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**Alabama Public Education Employees'
Health Insurance Plan
Report of Actuary on the Retiree Medical Valuation**

Prepared as of September 30, 2010





Cavanaugh Macdonald

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The experience and dedication you deserve

October 19, 2011

Ms. Diane Scott
Chief Accountant and Financial Officer
Retirement Systems of Alabama
P.O. Box 302150
Montgomery, AL 36130-2150

Dear Ms. Scott:

Enclosed are 30 bound copies and one unbound copy of the "Alabama Public Education Employees' Health Insurance Plan Report of Actuary on the Retiree Medical Valuation Prepared as of September 30, 2010".

Sincerely yours,

Alisa Bennett, FSA, EA, MAAA, FCA
Principal and Consulting Actuary

Enclosure

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Retirement Systems of Alabama
P.O. Box 302150
Montgomery, AL 36130-2150

Members of the Board:

Governmental Accounting Standards Board Statements No. 43 and 45 require actuarial valuations of retiree medical and other post employment benefit plans. We have submitted the results of the annual actuarial valuation of the Alabama Public Education Employees' Health Insurance Plan (PEEHIP) prepared as of September 30, 2010. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that an annual required contribution of \$814,622,442 or 13.17% of active payroll payable for the fiscal year ending September 30, 2013 is required to fund the benefits of the PEEHIP in an actuarially sound manner.

The promised medical and drug benefits of the Plan, as well as the Optional Plans, are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. The Alabama Retired Education Employees' Health Care Trust had \$750,384,000 in assets as of the valuation date. Therefore, the discount rate used in the valuation remains 5%. Gains and losses are reflected in the unfunded accrued liability that is assumed amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 4.50% annually. The assumptions recommended by the actuary are, in the aggregate, reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan and meet the parameters for the disclosures under GASB 43 and 45.

Since the previous valuation, the retirement rates have been revised to reflect that due to Act #2011-27 the DROP program is closed to new applicants after March 24, 2011. Also since the previous valuation, the Alabama Legislature signed into law Act #2011-704 that establishes changes to the retiree sliding scale premium calculation for members retiring on or after January 1, 2012. The new law requires an employee who retires with less than 25 years of service to pay 4% of the employer share for each year under 25 years of service (years of service premium) instead of 2% under the current law. The new law also requires an employee who retires before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium.) When the retiree becomes eligible for Medicare, the age and subsidy premium will no longer apply. However, the years of service premium will continue to be applied throughout retirement.

The additional premium amounts for members retiring on or after January 1, 2012 will be phased in over a five year period.

The impact on the valuation results of the changes in premiums, benefits and policies are shown in the Gain/Loss exhibit on page 8.

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October 19, 2011
Members of the Board
Page 2

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the medical plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Plan.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion, if the required contributions to the Trust Fund are made by the employer from year to year in the future at the levels required on the basis of the successive actuarial valuations, the Plan will operate in an actuarially sound manner.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Alisa Bennett'.

Alisa Bennett, FSA, EA, MAAA, FCA
Principal and Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Edward A. Macdonald'.

Edward A. Macdonald, ASA, FCA, MAAA
President



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**ALABAMA PUBLIC EDUCATION EMPLOYEES'
HEALTH INSURANCE PLAN (PEEHIP)
REPORT OF ACTUARY ON THE RETIREE MEDICAL VALUATION
PREPARED AS OF SEPTEMBER 30, 2010**

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the valuation are summarized below:

Valuation Date	9/30/2010	9/30/2009
Number Active and Retired*	209,004	206,449
Annual Salary**	\$ 6,183,204,075	\$ 6,236,921,598
Assets:		
Market Value	\$ 750,384,000	\$ 670,004,000
Unfunded Actuarial Accrued Liability	\$10,834,581,113	\$11,245,688,108
Amortization Period (Years)	30	30
Annual Required Contribution (ARC):		
Normal	\$ 427,918,226	\$ 463,125,946
Accrued Liability***	<u>386,704,216</u>	<u>401,377,308</u>
Total	\$ 814,622,442	\$ 864,503,254
Annual Required Contribution as a Percent of Payroll	13.17%	13.86%
Discount Rate	5.00%	5.00%

*Number matches pension report for active and DROP participants and is before the application of the participation assumption and removal of members in units not eligible for PEEHIP. Retiree number comes from actual retiree medical census data provided by PEEHIP.

**Includes DROP salary and matches pension annual salary

*** Accrued liability is assumed amortized as a level percent of payroll with inflation assumption of 4.5%, similar to pension plan.

2. The valuation indicates that contributions of \$814,622,442 or 13.17% of active payroll are sufficient to support the current benefits of the Plan. Comments on the valuation results as of September 30, 2010 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI. Since the previous valuation, the retirement rates have been revised to reflect that due to Act #2011-27 the DROP program is closed to new applicants after March 24, 2011. Also since the previous valuation, the Alabama Legislature signed into law Act #2011-704 that establishes changes to the retiree sliding scale premium calculation for members retiring on or after January 1, 2012. The new law requires an employee who retires with less than 25 years



of service to pay 4% of the employer share for each year under 25 years of service (years of service premium) instead of 2% under the current law. The new law also requires an employee who retires before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium.) The 2012 subsidy premium amount is \$97.65 per month. When the retiree becomes eligible for Medicare, the age and subsidy premium will no longer apply. However, the years of service premium will continue to be applied throughout retirement. The additional premium amounts for members retiring on or after January 1, 2012 will be phased in over a five year period. The impact on the valuation results of the changes in premiums, benefits and policies are shown in the Gain/Loss exhibit on page 8.

3. As of September 30, 2010, the assets of the Plan in the Alabama Retired Education Employees' Health Care Trust totals \$750,384,000. Therefore, the discount rate used in the valuation remains 5%. Schedule C of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. We have shown in Schedule A the decrease in the liabilities that could be accomplished if the Plan is fully pre-funded in an actuarially sound manner and thereby utilizes a 7% discount rate.

SECTION II - MEMBERSHIP DATA

Data regarding the membership and recent claims and enrollment experience of the Plan for use as a basis of the valuation were furnished by the Retirement System office. Pension data was used for active and DROP participants with a post-employment health plan participation assumption applied. Data for current retired members with their medical, dental, cancer, indemnity and vision elections were supplied separately from the pension data.



SECTION III - ASSETS

Schedule B shows information regarding assets for valuation purposes. As of September 30, 2010, plan assets held in trust solely to provide benefits to retirees and their beneficiaries in accordance with the terms of the plan totaled \$750,384,000.

SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation. The results are shown based on a discount rate of 5% and also at 7%. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C.
2. The valuation shows that the Plan has an actuarial accrued liability of \$5,458,700,750 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to retirees, covered spouses and DROP participants amounts to \$6,126,264,363. The total actuarial accrued liability of the Plan amounts to \$11,584,965,113. Against these liabilities, the Plan has present assets for valuation purposes of \$750,384,000. Therefore, the unfunded actuarial accrued liability is equal to \$10,834,581,113.
3. The normal contribution is equal to the actuarial present value of benefits accruing during the current year. The normal contribution is determined to be \$427,918,226.

SECTION V - CONTRIBUTIONS PAYABLE UNDER THE PLAN

ANNUAL REQUIRED CONTRIBUTION

For Fiscal Year Ending September 30, 2013

Annual Required Contribution (ARC):	
Normal	\$ 427,918,226
Accrued Liability	<u>386,704,216</u>
Total	\$ 814,622,442



1. The valuation indicates that a normal contribution of \$427,918,226 is required to meet the cost of benefits currently accruing.
2. The unfunded actuarial accrued liability amounts to \$10,834,581,113 as of the valuation date. An accrued liability contribution of \$386,704,216 is sufficient to amortize the unfunded actuarial accrued liability over a 30-year period, based on a 5% investment rate of return and the assumption that the payroll will increase by 4.5% annually.
3. The total Annual Required Contribution is, therefore, \$814,622,442 or 13.17% of total active payroll.

SECTION VI - COMMENTS ON LEVEL OF FUNDING

1. The monthly contribution for retirees to opt into the medical plan is based on plan election, Medicare eligibility and election, and tobacco use. For members retiring October 1, 2005 or after, a Retiree Sliding Scale premium based on year of service is applicable. For members retiring on or after January 1, 2012, Act #2011-704 establishes changes to the sliding scale premium calculation. The new law requires an employee who retires with less than 25 years of service to pay 4% of the employer share for each year under 25 years of service (years of service premium) instead of 2% under the current law. The new law also requires an employee who retires before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium.) The 2012 subsidy premium amount is \$97.65 per month. When the retiree becomes eligible for Medicare, the age and subsidy premium will no longer apply. However, the years of service premium will continue to be applied throughout retirement. The additional premium amounts for members retiring on or after January 1, 2012 will be phased in over a five year period. The impact on the valuation results of the changes in premiums, benefits and policies are shown in the Gain/Loss exhibit on page 8.



2. The valuation indicates that a decrease in the recommended employer contribution rate over last valuation's recommended rate from 13.86% of payroll to 13.17% is required to fund the plan in an actuarially sound manner. This corresponds to a state contribution of \$814,622,442 required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. The major causes of the decrease in the contribution rate is from closing the DROP to new entrants and increasing premiums for members who retire on or after January 1, 2012.

SECTION VII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 43 and 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the Plan and the employer.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)*	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/30/2005	0	14,611,991,403	14,611,991,403	0	4,733,415,807	308.7%
9/30/2006	0	12,532,330,293	12,532,330,293	0	5,458,443,133	229.6%
9/30/2007	400,783,000*	12,965,397,562	12,564,614,562	3.1%	5,897,771,699	213.0%
9/30/2008	579,813,000	13,224,410,942	12,644,597,942	4.4%	6,294,341,264	200.9%
9/30/2009	670,004,000	11,915,692,108	11,245,688,108	5.6%	6,236,921,598	180.3%
9/30/2010	750,384,000	11,584,965,113	10,834,581,113	6.5%	6,183,204,075	175.2%

* Restated assets as of 9/30/2007 are \$410,071,000.



2. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2010. Additional information as of the latest actuarial valuation follows.

Valuation date	9/30/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions	
Investment Rate of Return*	5.00%
Medical cost trend rate*	
Pre-Medicare	10.50%
Medicare Eligible	8.50%
Ultimate trend rate*	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate trend rate	2017
Dental trend rate	5.00%
*Includes inflation at	4.50%

**SCHEDULE A****RESULTS OF THE VALUATION
AND THE BENEFITS OF ADVANCE FUNDING
PREPARED AS OF SEPTEMBER 30, 2010**

		5% Discount Rate (Current Funding Level)	7% Discount Rate (Contribute Full ARC Annually)
1.	PAYROLL	\$ 6,183,204,075	\$ 6,183,204,075
2.	ACTUARIAL ACCRUED LIABILITY		
	Present value of prospective benefits payable in respect of:		
(a)	Present active members:	\$ 5,458,700,750	\$ 3,619,138,520
(b)	Present retired members and surviving spouses and DROP participants:	<u>6,126,264,363</u>	<u>4,866,768,914</u>
(c)	Total actuarial accrued liability	\$11,584,965,113	\$ 8,485,907,434
3.	PRESENT ASSETS FOR VALUATION PURPOSES	\$ 750,384,000	\$ 750,384,000
4.	UNFUNDED ACTUARIAL ACCRUED LIABILITY [(2)(C) minus (3)]	\$10,834,581,113	\$ 7,735,523,434
5.	AMORTIZATION PERIOD	30	30
6.	NORMAL CONTRIBUTION	\$ 427,918,226	\$ 268,339,832
7.	ACCRUED LIABILITY CONTRIBUTION	386,704,216	355,788,725
8.	TOTAL CONTRIBUTION (6) + (7)	\$ 814,622,442	\$ 624,128,557
9.	TOTAL CONTRIBUTION AS A PERCENT OF PAYROLL (8) ÷ (1)	13.17%	10.09%



GAIN/LOSS

1. UNFUNDED ACCRUED LIABILITY (UAL) 9/30/2009	\$ 11,245,688,108
2. NORMAL COST 9/30/2009	463,125,946
3. EXPECTED EMPLOYER CONTRIBUTIONS (ARC calculated in 9/30/2009 valuation)	864,503,254
4. INTEREST ACCRUAL (1) X .05 + [(2) - (3)] X .025	552,249,973
5. EXPECTED UAL 9/30/2010 (1) + (2) - (3) + (4)	\$ 11,396,560,773
6. CHANGE DUE TO CLOSING THE DROP TO NEW ENTRANTS	(462,813,032)
7. CHANGE DUE TO PREMIUM INCREASES FOR MEMBERS RETIRING ON OR AFTER 1/1/2012	(178,655,254)
8. EXPECTED UAL 9/30/2010 AFTER CHANGES (5) + (6) + (7)	\$ 10,755,092,487
9. ACTUAL UAL AS OF 9/30/2010	\$ 10,834,581,113
10. GAIN/(LOSS)* (8) - (9)	(79,488,626)
11. GAIN AS % OF LY UAL	(0.70%)

*Includes contribution shortfall, decremental experience, and all other actuarial gains and losses.



SCHEDULE B

PLAN ASSETS

GASB 43 and 45 define plan assets as resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan. The Alabama Retired Education Employees' Health Care Trust has been established and, as of the valuation date, the market value of assets amounted to \$750,384,000. The development of the market value of assets is shown in the following table.

Market Value of Assets as of September 30, 2010

(all \$ amounts in thousands)

Market Value September 30, 2009	\$ 670,004
Contributions	428,626
Benefits	<u>(406,219)</u>
Cash flow	\$ 22,407
Investment Income	57,973
Market Value September 30, 2010	\$ 750,384



SCHEDULE C

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30 2005, submitted to and adopted by the board on May 21, 2007. Since the previous valuation, the retirement rates have been revised to reflect that the DROP program is closed to new applicants after March 24, 2011.

VALUATION DATE: September 30, 2010

DISCOUNT RATE: 5.0% per annum, compounded annually.

HEALTH CARE COST TREND RATES: Following is a chart detailing Medical/Rx trend assumptions. The trend assumption for the Optional Plans is 5% per year and the trend on retiree contributions is 2% per year. The subsidy premium due to Act #2011-27 is not assumed to increase, but the age and years of service premiums are assumed to increase with trend.

Year	Pre-Medicare Medical Trend	Medicare-Eligible Medical Trend
2010	10.5%	8.5%
2011	9.5%	7.5%
2012	8.5%	7.0%
2013	7.5%	6.5%
2014	6.5%	6.0%
2015	6.0%	5.5%
2016	5.5%	5.0%
2017 and beyond	5.0%	5.0%

AGE RELATED MORBIDITY: Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims was assumed to be:

Participant Age	Annual Increase
< 40	0.0%
40 – 44	2.6%
45 – 49	2.6%
50 – 54	3.2%
55 – 59	3.4%
60 - 64	3.7%
65 – 69	3.2%
70 – 74	2.4%
75 – 79	1.8%
80 – 84	1.3%
85 and over	0.0%

Optional plan costs are not age adjusted.



ANTICIPATED PLAN PARTICIPATION: The assumed annual rates of plan participation and spouse coverage is as follows:

Medical	Under 65	Over 65
Participation	80%	80%
Spouse Coverage	60%	45%

Optional Plans	
Plan	Participation
Hospital Indemnity	10%
Dental	40%
Cancer	10%
Vision	10%

ANNUAL EXPECTED MEDICAL/RX CLAIMS (AGE 65): Following is a chart detailing expected per member per year medical/RX claims for pre and post Medicare for the year following the valuation date. Claims are age-adjusted to age 65. Effective October 1, 2010, changes have been made to the PEEHIP premiums, benefits and policies. PEEHIP will be using new prescription drug carriers effective October 1, 2010. MedImpact is replacing Express Scripts for the Core pharmacy program and BioScript is replacing CuraScript as the Specialty pharmacy program. In addition, new copayments and deductibles are being implemented beginning October 1, 2010 as well as a new premium structure.

	Medical/Rx
Pre-65	\$9,240
Post-65	\$3,104

ANNUAL EXPECTED OPTIONAL PLAN CLAIMS: Following is a chart detailing expected optional plan claims for the year following the valuation date. Claims are not age-adjusted.

Dental	Vision	Cancer	Hospital
\$526	\$141	\$263	\$287

ACTUARIAL METHOD: Costs were determined using the Projected Unit Credit Actuarial Cost Method. The annual service cost is the present value of the portion of the projected benefit attributable to participation service during the upcoming year, and the Actuarial Accrued Liability (AAL) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through full retirement eligibility date was used in allocating costs.



SEPARATIONS BEFORE SERVICE RETIREMENT: Representative values of the assumed annual rates of death, disability, and withdrawal are as follows:

Age	Death	Disability	Annual Rate of			
			Withdrawal			
			Years of Service			
			0-4	5-9	10-20	20+
		<u>Male</u>				
20	0.05%	0.05%	30.00%			
25	0.07	0.06	16.50	12.00%		
30	0.08	0.07	15.00	5.50	5.50%	
35	0.09	0.13	15.00	5.50	3.00	
40	0.11	0.20	14.50	5.50	3.00	1.25%
45	0.16	0.21	14.50	5.25	3.00	1.00
50	0.26	0.64	12.00	4.50	3.00	1.00
55	0.44	1.20	11.50	4.00	2.25	1.00
60	0.80		10.00	4.00		
65	1.45		10.00	6.00		
69	2.17		10.00	6.00		
		<u>Female</u>				
20	0.03%	0.10%	30.00%			
25	0.03	0.10	14.50	8.00%		
30	0.04	0.10	14.50	6.00	4.00%	
35	0.05	0.15	13.50	6.00	3.50	
40	0.08	0.16	12.00	4.50	2.50	1.50%
45	0.10	0.37	11.50	3.75	2.50	0.75
50	0.16	0.70	11.00	3.75	2.50	0.75
55	0.26	1.10	10.50	3.75	2.50	0.75
60	0.51		11.00	4.50		
65	0.97		14.00	6.00		
69	1.37		14.00	6.00		



SERVICE RETIREMENT: Representative values of the assumed annual rates of service retirement are as follows. **Since the previous valuation, the retirement rates have been revised to reflect that the DROP program is closed to new applicants after March 24, 2011.**

For members first eligible for unreduced benefits upon attaining 25 years of service but before age 65, rates are as follows:

<u>Age</u>	<u>Annual Rate*</u>	
	<u>Male</u>	<u>Female</u>
45	30.0%	30.0%
50	15.0	16.0
55	10.0	13.0
60	10.0	25.0
62	25.0	43.0

*Retirement rates adjusted in year when member first becomes eligible for unreduced service retirement on or after age 50 but before age 65.

For members first eligible for unreduced benefits before attaining 25 years of service and all members age 65 and over, the rates are as follows:

<u>Age</u>	<u>Annual Rate</u>	
	<u>Male</u>	<u>Female</u>
60	13.0%	22.0%
62	30.0	30.0
65	34.0	35.0
67	26.0	27.0
69	25.0	26.0
70	25.0	26.0
72	26.0	25.0
75	100.0	100.0

DEATHS AFTER RETIREMENT: Rates of mortality for the period after service retirement are according to the 1994 Group Annuity Mortality Table set forward one year for females. Special tables are used for the period after disability retirement. Representative values of the assumed annual rates of death after service and disability retirement are as follows:

<u>Age</u>	<u>Annual Rate of Death after</u>			
	<u>Service Retirement</u>		<u>Disability Retirement</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
40	0.11%	0.08%	3.32%	2.60%
45	0.16	0.10	3.49	2.43
50	0.26	0.16	3.76	2.50
55	0.44	0.26	4.20	2.67
60	0.80	0.51	4.88	2.95
65	1.45	0.97	5.95	3.39
70	2.37	1.50	7.63	4.08
75	3.72	2.53	10.22	5.16
80	6.20	4.40	14.17	6.85
85	9.72	7.53	20.09	9.47
90	15.29	12.88	28.67	13.46



SCHEDULE D

SUMMARY OF MAIN PLAN PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

ELIGIBILITY: Retiree medical eligibility is attained when an employee retires, and is immediately eligible to draw a retirement annuity from the Alabama Teachers Retirement System.

PLAN CHANGES: PEEHIP will be using new prescription drug carriers effective October 1, 2010. MedImpact is replacing Express Scripts for the Core pharmacy program and BioScript is replacing CuraScript as the Specialty pharmacy program. In addition, new copayments and deductibles are being implemented beginning October 1, 2010 as well as a new premium structure. Since actual claims experience for the period beginning October 1, 2010 is not yet available, the impact of these plan changes were estimated and taken into account starting with the September 30, 2009 valuation.

For members retiring on or after January 1, 2012, Act #2011-704 establishes changes to the sliding scale premium calculation. These changes are taken into account in this valuation and are described in more detail in the section below.

Combining allocations is being phased out over 3 years with year 1 being fiscal year 2011. Fiscal year 2012 is year 2 of the phase out and then, beginning October 1, 2012, there will be no combining of allocations.

RETIREE CONTRIBUTIONS: Vary based on plan election, dependent coverage, Medicare eligibility and election, and tobacco use. As stated above, combining allocations is being phased out. Plan costs are determined for valuation purposes considering claims costs net of member premiums paid.

In November 2004, the Alabama Legislature enacted legislation (Act 2004-649) that required the Public Education Employees' Insurance Board to implement a sliding scale premium on all employees retiring after September 30, 2005, based on their years of service.

The premium for retiree coverage is broken down into the employer share (what PEEHIP pays) and the retiree share. Under the sliding scale, the retiree will still be responsible for the retiree share, however, the employer share will increase or decrease based upon a retiree's years of service. For those employees retiring with 25 years of service, the employer would pay 100% of the employer share of the premium. For each year less than 25, the employer share would be reduced by 2% and the retiree share will be increased accordingly. For each year over 25, the employer share would be increased by 2% and the retiree share reduced accordingly.

For members retiring on or after January 1, 2012, Act #2011-704 establishes changes to the sliding scale premium calculation. The new law requires an employee who retires with less than 25 years of service to pay 4% of the employer share for each year under 25 years of service (years of service premium) instead of 2% under the current law. The new law also requires an employee who retires before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium.) The 2012 subsidy premium amount is \$97.65 per month. When the retiree becomes eligible for Medicare, the age and subsidy premium will no longer apply. However, the years of service premium will continue to be applied throughout retirement.

The additional premium amounts for members retiring on or after January 1, 2012 will be phased in over a five year period.



Current DROP participants are exempt from the new law if the employee withdraws from state service at the end of his or her three to five year DROP participation period. Those who complete their DROP period after January 1, 2012, but do not separate from state service and continue their employment will be subject to the new law when they retire. Employees who have already completed their DROP participation prior to January 1, 2012 will be exempt from the new law if he or she retires before January 1, 2012; if the employee retires on or after January 1, 2012, the new law will apply to the retiree when he or she retires.

Retired Members

The premiums listed below show the retiree's out-of-pocket cost after subtracting the retiree allocation. These rates apply only to members who retire prior to October 1, 2005. All members who retire on or after October 1, 2005 will be subject to the Retiree Sliding Scale premium based on years of service.

Adopted for fiscal Year 2011 - 2012

Rate	Type of Contract	Retiree Monthly Out-of-Pocket Expense	Cost to State
A	Individual Coverage/ Non-Medicare Eligible Retired Member	\$ 151	\$ 507
B	Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 391	\$ 815
C	Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 250	\$ 747
D	Individual Coverage/ Medicare Eligible Retired Member	\$ 10	\$ 318
E	Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 250	\$ 626
F	Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 109	\$ 558

The State allocation can be used to purchase the new PEEHIP Supplemental Plan or two optional plans at no cost to the retiree if the retiree is not using the allocation for one of the hospital medical plans. Additional optional plans can be purchased for \$38.00 per month per plan.

Optional Coverage: Active and Retired Members

Cancer	\$38.00/month Individual or Family Coverage
Indemnity	\$38.00/month Individual or Family Coverage
Dental	\$38.00/month Individual Coverage \$45.00/month Family Coverage
Vision	\$38.00/month Individual or Family Coverage

Retiree premiums for the four optional plans, Hospital Indemnity, Dental, Cancer and Vision, are \$38 per retiree per month. Since these plans can be purchased with State allocations, it is assumed that 75% of participants in the Dental plan and 50% of participants in the other optional plans are making the \$38 per month contributions.

The University System makes a contribution to PEEHIP for every University retiree participating in PEEHIP plans regardless of age or plan tier election. For 2010, this amount is \$420 per month.



PLAN BENEFITS: PEEHIP will be using new prescription drug carriers effective October 1, 2010. MedImpact is replacing Express Scripts for the Core pharmacy program and BioScript is replacing CuraScript as the Specialty pharmacy program. In addition, new copayments and deductibles are being implemented beginning October 1, 2010 as well as a new premium structure.

Copayment & Deductible Changes	New Copayments/ Deductibles Beginning October 1, 2010
Physician Office Visit Copay	\$ 30
Medical Emergency Room Visit Copay	\$ 150
Outpatient Surgery Facility Copay	\$ 150
Inpatient Hospital	
-Copay per admission	\$ 200
-Daily Copay, days 2 – 5	\$ 25
Lab Copay	\$ 5
Major Medical Deductible:	
-Single	\$ 300
-Family Maximum	\$ 900
Prescription Drugs (30 day supply):	
-Generic Copay	\$ 6
-Preferred Drug Copay	\$ 40
-Non-Preferred Drug Copay	\$ 60
Prescription Maintenance Drugs (90 day supply):	
-Generic Copay	\$ 12
-Preferred Drug Copay	\$ 80
-Non-Preferred Drug Copay	\$ 120