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

Prepared as of September 30, 2012





Cavanaugh Macdonald

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The experience and dedication you deserve

August 9, 2013

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, 2012. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that an annual required contribution of \$678,314,261 or 10.90% of active payroll payable for the fiscal year ending September 30, 2015 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 \$930,278,000 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 29-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.

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August 9, 2013
Members of the Board
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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,

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 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, 2012**

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, 2012	September 30, 2011
Number of active members*	133,791	135,768
Number of DROP participants*	4,436	5,625
Number of retired members**	71,589	67,971
Number of spouses of retirees**	22,941	23,564
Number of survivors**	1,737	1,657
Total	234,494	234,585
Annual salaries***	\$ 6,222,316,020	\$ 6,159,562,266
Assets:		
Market value	\$ 930,278,000	\$ 777,933,000
Unfunded actuarial accrued liability	\$ 8,026,875,960	\$ 8,303,401,485
Amortization period (years)	29	30
Contribution for fiscal year ending:	September 30, 2015	September 30, 2014
Annual Required Contribution (ARC):		
Normal	\$ 331,535,409	\$ 339,974,196
Accrued Liability	346,778,852	349,452,454
Total	\$ 678,314,261	\$ 689,426,650
Annual Required Contribution as a Percent of Payroll	10.90%	11.19%
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 medical census data provided by PEEHIP.

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

2. The valuation indicates that contributions of \$678,314,261 or 10.90% of active payroll are sufficient to support the current benefits of the Plan. Comments on the valuation results as of September 30, 2012 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, 2012, the assets of the Plan in the Alabama Retired Education Employees' Health Care Trust totals \$930,278,000. Therefore, the discount rate used in the valuation remains 5.00%. The assumed rate of payroll growth is 3.25%.
4. There were no changes in decrement, interest rate, or age related morbidity assumptions since the last valuation.
5. The Teachers' Retirement System was amended to provide a new benefit structure for members initially joining the System on and after January 1, 2013 (Tier II). There are no Tier II members included in the valuation as of September 30, 2012. The change in benefit structure will be reflected in the September 30, 2013 Valuation.
6. 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.
7. Schedule C details the actuarial assumptions and methods employed. Schedule D provides a summary of the benefit and contribution provisions of the plan.



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, 2012*

Age/Svc	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
<25	1,082	1,377	18	1						2,478
25-29	1,274	6,669	2,403	16						10,362
30-34	956	4,166	7,453	1,607	10					14,192
35-39	853	4,033	5,046	5,683	1,312	9				16,936
40-44	637	3,424	4,993	4,535	5,111	1,271	18			19,989
45-49	469	2,699	4,224	3,932	3,420	3,712	832	14	1	19,303
50-54	411	2,207	3,642	3,809	3,527	3,232	2,087	637	13	19,565
55-59	267	1,710	2,822	3,048	3,247	3,475	1,380	740	106	16,795
60-64	242	1,402	1,835	1,633	1,710	1,825	621	101	49	9,418
65-69	75	564	879	606	468	507	188	33	32	3,352
70+	17	194	434	282	188	159	72	20	35	1,401
Total	6,283	28,445	33,749	25,152	18,993	14,190	5,198	1,545	236	133,791

* Does not include 4,436 DROP participants of whom, 3,930 are under age 65, while 506 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.

Enrolled Retirees, Spouses and Survivors

Category	Retirees	Spouses	Survivors	Total
Optional Plan Only*	12,412	0	276	12,688
Medical Plan Under Age 65	19,245	9,359	150	28,754
Medical Plan Age 65 & Older	<u>39,932</u>	<u>13,582</u>	<u>1,311</u>	<u>54,825</u>
Total	71,589	22,941	1,737	96,267

* Includes those without any hospital medical coverage.



SECTION III - ASSETS

Schedule B shows information regarding assets for valuation purposes. As of September 30, 2012, plan assets held in trust solely to provide benefits to retirees and their beneficiaries in accordance with the terms of the plan totaled \$930,278,000. 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 \$4,293,127,926 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 \$4,664,026,034. The total actuarial accrued liability of the Plan amounts to \$8,957,153,960. Against these liabilities, the Plan has present assets for valuation purposes of \$930,278,000. Therefore, the unfunded actuarial accrued liability is equal to \$8,026,875,960.
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 \$331,535,409.



SECTION V - CONTRIBUTIONS PAYABLE UNDER THE PLAN

**ANNUAL REQUIRED CONTRIBUTION
For Fiscal Year Ending September 30, 2015**

Annual Required Contribution (ARC)	
Normal	\$ 331,535,409
Accrued Liability	<u>346,778,852</u>
Total	\$ 678,314,261

1. The valuation indicates that a normal contribution of \$331,535,409 is required to meet the cost of benefits currently accruing.
2. The unfunded actuarial accrued liability amounts to \$8,026,875,960 as of the valuation date. An accrued liability contribution of \$346,778,852 is sufficient to amortize the unfunded actuarial accrued liability over a 29-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, \$678,314,261 or 10.90% 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, and tobacco use. 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 a decrease in the recommended employer contribution rate over last valuation's recommended rate from 11.19% of payroll to 10.90% is required to fund the plan in an actuarially sound manner. This corresponds to a state contribution of \$678,314,261 required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 29 years. The major cause of the decrease in the contribution rate is favorable claims experience.



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, 2012. Additional information as of the latest actuarial valuation follows.

Valuation Date	9/30/2012
Actuarial Cost Method	Projected unit credit
Amortization Method	Level percent of pay, open
Remaining Amortization Period	29 years, closed
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	8.50%
Medicare Eligible	7.00%
Ultimate Trend Rate*	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	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, 2012 the Plan has \$930,278,000 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)
9/30/2007	\$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%
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%

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

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

Fiscal Year	Annual Required Contribution	Percent Contributed
2010	\$ 970,330	37.0%
2011	1,006,034	29.9%
2012	864,503	38.6%

**SCHEDULE A****RESULTS OF THE VALUATION
AND THE BENEFITS OF ADVANCE FUNDING
PREPARED AS OF SEPTEMBER 30, 2012**

		5.00% Discount Rate (Current Funding Level)	7.00% Discount Rate (Contribute Full ARC Annually)
1.	PAYROLL	\$ 6,222,316,020	\$ 6,222,316,020
2.	ACTUARIAL ACCRUED LIABILITY		
	Present value of prospective benefits payable in respect of:		
(a)	Present active members:	\$ 4,293,127,926	\$ 2,865,064,741
(b)	Present retired members and surviving spouses and DROP participants:	<u>4,664,026,034</u>	<u>3,739,944,746</u>
(c)	Total actuarial accrued liability	\$ 8,957,153,960	\$ 6,605,009,487
3.	PRESENT ASSETS FOR VALUATION PURPOSES	\$ 930,278,000	\$ 930,278,000
4.	UNFUNDED ACTUARIAL ACCRUED LIABILITY [(2)(C) minus (3)]	\$8,026,875,960	\$ 5,674,731,487
5.	AMORTIZATION PERIOD	29	29
6.	NORMAL CONTRIBUTION	\$ 331,535,409	\$ 209,399,773
7.	ACCRUED LIABILITY CONTRIBUTION	<u>346,778,852</u>	<u>308,519,831</u>
8.	TOTAL CONTRIBUTION (6) + (7)	\$ 678,314,261	\$ 517,919,604
9.	TOTAL CONTRIBUTION AS A PERCENT OF PAYROLL (8) ÷ (1)	10.90%	8.32%



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, 2012 is shown below.

Gain/Loss		
1.	UNFUNDED ACCRUED LIABILITY (UAL) 9/30/2011	\$ 8,303,401,485
2.	NORMAL COST 9/30/2011	339,974,196
3.	ACTUAL EMPLOYER CONTRIBUTIONS	335,183,000
4.	INTEREST ACCRUAL (1) X .05 + [(2) - (3)] X .025	<u>415,289,854</u>
5.	EXPECTED UAL 9/30/2012 (1) + (2) - (3) + (4)	\$ 8,723,482,535
6.	CHANGE DUE TO CLAIMS EXPERIENCE	(494,847,736)
7.	CHANGE DUE TO ASSUMPTION CHANGES	0
8.	CHANGE DUE TO PLAN AMENDMENTS	<u>0</u>
9.	EXPECTED UAL 9/30/2012 AFTER CHANGES (5) + (6) + (7) + (8)	\$ 8,228,634,799
10.	ACTUAL UAL AS OF 9/30/2012	\$ 8,026,875,960
11.	GAIN/(LOSS)* (9) - (10)	\$ 201,758,839
12.	GAIN/(LOSS) AS % OF UAL AT 9/30/2011	2.4%

**Includes decremental experience and 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 \$930,278,000. The development of the market value of assets is shown in the following table.

Market Value of Assets as of September 30, 2012

(Amounts in Thousands)

Asset Summary Based on Market Value	
Market Value September 30, 2011	\$ 777,933
Contributions	432,575
Benefits	<u>(404,880)</u>
Cash flow	\$ 27,695
Investment Income	124,650
Market Value September 30, 2012	\$ 930,278



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 as of September 30, 2010) and are reasonable expectations of anticipated experience under the Plan. The assumptions were used in the retiree medical valuation for consistency and are under PEEHIP Board jurisdiction.

VALUATION DATE: September 30, 2012

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 medical 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
2012	8.5%	7.0%	5.0%
2013	7.5%	6.5%	5.0%
2014	6.5%	6.0%	5.0%
2015	6.0%	5.5%	5.0%
2016	5.5%	5.0%	5.0%
2017 and beyond	5.0%	5.0%	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 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 do not apply to the sliding scale age and years of service premium, nor the surviving dependent contributions. The trend rates do not refer to the sliding scale percentage.

Annual Increase in Contributions Received from Covered Members			
Year	Retiree Share of Premium	Act #2011-704 Subsidy Premium	Retiree Optional Plans Premium
2012 and beyond	2.0%	0.0%	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 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 disabled retirees 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%

We assume that 5% of retirees pay the \$28 monthly tobacco surcharge. Wives are assumed to be three years younger than husbands.



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 will be effective January 1, 2013, which has been taken into account in the development of the post-65 claims below.

Medical/Prescription Drugs	
Pre-65	\$9,495
Post-65	\$2,238

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
\$515	\$127	\$166	\$255

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+
Male							
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		
Female							
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: Representative values of the assumed annual rates of service retirement 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			



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

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 continue 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 2013 subsidy premium amount is \$117.14 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 a five-year period. 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 after subtracting the retiree allocation. 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.

Premium Rates 2013 - 2014 Plan Year			
Rate	Type of Contract	Retiree Monthly Out-of-Pocket Expense*	Cost to State
A	Individual Coverage/ Non-Medicare Eligible Retired Member	\$ 151	\$ 528
B	Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 391	\$ 860
C	Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 250	\$ 768
D	Individual Coverage/ Medicare Eligible Retired Member	\$ 10	\$ 308
E	Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 250	\$ 640
F	Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 109	\$ 548

* 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 \$28 monthly tobacco surcharge.

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
	\$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 (\$45 for Family Dental) contributions.

Retirees participating in the PEEHIP Supplemental Plan were assumed to cost \$154 monthly effective October 1, 2013.

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 2012, this amount was \$370 per month per retiree.



Surviving Dependent

Premium Rates 2013 - 2014 Plan Year		
Rate	Type of Contract	Monthly Premium*
A	Individual Coverage/ Non-Medicare Eligible Survivor	\$ 679
B	Family Coverage/Non-Medicare Eligible Survivor and Non-Medicare Eligible Dependent(s)	\$ 870
C	Family Coverage/Non-Medicare Eligible Survivor and Dependent Medicare Eligible	\$ 839
D	Individual Coverage/ Medicare Eligible Survivor	\$ 318
E	Family Coverage/Medicare Eligible Survivor and Non-Medicare Eligible Dependent(s)	\$ 516
F	Family Coverage/Medicare Eligible Survivor and Dependent Medicare Eligible	\$ 485

* 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 \$45.00/month Family Coverage
Vision	\$38.00/month Individual or Family Coverage



NOTABLE PEEHIP CHANGES EFFECTIVE OCTOBER 1, 2013:

PEEHIP Prescription Drug Changes

The PEEHIP Board approved some changes to the prescription drug formulary and added prior authorizations (PA) and quantity level limits (QLL) on certain medications and made minor changes in the Step Therapy program. Any members affected by these changes will be sent a letter from PEEHIP.

VIVA Health Plan Benefit Changes

- ◇ Primary care physician copay - \$30
- ◇ Added a \$25 copay for days 2-5 for all types of Inpatient hospital stays
- ◇ Calendar year deductible - \$300 per individual; \$900 maximum per family
- ◇ Calendar year coinsurance - \$2000 per individual; \$6000 maximum per family

Southland Benefits Optional Plan Changes

PEEHIP Cancer Plan

- ◇ Limit of \$5000 per year for blood and plasma for leukemia.
- ◇ New cancer surgical procedures will be added to the cancer schedule.
- ◇ Physician recommended observation period that is greater than 24 hours will qualify as an Inpatient stay.

PEEHIP Indemnity Plan

- ◇ Physician recommended observation period that is greater than 24 hours will qualify as an Inpatient stay.

PEEHIP Vision Plan

- ◇ Southland will provide at no cost its Vision Choice plan to all PEEHIP members who participate in any of the PEEHIP optional plans. Members who use Vision Choice providers will save approximately 20%.