

# Public Education Employees' Health Insurance Fund

(A Component Unit of the State of Alabama)

## FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2015

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## **INDEPENDENT AUDITORS' REPORT**

To the Public Educations Employees'  
Health Insurance Board

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Public Education Employees' Health Insurance Fund (a component unit of the State of Alabama), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which comprise the Public Education Employees' Health Insurance Fund's basic financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Public Education Employees' Health Insurance Fund, as of September 30, 2015, and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in note 1 and note 7 to the basic financial statements, during 2015, the Public Education Employees' Health Insurance Fund adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Subsequent to the Measurement Date*. As a result of the adoption, the Public Education Employees' Health Insurance Fund has restated its fiduciary net position as of October 1, 2014 to comply with the pronouncements. Our opinion is not modified with respect to this matter.

## Other Matters

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Public Education Employees' Health Insurance Fund's financial statements for the year ended September 30, 2014, from which such partial information was derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions and the claims development information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Carly Riggs & Ingram, L.L.C.*

March 11, 2016  
Montgomery, Alabama

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
**Management's Discussion and Analysis**  
**September 30, 2015**

The Public Education Employees' Health Insurance Fund (PEEHIF) is a health insurance plan for active and retired employees of state and local educational institutions. The contributions and benefit payments related to retirees that are processed through the PEEHIF are segregated from the PEEHIF and reported as part of the Alabama Retired Education Employees' Health Care Trust (Trust). The following discussion provides an overview of the financial position and results of operations for the PEEHIF as of and for the fiscal year ended September 30, 2015. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements and the Required Supplementary Information.

**Overview of the Financial Statements and Required Supplementary Information**

The financial statements include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows. The Notes to the Financial Statements are considered an integral part of the financial statements and should be read in conjunction with the financial statements. The financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

The Statement of Net Position includes the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the PEEHIF and provides a snapshot of the financial position of the PEEHIF as of the end of the fiscal year. Assets primarily consist of cash, receivables, and short-term investments. Liabilities primarily consist of accounts payable and claims-related payables.

The Statement of Revenues, Expenses, and Changes in Fund Net Position includes the revenues and expenses of the PEEHIF for the fiscal year. Revenues primarily consist of premiums and interest income. Expenses primarily consist of claims.

The Statement of Cash Flows provides information about the cash receipts and payments of the PEEHIF during the fiscal year. The Statement of Cash Flows is divided into three sections – operating, investing, and non-capital financing activities. A reconciliation of operating income to net cash provided by operating activities is also presented. The PEEHIF had no activities related to non-capital or capital financing during the fiscal year. The PEEHIF's Statement of Cash Flows was prepared using the direct method, as required by GASB Statement No. 34. Under the direct method, major classes of receipts and payments are displayed. The net change in cash during the fiscal year plus the cash at the beginning of the fiscal year equals the cash at the end of the fiscal year.

The Notes to the Financial Statements include a description of the PEEHIF, a summary of significant accounting policies, a description of contract administrators and their respective fees, and other disclosures related to credit risks, concentrations of investments, unpaid claims liabilities, employee pension plans, and other postemployment benefits.

The Required Supplementary Information following the Notes to the Financial Statements provides a claims development table illustrating historical trend information on how the PEEHIF's earned revenues and interest income compare to the related costs of claims and other expenses assumed by the PEEHIF as of the end of the fiscal year. It also includes a Schedule of Proportionate Share of the Net Pension Liability and a Schedule of Contributions. Both schedules pertain to PEEHIF employees who participate in the Teachers' Retirement System of Alabama (TRS) pension plan.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
**Management's Discussion and Analysis**  
**September 30, 2015**

**Comparative Financial Statements**

**Summary Comparative Statement of Net Position**  
**As of September 30, 2015 and 2014**  
(Amounts in Thousands)

	<u>2015</u>	<u>2014</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b><i>Assets and Deferred Outflows of Resources</i></b>				
Cash	\$ 7,848	\$ 7,711	\$ 137	1.78
Receivables	8,507	7,808	699	8.95
Deposit with Claims-Paying Agent	9,702	913	8,789	962.65
Investments	113,276	118,733	(5,457)	(4.60)
Deferred Outflows of Resources	275	-	275	100.00
<b><i>Total Assets and Deferred Outflows of Resources</i></b>	<b><u>\$ 139,608</u></b>	<b><u>\$ 135,165</u></b>	<b><u>\$ 4,443</u></b>	<b><u>3.29</u></b>
<b><i>Liabilities and Deferred Inflows of Resources</i></b>				
Payables	\$ 40,229	\$ 40,036	\$ 193	0.48
Claims Incurred but Not Reported	50,943	45,381	5,562	12.26
Deferred Inflows of Resources	185	-	185	100.00
Total Liabilities and Deferred Inflows of Resources	91,357	85,417	5,940	6.95
Net Position - Unrestricted	48,251	49,748	(1,497)	(3.01)
<b><i>Total Liabilities, Deferred Inflows of Resources, and Net Position</i></b>	<b><u>\$ 139,608</u></b>	<b><u>\$ 135,165</u></b>	<b><u>\$ 4,443</u></b>	<b><u>3.29</u></b>

**Summary Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**For the Fiscal Years Ended September 30, 2015 and 2014**  
(Amounts in Thousands)

	<u>2015</u>	<u>2014</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<b><i>Operating Revenues</i></b>				
Premiums	\$ 880,915	\$ 741,903	\$ 139,012	18.74
Total Operating Revenues	880,915	741,903	139,012	18.74
<b><i>Operating Expenses</i></b>				
Claims	871,040	795,270	75,770	9.53
Fees and Assessments	6,753	9,675	(2,922)	(30.20)
Administrative	2,419	3,465	(1,046)	(30.19)
Total Operating Expenses	880,212	808,410	71,802	8.88
Operating Income/(Loss)	703	(66,507)	67,210	(101.06)
<b><i>Investment Revenues</i></b>				
Interest Income	202	309	(107)	(34.63)
Total Investment Revenues	202	309	(107)	(34.63)
Change in Net Position	905	(66,198)	67,103	(101.37)
<b><i>Net Position - Unrestricted</i></b>				
Beginning Net Position, as previously reported	49,748	115,946	(66,198)	(57.09)
Adjustment for Application of GASB 68	(2,402)	-	(2,402)	100.00
Beginning of Year - as adjusted	47,346	115,946	(68,600)	
End of Year	<b><u>\$ 48,251</u></b>	<b><u>\$ 49,748</u></b>	<b><u>\$ (1,497)</u></b>	<b><u>(3.01)</u></b>

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
**Management's Discussion and Analysis**  
**September 30, 2015**

**Financial Highlights**

- Cash on hand at September 30, 2015, was primarily held for the payment of administrative expenses of the PEEHIF.
- The Alabama Legislature funded PEEHIF at \$780 per active member per month. Therefore, premium revenue increased by 18.74% in fiscal year 2015 compared to the previous fiscal year.
- Claims expenses increased by 9.53% during the fiscal year compared with that of the previous fiscal year. This increase was mainly a result of the rising medical and prescription drug costs, increased plan utilization by members, and increased number of retirees and dependents.
- The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2015, PEEHIP was subject to the Transitional Reinsurance Fee and the Patient-Centered Outcomes Research Institute Fee. The expense for these items is included in Fees and Assessments in the Statement of Revenues, Expenses, and Changes in Fund Net Position and the corresponding liability is included in Due to Other Governments in the Statement of Net Position. Fees and Assessments decreased by 30.20% due to the Transitional Reinsurance Fee for 2015 being \$44 per covered life compared to \$63 per covered life in 2014.
- Claims Incurred but Not Reported increased in fiscal year 2015 due to increases in claims trends as discussed above related to claims expenses.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented in the accompanying financial statements as of September 30, 2015, and resulted in a prior period adjustment to the Fiduciary Net Position, as previously reported.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Statement of Net Position**

**September 30, 2015 with comparative amounts shown for 2014**

(Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
<i>Assets</i>		
Current Assets:		
Cash (Note 1)	\$ 7,848	\$ 7,711
Premiums Receivable (Note 1)	1,674	1,947
Prescription Drug Plan Manufacturer Rebates Receivable	6,813	5,851
Interest Receivable	20	10
Deposit with Claims-Paying Agent	9,702	913
Total Current Assets	<u>26,057</u>	16,432
Noncurrent Assets:		
Investments, at Fair Value (Note 3)	113,276	118,733
Total Assets	<u>139,333</u>	135,165
Deferred Outflows of Resources	275	-
Total Assets and Deferred Outflows of Resources	<u>\$ 139,608</u>	<u>\$ 135,165</u>
<i>Liabilities</i>		
Current Liabilities:		
Accounts Payable	\$ 386	\$ 311
Due to Other Governments	8,302	9,514
Compensated Absences, Current (Note 1)	41	40
Reported Claims Payable (Note 4)	27,674	28,982
Claims Incurred but Not Reported (Note 4)	50,943	45,381
Total Current Liabilities	<u>87,346</u>	<u>84,228</u>
Noncurrent Liabilities:		
Compensated Absences (Note 1)	441	428
Net Pension Liability	2,468	-
Other Postemployment Benefits (Note 5)	917	761
Total Noncurrent Liabilities	<u>3,826</u>	<u>1,189</u>
Total Liabilities	91,172	85,417
Deferred Inflows of Resources	185	-
Total Liabilities and Deferred Inflows of Resources	<u>91,357</u>	<u>85,417</u>
<i>Net Position - Unrestricted (Note 1)</i>	48,251	49,748
<i>Total Liabilities, Deferred Inflows of Resources, and Net Position</i>	<u>\$ 139,608</u>	<u>\$ 135,165</u>

See accompanying Notes to the Financial Statements.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Fiscal Year Ended September 30, 2015 with comparative amounts shown for 2014**

(Amounts in Thousands)

	2015	2014
<b><i>Operating Revenues</i></b>		
Premiums (Note 1)	\$ 880,915	\$ 741,903
Total Operating Revenues	880,915	741,903
<b><i>Operating Expenses</i></b>		
Claims (Notes 2 and 4)	871,040	795,270
Fees and Assessments	6,753	9,675
Administrative	2,419	3,465
Total Operating Expenses	880,212	808,410
Operating Income/(Loss)	703	(66,507)
<b><i>Investment Revenues</i></b>		
Interest Income	202	309
Total Investment Revenues	202	309
Change in Net Position	905	(66,198)
<b><i>Net Position - Unrestricted</i></b>		
Beginning of Year - as previously reported	49,748	115,946
Adjustment for Application of GASB 68 (Note 7)	(2,402)	-
Beginning of Year - as adjusted	47,346	115,946
End of Year	\$ 48,251	\$ 49,748

See accompanying Notes to the Financial Statements.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Statement of Cash Flows**

**For the Fiscal Year Ended September 30, 2015 with comparative amounts shown for 2014**

(Amounts in Thousands)

	<u>2015</u>	<u>2014</u>
<b><i>Cash Flows from Operating Activities</i></b>		
Receipts from Participants	\$ 881,188	\$ 741,857
Payments to Suppliers	(448)	(794)
Payments to Employees	(1,750)	(2,425)
Claims Paid	(876,537)	(784,300)
Fees and Assessments Paid	(7,965)	(161)
Net Cash Used for Operating Activities	<u>(5,512)</u>	<u>(45,823)</u>
<b><i>Cash Flows from Investing Activities</i></b>		
Interest from Investments	192	316
Purchases of Investments	(2,556,397)	(2,914,299)
Sales and Maturities of Investments	2,561,854	2,960,191
Net Cash Provided by Investing Activities	<u>5,649</u>	<u>46,208</u>
Net Increase in Cash	137	385
Cash at Beginning of Year	7,711	7,326
<b><i>Cash at End of Year</i></b>	<u><u>\$ 7,848</u></u>	<u><u>\$ 7,711</u></u>
<b><i>Reconciliation of Operating Income/(Loss) to Net Cash Used for Operating Activities</i></b>		
Operating Income/(Loss)	\$ 703	\$ (66,507)
Prior Period Adjustment - Application of GASB 68	(2,402)	-
Adjustments to Reconcile Operating Income/(Loss) to Net Cash (Used for) Provided by Operating Activities:		
(Increase)/Decrease in Assets:		
Premium Receivable	273	(46)
Rebates Receivable	(962)	(1,177)
Deposit with Claims Paying Agent	(8,789)	983
Deferred Outflows of Resources	(275)	-
Increase/(Decrease) in Liabilities:		
Accounts Payable	75	62
Compensated Absences	14	50
Due to Other Governments	(1,212)	9,514
Other Postemployment Benefits	156	134
Net Pension Liability	2,468	-
Reported Claims Payable	(1,308)	5,320
Claims Incurred but Not Reported	5,562	5,844
Deferred Inflows of Resources	185	-
Net Cash Used for Operating Activities	<u><u>\$ (5,512)</u></u>	<u><u>\$ (45,823)</u></u>
<b><i>Noncash Investing Activities</i></b>		
Increase/(Decrease) in Interest Receivable	<u><u>\$ 10</u></u>	<u><u>\$ (7)</u></u>

See accompanying Notes to the Financial Statements.

# **PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

## **Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

### **1) Organization and Summary of Significant Accounting Policies**

#### **A. General**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 pursuant to the *Code of Alabama 1975, Title 16, Chapter 25A* (Act 83-455 of the Alabama Legislature) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. At this time, only two universities have elected to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Public Education Employees' Health Insurance Board (Board). The Board is a corporate body for purposes of management of the health insurance plan. All assets of the PEEHIF are held in trust for the payment of health insurance benefits. The Board has been appointed as the administrator of the PEEHIF. In accordance with the Governmental Accounting Standards Board (GASB), the PEEHIF is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

In order to comply with the reporting requirements set by GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the contributions and benefit payments related to retirees that are processed through the PEEHIF are segregated from the PEEHIF and reported as part of the Alabama Retired Education Employees' Health Care Trust (Trust).

The Public Education Employees' Health Insurance Plan (PEEHIP) offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer.

The Dental Plan covers diagnostic and preventive services, as well as basic and major dental services. Diagnostic and preventive services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan for hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

# **PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

## **Notes to the Financial Statements**

### **For the Fiscal Year Ended September 30, 2015**

#### **A. General, Continued**

The State specifies the monthly employer rate that participating school systems must contribute for each active employee. The monthly employer rate for fiscal year 2015 was \$780 per active participant. In accordance with the 2015 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of \$780 on behalf of each active employee. Act 2003-473 requires universities who do not participate in the PEEHIP to pay the required monthly rate for each university retiree who participates in the plan. The required monthly employer rate for fiscal year 2015 was \$370 per university retiree. In addition to the employer payments each month, employees are required to pay certain premium amounts. Participants should refer to the PEEHIP member handbook for a more complete description of the PEEHIP's provisions.

#### **B. Basis of Accounting**

The PEEHIF is a proprietary fund that operates under the accrual basis of accounting using the economic resources measurement focus. The accompanying financial statements are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, PEEHIF is considered component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report. Premiums are recognized as revenues when earned, pursuant to plan requirements. Claims and assessments are recognized when due and payable in accordance with the terms of the plans provided. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Subsequent events were evaluated by management through the date the financial statements were issued.

#### **C. Cash**

Cash consists of deposits held by the State Treasurer in the PEEHIF's name. Deposits are entirely insured by the Federal Deposit Insurance Corporation or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975*, as amended, requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds. Cash designated for the payment of administrative expenses at September 30, 2015, was \$7,848,572.

#### **D. Expense Fund**

The Board designated \$3,600,000 of premiums received during the fiscal year ended September 30, 2015, to be used for the payment of administrative expenses. The administrative costs incurred directly for the operation of the PEEHIF are paid from the expense fund. Indirect costs are not allocated to the PEEHIF by the TRS.

#### **E. Investments**

The Board of Control of the PEEHIF has the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds, mortgage-backed securities, mortgages, common and preferred stock, and other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use. All plan assets are carried at fair value except commercial paper and money market funds which are reported at cost, which approximates fair value. U.S. agency obligations and corporate bonds are reported at the last reported sales price. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

# **PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

## **Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

### **F. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts on the financial statements. Actual results may differ from these estimates.

### **G. Premiums**

Premium revenue is recognized in the period in which the related coverage is provided. Premium payments that have not been received by the end of a coverage period are recorded as a receivable.

### **H. Employer Group Waiver Plan (EGWP)**

The PEEHIF received funds for its participation in the Employer Group Waiver Plan (EGWP) during fiscal year 2015. The funds received are a result of the PEEHIF continuing prescription drug coverage for Medicare eligible retirees and dependents. In accordance with GASB Statement No. 43, these funds are reported in the Alabama Retired Education Employees' Health Care Trust.

### **I. Fees and Assessments**

The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2015, the PEEHIF was subject to the Patient-Centered Outcomes Research Institute Fee (PCORI Fee) and the Transitional Reinsurance Program Fee (Reinsurance Fee). These fees are calculated based on the number of covered lives under the plan. The expense for these items is included in Fees and Assessments in the Statement of Revenues, Expenses, and Changes in Fund Net Position. The total fees due but not yet paid by the PEEHIF as of September 30, 2015, were recorded as Due to Other Governments in the Statement of Net Position and amounted to \$8,302,072.

### **J. Unpaid Claims Liabilities**

Claims liabilities are established based on the actual cost of claims reported but not settled and estimates of claims that have been incurred but not reported. Actual claims costs ultimately incurred may vary from estimated claims liabilities should the nature and frequency of actual claims vary from historical claims experience on which the estimates are based. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Unpaid claims liabilities are material estimates that are particularly susceptible to changes in the near term. Management believes the liabilities established for unpaid claims at September 30, 2015, are adequate to cover the ultimate net cost of claims, but the liabilities are necessarily based on estimates and accordingly, the amount ultimately paid will be more or less than such estimates.

### **K. Compensated Absences**

The PEEHIF records a liability and a charge to expense for all compensated absences attributable to services already rendered that are not contingent on specific events outside the control of the employer or employee.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

**L. Net Position**

The net position of the insurance and expense fund is allocated for the payment of insurance benefits and administrative expenses, respectively. As of September 30, 2015, the PEEHIF's unrestricted net position was allocated as follows:

**Net Position - Unrestricted**

(Amounts in Thousands)

Insurance Fund	\$ 44,566
Expense Fund	<u>3,685</u>
<b>Total Net Position</b>	<b><u>\$ 48,251</u></b>

**M. Comparative Statements**

The basic financial statements include the prior fiscal year Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows for comparative purposes only. Prior fiscal year note disclosures are not included. Therefore, the prior fiscal year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior fiscal year statements should be read in conjunction with the PEEHIF's prior fiscal year financial report from which the prior fiscal year statements were derived.

**N. Deferred Outflows & Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until that period. Employer contributions subsequent to the measurement date related to the employer's net pension liability are reported as deferred outflows of resources until the next measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for *Deferred Inflows of Resources*. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized until then. Net differences between projected and actual earnings on pension plan investments identified during the measurement period are deferred and amortized as a component of pension expense in future periods.

**O. New Accounting Pronouncements**

In fiscal year 2015, the PEEHIF implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 requires recognition of net pension liability and a more comprehensive measure of pension expense. The PEEHIF recognized its proportionate share of the liability, deferred outflows of resources, and deferred inflows of resources related to pensions.

**P. Reclassification**

The assets and liabilities on the Statement of Net Position are classified as current or noncurrent for the fiscal years presented. This reclassification had no effect on the amounts recorded.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
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**2) Contract Administrators**

Blue Cross and Blue Shield of Alabama (BCBS), under contract with the Board, administered medical claims incurred in accordance with the plan. The BCBS administrative fee was \$11.50 per month per contract. The \$11.50 per member per month fee was charged to the PEEHIF.

BCBS, under contract with the Board, administered participant requests for reimbursement covered under flexible employee benefit plans. BCBS charged the PEEHIF an administrative fee of \$3.00 per month per contract.

MedImpact, under contract with the Board, administered claims under the prescription drug plan. The MedImpact administrative fee was \$0.75 per prescription. The \$0.75 per prescription fee was charged to the PEEHIF.

Southland Benefit Solutions, LLC (Southland), under contract with the Board, administered claims under the optional plans. The processing fees per month per contract were \$0.78 for Group Hospital Indemnity, \$0.63 for Group Cancer, \$1.12 for Group Vision, and \$1.45 for Group Dental.

**3) Investments**

**A. Investment Risks**

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and foreign currency risk. The following describes those risks and the PEEHIF's policies regarding those risks:

*Interest Rate Risk* – The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. The PEEHIF's investments are short term fixed rate commercial paper or fixed dollar value money market funds.

*Custodial Credit Risk* – Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PEEHIF's safekeeping agent holds all investments of the PEEHIF in the PEEHIF's name.

*Credit Quality* – Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments.

*Concentration of Credit Risk* – The PEEHIF's investments at the fiscal year-end were all held in short-term investments, as they will be used to cover cash flow requirements in the short-term.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
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**A. Investment Risks, Continued**

The following table provides information concerning the fair value and the interest rate risk of the PEEHIF's investments as of September 30, 2015.

<b>INVESTMENTS</b>						
<b>Maturity in Years at Fair Value</b>						
(Amounts in Thousands)						
<u>Type of Investment</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	<u>Total Fair Value</u>	<u>Cost</u>
Money Market Funds	\$ 2,982	\$ -	\$ -	\$ -	\$ 2,982	\$ 2,982
Commercial Paper	110,294	-	-	-	110,294	110,294
<b>Total Investments</b>	<b>\$ 113,276</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 113,276</b>	<b>\$ 113,276</b>

The following table provides information concerning the credit risk of the PEEHIF's investments as of September 30, 2015.

<b>RATINGS OF FIXED MATURITIES</b>			
(Amounts in Thousands)			
<u>Moody's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percentage of Total</u>
P-1	\$ 2,982	\$ 2,982	2.63
P-2	110,294	110,294	97.37
<b>Total Fixed Maturity</b>	<b>\$ 113,276</b>	<b>\$ 113,276</b>	<b>100.00</b>

  

<u>Standard &amp; Poor's Ratings</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Fair Value as a Percentage of Total</u>
A-1+	\$ 2,982	\$ 2,982	2.63
A-2	110,294	110,294	97.37
<b>Total Fixed Maturity</b>	<b>\$ 113,276</b>	<b>\$ 113,276</b>	<b>100.00</b>

**B. Concentration of Investments**

As of September 30, 2015, the PEEHIF owned investment securities that constituted more than 5% of the total fair value of investments in the following issuers:

Issuer	Percentage of Total Investments
Encana Corp	58.84%
Spectra Energy Corp	29.40%
Nabors Industries Ltd	11.76%

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Notes to the Financial Statements**

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**4) Unpaid Claims Liabilities**

As discussed in Note 1, the PEEHIF establishes a liability for both reported and unreported insured claims. This liability includes provisions for the future payment of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the PEEHIF during fiscal year 2015.

**UNPAID CLAIMS LIABILITIES**

(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	<u>\$ 74,363</u>
Incurred Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Year	874,208
Decrease in Provision for Insured Events of Prior Years	<u>(3,168)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$ 871,040</u>
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	\$ 795,591
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years	<u>71,195</u>
Total Payments	<u>866,786</u>
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	<u><u>\$ 78,617</u></u>

# PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

## Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2015

### 5) Other Postemployment Benefits

The PEEHIF employees and retirees participate in the State Employees' Health Insurance Plan (SEHIP) administered by the State Employees' Health Insurance Board (SEIB). The State Employees' Insurance Fund (SEIF) was established pursuant to the *Code of Alabama 1975, Title 36, Chapter 29* (Act 833 of the Legislature of 1965) to provide health insurance benefits for active and retired employees of the State of Alabama. In addition, the *Code of Alabama 1975, Section 36-36-1*, established the Alabama Retired State Employees' Health Care Trust for the purpose of accumulating assets to fund retiree benefits.

The Trust is a single-employer plan. The Trust issues financial statements that may be obtained by writing to:

State Employees' Insurance Board  
P.O. Box 304900  
Montgomery, AL 36130

The *Code of Alabama 1975, Section 36-29-7*, authorizes the employer contributions to the plan. Each year, the Legislature sets the premium rate in the annual appropriation bill required to be paid by employers on behalf of each active member. A portion of the premium is used to assist in funding retiree benefits. The fiscal year 2015 rate was \$825 per active member per month.

The *Code of Alabama 1975, Section 36-29-19.7* authorizes the retiree contributions to the plan. The required monthly contribution rates for fiscal year 2015 are as follows:

#### *Retired Member Rates*

- Individual Coverage: Non-Medicare Eligible Retired Member – \$311
  - Family Coverage: Non-Medicare Eligible Retired Member without Spouse & Non-Medicare Eligible Dependents(s) – \$573
  - Family Coverage: Non-Medicare Eligible Retired Member with Spouse & Non-Medicare Eligible Dependents(s) – \$698
  - Family Coverage: Non-Medicare Eligible Retired Member without Spouse & Medicare Eligible Dependent(s) – \$442
  - Family Coverage: Non-Medicare Eligible Retired Member with Spouse & Medicare Eligible Dependent(s) – \$542
  - Individual Coverage: Medicare Eligible Retired Member – \$50
  - Family Coverage: Medicare Eligible Retired Member without Spouse & Non-Medicare Eligible Dependents(s) – \$312
  - Family Coverage: Medicare Eligible Retired Member with Spouse & Non-Medicare Eligible Dependents(s) – \$437
  - Family Coverage: Medicare Eligible Retired Member without Spouse & Medicare Eligible Dependent(s) – \$171
  - Family Coverage: Medicare Eligible Retired Member with Spouse & Medicare Eligible Dependent(s) – \$271
- Members who retired on or after October 1, 2005, and before January 1, 2012, pay 2% of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by 2%.
- Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012, are required to pay 1% more for each year less than age 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 Medicare eligible, the age and subsidy premiums no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five-year period.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

**5) Other Postemployment Benefits, Continued**

*Surviving Spouse Rates*

-Non-Medicare Eligible Surviving Spouse – \$432

-Non-Medicare Eligible Surviving Spouse & Non-Medicare Eligible Dependent(s) – \$689

-Non-Medicare Eligible Surviving Spouse & Medicare Eligible Dependent(s) – \$598

-Medicare Eligible Surviving Spouse – \$226

-Medicare Eligible Surviving Spouse & Non-Medicare Eligible Dependent(s) – \$483

-Medicare Eligible Surviving Spouse & Medicare Eligible Dependent(s) – \$392

The rates above do not reflect any discounts, waivers, or retiree sliding scale adjustments.

The State Employees' Health Insurance Plan (SEHIP) is a single-employer defined benefit healthcare plan for the active and retired employees of the State of Alabama. An actuarial valuation is performed annually to determine the other postemployment benefits liability and the annual required contribution (ARC) for state agencies participating in the State's health benefit plan. Each fiscal year, the State Comptroller's office performs an allocation to determine each agency's share of the ARC. The following table details the PEEHIF's ARC and the percentage of the ARC contributed.

<b>Fiscal Year</b>	<b>Annual Required Contribution (amounts in thousands)</b>	<b>Percentage Contributed</b>
2015	\$248	36.74%
2014	\$215	38.20%
2013	\$233	42.63%

# PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

## Notes to the Financial Statements

### For the Fiscal Year Ended September 30, 2015

#### 6) Pension Plan for the PEEHIF Employees

The employees of the PEEHIF participate in the Teachers' Retirement System of Alabama (TRS). The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (Act 419 of the Legislature of 1939) for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees as follows:

- 1) The State Superintendent of Education, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Director of Finance, ex officio.
- 4) Twelve members of TRS who are elected by members from the same category of TRS for a term of three years as follows:
  - a. Teacher Place #1.
  - b. Teacher Place #2.
  - c. Teacher Place #3.
  - d. Educational Support Personnel Place #1.
  - e. Educational Support Personnel Place #2.
  - f. Retired Place #1.
  - g. Retired Place #2.
  - h. Superintendents' Place.
  - i. Principals' Place.
  - j. Postsecondary Place for a term beginning July 1, 2016, to be filled by a member elected from an institution of postsecondary education that is part of the Alabama Community College System.
  - k. Higher Education Place #1.
  - l. Higher Education Place #2.

The Plan is administered by RSA and issues a Comprehensive Annual Financial Report each year. It is available at [www.rsa-al.gov](http://www.rsa-al.gov).

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

**6) Pension Plan for the PEEHIF Employees, Continued**

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2015, was 11.71% of annual pay for Tier 1 members and 11.05% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total TRS employer contributions to the pension plan from the PEEHIF were \$230,292 for the fiscal year ended September 30, 2015.

At September 30, 2015, the PEEHIF reported a liability of \$2,468,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. The PEEHIF's proportion of the collective net pension liability was based on its share of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014, the PEEHIF's proportion was 0.027170%, which was an increase of 0.000656% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the PEEHIF recognized pension expense of \$208,321. At September 30, 2015, the PEEHIF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	185,000
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	52,000	-
Employer Contributions Subsequent to the Measurement Date	223,000	-
<b>Total</b>	<b><u>\$ 275,000</u></b>	<b><u>\$ 185,000</u></b>

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

**6) Pension Plan for the PEEHIF Employees, Continued**

The PEEHIF will recognize \$223,000 of reported deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date as a reduction of net pension liability in the fiscal year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Fiscal Year Ended</b>	
<b>September 30:</b>	
2016	\$ (34,000)
2017	\$ (34,000)
2018	\$ (34,000)
2019	\$ (34,000)
2020	\$ 3,000
Thereafter	\$ -

The total pension liability was determined by an actuarial valuation as of September 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Projected Salary Increases	3.50% - 8.25%
Investment Rate of Return*	8.00%

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**

**Notes to the Financial Statements**

**For the Fiscal Year Ended September 30, 2015**

**6) Pension Plan for the PEEHIF Employees, Continued**

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<b>Target Allocation</b>	<b>Long-Term Expected Rate of Return*</b>
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
<b>Total</b>	<b><u>100.00%</u></b>	

\*Includes assumed rate of inflation of 2.50%.

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the PEEHIF's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what its proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<b>1% Decrease (7%)</b>	<b>Current Discount Rate (8%)</b>	<b>1% Increase (9%)</b>
PEEHIF's Proportionate Share of Collective Net Pension Liability	\$ 3,363,000	\$ 2,468,000	\$ 1,710,000

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Financial Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditor's report dated May 1, 2015, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2014, along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

# PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

## Notes to the Financial Statements

### For the Fiscal Year Ended September 30, 2015

#### 7) Change in Accounting Principle

Net Position as of October 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71 (amounts in thousands):

Fiduciary Net Position as previously reported at September 30, 2014:	\$ 49,748
Prior Period Adjustment:	
Net Pension Liability*	(2,597)
Deferred Outflows:	
Employer Contributions made during fiscal year 2014	195
Total Prior Period Adjustment	(2,402)
<b>Fiduciary Net Position as Restated, October 1, 2014</b>	<b>\$ 47,346</b>

\*Measurement date as of September 30, 2013.

#### 8) Future Accounting Pronouncements

GASB issued Statement No. 72, *Fair Value Measurement and Application*, in February 2015 and is effective for financial statements for periods beginning after June 15, 2015. GASB Statement No. 72 defines fair value, describes how fair value should be measured, what assets and liabilities should be measured at fair value, and the required disclosures related to fair value in the notes to the financial statements. Under GASB Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. Before the issuance of GASB Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

The PEEHIF will be subject to the provisions of GASB Statement No. 72 beginning with the fiscal year ending September 30, 2016.

GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for financial statements for periods beginning after June 15, 2016. GASB Statement No. 74 replaces GASB Statement No. 43 and addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. GASB Statement No. 74 follows the framework for financial reporting of defined benefit OPEB plans in GASB Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. GASB Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans.

The PEEHIF will be subject to the provisions of GASB Statement No. 74 beginning with the fiscal year ending September 30, 2017.

GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for financial statements for periods beginning after June 15, 2017. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. It also requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.

The PEEHIF will be subject to the provisions of GASB Statement No. 75 beginning with the fiscal year ending September 30, 2018.

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
**Required Supplementary Information**  
**September 30, 2015**

**Ten-Year Claims Development Information**  
(Amounts in Thousands)

The following table illustrates how the PEEHIF's earned revenue and interest income compare to the related costs of claims and other expenses assumed by the PEEHIF as of the end of each of the past ten fiscal years. The lines of the table are defined as follows: (1) This line shows the total earned contribution and investment revenues for each fiscal year. (2) This line shows each fiscal year's other operating costs of the PEEHIF including overhead and claims expense not allocable to individual claims. (3) This line shows the PEEHIF's incurred claims and allocated claim adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This line shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This line shows how the incurred claims for each policy year increased or decreased as of the end of successive years. The annual re-estimated amount results from new information received on known claims, the re-evaluation of existing information on known claims as well as the emergence of previously unknown claims. (6) This line compares the latest re-estimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for each policy year matures, the correlation between original estimates and re-estimated amounts commonly is used to evaluate the accuracy of estimated incurred claims currently recognized.

	Fiscal and Policy Year Ended									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
1) Net Earned Required Contribution & Investment Revenue	\$881,117	\$742,212	\$743,021	\$743,002	\$ 884,416	\$ 764,313	\$ 806,691	\$ 870,330	\$ 851,238	\$ 1,033,162
2) Unallocated Expenses	2,419	3,465	3,203	2,779	2,587	3,160	2,566	2,731	2,199	2,609
3) Estimated Incurred Claims & Expense at End of Policy Year	874,208	795,286	776,256	741,836	750,966	790,024	775,205	699,409	636,854	858,906
4) Paid (Cumulative) As Of:										
End of Policy Year	795,591	720,923	713,057	677,334	678,546	713,231	696,658	629,815	585,303	788,907
One Year Later		792,118	776,240	739,640	749,114	790,009	772,397	699,370	636,391	854,905
5) Reestimated Incurred Claims & Expense:										
End of Policy Year	874,208	795,286	776,256	741,836	750,966	790,024	775,205	699,409	636,854	858,906
One Year Later		792,118	776,240	739,640	749,114	790,009	772,397	699,370	636,974	854,323
6) Increase/(Decrease) in Estimated Incurred Claims & Expenses at End of Policy Year		(3,168)	(16)	(2,196)	(1,852)	(15)	(2,808)	(39)	120	(4,583)

**Note: 2007 was the first year that retirees were segregated from the active employees. As a result, 2007 includes the amounts only attributable to the active employees. This schedule is presented prospectively.**

**PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND**  
**Required Supplementary Information**  
**September 30, 2015**

The following schedules pertain to PEEHIF employees who participate in the TRS pension plan.

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

<u>Measurement Date</u>	<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Employee Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
9/30/2014	9/30/2015	0.21%	\$ 2,468,000	\$ 1,869,207	132.03%	71.01%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

**SCHEDULE OF CONTRIBUTIONS**  
**For the Fiscal Year Ended September 30, 2015**

	<u>2015</u>
Contractually Required Contribution	\$ 223,000
Contributions in relation to the Contractually Required Contribution	<u>(223,000)</u>
Contribution Deficiency/(Excess)	<u>\$ -</u>
Covered Employee Payroll	\$ 2,079,345
Contributions as a Percentage of Covered Employee Payroll	10.72%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

*Changes to Benefit Terms*

- TRS's member contribution rates increased from 5% (6% for certified law enforcement, correctional officers, and firefighters) of earnable compensation to 7.25% (8.25%) of earnable compensation effective October 1, 2011, and to 7.50% (8.50%) of earnable compensation effective October 1, 2012.
- TRS members hired on or after January 1, 2013, are covered under a new benefit structure.

*Changes to Assumptions*

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability, and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.