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

Prepared as of September 30, 2021





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

June 3, 2022

Alabama Public Education Employees' Health Insurance Plan
Board of Control
P.O. Box 302150
Montgomery, AL 36130-2150

Dear Members of the Board:

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, 2021. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that an actuarially determined contribution of \$260,056,409 or 3.68% of active payroll payable for the fiscal year ending September 30, 2024 is required to fund the benefits of the PEEHIP. The information required under GASB 74 and 75 will be issued in separate reports.

Since the previous valuation performed as of September 30, 2020, we have updated assumptions as a result of the actuarial experience study prepared as of September 30, 2020, submitted to, and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

The promised medical and drug benefits of the Plan, as well as the Optional Plans, are included in the actuarially determined contribution rates which are developed using the entry age normal actuarial cost method. The discount rate used to value a plan is based on the likely return of the assets held in trust to pay benefits. The Alabama Retired Education Employees' Health Care Trust had \$1,922,098,000 in assets as of the valuation date. The discount rate used in the valuation remains 5.00%.

Gains and losses are reflected in the unfunded accrued liability that is assumed amortized by regular annual contributions as a level percentage of payroll within a 20-year closed period, on the assumption that payroll will increase by 2.75% 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.



June 3, 2022
Page 2

In order to prepare the results in this report, we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results.

The impact of the Affordable Care Act (ACA) was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results other than plan design features and fees currently mandated by the ACA and incorporated in the plan designs, which are included in the current baseline claims costs. Continued monitoring of the ACA's impact on the Plan's liability will be required.

We note that as we are preparing this report, the world is in the midst of a pandemic. No changes were incorporated at this time due to the level of uncertainty regarding the impact going forward. We will continue to monitor emerging data and advise the Board in the future of any adjustments that we believe would be appropriate.

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

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



June 3, 2022
Page 3

If the required contributions to the Trust Fund are made by the employer from year to year in the future at the levels required on the basis of the successive actuarial valuations, the current assets and future anticipated contributions are in our opinion sufficient to meet all the benefit obligations of the Plan for current active and retired members.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Alisa Bennett'.

Alisa Bennett, FSA, EA, MAAA, FCA
President

A handwritten signature in blue ink that reads 'Larry Langer'.

Larry Langer, ASA, FCA, EA, MAAA
Principal and Consulting Actuary

AB\LL:jf



Table of Contents

<u>Section</u>	<u>Item</u>	<u>Page No.</u>
I	Summary of Principal Results	1
II	Membership Data	4
III	Assets	6
IV	Comments on Valuation	7
V	Contributions Payable under the Plan	8
VI	Comments on Level of Funding	9
VII	Accounting Information	10
 <u>Schedule</u>		
A	Results of the Valuation	12
B	Plan Assets	15
C	Statement of Actuarial Assumptions and Methods	16
D	Summary of Benefit Provisions Valued	25



Section I – Summary of Principal Results

**ALABAMA PUBLIC EDUCATION EMPLOYEES’
HEALTH INSURANCE PLAN (PEEHIP)
REPORT OF ACTUARY ON THE RETIREE HEALTH CARE VALUATION
PREPARED AS OF SEPTEMBER 30, 2021**

1. For convenience of reference, the principal results of the valuation are summarized below, along with the previous year’s results. Details regarding the split of the current liability between pre-65 and post-65 costs are provided on the page that follows.

Valuation Date	September 30, 2021	September 30, 2020
Membership Data as of Valuation Date:		
Retired Members Currently Receiving Benefits	94,449	92,352
Surviving Spouses Currently Receiving Benefits	2,197	2,046
Inactive Members Entitled to Benefits Not Yet Receiving	6,687	6,468
Active Members	131,615	130,228
Total Membership	234,948	231,094
Covered-Employee Payroll	\$ 7,075,083,864	\$ 6,872,307,791
Assets:		
Market Value	\$ 1,922,098,000	\$ 1,601,750,000
Unfunded Actuarial Accrued Liability	\$ 2,213,633,022	\$ 4,414,731,756
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Period	20 Years	21 Years
Contribution for Fiscal Year Ending:		
Actuarially Determined Contribution (ADC):		
Normal	\$ 125,140,229	\$ 178,139,332
Accrued Liability	134,916,180	253,084,203
Total	\$ 260,056,409	\$ 431,223,535
ADC as a % of Covered-Employee Payroll	3.68%	6.27%
Discount Rate	5.00%	5.00%
Payroll Growth	2.75%	3.00%



Section I – Summary of Principal Results

Valuation Date	September 30, 2021
Pre-65 Actuarial Accrued Liability	
Active Members	\$ 1,579,964,637
Retired Members and Surviving Spouses	630,919,364
Total	<u>\$ 2,210,884,001</u>
Post-65 Actuarial Accrued Liability	
Active Members	\$ 940,700,944
Retired Members and Surviving Spouses	984,146,077
Total	<u>\$ 1,924,847,021</u>
Total Actuarial Accrued Liability	
Active Members	\$ 2,520,665,581
Retired Members and Surviving Spouses	1,615,065,441
Total	<u>\$ 4,135,731,022</u>

2. The valuation indicates contributions of \$260,056,409 or 3.68% of active payroll are sufficient to support the current benefits of the Plan. Comments on the valuation results as of September 30, 2021 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.
3. As of September 30, 2021, the assets of the Plan in the Alabama Retired Education Employees' Health Care Trust totals \$1,922,098,000. The discount rate used in the valuation remains 5.00%. The assumed rate of payroll growth is 2.75%.
4. Schedule A provides an example of the decrease in the liabilities that could be accomplished if the Plan is fully pre-funded. Results at a 7.00% discount rate are shown for illustrative purposes.
5. Schedule C details the actuarial assumptions and methods employed. Schedule D provides a summary of the benefit and contribution provisions of the plan. Changes to the



Section I – Summary of Principal Results

actuarial assumptions as a result of the experience study for the five-year period ending September 30, 2020 are summarized below:

Assumption	Description
Price Inflation	2.50%
Wage Inflation	2.75%
Mortality Rates (Pre-Retirement, Post-Retirement Healthy and Disabled)	Update to Pub-2010 Public Mortality Plans Mortality Tables. For future mortality improvement, generational mortality improvement with mortality improvement scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.
Retirement Rates	Decreased rates of retirement at most ages and extended retirement rates to age 80.
Withdrawal Rates	Changed from an age-based table broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates.
Disability Rates	Lowered rates of disability retirement at most ages
Salary Increases	No change to total assumed rates of salary increases, but increased merit salary scale by 0.25% to offset the recommended decrease in the wage inflation assumption by 0.25%.

6. Claims were updated to reflect the most recent claims information available for pre-65 retirees. Claims for post-65 medical and prescription drug benefits are based on the Medicare Advantage Plan with Prescription Drugs (MAPD). Future healthcare trend for the MAPD plan took into consideration actual preliminary premium projections, including the repeal of the Health Insurer Fee. See Schedule C of the report.



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 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.

Covered-Employee Payroll

	Total	Not Eligible for PEEHIP	Eligible for PEEHIP
Active Members	134,034	(2,419)	131,615
Compensation 9/30/2021	\$ 7,221,790,242	\$ (146,706,378)	\$ 7,075,083,864

Membership

	Total Number TRS	Number Not Eligible for or Waiving PEEHIP	Total Number PEEHIP
Retired Members or Surviving Spouses Currently Receiving Benefits	103,071	(6,425)	96,646
Inactive Members Entitled To But Not Yet Receiving Benefits	26,329	(19,642)	6,687
Non-vested Inactive Members Who Have Not Contributed to TRS For More Than 5 Years	31,446	(31,446)	0
Active Members	134,034	(2,419)	131,615
Total	294,880	(59,932)	234,948

Inactive Membership

	Male	Female	Total
Retired Members Currently Receiving Benefits	23,313	71,136	94,449
Surviving Spouses Currently Receiving Benefits	920	1,277	2,197
Total	24,233	72,413	96,646



Section II – Membership Data

Retirees, Spouses and Survivors

Category	Retirees	Spouses¹	Survivors	Total
No Coverage	13,388	0	0	13,388
Optional Plan Only	12,382	7,085	478	19,945
Supplemental Coverage	1,313	642	4	1,959
Medical Plan, Non-Medicare	10,983	5,305	94	16,382
Medical Plan, Medicare Advantage	56,383	19,005	1,621	77,009
Total	94,449	32,037	2,197	128,683

¹ In addition, 1,142 retirees elected medical family coverage but have non-spousal dependents or have a spouse working in an active PEEHIP eligible position.



Section III – Assets

Schedule B shows information regarding assets for valuation purposes. As of September 30, 2021, plan assets held in trust solely to provide benefits to retirees and their beneficiaries in accordance with the terms of the plan totaled \$1,922,098,000. This valuation was based on an assumed discount rate of 5.00%. Schedule A provides an example of the decrease in the liabilities that could be accomplished if the Plan is fully pre-funded. Results at a 7.00% discount rate are shown for illustrative purposes



Section IV – Comments on Valuation

1. Schedule A of this report outlines the results of the actuarial valuation. The results are shown based on a discount rate of 5.00% and at 7.00%. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C. The Summary of Benefit Provisions Valued is presented in Schedule D.
2. The valuation shows that the Plan has an actuarial accrued liability of \$2,520,665,581 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 survivors amounts to \$1,615,065,441. The total actuarial accrued liability of the Plan amounts to \$4,135,731,022. Against these liabilities, the Plan has present assets for valuation purposes of \$1,922,098,000. Therefore, the unfunded actuarial accrued liability is equal to \$2,213,633,022.
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 \$125,140,229.



Section V – Contributions Payable Under the Plan

**ACTUARIALY DETERMINED CONTRIBUTION
FOR FISCAL YEAR ENDING SEPTEMBER 30, 2024**

Actuarially Determined Contribution (ADC)		
Normal	\$	125,140,229
Accrued Liability		134,916,180
Total	\$	260,056,409

1. The valuation indicates that a normal contribution of \$125,140,229 is required to meet the cost of benefits currently accruing.
2. The unfunded actuarial accrued liability amounts to \$2,213,633,022 as of the valuation date. An accrued liability contribution of \$134,916,180 is sufficient to amortize the unfunded actuarial accrued liability over a 20-year period, based on a 5.00% investment rate of return and the assumption that the payroll will increase by 2.75% annually.
3. The total actuarially determined contribution is, therefore, \$260,056,409 or 3.68% of total compensation.



Section VI – Comments on Level of Funding

1. The monthly contribution for retirees to opt into the medical plan is based on plan election, dependent coverage, Medicare eligibility and election, tobacco use, and wellness credits. Plan costs are determined for valuation purposes considering claims costs net of member premiums paid. For members retiring October 1, 2005 or after, a Retiree Sliding Scale premium based on years of service is applicable. For members retiring on or after January 1, 2012, Act 2011-704 establishes changes to the sliding scale premium calculation.
2. The valuation indicates that a decrease in the recommended employer contribution rate from last valuation's recommended rate of 6.27% of compensation to 3.68% is required to fund the plan. This corresponds to a state contribution of \$260,056,409 required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 20 years. The decrease on a percent of payroll basis was primarily due to the lower than anticipated claims for Medicare-Eligible retirees. The Medicare Advantage rates are currently being negotiated as part of a competitive proposal process and are projected to be approximately 36% lower than the current rates with the rates staying level for a 3-year period. Additional sources of decrease were the lower than anticipated pre-Medicare claims experience and changes in assumptions associated with the new actuarial experience study prepared as of September 30, 2020, submitted to, and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.



Section VII – Accounting Information

The information required under Governmental Accounting Standards Board (GASB) Statements No. 74 and 75 will be issued in separate reports. The following information is provided for informational purposes only.

Valuation Date	9/30/2021
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	20 years, closed
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	6.50%
Medicare Eligible	**
Ultimate Trend Rate*	
Pre-Medicare	4.50% in 2031 FYE
Medicare Eligible	4.50% in 2027 FYE
Optional Plans Trend Rate	2.00%

* Includes price inflation at 2.50%

** Initial Medicare claims are set based on projected increases through calendar year 2025.

The assumed investment rate of return used to calculate the actuarially determined contribution reflects the fact that as of September 30, 2021 the Plan has \$1,922,098,000 in the Alabama Retired Education Employees’ Health Care Trust solely to provide benefits to retirees and their beneficiaries. If the Plan starts fully pre-funding benefits, this discount rate may be increased to reflect equity investment the fund may have after full pre-funding begins. GASB Statements No. 74 and 75 require the discount rate used to calculate liabilities to be based upon the yield of 20-year, tax-exempt municipal bonds and the expected rate of return on plan assets, to the extent plan assets are projected to be available for the payment of future benefits.



Section VII – Accounting Information

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Market Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
9/30/2011	\$ 777,933,000	\$ 9,081,334,485	\$ 8,303,401,485	8.6%	\$ 6,159,562,266	134.8%
9/30/2012	930,278,000	8,957,153,960	8,026,875,960	10.4	6,222,316,020	129.0
9/30/2013	1,074,940,000	8,993,966,963	7,919,026,963	12.0	6,263,364,496	126.4
9/30/2014	1,208,401,000	9,523,791,853	8,315,390,853	12.7	6,335,160,505	131.3
9/30/2015	1,154,392,000	7,462,933,874	6,308,541,874	15.5	6,350,785,964	99.3
9/30/2016	1,240,200,000	7,919,752,285	6,679,552,285	15.7	6,430,999,445	103.9
9/30/2017	1,348,563,000	8,481,843,503	7,133,280,503	15.9	6,698,834,819	106.5
9/30/2018	1,428,803,000	8,666,971,500	7,238,168,500	16.5	6,756,474,151	107.1
9/30/2019	1,477,077,000	5,758,609,221	4,281,532,221	25.6	7,053,038,122	60.7
9/30/2020	1,601,750,000	6,016,481,756	4,414,731,756	26.6	6,872,307,791	64.2
9/30/2021	1,922,098,000	4,135,731,022	2,213,633,022	46.5	7,075,083,864	31.3

These measures do not indicate whether or not the Plan would have sufficient assets if it were terminated, nor do they indicate what level of future contributions will be required.

The 9/30/2011 actuarial accrued liability reflects a change from the Retiree Drug Subsidy (RDS) to an Employer Group Waiver Plan (EGWP).

The 9/30/2015 actuarial accrued liability reflects a change from the Employer Group Waiver Plan (EGWP) to a Medicare Advantage Plan with Prescription Drugs (MAPD).

The actuarial accrued liability was determined using the projected unit credit cost method prior to the 9/30/2015 valuation and the entry age normal cost method beginning with the 9/30/2015 valuation.

The 9/30/2016 valuation reflects the updated assumptions from the TRS experience investigation.

The 9/30/2019 valuation reflects the repeal of the ACA Health Insurer Fee, updated pre-Medicare trend rates, and updated participation assumptions. RSA implemented a new pension administration system for contribution reporting within this year, which resulted in larger than expected payroll amounts. This will not occur in subsequent years.

The 9/30/2021 valuation reflects the updated assumptions from the TRS experience investigation.



Schedule A – Results of the Valuation

**RESULTS OF THE VALUATION
AND THE BENEFITS OF ADVANCE FUNDING
PREPARED AS OF SEPTEMBER 30, 2021**

	5.00% Discount Rate (Current Funding Level)	7.00% Discount Rate (Contribute Full ADC Annually)
1. Covered-Employee Payroll	\$ 7,075,083,864	\$ 7,075,083,864
2. Actuarial Accrued Liability		
Present Value of Prospective Benefits		
Payable in Respect of:		
(a) Active Members	\$ 2,520,665,581	\$ 1,883,782,612
(b) Retired Members and Surviving Spouses	<u>1,615,065,441</u>	<u>1,375,970,231</u>
(c) Total	\$ 4,135,731,022	\$ 3,259,752,843
3. Present Assets for Valuation Purposes	\$ 1,922,098,000	\$ 1,922,098,000
4. Unfunded Actuarial Accrued Liability: [2(c) - 3]	\$ 2,213,633,022	\$ 1,337,654,843
5. Amortization Period	20 Years	20 Years
6. Normal Contribution	\$ 125,140,229	\$ 75,706,454
7. Accrued Liability Contribution	<u>134,916,180</u>	<u>95,661,375</u>
8. Total Contribution: [6 + 7]	\$ 260,056,409	\$ 171,367,829
9. Total Contribution as a Percent of Covered-Employee Payroll: [8 ÷ 1]	3.68%	2.42%



Schedule A – Results of the Valuation

(GAIN)/LOSS

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is assumed that gains and losses will be in balance over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the (gain)/loss for the year ended September 30, 2021 is shown below.

(Gain)/Loss	
1. Unfunded Accrued Liability (UAL) 9/30/2020	\$ 4,414,731,756
2. Normal Cost 9/30/2020	178,139,332
3. Actual Employer Contributions	172,676,000
4. Interest Accrual	225,326,655
[(1 + 2) x .050 - (3) x .025]	
5. Expected UAL 9/30/2021	\$ 4,645,521,743
[1 + 2 - 3 + 4]	
6. (Gain)/Loss Due to Claims and Premium Experience*	(2,000,517,148)
7. (Gain)/Loss Due to Changes in Assumptions**	(138,077,916)
8. Expected UAL 9/30/2021 After Changes	\$ 2,506,926,679
[5 + 6 + 7]	
9. Actual UAL as of 9/30/2021	\$ 2,213,633,022
10. Experience (Gain)/Loss	\$ (293,293,657)
10. Experience (Gain)/Loss as % of Actuarial Accrued Liability at 9/30/2020	(4.87%)

* The major cause of the gain was the lower than anticipated claims for Medicare-Eligible retirees, which are based upon projected premium rate increases until the 2025 calendar year. Additional sources of the gain in claims and premium experience was due to pre-Medicare retiree claims costs less than expectation.

** The gain due to changes in assumptions was due to the new actuarial experience study prepared as of September 30, 2020, submitted to, and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.



Schedule A – Results of the Valuation

**TOTAL (GAIN)/LOSS BY SOURCE
FOR THE YEAR ENDING SEPTEMBER 30, 2021**

Source	Total (\$ Millions)	% of 9/30/2020 Actuarial Accrued Liability
Age and Service Retirements. Generally, earlier retirements cause losses and later retirements cause gains.	\$ (5.6)	(0.09%)
Withdrawal. More withdrawals than expected usually cause gains and less withdrawals than expected cause losses.	(6.7)	(0.11%)
Disability Retirements. More disabilities receiving health benefits than expected generally cause losses and less disabilities receiving health benefits than expected cause gains.	7.4	0.12%
Death-In-Service Benefits. If survivor claims are less than assumed, there is a gain. If claims are more than assumed, there is a loss.	4.8	0.08%
New Members/Rehires. Any past service causes losses, however pre-Medicare retirees returning to active service can cause a gain.	28.2	0.47%
Retiree Mortality. More deaths than expected cause gains, less than expected cause losses.	(52.5)	(0.87%)
Retiree Coverage Changes. Changes in medical plan election, coverage tier election, or Optionals coverage.	(12.4)	(0.21%)
Active Data Changes. Gains and losses resulting from unexpected changes in age, service, tier, gender, etc.	2.1	0.03%
Investment Return. Investment income greater than expected causes gains while investment income less than expected cause losses.	(245.7)	(4.08%)
Other. Miscellaneous gains and losses resulting from data corrections, timing of financial transactions, actual benefit payments and premiums different from expected, rounding of age and service for sliding scale calculations, changes in valuation software, etc.	(12.9)	(0.21%)
Total (Gain)/Loss	\$ (293.3)	(4.87%)



Schedule B – Plan Assets

Plan assets are resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan. The Alabama Retired Education Employees’ Health Care Trust has been established and, as of the valuation date, the market value of assets amounted to \$1,922,098,000. The development of the market value of assets is shown in the following table.

Market Value of Assets as of September 30, 2021

Asset Summary Based on Market Value	\$ Thousands
Market Value as of September 30, 2020	\$ 1,601,750
Contributions	172,676
Benefit Payments, Administrative Fees, and Other Disbursements	<u>(177,989)</u>
Cash Flow	(5,313)
Investment Income	<u>325,661</u>
Market Value as of September 30, 2021	\$ 1,922,098



Schedule C – Statement 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, 2020, submitted to, and adopted by the Teachers’ Retirement System of Alabama Board on September 13, 2021, and are reasonable expectations of anticipated experience under the Plan. The assumptions were used in the retiree health care valuation for consistency and are under PEEHIP Board jurisdiction.

VALUATION DATE: September 30, 2021

DISCOUNT RATE: 5.00% per annum, compounded annually.

PAYROLL GROWTH: 2.75% per annum, compounded annually.

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

Annual Increase in Medical/Prescription Drug/Optional Plan Costs			
Fiscal Year Ending	Pre-Medicare Medical Trend*	Medicare-Eligible Medical Trend**	Optional Plans Trend
2023	6.50%	(36.00)%	2.00%
2024	6.25	0.00	2.00
2025	6.00	0.00	2.00
2026	5.75	4.75	2.00
2027	5.50	4.50	2.00
2028	5.25	4.50	2.00
2029	5.00	4.50	2.00
2030	4.75	4.50	2.00
2031	4.50	4.50	2.00

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

** MAPD trend rates for fiscal years ending 2023, 2024, and 2025 are based on projected renewal premium rates.

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

Annual Increase in Base Contributions Received from Covered Members		
Retiree Share of Premium		Retiree Optional Plans Premium
Pre-Medicare	Medicare Eligible*	
2.0%	1.0%	2.0%

* The premium share for Medicare Eligible spouses is assumed to decrease by 32% in the first year based on projected renewal premium rates.



Schedule C – Statement of Actuarial Assumptions and Methods

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

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

* Optional and Supplemental Plan costs are not age adjusted.

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

Medical	Under 65	Over 65
Disabled Retirement*	60%	85%
Service Retirement	60%	85%
Vested Retirement	0%	0%
Spouse Coverage**	55%	45%

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

** Percentage of participating members who are assumed to cover a spouse.

Optional Plans	
Plan	Participation
Hospital Indemnity	5%
Dental	50%
Cancer	7.5%
Vision	15%



Schedule C – Statement of Actuarial Assumptions and Methods

Wives are assumed to be three years younger than husbands.

We assume 15% of males and 6% of females pay the \$50 monthly tobacco surcharge. This applies to both retirees and spouses.

We assume 100% of pre-Medicare eligible retirees and covered spouses will qualify for the wellness credit.

ANNUAL EXPECTED MEDICAL/PRESCRIPTION DRUGS CLAIMS (AGE 65): Following is a chart detailing expected per member per year medical/prescription drugs claims for pre-65 members for the year following the valuation date. Post-65 claims are based on the adjusted premium rate for the MAPD plan. Claims are age-adjusted to age 65.

Medical/Prescription Drugs	
Pre-65	\$13,138
Post-65	\$1,370

MEDICARE ADVANTAGE PREMIUMS: Claims for Medicare-Eligible retirees are set based on projected premium rate increases until the 2025 plan year. Premium rates drop beginning with plan year 2021 due to the repeal of the ACA Health Insurer Fee effective January 1, 2021.

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

Dental Plan	Vision Plan	Cancer Plan	Hospital Indemnity Plan
\$456	\$68	\$119	\$134

ACTUARIAL METHOD: Costs were determined using the Entry Age Normal Cost Method. Under this method, the normal cost is determined as a level percentage of payroll which, if applied for the average new member during the entire period of his/her anticipated covered service from hire date through full retirement eligibility date, would be required to meet the cost of all benefits payable on behalf of the member. The unfunded accrued liability is determined by subtracting the present value of future normal costs together with the actuarial value of assets from the present value of expected benefits to be paid by the Plan.

ASSET VALUATION METHOD: Market value.



Schedule C – Statement of Actuarial Assumptions and Methods

The following decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to, and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

MORTALITY RATES:

Pre-Retirement:

Pub-2010 Teacher Below Median Employee Rates projected generationally with a MP-2020 Improvement Scale modified with an adjustment of 66-2/3% to the table beginning in 2019; 65% of rates for males and females

Post-Retirement:

Pub-2010 Teacher Below Median Healthy Retiree Rates projected generationally with a MP-2020 Improvement Scale modified with an adjustment of 66-2/3% to the table beginning in 2019; set-forward 2 years for males and females; 108% of rates for males less than age 63 and 96% of rates for males over age 67 with a phasing down between age 63 and 67; 112% of rates for females less than age 69 and 98% of rates for females over age 74 with a phasing down between age 69 and 74

Post-Disablement:

Pub-2010 Teacher Disabled Rates projected generationally with a MP-2020 Improvement Scale modified with an adjustment of 66-2/3% to the table beginning in 2019; set-forward 8 years for males and 3 years for females

Beneficiaries and Survivors:

Pub-2010 Contingent Survivor Below Median Rates projected generationally with a MP-2020 Improvement Scale modified with an adjustment of 66-2/3% to the table beginning in 2019; set-forward 2 years for males



Schedule C – Statement of Actuarial Assumptions and Methods

TERMINATION RATES:

The following are sample withdrawal rates based on years of service (for causes other than death, disability or retirement).

Years of Service	Annual Rate	
	Male	Female
0	12.00%	11.00%
1	12.00	11.00
2	12.00	11.00
3	12.00	11.00
4	10.00	9.00
5	7.25	6.50
6	6.25	5.50
7	5.25	5.00
8	5.00	4.25
9	4.25	3.50
10	3.25	3.25
11	3.25	3.00
12	3.00	2.75
13	3.00	2.50
14	2.75	2.25
15	2.50	2.25
16	2.00	2.00
17	2.00	1.90
18	2.00	1.85
19	2.00	1.70
20+	1.00	1.00



Schedule C – Statement of Actuarial Assumptions and Methods

DISABILITY RATES:

The following are sample disability rates based on years of service and age.

Age	Years of Service*			
	Male		Female	
	< 25**	>= 25	< 25**	>= 25
30	0.1000%		0.0700%	
35	0.1000		0.0700	
40	0.1300		0.1700	
45	0.2500	0.2000%	0.3200	0.2000%
50	0.5000	0.2000	0.5800	0.2000
55	0.8000	0.2000	0.9000	0.2250
60	0.5000	0.2000	0.6500	0.3000
64	0.5000	0.2000	0.6500	0.3000

* No rates of disability are assumed for members with less than 10 years of service.

** Rates assumed for all Tier 2 members.



Schedule C – Statement of Actuarial Assumptions and Methods

SERVICE RETIREMENT:

For Tier I and non-FLC Tier II members upon attaining 25 years of service, rates are as follows:

Age Group	Male		Female*	
	Tier I	Tier II	Tier I	Tier II
47 & Under	25.0%		25.0%	
48	22.0		18.0	
49	17.5		15.5	
50	16.0		12.5	
51	16.0		14.0	
52	16.0		14.5	
53	16.0		15.0	
54	16.0		16.5	
55 to 56	15.5		17.0	
57	15.5		17.5	
58	15.5		18.5	
59	18.0		20.0	
60 to 61	18.0		24.0	
62	32.0	60.0%	40.0	70.0%
63	27.5	27.5	31.0	31.0
64	21.5	21.5	27.5	27.5
65	27.5	27.5	38.0	38.0
66	27.5	27.5	40.0	40.0
67	23.5	23.5	33.0	33.0
68	22.5	22.5	33.0	33.0
69	22.5	22.5	30.0	30.0
70	22.5	22.5	30.0	30.0
71 to 74	22.5	22.5	30.0	30.0
75 to 79	22.5	22.5	30.0	30.0
80 & Above	100.0	100.0	100.0	100.0

* Rates of retirement are increased by 5% in the year first attaining age 25 years of service from age 50 through age 64 for Tier I and from age 63 through age 64 for Tier II.



Schedule C – Statement of Actuarial Assumptions and Methods

For Tier I and non-FLC Tier II members first eligible for unreduced pension benefits before attaining 25 years of service, the rates are as follows:

Age Group	Male		Female	
	Tier I	Tier II*	Tier I	Tier II*
60	12.0%		15.0%	
61	9.5		12.0	
62	22.0	50.0%	21.0	50.0%
63	16.0	16.0	16.0	16.0
64	14.0	14.0	15.5	15.5
65	25.0	25.0	27.0	27.0
66	25.0	25.0	28.0	28.0
67	22.0	22.0	23.0	23.0
68	21.0	21.0	25.0	25.0
69	21.0	21.0	20.5	20.5
70	21.0	21.0	24.5	24.5
71 to 74	20.0	20.0	22.0	22.0
75 to 79	30.0	30.0	30.0	30.0
80 & Above	100.0	100.0	100.0	100.0

Tier 2 FLC rates of retirement are the same as for ERS. The following rates apply for both males and females:

Age Group	Rates of Retirement	
	1 st Eligible	Subsequent
56	15.0%	
57 to 59	15.0	15.0%
60	17.0	17.0
61	40.0	18.5
62	40.0	30.0
63	40.0	25.0
64	40.0	22.0
65	40.0	27.0
66	40.0	38.0
67 to 69	40.0	30.0
70 to 74	60.0	30.0
75 & Above	100.0	100.0



Schedule C – Statement of Actuarial Assumptions and Methods

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows:

Service	Annual Rate*
0	5.00%
1 – 5	4.00
6 – 10	3.75
11 – 15	3.50
16 & Over	3.25

* Includes wage inflation at 2.75% per annum.

AFFORDABLE CARE ACT: The impact of the Affordable Care Act (ACA) was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results other than plan design features and fees currently mandated by the ACA and incorporated in the plan designs, which are included in the current baseline claims costs. Continued monitoring of the ACA’s impact on the Plan’s liability will be required.

COVID-19: We note that as we are preparing this report, the world is in the midst of a pandemic. No changes were incorporated at this time due to the level of uncertainty regarding the impact going forward. We will continue to monitor emerging data and advise the Board in the future of any adjustments that we believe would be appropriate.



Schedule D – Summary of Benefit Provisions Valued

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

RETIREE CONTRIBUTIONS: Retiree contributions vary based on plan election, dependent coverage, Medicare eligibility and election, tobacco usage and, for non-Medicare eligible retirees and spouses, wellness credits.

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

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

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

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

- **Service Premium Component:** An employee who retires with less than 25 years of service will contribute 4% of the employer share for each year under 25 years of service instead of 2% under the current law. The Service Premium Component continues for the retiree's lifetime.
- **Age Component:** An employee who retires before becoming Medicare eligible will contribute 1% of the employer share for each year less than 65. Upon Medicare entitlement, the age component will be removed.
- **Subsidy Component:** An employee will contribute the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). The Fiscal Year 2022 subsidy premium amount is \$200.29 per month. Upon Medicare entitlement, the subsidy component will be removed.



Schedule D – Summary of Benefit Provisions Valued

Retired Members

The following health insurance premiums are the base rates set by the PEEHIP Board. Base rates are before the wellness premiums, tobacco premiums, or the retiree sliding scale adjustments are applied, if applicable. The monthly premiums for members who retired prior to October 1, 2005, or members who retired on or after October 1, 2005, and before January 1, 2012, with 25 years of service are listed in the chart below and show a retiree’s out-of-pocket cost after subtracting the retiree insurance contribution.

Sample Premium Rates 2021-2022 Plan Year		
Coverage Type	*Premium if Retiree Subscriber is Non-Medicare-Eligible	Premium if Retiree Subscriber is Medicare-Eligible
Single Coverage	\$174	\$25
Family Coverage:		
Multiple Dependents but No Spouse	\$429	\$280
Multiple Dependents and Non-Medicare-Eligible Spouse	\$529	\$380
Multiple Dependents and Medicare-Eligible Spouse	\$459	\$310
Only Non-Medicare-Eligible Spouse	\$504	\$355
Only Medicare-Eligible Spouse	\$313	\$164
Only 1 Non-Spousal Medicare-Eligible Dependent	\$288	\$139
Only 1 Non-Spousal Non-Medicare Eligible Dependent	\$429	\$280

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

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

Retirees participating in the PEEHIP Supplemental Plan were assumed to cost \$174 monthly effective October 1, 2021.

The University System makes a contribution to PEEHIP for every University retiree participating in PEEHIP plans regardless of age or plan tier election. For Fiscal Year 2022, the monthly amount is \$251 per retiree.



Schedule D – Summary of Benefit Provisions Valued

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

Optional Coverage: Active and Retired Members

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

Retiree premiums for the four optional plans, Hospital Indemnity, Dental, Cancer and Vision, are \$38 per retiree per month. Since these plans can be purchased for \$0 in lieu of taking the hospital medical coverage, it is assumed that 75% of future participants in the Dental plan and 50% of future participants in the other optional plans will make the \$38 per month (\$50 for Family Dental) contributions.

Surviving Dependent

The following health insurance premiums are the base rates set by law and approved by the PEEHIP Board. Base rates are before wellness and tobacco premiums are applied, if applicable. These rates begin the first of the month following the member’s date of death.

Premium Rates 2021-2022 Plan Year	
Type of Contract	Monthly Premium for PEEHIP Hospital Medical or VIVA Health Plan
Individual Coverage/Non-Medicare-eligible (NME) Survivor	\$945
Family Coverage/NME Survivor & More Than 1 Dependent or Only Dependent NME	\$1,261
Family Coverage/NME Survivor & Only Dependent Medicare-eligible (ME)	\$980
Individual Coverage/ME Survivor	\$214
Family Coverage/ME Survivor & More Than 1 Dependent or Only Dependent NME	\$627
Family Coverage/Medicare-eligible Survivor & Only Dependent ME	\$327
Supplemental Medical Plan (Single or Family)	\$173
Optional (Each) – Cancer, Indemnity, Vision, and Single Dental	\$38
Optional – Family Dental Premium	\$50
Tobacco Premium for Survivor Enrolling in Hospital Medical	\$50
Wellness Premium/NME Survivor	\$50



Schedule D – Summary of Benefit Provisions Valued

Benefit Policy and Premium Changes

Effective October 1, 2021

(Unless otherwise notated)

Teladoc®

- ◆ All members who are enrolled in the PEEHIP Hospital Medical Plan Group #14000 have access to Teladoc®, which provides consultations with board-certified doctors via phone or video 24 hours a day/7 days a week. This service is available at zero copay and can be used to speak with a doctor about a variety of issues such as cold, flu, allergies, infections, and more. Plus, when necessary, the doctor can even prescribe the appropriate medication needed for treatment. This exciting new benefit can be used in place of the emergency room or urgent care for non-emergency situations.

Applied Behavior Analysis (ABA) Therapy Copay Reduction

- ◆ PEEHIP covers Applied Behavior Analysis (ABA) Therapy for children ages 0 through 18 at 100% of the Blue Cross Blue Shield of Alabama allowance, subject to a **\$15** copay per visit and the annual dollar maximum limits of \$40,000 for ages 0 through 9, \$30,000 for ages 10 through 13, and \$20,000 for ages 14 through 18, for in-network and out-of-network enrolled providers, **effective retroactively to January 1, 2018.**

Flexible Spending Account (FSA) Plan Changes

- ◆ The annual maximum Health FSA contribution remains unchanged at **\$2,750.**
- ◆ The Dependent Care Reimbursement Account (DCRA) annual maximum contribution remains unchanged at **\$5,000 (\$2,500 each if married filing separately).**
- ◆ The Carryover Limit remains unchanged at **\$550.**

VIVA Health Plan Benefit Changes

- ◆ PEEHIP members covered by the VIVA Health Plan have access to teleconsultation through Teladoc® just like members covered under the PEEHIP Hospital Medical Plan Group #14000 administered by Blue Cross Blue Shield of Alabama. The copay for VIVA members is increasing to **\$40** per behavioral health consult effective October 1, 2021.
- ◆ The combined medical and prescription drug in-network maximum annual out-of-pocket amounts will remain at **\$7,350** for individual and **\$14,700** per family for the 2022 calendar year. Maximum out-of-pocket amounts are a benefit to members because they limit the total amount members will pay out-of-pocket for their in-network healthcare expenses.
- ◆ VIVA will also begin covering ABA therapy effective October 1, 2018, and coverage will be at 80% of the allowed amount after members meet the deductible. The deductible will be reduced to **\$300** for individual and **\$900** per family contract for the 2022 calendar year. This is a benefit enhancement. ABA therapy will be available to those members with a diagnosis of autism, autism spectrum disorder, or pervasive developmental delay.
- ◆ VIVA benefits have always included Diabetic Self-Management Education (DSME) with no limit. This benefit was previously billed by a hospital as an outpatient claim, causing the applicable member cost-sharing and deductible. DSME will not be a new benefit category, which is a benefit enhancement because the deductible no longer applies.



Schedule D – Summary of Benefit Provisions Valued

Maximum Annual Out-of-Pocket Amounts

- ◆ The combined medical and prescription drug in-network maximum annual out-of-pocket amounts was **\$8,550** per individual and **\$17,100** per family contract for the 2021 calendar year and is **\$8,700** per individual and **\$17,400** per family contract for the 2022 calendar year.

Supplemental Medical Changes

- ◆ The annual maximum amount of claims paid under Group #61000 was **\$8,550** per individual and **\$17,100** per family contract for the 2021 calendar year and is **\$8,700** per individual and **\$17,400** per family contract for the 2022 calendar year. This is a benefit enhancement.
- ◆ Members enrolled in High Deductible Health Plans (HDHP) are not eligible for the PEEHIP Supplemental Medical Plan. The IRS defined the minimum deductibles for the HDHPs for calendar year 2022 will be remain unchanged at **\$1,400** for individual and **\$2,800** for family.

Blue Distinction Centers for Bariatric Surgery

- ◆ Since both quality of care and cost of care vary significantly among the broad choice of providers in Alabama, Blue Cross Blue Shield of Alabama has established Blue Distinction Centers as facilities within the state that are proven to show the best healthcare outcomes for certain procedures. To ensure members covered under the PEEHIP Hospital Medical Plan Group receive the safest and highest level of care when seeking treatment for surgery for morbid obesity or related bariatric procedures, coverage for these procedures is available only at Alabama Blue Distinction Center facilities effective January 1, 2018. No coverage is available for these procedures when done at a non-Alabama Blue Distinction Center. By using these facilities with proven results of better outcomes, members will experience less avoidable complications and re-admissions. Higher quality care and less complications equates to lower costs for the plan.
- ◆ Any in-network facility within the state can become a Blue Distinction Center if they meet certain quality of care criteria as set by Blue Cross Blue Shield of Alabama.

Pharmacy Changes

- ◆ Due to the fast-moving nature of both new drugs becoming available and price changes amongst existing drugs, PEEHIP implements various utilization management programs throughout the plan year to the commercial plan formulary, including prior authorizations, step therapy, quantity limits and the exclusion of some drugs to drive utilization to lower cost therapeutic alternative medications. This is to ensure that the PEEHIP formulary covers the most effective drugs at the most reasonable price. No changes were made to the drug copay tiers.

Medicare Advantage PPO Plans

- ◆ Humana® replaced UnitedHealthcare® in administering the PEEHIP Group Medicare Advantage (PPO) Plan for Medicare-eligible retirees and Medicare-eligible dependents of retirees effective January 1, 2020.

Wellness Program

- ◆ Effective October 1, 2019, the new PEEHIP Wellness Program – *Choose Well, Live Well* – will launch and be administered by Sharecare® and Blue Cross Blue Shield (BCBS) of Alabama. The only required activity to earn the \$50 wellness premium waiver for the 2022 fiscal year is the wellness screening, which members can now receive at an in-network participating pharmacy in addition to the other continued screening location options (ADPH at work sit wellness clinics, county health departments, or primary care physician's office). All other activities of the wellness program are on a voluntary basis.