



# Cavanaugh Macdonald CONSULTING, LLC

*The experience and dedication you deserve*



## Alabama Public Education Employees' Health Insurance Plan Report of Actuary on the Retiree Health Care Valuation

Prepared as of September 30, 2014





# Cavanaugh Macdonald

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*The experience and dedication you deserve*

October 6, 2015

Retirement Systems of Alabama  
P.O. Box 302150  
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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, 2014. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that an annual required contribution of \$697,677,064 or 11.01% of active payroll payable for the fiscal year ending September 30, 2017 is required to fund the benefits of the PEEHIP.

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 \$1,208,401,000 in assets as of the valuation date. Therefore, the discount rate used in the valuation remains 5.00%. 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 27-year closed period, on the assumption that payroll will increase by 3.25% 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.

The impact of the Affordable Care Act (ACA) was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results. While the impact of certain provisions such as the excise tax on high-value health insurance plans beginning in 2018 (if applicable), mandated benefits and participation changes due to the individual mandate should be recognized in the determination of liabilities, overall future plan costs and the resulting liabilities are driven by amounts employers and retirees can afford (i.e., trend). The trend assumption forecasts the anticipated increase to initial per capita costs, taking into account health care cost inflation, increases in benefit utilization, plan changes, government-mandated benefits, and technological advances. Given the uncertainty regarding the ACA's implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting from the implementation of state-based health insurance exchanges), continued monitoring of the ACA's impact on the Plan's liability will be required. Plan design changes mandated by the ACA and incorporated in the 2015 plan designs are included in the current baseline claims costs.

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On June 2, 2015, GASB Statement No. 74 and GASB Statement No. 75 (GASB 74 and 75) were unanimously adopted by the GASB Board. The disclosure requirements of GASB 74 and 75 will be similar to the disclosure requirements for pension benefits under GASB Statement No. 67 and GASB Statement No. 68. GASB 74 relates to accounting disclosures for plan sponsors and, as such, replaces GASB 43 beginning with fiscal years ending September 30, 2017. GASB 75 relates to accounting disclosures for contributing employers and, as such, replaces GASB 45 beginning with fiscal years ending September 30, 2018. GASB 74 and 75 will require applicable OPEB plan sponsors and contributing employers to disclose the net OPEB liability on the statement of financial position and book an accounting expense based upon the entry age normal actuarial cost method. Beyond the use of a specified actuarial cost method, GASB's new disclosure standards will also require the discount rate used to calculate liabilities to be based upon the yield of 20-year, tax-exempt municipal bonds and the expected rate of return on plan assets, to the extent plan assets are projected to be available for the payment of future benefits. Additionally, GASB 74 and 75 will bring about many other changes in the liability valuation and accounting disclosure processes currently in place which are expected to significantly impact data collection, timing, and effort. As details for the new GASB OPEB disclosure standards emerge, planning and coordination between plan sponsors, contributing employers, actuaries, and auditors is recommended.

This is to certify that the independent consulting actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We certify that we have 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 current assets and future anticipated contributions are in our opinion sufficient to meet all the benefit obligations of the Plan for current active and retired members.

Respectfully submitted,

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

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 HEALTH CARE VALUATION  
 PREPARED AS OF SEPTEMBER 30, 2014**

**SECTION I - SUMMARY OF PRINCIPAL RESULTS**

1. For convenience of reference, the principal results of the valuation are summarized below, along with the previous year's results.

Valuation Date	September 30, 2014	September 30, 2013
Number of active members*	135,230	133,919
Number of DROP participants*	1,748	3,029
Number of retired members**	77,773	74,587
Number of spouses of retirees**	24,149	23,305
Number of survivors**	1,906	1,821
Total	240,806	236,661
Annual salaries***	\$ 6,335,160,505	\$ 6,263,364,496
Assets:		
Market value	\$ 1,208,401,000	\$ 1,074,940,000
Unfunded actuarial accrued liability	\$ 8,315,390,853	\$ 7,919,026,963
Amortization period (years)	27	28
<b>Contribution for fiscal year ending:</b>	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Annual Required Contribution (ARC):		
Normal	\$ 317,755,353	\$ 317,961,650
Accrued Liability	379,921,711	351,607,780
Total	\$ 697,677,064	\$ 669,569,430
Annual Required Contribution as a Percent of Payroll	11.01%	10.69%
Discount Rate	5.00%	5.00%
Payroll Growth	3.25%	3.25%

\* 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.

\*\* Based on actual health care census data provided by PEEHIP.

\*\*\* Includes DROP salary and matches pension annual salary.

2. The valuation indicates contributions of \$697,677,064 or 11.01% of active payroll are sufficient to support the current benefits of the Plan. Comments on the valuation results as of September 30, 2014 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.



3. As of September 30, 2014, the assets of the Plan in the Alabama Retired Education Employees' Health Care Trust totals \$1,208,401,000. Therefore, the discount rate used in the valuation remains 5.00%. The assumed rate of payroll growth is 3.25%.
4. This valuation reflects the increase in the tobacco-users premium from \$28 per month to \$50 per month for subscribers and the additional \$50 per month for covered spouses if both the member and the spouse are tobacco users as well as the addition of the spousal surcharge of \$75 per month for pre-Medicare eligible retirees and \$25 per month for Medicare eligible retirees (phased-in over 3 years).
5. Schedule A illustrates the decrease in the liabilities that could be accomplished if the Plan is fully pre-funded, and thereby utilizes a 7.00% discount rate.
6. Schedule C details the actuarial assumptions and methods employed. Schedule D provides a summary of the benefit and contribution provisions of the plan.
7. Claims were updated to reflect the most recent claims information available. Additionally, we used current and projected EGWP and reinsurance reimbursement data to determine the Medicare prescription cost. See Schedule C of the report.
8. The Health Plan was changed in 2015. These changes include the increase in copay for specialist office visits, removal of the 4<sup>th</sup> quarter major medical carryover deductible and removal of the accident rider.



**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.

**Active members as of September 30, 2014\***

Age/Svc	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
<25	1,098	1,417	11							2,526
25-29	1,502	7,355	1,741	11						10,609
30-34	1,024	4,761	6,454	1,856	11					14,106
35-39	837	4,039	4,550	5,711	1,516	13				16,666
40-44	761	3,606	4,246	4,037	5,395	1,296	11			19,352
45-49	577	2,934	3,749	3,623	3,816	4,057	945	12		19,713
50-54	438	2,425	3,220	3,563	3,743	3,010	2,227	533	21	19,180
55-59	289	1,794	2,532	2,936	3,414	3,084	1,966	1,071	351	17,437
60-64	273	1,499	1,655	1,711	1,893	1,851	1,150	125	70	10,227
65-69	79	637	963	700	526	496	343	38	34	3,816
70+	37	205	472	339	215	160	109	25	36	1,598
<b>Total</b>	<b>6,915</b>	<b>30,672</b>	<b>29,593</b>	<b>24,487</b>	<b>20,529</b>	<b>13,967</b>	<b>6,751</b>	<b>1,804</b>	<b>512</b>	<b>135,230</b>

\* Does not include 1,748 DROP participants of whom, 1,494 are under age 65, while 254 are age 65 or older. Numbers match 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.

**Retirees, Spouses and Survivors**

Category	Retirees	Spouses	Survivors	Total
Optional Plan Only*	14,005	0	333	14,338
Medical Plan Under Age 65	19,025	8,845	136	28,006
Medical Plan Age 65 & Older	<u>44,743</u>	<u>15,304</u>	<u>1,437</u>	<u>61,484</u>
<b>Total</b>	<b>77,773</b>	<b>24,149</b>	<b>1,906</b>	<b>103,828</b>

\* Includes 6,110 records without any hospital medical coverage or optional plan elections.



### **SECTION III - ASSETS**

Schedule B shows information regarding assets for valuation purposes. As of September 30, 2014, plan assets held in trust solely to provide benefits to retirees and their beneficiaries in accordance with the terms of the plan totaled \$1,208,401,000. This valuation was based on an assumed discount rate of 5.00%. Schedule A illustrates the decrease in the liabilities that could be accomplished if the Plan is fully pre-funded, and thereby utilizes a 7.00% discount rate.

### **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 5.00% and also at 7.00%. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C. The Summary of Main Plan Provisions is presented in Schedule D.
2. The valuation shows that the Plan has an actuarial accrued liability of \$4,423,553,626 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, survivors, and DROP participants amounts to \$5,100,238,227. The total actuarial accrued liability of the Plan amounts to \$9,523,791,853. Against these liabilities, the Plan has present assets for valuation purposes of \$1,208,401,000. Therefore, the unfunded actuarial accrued liability is equal to \$8,315,390,853.
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 \$317,755,353.





**SECTION V - CONTRIBUTIONS PAYABLE UNDER THE PLAN**

**ANNUAL REQUIRED CONTRIBUTION  
For Fiscal Year Ending September 30, 2017**

<b>Annual Required Contribution (ARC)</b>	
Normal	\$ 317,755,353
Accrued Liability	<u>379,921,711</u>
Total	\$ 697,677,064

1. The valuation indicates that a normal contribution of \$317,755,353 is required to meet the cost of benefits currently accruing.
2. The unfunded actuarial accrued liability amounts to \$8,315,390,853 as of the valuation date. An accrued liability contribution of \$379,921,711 is sufficient to amortize the unfunded actuarial accrued liability over a 27-year period, based on a 5.00% investment rate of return and the assumption that the payroll will increase by 3.25% annually.
3. The total Annual Required Contribution is, therefore, \$697,677,064 or 11.01% 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, dependent coverage, Medicare eligibility and election, tobacco use, wellness credit and spousal surcharge. Plan costs are determined for valuation purposes considering claims costs net of member premiums paid. For members retiring October 1, 2005 or after, a Retiree Sliding Scale premium based on years of service is applicable. For members retiring on or after January 1, 2012, Act 2011-704 establishes changes to the sliding scale premium calculation.
2. The valuation indicates that an increase in the recommended employer contribution rate from last valuation's recommended rate of 10.69% of payroll to 11.01% is required to fund the plan. This corresponds to a state contribution of \$697,677,064 required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 27 years. The major cause of the increase in the contribution rate is the contribution shortfall. Claims experience was analyzed using actual fiscal year 2014 data together with actual and projected EGWP reimbursement and reinsurance data for the Medicare eligible members.



## **SECTION VII - ACCOUNTING INFORMATION**

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 System and the employer. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2014. Additional information as of the latest actuarial valuation follows.

Valuation Date	9/30/2014
Actuarial Cost Method	Projected unit credit
Amortization Method	Level percent of pay
Remaining Amortization Period	27 years, closed
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate*	
Pre-Medicare	5.00% in 2019
Medicare Eligible	5.00% in 2017
Optional Plans Trend Rate	5.00%

*\*Includes price inflation at 3.00%*

The assumed investment rate of return reflects the fact that as of September 30, 2014 the Plan has \$1,208,401,000 in the Alabama Retired Education Employees' Health Care Trust solely to provide benefits to retirees and their beneficiaries. If the Plan starts fully pre-funding benefits, the discount rate may be increased to reflect equity investment the fund may have after full pre-funding begins. This investment rate of return assumption is independent of the inflation assumption.



**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 Covered Payroll ((b - a) / c)
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%
9/30/2011	777,933,000	9,081,334,485	8,303,401,485	8.6%	6,159,562,266	134.8%
9/30/2012	930,278,000	8,957,153,960	8,026,875,960	10.4%	6,222,316,020	129.0%
9/30/2013	1,074,940,000	8,993,966,963	7,919,026,963	12.0%	6,263,364,496	126.4%
9/30/2014	1,208,401,000	9,523,791,853	8,315,390,853	12.7%	6,335,160,505	131.3%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS  
(Amounts in Thousands)**

Fiscal Year	Annual Required Contribution	Percent Contributed
2011	\$1,006,034	29.9%
2012	864,503	38.6%
2013	814,622	42.0%
2014	669,569	48.5%*

\*Based on the most recent CAFR from PEEHIP.

**SCHEDULE A****RESULTS OF THE VALUATION  
AND THE BENEFITS OF ADVANCE FUNDING  
PREPARED AS OF SEPTEMBER 30, 2014**

	<b>5.00% Discount Rate (Current Funding Level)</b>	<b>7.00% Discount Rate (Contribute Full ARC Annually)</b>
<b>1. PAYROLL</b>	\$ 6,335,160,505	\$6,335,160,505
<b>2. ACTUARIAL ACCRUED LIABILITY</b> Present value of prospective benefits payable in respect of:		
(a) Present active members:	\$ 4,423,553,626	\$ 2,917,241,799
(b) Present retired members and surviving spouses and DROP participants:	<u>5,100,238,227</u>	<u>4,099,793,471</u>
(c) Total actuarial accrued liability	\$ 9,523,791,853	\$ 7,017,035,270
<b>3. PRESENT ASSETS FOR VALUATION PURPOSES</b>	\$ 1,208,401,000	\$ 1,208,401,000
<b>4. UNFUNDED ACTUARIAL ACCRUED LIABILITY [(2)(C) minus (3)]</b>	\$8,315,390,853	\$ 5,808,634,270
<b>5. AMORTIZATION PERIOD</b>	27	27
<b>6. NORMAL CONTRIBUTION</b>	\$ 317,755,353	\$ 197,411,471
<b>7. ACCRUED LIABILITY CONTRIBUTION</b>	<u>379,921,711</u>	<u>329,222,760</u>
<b>8. TOTAL CONTRIBUTION (6) + (7)</b>	\$ 697,677,064	\$ 526,634,231
<b>9. TOTAL CONTRIBUTION AS A PERCENT OF PAYROLL (8) ÷ (1)</b>	11.01%	8.31%



### GAIN/LOSS

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is assumed that gains and losses will be in balance over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the gain (loss) for the year ended September 30, 2014 is shown below.

Gain/Loss		
1.	<b>UNFUNDED ACCRUED LIABILITY (UAL) 9/30/2013</b>	\$ 7,919,026,963
2.	<b>NORMAL COST 9/30/2013</b>	317,961,650
3.	<b>ACTUAL EMPLOYER CONTRIBUTIONS</b>	324,885,000
4.	<b>INTEREST ACCRUAL</b> (1) X .05 + [(2) - (3)] X .025	<u>395,778,264</u>
5.	<b>EXPECTED UAL 9/30/2014</b> (1) + (2) - (3) + (4)	\$ 8,307,881,877
6.	<b>CHANGE DUE TO CLAIMS EXPERIENCE</b>	<u>(17,015,175)</u>
7.	<b>EXPECTED UAL 9/30/2014 AFTER CHANGES</b> (5) + (6)	\$ 8,290,866,702
8.	<b>ACTUAL UAL AS OF 9/30/2014</b>	\$ 8,315,390,853
9.	<b>GAIN/(LOSS)*</b> (7) - (8)	\$ (24,524,151)
10.	<b>GAIN/(LOSS) AS % OF UAL AT 9/30/2013</b>	(0.31)%

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



## SCHEDULE B

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### 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 \$1,208,401,000. The development of the market value of assets is shown in the following table.

#### Market Value of Assets as of September 30, 2014

(Amounts in Thousands)

Asset Summary Based on Market Value		
Market Value September 30, 2013	\$	1,074,940
Contributions		472,451
Benefits, Fees and Assessments		(449,199)
Cash flow	\$	23,252
Investment Income		110,209
Market Value September 30, 2014	\$	1,208,401



**SCHEDULE C**

**OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS**

The decremental assumptions used in the valuation were selected based on the actuarial experience study for the Teachers’ Retirement System (adopted by the TRS Board January 27, 2012) and are reasonable expectations of anticipated experience under the Plan. The assumptions were used in the retiree health care valuation for consistency and are under PEEHIP Board jurisdiction.

**VALUATION DATE:** September 30, 2014

**DISCOUNT RATE:** 5.00% per annum, compounded annually.

**PAYROLL GROWTH:** 3.25% per annum, compounded annually.

**HEALTH CARE COST TREND RATES:** Health care cost trend rates reflect the change in per capita health costs over time due to factors such as inflation, utilization, plan design, and technology improvements which are detailed in the “Annual Increase in Medical/Prescription Drug/Optional Plan Costs” below.

Annual Increase in Medical/Prescription Drug/Optional Plan Costs			
Year	Pre-Medicare Medical Trend*	Medicare-Eligible Medical Trend*	Optional Plans Trend
2014	7.50%	5.75%	5.0%
2015	6.75%	5.50%	5.0%
2016	6.25%	5.25%	5.0%
2017	5.75%	5.00%	5.0%
2018	5.25%	5.00%	5.0%
2019	5.00%	5.00%	5.0%

*\* Also applies to sliding scale age and years of service premium to be contributed by retirees, surviving dependent contributions, University Contributions and the PEEHIP Supplemental Plan cost.*

The “Annual Increase in Base Contributions Received from Covered Members” details how the expected increase in the amounts contributed from covered retirees and dependents will increase over time. The trend rates are detailed below and apply to the base rate retiree premiums only. The sliding scale premiums are assumed to increase with health care trend.

Annual Increase in Base Contributions Received from Covered Members		
Year	Retiree Share of Premium	Retiree Optional Plans Premium
2012 and beyond	2.0%	2.0%





**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 and Supplemental Plan costs are not age adjusted.*

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

Medical	Under 65	Over 65
Disabled Retirement*	100%	n/a
Service Retirement	80%	80%
Spouse Coverage	60%	45%

*\* 100% of current disabled retirees and future disabled retirees who are not also eligible for service retirement are assumed to qualify for Social Security Disability benefits and thus would be exempt from sliding scale contributions.*

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

Wives are assumed to be three years younger than husbands.

We assume 5% of retirees and spouses pay the \$50 monthly tobacco surcharge.

We assume 10% of the spouses of current and future retirees and 0% of surviving spouses will pay the spouse surcharge.

We assume 100% of retirees and their covered spouses will qualify for the wellness credit.



**ANNUAL EXPECTED MEDICAL/PRESCRIPTION DRUGS CLAIMS (AGE 65):** Following is a chart detailing expected per member per year medical/prescription drugs claims for pre and post Medicare for the year following the valuation date. Claims are age-adjusted to age 65. The Board implemented an EGWP for post-Medicare prescription claims that was effective January 1, 2013. Note that we used current and projected EGWP reimbursement and reinsurance data to develop the Post-65 prescription drug costs.

Medical/Prescription Drugs	
Pre-65	\$9,699
Post-65	\$2,580

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

Dental Plan	Vision Plan	Cancer Plan	Hospital Indemnity Plan
\$514	\$107	\$171	\$266

**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.

**ASSET VALUATION METHOD:** Market value.



The following decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2010, submitted to and adopted by the Teachers' Retirement System of Alabama Board on January 27, 2012.

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

Annual Rate of							
Age	Death*	Disability		Withdrawal			
		Years of Service		Years of Service			
		0-24	25+	0-4	5-9	10-20	20+
<b>Male</b>							
20	0.02%	0.04%		30.00%			
25	0.02	0.05		15.68	10.00%		
30	0.03	0.05		14.25	5.40	5.00%	
35	0.05	0.10		14.25	5.40	3.00	
40	0.07	0.18		14.00	5.40	2.50	1.00%
45	0.09	0.31	0.10%	14.00	5.00	2.50	1.00
50	0.12	0.51	0.10	12.50	4.50	2.50	1.00
55	0.20	0.96	0.10	12.00	4.00	2.50	1.00
60	0.40	0.50	0.10	12.00	4.00		
65	0.77			12.00	6.00		
69	1.20			12.00	6.00		
<b>Female</b>							
20	0.01%	0.10%		28.50%			
25	0.01	0.10		14.00	8.00%		
30	0.01	0.10		14.00	5.80	4.00%	
35	0.02	0.15		14.00	5.00	3.00	
40	0.03	0.16		12.00	4.50	2.10	1.10%
45	0.04	0.33	0.15%	11.50	3.75	2.10	0.75
50	0.06	0.63	0.15	11.00	3.75	2.10	0.75
55	0.11	0.99	0.15	11.00	3.75	2.50	0.75
60	0.21	0.25	0.25	12.00	4.50		
65	0.40			14.00	6.00		
69	0.62			14.00	6.00		

\* Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females with an adjustment of factor of 75% for males and 50% for females.



**SERVICE RETIREMENT:**

The assumed annual rates of service retirement for **Tier I** members are as follows:

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

Age Group	Annual Rate	
	Male*	Female**
47 & Under	20.0%	25.0%
48	20.0	17.0
49	20.0	16.0
50 to 52	15.0	16.0
53 to 54	14.0	16.0
55 to 59	15.0	20.0
60	15.0	15.0
61	20.0	25.0
62	35.0	35.0
63	30.0	25.0
64	25.0	30.0

*\*Retirement rates are increased by 7% in the year first eligible for unreduced retirement from age 50 through age 54 and by 10% from age 55 through age 60.*

*\*\*Retirement rates are increased by 7% in the year first eligible for unreduced retirement from age 50 through age 54 and by 20% from age 55 through age 60.*

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:

Age Group	Annual Rate		Age Group	Annual Rate	
	Male	Female		Male	Female
60	13.0%	20.0%	67	20.0%	25.0%
61	12.0	15.0	68	20.0	28.0
62	28.0	25.0	69	20.0	22.0
63	20.0	20.0	70	20.0	25.0
64	15.0	18.0	71 to 74	20.0	22.0
65	30.0	30.0	75 & Above	100.0	100.0
66	28.0	30.0			



The assumed annual rates of service retirement for **Tier II** members are as follows:

Age	Annual Rate			
	Male		Female	
	Less than 25 years of service	25 or more years of service	Less than 25 years of service	25 or more years of service
62	50.0%	60.0%	50.0%	65.0%
63	20.0	30.0	20.0	25.0
64	15.0	25.0	18.0	30.0
65	30.0	30.0	30.0	30.0
66	28.0	28.0	30.0	30.0
67	20.0	20.0	25.0	25.0
68	20.0	20.0	28.0	28.0
69	20.0	20.0	22.0	22.0
70	20.0	20.0	25.0	25.0
71 to 74	20.0	20.0	22.0	22.0
75 & above	100.0	100.0	100.0	100.0

**DEATHS AFTER RETIREMENT:** Rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females. Rates of mortality for the period after disability retirement are according to the RP-2000 Disabled Mortality Table, adjusted for males by a factor of 0.85. Representative values of the assumed annual rates of death after retirement are as follows:

Age	Annual Rate			
	After Service Retirement		After Disability Retirement	
	Male	Female	Male	Female
35	0.07%	0.04%	1.92%	0.75%
40	0.10	0.05	1.92	0.75
45	0.12	0.08	1.92	0.75
50	0.16	0.12	2.46	1.15
55	0.27	0.21	3.01	1.65
60	0.53	0.41	3.57	2.18
65	1.03	0.80	4.26	2.80
70	1.77	1.38	5.32	3.76
75	3.06	2.26	6.98	5.22
80	5.54	3.74	9.30	7.23
85	9.97	6.35	12.04	10.02
90	17.27	11.39	15.59	14.00
95	25.96	17.74	22.74	19.45



## SCHEDULE D

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### 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 Teachers' Retirement System of Alabama.

**RETIREE CONTRIBUTIONS:** Retiree contributions vary based on plan election, dependent coverage, Medicare eligibility and election, and tobacco usage.

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 for all employees retiring after September 30, 2005, based on their years of service at retirement.

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 is reduced accordingly.

The sliding scale premium will not apply to disability retirements for twenty-four (24) months from the member's date of retirement, provided the member submits to PEEHIP proof of application for Social Security Disability benefits. The exemption from the sliding scale premium can be extended beyond twenty-four (24) months from the member's date of retirement if the member qualifies for Social Security Disability benefits during the twenty-four (24) months following the member's date of retirement.

For members retiring on or after January 1, 2012, Act 2011-704 establishes changes to the sliding scale premium calculation. Under the law there are three major changes to the retiree sliding scale premium. These changes are related to a retiree's years of service (Service Premium Component), age at the time of retirement (Age Component) and subsidy premium (Subsidy Component).

- **Service Premium Component:** An employee who retires with less than 25 years of service will contribute 4% of the employer share for each year under 25 years of service instead of 2% under the current law. The Service Premium Component continues for the retiree's lifetime.
- **Age Component:** An employee who retires before becoming Medicare eligible will contribute 1% of the employer share for each year less than 65. Upon Medicare entitlement, the age component will be removed.
- **Subsidy Component:** An employee will contribute the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). The Fiscal Year 2016 subsidy premium amount is \$147.52 per month. Upon Medicare entitlement, the subsidy component will be removed.

The additional premium amounts for members retiring on or after January 1, 2012 will be phased in over the period ending October 1, 2016. Members retiring after attaining age 65 will be subject to the full 4% of the employer share for each year of service under 25 years of service and will not be eligible for the five-year phase-in.

The new sliding scale premium will not apply to employees who are currently participating in the Deferred Retirement Option Plan (DROP) unless the DROP participant voluntarily terminates participation in the DROP within the first three years, or does not withdraw from service at the end of the DROP participation period.



## Retired Members

The premiums listed below show the retiree's out-of-pocket cost and the State's subsidy. These rates apply only to members who retire prior to October 1, 2005, and before January 1, 2012, with 25 years of service. All members who retire on or after October 1, 2005 will be subject to the Retiree Sliding Scale premium based on years of service. Members who retired on or after January 1, 2012, are subject to the sliding scale premiums which are based on age at retirement, years of service, and the cost of the insurance program.

Sample Premium Rates 2015 - 2016 Plan Year			
Rate	Type of Contract	Retiree Monthly Out-of-Pocket Expense*	Cost to State
A	Individual Coverage/ Non-Medicare Eligible (NME) Retired Member	\$ 151	\$ 589
B	Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 391	\$ 977
	Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – With NME Spouse	\$ 416	\$ 952
C	Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – No Spouse	\$ 250	\$ 962
D	Individual Coverage/ Medicare Eligible (ME) Retired Member	\$ 10	\$ 415
E	Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 250	\$ 803
F	Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible – No Spouse	\$ 109	\$ 788
	Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible – With ME Spouse	\$ 119	\$ 778

*\* This rate applies to the PEEHIP Hospital Medical or the VIVA Health Plan and is the monthly amount that will be deducted from a retiree's check. The VIVA Health Plan is not available to retired members who are Medicare eligible or retired members who have dependents who are Medicare eligible.*

The premium rates above do not include the \$50 monthly tobacco surcharge for both retirees and their spouses.

The State allocation can be used to purchase the 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
	\$50.00/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 for \$0 in lieu of taking the hospital medical coverage, 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 (\$50 for Family Dental) contributions.



Retirees participating in the PEEHIP Supplemental Plan were assumed to cost \$164 monthly effective October 1, 2015.

The University System makes a contribution to PEEHIP for every University retiree participating in PEEHIP plans regardless of age or plan tier election. For Fiscal Year 2016, this amount was \$399 per month per retiree.

Beginning October 1, 2015, a monthly spousal surcharge will be added. The monthly spousal surcharge is \$75 for spouses on active contracts and non-Medicare eligible spouses on retired contracts, and \$25 surcharge for Medicare primary spouses on retired contracts. The spousal surcharge will be phased in over 3 years. Note: The spousal surcharge will not apply to spouses who are independently eligible for PEEHIP. The surcharge will be phased-in over three years.

- o Spouses on active contracts and non-Medicare eligible spouses on retired contracts:
  - Year 1: \$25 (Effective 10/1/2015)
  - Year 2: \$50 (Effective 10/1/2016)
  - Year 3: \$75 (Effective 10/1/2017)
  
- o Medicare primary spouses on retired contracts:
  - Year 1: \$10 (Effective 10/1/2015)
  - Year 2: \$20 (Effective 10/1/2016)
  - Year 3: \$25 (Effective 10/1/2017)

**Surviving Dependent**

Premium Rates 2015 - 2016 Plan Year		
Rate	Type of Contract	Monthly Premium*
A	Individual Coverage/ Non-Medicare Eligible Survivor	\$ 740
B	Family Coverage/Non-Medicare Eligible Survivor and Non-Medicare Eligible Dependent(s)	\$ 987
C	Family Coverage/Non-Medicare Eligible Survivor and Dependent Medicare Eligible	\$ 1,033
D	Individual Coverage/ Medicare Eligible Survivor	\$ 425
E	Family Coverage/Medicare Eligible Survivor and Non-Medicare Eligible Dependent(s)	\$ 679
F	Family Coverage/Medicare Eligible Survivor and Dependent Medicare Eligible	\$ 725

*\* This rate applies to the PEEHIP Hospital Medical or the VIVA Health Plan.*

**Optional Coverage:**

- Cancer \$38.00/month Individual or Family Coverage
- Indemnity \$38.00/month Individual or Family Coverage
- Dental \$38.00/month Individual Coverage
- \$50.00/month Family Coverage
- Vision \$38.00/month Individual or Family Coverage





## NOTABLE PEEHIP CHANGES EFFECTIVE OCTOBER 1, 2015:

### Medical Plan Changes

- **Specialist office visit copay increases from \$30 to \$35:** (This does not apply to Family/General Practice, Internal Medicine, Gynecology, Obstetrics, Pediatrics, Certified Nurse Practitioner, Physician Assistant, Clinic, and Midwives.)
- **Removal of 4th quarter major medical carryover deductible:** Beginning 1/1/16, major medical claims in the 4th quarter of the calendar year will no longer be carried over and counted towards the deductible of the following year.
- **Removal of the accident rider:** The accident rider previously allowed first dollar coverage for accidents up to \$500. Members were not required to pay the Emergency Room (ER) copay of \$150 in the event of an accident. Removing this rider treats accidents like any other illness and all applicable copays will apply.

### Premium Rate Changes

(These rate changes apply to active and retired members, members who are on leave of absence, COBRA, and surviving dependent accounts.)

- **Increase tobacco premium from \$28 to \$50 for the subscriber and an additional \$50 for the spouse per month if both are tobacco users.**
- **Increase family dental premium from \$45 to \$50 per month.** (Note: The single dental rate remains \$38. The other optional plan premiums remain \$38 per month.)
- **Spousal Surcharge:** Add a **monthly** spousal surcharge of \$75 for spouses on active contracts and non-Medicare eligible spouses on retired contracts, and \$25 surcharge for Medicare primary spouses on retired contracts. The spousal surcharge will be phased in over 3 years. Note: The spousal surcharge will not apply to spouses who are independently eligible for PEEHIP. See 3 year phase-in details below.

#### 3 Year Phase-In Schedule

o Spouses on active contracts and non-Medicare eligible spouses on retired contracts

- Year 1: \$25 (Effective 10/1/2015)
- Year 2: \$50 (Effective 10/1/2016)
- Year 3: \$75 (Effective 10/1/2017)

o Medicare primary spouses on retired contracts

- Year 1: \$10 (Effective 10/1/2015)
- Year 2: \$20 (Effective 10/1/2016)
- Year 3: \$25 (Effective 10/1/2017)

### Pharmacy Plan Changes

- Various changes to the commercial plan formulary were made, including step therapy, prior authorization, quantity limits, and the exclusion of some drugs to drive utilization to lower cost alternative drugs. (Note: This does not change the normal current three-tier drug copayments of \$6 for generics, \$40 for preferred brands, and \$60 for non-preferred brands.)
- Flu Vaccine to be allowed at participating retail pharmacies at no cost beginning August 1, 2015.