was determined by discounting the future net benefits payable for interest and for the probability of termination of disability. The plan assumes 7.5% interest, compounded annually. The assumed rate of approval for Social Security disability benefits prior to completion of four years of disability from the conclusion of the waiting period is 75%. Social Security disability benefits are assumed to increase by 4% per year. The across-the-board salary increases are assumed to be 6% per year.

SOURCES OF DATA: : Retirement System Actuary - Buck Consultant, Inc.
General Assembly Actuary - Hartman & Associates, LLC

FISCAL RESEARCH DIVISION: The above information is provided in accordance with North Carolina General Statute 120-114 and applicable Rules of the North Carolina Senate and House of Representatives.

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DATE: June 19, 1998



Signed Copy Located in the NCGA Principal Clerk's Offices