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THE RETIREMENT SYSTEMS OF ALABAMA

David G. Bronner, CEO
Marcus H. Reynolds, Jr., Deputy

October 20, 2011

Dear Sir/Madam,

This letter contains information needed in meeting your agency's financial reporting requirements. Please provide a copy of this letter to the department responsible for financial reporting and to your auditors.

GASB Technical Bulletin 2006-1 *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D* (question 3) states that "An RDS (retiree drug subsidy) payment from the federal government to a defined benefit OPEB (Other Post Employment Benefit) plan that is administered as a qualifying trust (or equivalent arrangement) is an on-behalf payment for fringe benefits, as discussed in paragraph 7 of Statement 24. The employer should recognize revenue and expense or expenditures for the payment in accordance with the recognition and measurement requirements of paragraph 8b pertaining to an employer that is legally responsible for contributions to the OPEB plan. That is, the employer "should follow accounting standards for that type of transaction to recognize expenditures or expenses and related liabilities or assets." The employer also should disclose the amounts recognized for the on-behalf payment as required by paragraph 12 of that Statement. An employer should apply the requirements of paragraph 8b of Statement 24 by following the measurement requirements of Statement 45 to determine OPEB expense or expenditures (that is, no reduction should be made for RDS payments).

In 2010, the Early Retiree Reinsurance Program (ERRP) was created as part of the Patient Protection and Affordable Care Act. ERRP provides reimbursements to employers for eligible healthcare costs of certain early retirees. Like the Retiree Drug Subsidy, the ERRP reimbursements are a voluntary non-exchange transaction between the federal government and the employer; therefore, the same accounting guidance should be followed for the ERRP reimbursements

Accordingly, the portion of the RDS and ERRP related to your unit's retirees should be recognized in your financial statements as detailed above. To calculate the amount that should be recognized in the financial statements, multiply the total PEEHIP premiums (employer allocations and member out-of pocket premiums) submitted during fiscal year 2011 by 3.22%.

The PEEHIP is a cost sharing multiple employer plan. GASB 45 requires cost sharing employers to recognize other post employment benefit expenses/expenditures for their contractually required contributions to the PEEHIP on the accrual or modified accrual basis, as applicable. As long as the contractually required amount is paid, your unit has met the annual required contribution to the plan (ARC). To calculate the ARC, multiply the grand-total of the employer allocations paid in fiscal year 2011 by 26.45%.

Additionally, GASB 45 requires the following disclosures (note that the Plan's FY11 report will be available at the end of January 2012, on the PEEHIP website at <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab – the general information has not changed):

(Mailing Address) P.O. Box 302150 ♦ Montgomery, AL 36130-2150
(Office Location) 201 South Union Street ♦ Montgomery, AL
334-517-7000 or 877-517-0020
Web site: www.rsa-al.gov

a. Plan description.

- (1) Name of the plan which is the Alabama Retired Education Employees' Health Care Trust, identification of the Public Education Employees' Health Insurance Board as the entity that administers the plan, and identification of the plan as a cost-sharing multiple-employer defined benefit OPEB plan. (See the financial report at the above website)
- (2) Brief description of the types of benefits and the authority under which benefit provisions are established or may be amended. (See the financial report at the above website)
- (3) The Alabama Retired Education Employees' plan issues a stand-alone financial report that may be obtained at the Public Education Employees' Health Insurance Plan website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

b. Funding policy.

- (1) Authority under which the obligations of the plan members and employers to contribute to the plan are established or may be amended. (See the financial report on the above website).
- (2) Required contribution rate(s) of plan members. The required contribution rate(s) could be expressed as a rate (amount) per member or as a percentage of covered payroll. (See Premium Rates below).
- (3) Required contribution rate of the employer in accordance with the funding policy, in dollars. The FY11 required contribution for retirees was \$198.94 per employee per month (note this is the retiree portion of the \$752 monthly allocation required for each member). Since the plan is a cost-sharing plan, disclose the required contributions in dollars and the percentage of that amount contributed for the current year and each of the two preceding years. To determine the amount paid for retirees, multiply the grand-total of employer allocations paid during fiscal year 2011 by 26.45%. Since the amount determined by the legislature was paid in full, state that 100% of the required contributions were paid. Also disclose that the required contribution amount is determined by the legislature.

Required monthly contribution rates for FY2010-11 are as follows:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$146.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$381.00
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$245.00
- Individual Coverage/Medicare Eligible Retired Member - \$10.00
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$245.00
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109.00
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.
- Tobacco surcharge - \$27.00 per month

- PEEHIP Supplemental Plan - \$0
- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) – up to two optional plans can be taken by retirees at no cost if the retiree is not also taking one of the Hospital Medical Plans. The combining allocation program is being phased out over three years beginning October 1, 2010. While a couple combines allocations, they are required to use both allocations to pay for the PEEHIP Hospital Medical Plan and cannot use one of the allocations towards the Optional Plans. They can purchase the Optional Plans at the normal monthly rate of \$38.00 or \$45.00 for family dental.

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible - \$701.00
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$890.00
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$859.00
- Surviving Spouse Medicare Eligible - \$369.00
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$558.00
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - \$527.00

Please provide this letter to the department responsible for financial reporting and your auditors so your agency can meet the GASB Technical Bulletin 2006-1 and GASB 45 financial reporting requirements. If you have any questions, please call the call center at 1-877-517-7000.

Sincerely,



Diane E. Scott, CPA
Chief Financial Officer