

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note

BILL NUMBER: House Bill 751 (First Edition)

SHORT TITLE: Centralize Benefits Under OSP.

SPONSOR(S): Representatives Crawford and Holliman

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>
<b>REVENUES</b>	<b>\$2.5m</b>	<b>\$4.0m</b>	<b>\$5.5m</b>	<b>\$6.9m</b>	<b>\$8.4m</b>
<b>EXPENDITURES</b>	<b>\$185,165</b>	<b>\$176,491</b>	<b>\$178,853</b>	<b>\$181,248</b>	<b>\$183,673</b>
<b>POSITIONS (cumulative):</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Office of State Personnel					
<b>EFFECTIVE DATE:</b> July 1, 2005					

**BILL SUMMARY:**

The bill amends Article 2 of Chapter 126 to add a new section, G.S. 126-7.3, requiring the Office of State Personnel (OSP) to provide a program of dependent care assistance and a plan of flexible compensation to eligible employees as benefits enacted under the Internal Revenue Code. OSP is to coordinate agreements between State agencies and employees who elect to participate in the programs. Also, requires OSP to coordinate the establishment of a centralized supplemental benefits committee to offer benefit options on a statewide basis. Provisions of the legislation apply to all State employees, including employees in the executive, judicial, and legislative branches and employees of UNC and its constituent institutions. The bill is effective July 1, 2005.

Source: Bill Digest H.B. 751 (03/17/0200).

**ASSUMPTIONS AND METHODOLOGY:**

Pursuant to Sections 125 and 129 of the Internal Revenue Code (IRC), employees were extended options to select benefits under Cafeteria Plans and Dependent Care Assistance Programs. A Cafeteria Plan, under the guise of Section 125, allows employers to offer employees a choice among 2 or more benefits consisting of cash (or a taxable benefit which is treated as cash) and

nontaxable qualified benefits. Additionally, Section 129 allows the exclusion from gross income certain amounts incurred for dependent care.

In keeping with Section 125, North Carolina statutes G.S. 116-17.2 and GS 143-34.1 (d) authorize the University of North Carolina (UNC) and the Board of Governors, and the Director of the Budget to provide a flexible benefits plan for employees of constituent institutions under the Board of Governors, and State departments, institutions, and agencies. In concurrence with statutes, the aforementioned State entities and their employees, who choose to participate in a flexible benefits plan, enter into salary reduction agreements in which employees agree to contribute a portion of their salaries on a pre-tax basis to pay for qualified benefits.

Per GS 143-34.1 (c) the Director of the Budget is authorized to provide a program of dependent care assistance available under Section 129. Although GS 116-17.2 does not specifically, reference Section 129, the legal opinion is that this statute implies permission since the UNC Board of Governors may provide a plan of flexible benefits.

Parts (a) and (b) of 126-7.3 place NCFlex Program authority under GS-126 (State Personnel Act). Currently the only authorization exists in GS-116-17.2 and GS-143-34.1. As a result, an Executive Order has to be executed regularly to authorize the Office of State Personnel (OSP) to administer the program. Additionally, part (c) gives OSP authority to offer post-tax supplemental insurance products. Under current law, GS 58-31-60 gives State agency heads offering payroll deduction insurance products the authority to offer this benefit and to appoint an Employee Insurance Committee to serve the agency. The post-tax products offered under GS 58-31-60 are only available to employees of the respective State agencies. The products are not portable, rate structure and plan designs vary, and products offered are not uniform. This legislation does not change the State agency insurance committees' authority. According to OSP, if this legislation is adopted, State employees would have another option to purchase a post-tax insurance plan that would be portable, have a uniform plan design, and is expected to have a better premium rate structure. Contracts for these product offerings would be bid in accordance with Purchase & Contract guidelines.

Additionally, OSP is to coordinate the establishment of a Centralized Supplemental Benefits Committee to offer benefit options on a statewide basis to State agencies, departments, and institutions, and UNC. The responsibilities of the Committee are to review plan options, prepare Request for Proposals (RFPs), and select plan providers on the basis of a thorough and competitive procurement process. The Committee would be composed of representatives from State agencies, departments, and institutions, and UNC. The Director of OSP would appoint committee members, who would serve three-year terms on a rotating basis as established by the initial appointment.

With the creation of the Committee, OSP anticipates expanded responsibility that would require additional personnel, operating expenses, and consultation fees. The latter is required to address the anticipated insurance products that would be implemented per the direction of the Committee. Initial consideration may be given to term-life insurance and supplemental disability products. The estimated cost for OSP the first year is \$185,165, which supports an HR Partner and operating expenses. This includes recurring expense of \$174,165 to support: salary - \$50,000, fringes -

\$10,165, travel - \$8,000, office space rental - \$6,000, and consulting fees - \$100,000; and non-recurring of \$11,000: computer equipment - \$5,500; office furniture - \$2,500; and office equipment - \$3,000. If the OSP can acquire additional office space from the Department of Administration, the rental cost can be eliminated. The result would reduce total requirements to \$179,165 and reduce recurring costs to \$168,165. The estimate includes an adjustment for increased personnel costs on a continuing basis. The source of funding to support the added requirement is NCFlex FICA savings. As a receipt, this funding source supports the administrative allowances administered and paid by OSP to the flexible benefits' Third Party Administrator and to the Office of the State Controller. Additional products would be offered as part of the flexible benefits plan, and as such, costs would be eligible for receipt support. Availability from savings of \$2.5 million to \$8.4 million is projected over the next 5-year period.

Nonetheless, in the legislation's current form, it expands responsibility of OSP with the creation of the Centralized Supplemental Benefits Committee, but does not conversely reduce that of the agency Employee Insurance Committees. Therefore, no savings would be realized through the centralized committee approach, as presented.

**SOURCES OF DATA:** Office of State Personnel and IRC.

**TECHNICAL CONSIDERATIONS:** None

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**DATE:** June 1, 2005

**Signed Copy Located in the NCGA Principal Clerk's Offices**