

Public Education Employees' Health Insurance Fund

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2014

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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, 2014, and the related notes to the financial statements, which comprise the Public Education Employees' Health Insurance Fund's basic financial statements as presented on pages 6 – 16.

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, 2014, and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2013, 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 on pages 3 – 5 and the claims development information on page 17 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.

Carri Riggs & Ingram, L.L.C.

January 28, 2015
Montgomery, Alabama

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Management's Discussion and Analysis
September 30, 2014

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, 2014. 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 and liabilities 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 fiscal year-end.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Management's Discussion and Analysis
September 30, 2014

Comparative Financial Statements

Summary Comparative Statement of Net Position

As of September 30, 2014 and 2013

(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
Assets				
Cash	\$ 7,711	\$ 7,326	\$ 385	5.26
Receivables	7,808	6,592	1,216	18.45
Deposit with Claims-Paying Agent	913	1,896	(983)	(51.85)
Investments	118,733	164,625	(45,892)	(27.88)
Total Assets	<u>135,165</u>	<u>180,439</u>	<u>(45,274)</u>	<u>(25.09)</u>
Liabilities				
Payables	40,036	24,956	15,080	60.43
Claims Incurred but Not Reported	45,381	39,537	5,844	14.78
Total Liabilities	<u>85,417</u>	<u>64,493</u>	<u>20,924</u>	<u>32.44</u>
Net Position - Unrestricted	<u>49,748</u>	<u>115,946</u>	<u>(66,198)</u>	<u>(57.09)</u>
Total Liabilities and Net Position	<u>\$ 135,165</u>	<u>\$ 180,439</u>	<u>\$ (45,274)</u>	<u>(25.09)</u>

Summary Comparative Statement of Revenues, Expenses and Changes in Fund Net Position

For the Fiscal Years Ended September 30, 2014 and 2013

(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
Operating Revenues				
Premiums	\$ 741,903	\$ 742,514	\$ (611)	(0.08)
Total Operating Revenues	<u>741,903</u>	<u>742,514</u>	<u>(611)</u>	<u>(0.08)</u>
Operating Expenses				
Claims	795,270	774,060	21,210	2.74
Fees and Assessments	9,675	-	9,675	100.00
Administrative	3,465	3,203	262	8.18
Total Operating Expenses	<u>808,410</u>	<u>777,263</u>	<u>31,147</u>	<u>4.01</u>
Operating Loss	<u>(66,507)</u>	<u>(34,749)</u>	<u>(31,758)</u>	<u>91.39</u>
Investment Revenues				
Interest Income	309	507	(198)	(39.05)
Total Investment Revenues	<u>309</u>	<u>507</u>	<u>(198)</u>	<u>(39.05)</u>
Change in Net Position	<u>(66,198)</u>	<u>(34,242)</u>	<u>(31,956)</u>	<u>93.32</u>
Net Position - Unrestricted				
Beginning of Year	115,946	150,188	(34,242)	(22.80)
End of Year	<u>\$ 49,748</u>	<u>\$ 115,946</u>	<u>\$ (66,198)</u>	<u>(57.09)</u>

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Management's Discussion and Analysis
September 30, 2014

Financial Highlights

- Cash on hand at September 30, 2014, was primarily held for the payment of administrative expenses of the PEEHIF.
- The PEEHIF continued to receive level funding of \$714 per active member per month from the Alabama Legislature, therefore, there was no significant change in premium revenue in fiscal year 2014 compared to the previous fiscal year.
- Claims expenses increased by 2.74% 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.
- Administrative expenses increased during the fiscal year by 8.18%, primarily as a result of an increase in the amount of professional consulting services utilized by the PEEHIF.
- The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2014, PEEHIF 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.
- PEEHIF funding is obtained from employer allocations, member premiums, and investment earnings. The employer allocation per active member is set annually by the Alabama Legislature. For fiscal year 2014, the funding from the employer allocation, member premiums, and investment earnings did not exceed claims expenses. Therefore, investments were liquidated in order to process payment for claims expenses.
- Claims Incurred but Not Reported increased in fiscal year 2014 due to increases in claims trends as discussed above related to claims expenses.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Statement of Net Position
September 30, 2014 with comparative amounts shown for 2013

(Amounts in Thousands)

	2014	2013
<i>Assets</i>		
Cash (Note 1)	\$ 7,711	\$ 7,326
Receivables		
Premiums (Note 1)	1,947	1,901
Rebates - Prescription Drug Plan Manufacturer Rebates	5,851	4,674
Interest	10	17
Total Receivables	7,808	6,592
Deposit with Claims-Paying Agent	913	1,896
Investments, at Fair Value (Note 3)	118,733	164,625
Total Assets	\$ 135,165	\$ 180,439
<i>Liabilities</i>		
Accounts Payable	\$ 311	\$ 249
Reported Claims Payable (Note 4)	28,982	23,662
Due to Other Governments	9,514	-
Employee Benefits Payable (Note 1)	468	418
Other Postemployment Benefits (Note 5)	761	627
Claims Incurred but Not Reported (Note 4)	45,381	39,537
Total Liabilities	85,417	64,493
<i>Net Position - Unrestricted</i>	49,748	115,946
<i>Total Liabilities and Net Position</i>	\$ 135,165	\$ 180,439

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, 2014 with comparative amounts shown for 2013

(Amounts in Thousands)

	2014	2013
<i>Operating Revenues</i>		
Premiums (Note 1)	\$ 741,903	\$ 742,514
Total Operating Revenues	741,903	742,514
<i>Operating Expenses</i>		
Claims (Notes 2 and 4)	795,270	774,060
Fees and Assessments	9,675	-
Administrative	3,465	3,203
Total Operating Expenses	808,410	777,263
Operating Loss	(66,507)	(34,749)
<i>Investment Revenues</i>		
Interest Income	309	507
Total Investment Revenues	309	507
Change in Net Position	(66,198)	(34,242)
<i>Net Position - Unrestricted</i>		
Beginning of Year	115,946	150,188
End of Year	\$ 49,748	\$ 115,946

See accompanying Notes to the Financial Statements.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Statement of Cash Flows

For the Fiscal Year Ended September 30, 2014 with comparative amounts shown for 2013

(Amounts in Thousands)

	<u>2014</u>	<u>2013</u>
<i>Cash Flows From Operating Activities</i>		
Receipts from Participants	\$ 741,857	\$ 742,448
Payments to Suppliers	(794)	(821)
Payments to Employees	(2,425)	(2,252)
Claims Paid	(784,300)	(778,226)
Fees and Assessments Paid	(161)	-
Net Cash Used for Operating Activities	<u>(45,823)</u>	<u>(38,851)</u>
<i>Cash Flows from Investing Activities</i>		
Interest from Investments	316	555
Purchases of Investments	(2,914,299)	(3,271,315)
Sales and Maturities of Investments	2,960,191	3,310,137
Net Cash Provided by Investing Activities	<u>46,208</u>	<u>39,377</u>
Net Increase in Cash	385	526
Cash at Beginning of Year	7,326	6,800
<i>Cash at End of Year</i>	<u>\$ 7,711</u>	<u>\$ 7,326</u>
<i>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</i>		
Operating Loss	\$ (66,507)	\$ (34,749)
Adjustments to Reconcile Operating Loss to Net Cash (Used for) Provided by Operating Activities:		
(Increase)/Decrease in Assets:		
Premium Receivable	(46)	(65)
Rebates Receivable	(1,177)	(1,356)
Deposit with Claims Paying Agent	983	(1,509)
Increase/(Decrease) in Liabilities:		
Accounts Payable	62	(5)
Employee Benefits Payable	50	2
Due to Other Governments	9,514	-
Other Postemployment Benefits	134	133
Reported Claims Payable	5,320	(2,455)
Claims Incurred but Not Reported	5,844	1,153
Net Cash Used for Operating Activities	<u>\$ (45,823)</u>	<u>\$ (38,851)</u>
<i>Noncash Investing Activities</i>		
Decrease in Interest Receivable	\$ 7	\$ 48

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, 2014

1) Organization and Summary of Significant Accounting Policies

A. General

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of 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 are eligible and may elect to participate in the plan. At this time, Jacksonville State University is the only university with active and retired members that has elected to participate in the plan. 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 Teachers' Retirement System of Alabama (TRS) 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 preventative services, as well as basic and major dental services. Diagnostic and preventative 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, 2014

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 2014 was \$714 per active participant. In accordance with the 2014 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of \$714 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 2014 was \$356 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 PEEHIF applies all applicable GASB pronouncements, as well as any Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure (CAP) issued on or before November 30, 1989, unless such FASB, APB, and CAP pronouncements conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989, even if they modify an applicable FASB, APB, or CAP pronouncement, are not applicable unless adopted by a GASB pronouncement. 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, 2014, was \$7,710,782.

D. Expense Fund

The Board designated \$3,600,000 of premiums received during the fiscal year ended September 30, 2014, 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, 2014

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. Medicare Part D Retiree Drug Subsidy (RDS) and Employer Group Waiver Plan (EGWP)

The PEEHIF received funds for its participation in the Medicare Part D Retiree Drug Subsidy (RDS) program and the Employer Group Waiver Plan (EGWP) during fiscal year 2014. The RDS program was replaced with the EGWP beginning January 1, 2013. The amounts received from these programs 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 2014, 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, 2014, were recorded as Due to Other Governments in the Statement of Net Position and amounted to \$9,513,642.

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, 2014, 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. Employee Benefits

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, 2014

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, 2014, the PEEHIF's unrestricted net position was allocated as follows:

Net Position - Unrestricted

(Amounts in Thousands)

Insurance Fund	\$ 43,578
Expense Fund	<u>6,170</u>
Total Net Position	<u>\$ 49,748</u>

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.

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.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

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.

The following table provides information concerning the fair value and the interest rate risk of the PEEHIF's investments as of September 30, 2014.

INVESTMENTS						
Maturity in Years at Fair Value						
(Amounts in Thousands)						
Type of Investment	Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Money Market Funds	\$ 50,736	\$ -	\$ -	\$ -	\$ 50,736	\$ 50,736
Commercial Paper	67,997	-	-	-	67,997	67,997
Total Investments	\$ 118,733	\$ -	\$ -	\$ -	\$ 118,733	\$ 118,733

The following table provides information concerning the credit risk of the PEEHIF's investments as of September 30, 2014.

RATINGS OF FIXED MATURITIES			
(Amounts in Thousands)			
Moody's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total
P-2	\$ 67,997	\$ 67,997	57.27
NR	50,736	50,736	42.73
Total Fixed Maturity	\$ 118,733	\$ 118,733	100.00
Standard & Poor's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total
AAAm	\$ 50,736	\$ 50,736	42.73
A-2	67,997	67,997	57.27
Total Fixed Maturity	\$ 118,733	\$ 118,733	100.00

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2014

B. Concentration of Investments

As of September 30, 2014, 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
Noble Corp	26.95
FMC Corporation	8.42
Hitachi Capital Corporation	8.42
Enbridge Energy Partners	6.74
Nabors Industries Ltd	6.74

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 2014.

UNPAID CLAIMS LIABILITIES

(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	<u>\$ 63,199</u>
Incurred Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Year	795,286
Decrease in Provision for Insured Events of Prior Years	<u>(16)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$ 795,270</u>
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	\$ 720,923
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years	<u>63,183</u>
Total Payments	<u>784,106</u>
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	<u>\$ 74,363</u>

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2014

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 by the Alabama Legislature in 1965 under the provisions of Act 833 to provide health insurance benefits for active and retired employees of the State of Alabama. In addition, the *Code of Alabama, 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 2014 rate was \$825 per active member per month.

In addition to the required monthly employer payments, participating retirees are required to pay certain monthly premium amounts. The *Code of Alabama, Section 36-29-19.7* authorizes the retiree contributions to the plan. The required monthly contribution rates for fiscal year 2014 are as follows:

Retired Member Rates (after applying the \$50 non-tobacco usage discount)

- Individual Coverage/Non-Medicare Eligible - \$226
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$528
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$357
- Individual Coverage/Medicare Eligible Retired Member - \$0
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$302
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$121

Surviving Spouse Rates (after applying the \$50 non-tobacco usage discount)

- Surviving Spouse Non-Medicare Eligible - \$347
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible - \$594
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible - \$503
- Surviving Spouse Medicare Eligible - \$166
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible - \$413
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible - \$322

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 at least biannually 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.

Fiscal Year	Annual Required Contribution (amounts in thousands)	Percentage Contributed
2014	\$215	38.20%
2013	\$233	42.63%
2012	\$208	38.84%

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2014

6) Pension Plan for the PEEHIF Employees

The employees of the PEEHIF participate in the Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan administered by the Retirement Systems of Alabama (RSA). Contributions to the plan were made in accordance with actuarially determined contribution requirements. The Schedule of Employer Contributions is shown below.

Fiscal Year	Annual Required Contribution (amounts in thousands)	Percentage Contributed
2014	\$201	100%
2013	\$167	100%
2012	\$155	100%

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
September 30, 2014

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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
1) Net Earned Required Contribution & Investment Revenue	742,212	743,021	743,002	884,416	764,313	806,691	870,330	851,238	1,033,162	873,373
2) Unallocated Expenses	3,465	3,203	2,779	2,587	3,160	2,566	2,731	2,199	2,609	3,343
3) Estimated Incurred Claims & Expense at End of Policy Year	795,286	776,256	741,836	750,966	790,024	775,205	699,409	636,854	858,906	802,624
4) Paid (Cumulative) As Of:										
End of Policy Year	720,923	713,057	677,334	678,546	713,231	696,658	629,815	585,303	788,907	724,720
One Year Later		776,240	739,640	749,114	790,009	772,397	699,370	636,391	854,905	788,939
5) Reestimated Incurred Claims & Expense:										
End of Policy Year	795,286	776,256	741,836	750,966	790,024	775,205	699,409	636,854	858,906	802,624
One Year Later		776,240	739,640	749,114	790,009	772,397	699,370	636,974	854,323	788,939
6) Increase/(Decrease) in Estimated Incurred Claims & Expenses at End of Policy Year		(16)	(2,196)	(1,852)	(15)	(2,808)	(39)	120	(4,583)	(13,685)

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.