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PEEHIP

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

Prepared as of September 30, 2011

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

August 21, 2012

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, 2011. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that an annual required contribution of $689,426,650 or 11.19% of active payroll payable for the fiscal year ending September 30, 2014 is required to fund the benefits of the PEEHIP in an actuarially sound manner.

The promised medical and drug benefits of the Plan, as well as the Optional Plans, are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. The Alabama Retired Education Employees' Health Care Trust had $777,933,000 in assets as of the valuation date. Therefore, the discount rate used in the valuation remains 5%. Gains and losses are reflected in the unfunded accrued liability that is assumed amortized by regular annual contributions as a level percentage of payroll within a 30-year 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.

Since the previous valuation, various assumptions and methods have been revised to reflect the results of the experience investigation for the five year period ending September 30, 2010. These revised assumptions were adopted by the Board on January 27, 2012. Additionally, the Board adopted the self-insured EGWP plus Wrap retiree prescription drug coverage, impacting Medicare-eligible retirees effective January 1, 2013.

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

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

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

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

Respectfully submitted,

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

Edward A. Macdonald, ASA, FCA, MAAA
President

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ALABAMA PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN (PEEHIP)
REPORT OF ACTUARY ON THE RETIREE MEDICAL VALUATION
PREPARED AS OF SEPTEMBER 30, 2011

SECTION I - SUMMARY OF PRINCIPAL RESULTS

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

Valuation Date	9/30/2011	9/30/2010
Number Active and Retired*	211,051	209,004
Annual Salary**	$ 6,159,562,266	$ 6,183,204,075
Assets:		
Market Value	$ 777,933,000	$ 750,384,000
Unfunded Actuarial Accrued Liability	$ 8,303,401,485	$10,834,581,113
Amortization Period (Years)	30	30
Annual Required Contribution (ARC):		
Normal	$ 339,974,196	$ 427,918,226
Accrued Liability***	349,452,454	386,704,216
Total	$ 689,426,650	$ 814,622,442
Annual Required Contribution as a Percent of Payroll	11.19%	13.17%
Discount Rate	5.00%	5.00%

*Number matches pension report for active and DROP participants and is before the application of the participation assumption and removal of members in units not eligible for PEEHIP. Retiree number comes from actual retiree medical census data provided by PEEHIP.
**Includes DROP salary and matches pension annual salary
*** Accrued liability is assumed amortized as a level percent of payroll with inflation assumption of 3.25%, similar to pension plan.

2. The valuation indicates that contributions of $689,426,650 or 11.19% of active payroll are sufficient to support the current benefits of the Plan. Comments on the valuation results as of September 30, 2011 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI. The impact on the valuation results of the changes due to the experience study and the implementation of the Employer Group Waiver Plan (EGWP) are shown in the Gain/Loss exhibit on page 8. In calculating the impact of the EGWP, we relied on the cost savings estimates provided by Medicare Generation Rx in their May 1, 2012 report.

3. As of September 30, 2011, the assets of the Plan in the Alabama Retired Education Employees' Health Care Trust totals $777,933,000. Therefore, the discount rate used in the valuation remains 5%.

Schedule C of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. Since the previous valuation various assumptions and methods have been revised to reflect the results of the experience investigation for the five year period ending September 30, 2010. These revised assumptions as summarized in the following table were adopted by the Board on January 27, 2012.

Summary of Recommended Assumptions	
Payroll Growth	Changed from 4.50% to 3.25%.
Demographic Assumptions	
Withdrawal	Changed assumed rates.
Retirement	Changed assumed rates.
Mortality	Changed assumed rates.
Disability	Changed assumed rates.

We have shown in Schedule A the decrease in the liabilities that could be accomplished if the Plan is fully pre-funded in an actuarially sound manner and thereby utilizes a 7% discount rate.

SECTION II - MEMBERSHIP DATA

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

SECTION III - ASSETS

Schedule B shows information regarding assets for valuation purposes. As of September 30, 2011, plan assets held in trust solely to provide benefits to retirees and their beneficiaries in accordance with the terms of the plan totaled $777,933,000.

SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation. The results are shown based on a discount rate of 5% and also at 7%. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C.
2. The valuation shows that the Plan has an actuarial accrued liability of $4,415,837,546 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to retirees, covered spouses and DROP participants amounts to $4,665,496,939. The total actuarial accrued liability of the Plan amounts to $9,081,334,485. Against these liabilities, the Plan has present assets for valuation purposes of $777,933,000. Therefore, the unfunded actuarial accrued liability is equal to $8,303,401,485.
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 $339,974,196.

SECTION V - CONTRIBUTIONS PAYABLE UNDER THE PLAN

ANNUAL REQUIRED CONTRIBUTION

For Fiscal Year Ending September 30, 2014

Annual Required Contribution (ARC):		
Normal	$	339,974,196
Accrued Liability		349,452,454
Total	$	689,426,650

1. The valuation indicates that a normal contribution of $339,974,196 is required to meet the cost of benefits currently accruing.
2. The unfunded actuarial accrued liability amounts to $8,303,401,485 as of the valuation date. An accrued liability contribution of $349,452,454 is sufficient to amortize the unfunded actuarial accrued liability over a 30-year period, based on a 5% investment rate of return and the assumption that the payroll will increase by 3.25% annually.
3. The total Annual Required Contribution is, therefore, $689,426,650 or 11.19% of total active payroll.

SECTION VI - COMMENTS ON LEVEL OF FUNDING

1. The monthly contribution for retirees to opt into the medical plan is based on plan election, Medicare eligibility and election, and tobacco use. For members retiring October 1, 2005 or after, a Retiree Sliding Scale premium based on year of service is applicable. For members retiring on or after January 1, 2012, Act #2011-704 establishes changes to the sliding scale premium calculation. The new law requires an employee who retires with less than 25 years of service to pay 4% of the employer share for each year under 25 years of service (years of service premium) instead of 2% under the current law. The new law also requires an employee who retires before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium.) The 2012 subsidy premium amount is $97.65 per month. When the retiree becomes eligible for Medicare, the age and subsidy

premium will no longer apply. However, the years of service premium will continue to be applied throughout retirement. The additional premium amounts for members retiring on or after January 1, 2012 will be phased in over a five year period. The impact on the valuation results of the changes in premiums, benefits and policies are shown in the Gain/Loss exhibit on page 8.

2. The valuation indicates that a decrease in the recommended employer contribution rate over last valuation's recommended rate from 13.17% of payroll to 11.19% is required to fund the plan in an actuarially sound manner. This corresponds to a state contribution of $689,426,650 required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. The major cause of the decrease in the contribution rate is the implementation of the EGWP plus Wrap for post-Medicare retirees. A change in valuation assumptions based on the most recent experience study resulted in a loss on the contribution, however, the impact of this was outweighed by the impact of the EGWP and the favorable claims experience.

SECTION VII - ACCOUNTING INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)*	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/30/2005	0	14,611,991,403	14,611,991,403	0.0%	4,733,415,807	308.7%
9/30/2006	0	12,532,330,293	12,532,330,293	0.0%	5,458,443,133	229.6%
9/30/2007	400,783,000*	12,965,397,562	12,564,614,562	3.1%	5,897,771,699	213.0%
9/30/2008	579,813,000	13,224,410,942	12,644,597,942	4.4%	6,294,341,264	200.9%
9/30/2009	670,004,000	11,915,692,108	11,245,688,108	5.6%	6,236,921,598	180.3%
9/30/2010	750,384,000	11,584,965,113	10,834,581,113	6.5%	6,183,204,075	175.2%
9/30/2011	777,933,000	9,081,334,485	8,303,401,485	8.6%	6,159,562,266	134.8%

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

2. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2011. Additional information as of the latest actuarial valuation follows.

Valuation date	9/30/2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years, closed
Asset valuation method	Market Value of Assets
Actuarial assumptions	
Investment Rate of Return*	5.00%
Medical cost trend rate*	
Pre-Medicare	9.50%
Medicare Eligible	7.50%
Ultimate trend rate*	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate trend rate	2017
Dental trend rate	5.00%
*Includes inflation at	3.25%

SCHEDULE A

RESULTS OF THE VALUATION
AND THE BENEFITS OF ADVANCE FUNDING
PREPARED AS OF SEPTEMBER 30, 2011

			5% Discount Rate (Current Funding Level)	7% Discount Rate (Contribute Full ARC Annually)
1.	**PAYROLL**		$ 6,159,562,266	$ 6,159,562,266
2.	**ACTUARIAL ACCRUED LIABILITY**			
	Present value of prospective benefits payable in respect of:			
	(a)	Present active members:	$ 4,415,837,546	$ 2,944,292,576
	(b)	Present retired members and surviving spouses and DROP participants:	4,665,496,939	3,726,421,451
	(c)	Total actuarial accrued liability	$ 9,081,334,485	$ 6,670,714,027
3.	**PRESENT ASSETS FOR VALUATION PURPOSES**		$ $777,933,000	$ $777,933,000
4.	**UNFUNDED ACTUARIAL ACCRUED LIABILITY [(2)(C) minus (3)]**		$8,303,401,485	$ 5,892,781,027
5.	**AMORTIZATION PERIOD**		30	30
6.	**NORMAL CONTRIBUTION**		$ 339,974,196	$ 214,179,225
7.	**ACCRUED LIABILITY CONTRIBUTION**		349,452,454	314,302,099
8.	**TOTAL CONTRIBUTION (6) + (7)**		$ 689,426,650	$ 528,481,324
9.	**TOTAL CONTRIBUTION AS A PERCENT OF PAYROLL (8) ÷ (1)**		11.19%	8.58%

GAIN/LOSS

1.	**UNFUNDED ACCRUED LIABILITY (UAL) 9/30/2010**	$ 10,834,581,113
2.	**NORMAL COST 9/30/2010**	427,918,226
3.	**ACTUAL EMPLOYER CONTRIBUTIONS**	300,981,000
4.	**INTEREST ACCRUAL** (1) X .05 + [(2) – (3)] X .025	544,902,486
5.	**EXPECTED UAL 9/30/2011** (1) + (2) - (3) + (4)	$ 11,506,420,825
6.	**CHANGE DUE TO CLAIMS EXPERIENCE**	(1,338,457,533)
7.	**CHANGE DUE TO ASSUMPTION CHANGES**	649,620,341
8.	**CHANGE DUE TO EGWP**	(2,666,510,928)
9.	**EXPECTED UAL 9/30/2011 AFTER CHANGES** (5) + (6) + (7) + (8)	$ 8,151,072,705
10.	**ACTUAL UAL AS OF 9/30/2011**	$ 8,303,401,485
11.	**GAIN/ (LOSS)*** (9) - (10)	$ (152,328,780)
12.	**LOSS AS % OF LY UAL**	1.41%

*Includes decremental experience and other actuarial gains and losses.

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 $777,933,000. The development of the market value of assets is shown in the following table.

Market Value of Assets as of September 30, 2011

(all $ amounts in thousands)

Market Value September 30, 2010	$ 750,384
Contributions	392,332
Benefits	(372,241)
Cash flow	$ 20,091
Investment Income	7,458
Market Value September 30, 2011	$ 777,933

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

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

VALUATION DATE: September 30, 2011

DISCOUNT RATE: 5.0% per annum, compounded annually.

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

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

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

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

Optional plan costs are not age adjusted.

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

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

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

We assume that 5% of future retirees pay the $28 monthly tobacco surcharge.

ANNUAL EXPECTED MEDICAL/RX CLAIMS (AGE 65): Following is a chart detailing expected per member per year medical/RX claims for pre and post Medicare for the year following the valuation date. Claims are age-adjusted to age 65. The Board implemented an EGWP for post-Medicare prescription claims that will be effective in 2013.

	Medical/Rx
Pre-65	$9,234
Post-65	$2,227

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

Dental	Vision	Cancer	Hospital
$553	$148	$263	$301

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

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

		Annual Rate of					
Age	Death*	Disability Years of Service		Withdrawal 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:

	Annual Rate	
Age Group	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:

	Annual Rate			Annual Rate	
Age Group	Male	Female	Age Group	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:

	Annual Rate			
	After Service Retirement		After Disability Retirement	
Age	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

SUMMARY OF MAIN PLAN PROVISIONS
AS INTERPRETED FOR VALUATION PURPOSES

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

PLAN CHANGES: PEEHIP will be implementing an EGWP plus Wrap for post-Medicare prescriptions effective 2013.

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

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

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

For members retiring on or after January 1, 2012, Act #2011-704 establishes changes to the sliding scale premium calculation. The new law requires an employee who retires with less than 25 years of service to pay 4% of the employer share for each year under 25 years of service (years of service premium) instead of 2% under the current law. Note that disabled retirees are excluded from the sliding scale payment.

The new law also requires an employee who retires before becoming Medicare eligible to pay 1% of the employer share for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium.) The 2012 subsidy premium amount is $97.65 per month. When the retiree becomes eligible for Medicare, the age and subsidy premium will no longer apply. However, the years of service premium will continue to be applied throughout retirement.

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

Retired Members

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

Adopted for fiscal Year 2012 - 2013

Rate	Type of Contract	Retiree Monthly Out-of-Pocket Expense	Cost to State
A	Individual Coverage/ Non-Medicare Eligible Retired Member	$ 151	$ 520
B	Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	$ 391	$ 842
C	Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	$ 250	$ 760
D	Individual Coverage/ Medicare Eligible Retired Member	$ 10	$ 307
E	Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	$ 250	$ 629
F	Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible	$ 109	$ 547

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

These premium rates do not include the $28 monthly tobacco surcharge.

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.

The University System makes a contribution to PEEHIP for every University retiree participating in PEEHIP plans regardless of age or plan tier election. For 2011, this amount is $420 per month per retiree.

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

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