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GASB STATEMENT NO. 74 REPORT

**For the Alabama Retired Education Employees'
Health Care Trust**

PREPARED AS OF SEPTEMBER 30, 2021





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

December 9, 2021

Retirement Systems of Alabama
P.O. Box 302150
Montgomery, AL 36130-2150

Dear Members of the Board:

Presented in this report is information to assist the Alabama Public Education Employees' Health Insurance Plan (PEEHIP) in meeting the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 74 for the Alabama Retired Education Employees' Health Care Trust. The information is presented for the one-year period ending September 30, 2021. These calculations have been made on a basis that is consistent with our understanding of these accounting standards.

The annual actuarial valuation performed as of September 30, 2020 was used as the basis for much of the information presented as of September 30, 2021 in this report. The valuation was based upon data furnished by the Alabama Teachers' Retirement System and the PEEHIP staff, concerning active, inactive, and retired members along with pertinent claims data and financial information. This information was reviewed for completeness and internal consistency but was not audited. The valuation results depend on the integrity of the data. If any of the information is inaccurate or incomplete our results may be different, and our calculations may need to be revised. PEEHIP adopted new assumptions prior to September 30, 2021. These updated assumptions were used to develop the liabilities for the period ending September 30, 2021.

To the best of our knowledge, the information contained in this report is complete and accurate. These calculations were performed by, and under the supervision of, independent consulting actuaries with experience in performing valuations for public retirement systems and retiree health benefit plans. In addition, the valuation was prepared in accordance with generally accepted actuarial principles and practices as well as with Actuarial Standards of Practice prescribed by the Actuarial Standards Board.

Our calculation of the liability associated with the benefits described in this report was performed for the purpose of providing reporting and disclosure information that satisfies the requirements of GASB Statement No. 74. The calculation of the plan's liability for this report may not be applicable for funding purposes of the plan. A calculation of the plan's liability for purposes other than satisfying the requirements of GASB No. 74 may produce significantly different results.



Alabama Retired Education Employees' Health Care Trust
December 9, 2021
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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.

Cavanaugh Macdonald Consulting, LLC does not provide legal, investment, or accounting advice. Thus, the information in this report is not intended to supersede or supplant the advice and interpretations of PEEHIP or its audit partners.

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 and retiree health benefit plans, that the valuations were 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 each plan.

Respectfully submitted,

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

Alisa Bennett, FSA, EA, FCA, MAAA
President

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

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

AB:jf



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Section I – Summary of Principal Results

**REPORT OF THE ANNUAL GASB STATEMENT NO. 74
REQUIRED INFORMATION FOR THE
ALABAMA RETIRED EDUCATION EMPLOYEES’ HEALTH CARE TRUST**

PREPARED AS OF SEPTEMBER 30, 2021

Valuation Date (VD):	September 30, 2020	September 30, 2019
Prior Measurement Date:	September 30, 2020	September 30, 2019
Measurement Date (MD):	September 30, 2021	September 30, 2020
Membership Data as of Valuation Date:		
Retired Members Currently Receiving Benefits	92,352	90,310
Surviving Spouses Currently Receiving Benefits	2,046	1,985
Inactive Members Entitled to Benefits but Not Yet Receiving	6,468	5,887
Active Members	<u>130,228</u>	<u>133,805</u>
Total Membership	231,094	231,987
Discount Rate:		
Long-Term Expected Rate of Return	7.00%	7.25%
Municipal Bond Index Rate at Measurement Date	2.29%	2.25%
Municipal Bond Index Rate at Prior Measurement Date	2.25%	3.00%
Year in which Fiduciary Net Position is Projected to be Depleted	2051	2040
Single Equivalent Interest Rate at Measurement Date	3.97%	3.05%
Single Equivalent Interest Rate at Prior Measurement Date	3.05%	5.50%
Net OPEB Liability:		
Total OPEB Liability (TOL)	\$ 7,088,911,404	\$ 8,091,610,784
Fiduciary Net Position (FNP)	<u>1,922,098,000</u>	<u>1,601,750,000</u>
Net OPEB Liability (NOL = TOL – FNP)	\$ 5,166,813,404	\$ 6,489,860,784
FNP as a percentage of TOL	27.11%	19.80%



Section II – Introduction

The Governmental Accounting Standards Board (GASB) issued Statement No. 74 (GASB 74), “*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*,” in June 2015. The effective date for reporting under GASB 74 is plan years beginning after June 15, 2016. This report has been prepared as of September 30, 2021 (the Measurement Date) to assist the Alabama Public Education Employees’ Health Insurance Plan (Plan) in better understanding the requirements of GASB 74 and to identify the information to be provided by the Plan’s actuary, Cavanaugh Macdonald Consulting (CMC). Much of the material provided in this report is based on the data, assumptions, and results of the annual actuarial valuation of the Plan as of September 30, 2020.

GASB 74 requires the determination of the Total OPEB Liability (TOL) utilizing the Entry Age Normal actuarial cost method. The Net OPEB Liability (NOL) is then set equal to the TOL minus the Plan’s Fiduciary Net Position (FNP) (basically the market value of assets). The benefit provisions recognized in the calculation of the TOL are summarized in Schedule B.

Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate (SEIR), as described by GASB 74. To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable under the plan’s provisions applicable to the members and beneficiaries of the Plan on the Measurement Date. If the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR.

If, however, the FNP is projected to be depleted, the SEIR is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the date of depletion by the long term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by a 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate (Municipal Bond Index Rate). The Municipal Bond Index Rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index, the Fidelity General Obligation AA 20-year Municipal Bond Index, and the S&P High Grade 20-year Municipal Bond Index. The rates as of September 30, 2021 were 2.26%, 2.19%, and 2.43% for the Bond Buyer, Fidelity, and S&P Municipal Bond Indices respectively. These three rates resulted in an averaged Municipal Bond Index Rate of 2.29%. For the purpose of this report, we have determined that a discount rate of 3.97% as of September 30, 2021 meets the requirements of GASB 74, as it is our understanding that a portion of the health care premium rate paid on behalf of active employees will be used to fund the OPEB plan.

The sections that follow provide the results of all the necessary calculations, presented in the order laid out in GASB 74 for note disclosure and Required Supplementary Information (RSI).



Section III – Financial Statement Notes

The actuarial related information presented herein will follow the order presented in GASB 74. Paragraph numbers are provided for ease of reference.

Paragraphs 34.a. (1)-(3): This information will be supplied by the Plan.

Paragraph 34.a. (4): The data required regarding the membership of the Plan were furnished by the PEEHIP and the Alabama Teachers’ Retirement System. The following table summarizes the membership of the Fund as of September 30, 2020, the date of the valuation used to determine the September 30, 2021 Total OPEB Liability.

Membership

	Total Number TRS	Number Not Eligible for or Waiving PEEHIP	Total Number PEEHIP
Retired Members or Surviving Spouses Currently Receiving Benefits	100,866	(6,468)	94,398
Inactive Members Entitled To But Not Yet Receiving Benefits	24,655	(18,187)	6,468
Non-vested Inactive Members Who Have Not Contributed to TRS For More Than 5 Years	30,490	(30,490)	0
Active Members	132,707	(2,479)	130,228
Total	288,718	(57,624)	231,094

	Male	Female	Total
Retired Members Currently Receiving Benefits	22,977	69,375	92,352
Surviving Spouses Currently Receiving Benefits	831	1,215	2,046
Total	23,808	70,590	94,398

Paragraphs 34.a. (5)-(6) and Paragraphs 34.b.-e.: This information will be supplied by the Plan.



Section III – Financial Statement Notes (continued)

Paragraphs 35.a. (1)-(4): As stated earlier, the NOL is equal to the TOL minus the FNP. That result, as of September 30, 2021, is presented in the following table.

	Fiscal Year Ending September 30	
	<u>2021</u>	
Total OPEB Liability Pre-Medicare	\$	2,657,130,093
Total OPEB Liability Post-Medicare		<u>4,431,781,311</u>
Total OPEB Liability	\$	7,088,911,404
Fiduciary Net Position		1,922,098,000
Net OPEB Liability	\$	5,166,813,404
Ratio of Fiduciary Net Position to Total OPEB Liability		27.11%

Paragraph 35.b.: This paragraph requires information regarding the actuarial assumptions used to measure the TOL. The actuarial assumptions utilized in developing the TOL are outlined in Schedule C. The Total OPEB Liability as of September 30, 2021 was determined based on an actuarial valuation prepared as of September 30, 2020, applied to all periods included in the measurement and rolled forward to the measurement date of September 30, 2021, using the following actuarial assumptions:

Inflation	2.50 percent
Salary increases	5.00–3.25 percent, including 2.75 percent wage inflation
Long-term investment rate of return	7.00 percent compounded annually, net of investment expense, and including inflation
Municipal Bond Index Rate at Measurement Date	2.29 percent
Municipal Bond Index Rate at Prior Measurement Date	2.25 percent
Year FNP is projected to be depleted	2051
Single Equivalent Interest Rate at Measurement Date	3.97 percent
Single Equivalent Interest Rate at Prior Measurement Date	3.05 percent



Section III – Financial Statement Notes (continued)

Healthcare cost trend rate

Initial trend rate	
Pre-Medicare Eligible	6.50%
Medicare Eligible	**
Ultimate trend rate	
Pre-Medicare Eligible	4.50% in 2028
Medicare Eligible	4.50% in 2025

** Initial Medicare claims are set based on scheduled increases through plan year 2022.

Mortality

The rates of mortality are based on the Pub-2010 Public Mortality Plans Mortality Tables, adjusted generationally based on scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019. The mortality rates are adjusted forward and/or back depending on the plan and group covered, as shown in the table below.

Group	Membership Table	Set Forward (+) / Set Back (-)	Adjustment to Rates
Active Members	Teacher Employee Below Median	None	65%
Service Retirees	Teacher Below Median	Male: +2 Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63 – 67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69 – 74
Disabled Retirees	Teacher Disability	Male: +8 Female: +3	None
Beneficiaries	Contingent Survivor Below Median	Male: +2 Female: None	None

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.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2020 valuation.



Section III – Financial Statement Notes (continued)

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Alabama Teachers' Retirement System. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class are to be summarized in a manner suggested by the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Fixed income	30%	4.40%
US Large Stocks	38%	8.00%
US Mid Stocks	8%	10.00%
US Small Stocks	4%	11.00%
International Developed Market Stocks	15%	9.50%
Cash	<u>5%</u>	1.50%
Total	100.0%	

* Geometric mean, includes 2.50% inflation

Discount rate (SEIR). For the purpose of this report, we have determined that a discount rate of 3.97% as of September 30, 2021 meets the requirements of GASB 74, because any premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees.



Section III – Financial Statement Notes (continued)

Paragraph 35.b.(1)

Sensitivity analysis: Disclosure of the sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rate. The following presents the Net OPEB Liability of the Fund, calculated using the current healthcare trend rates, as well as the Net OPEB Liability calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current rates:

	1% Decrease (5.50% decreasing to 3.50% for pre-Medicare, Known decreasing to 3.50% for Medicare eligible)	Current Healthcare Trend Rate (6.50% decreasing to 4.50% for pre-Medicare, Known decreasing to 4.50% for Medicare eligible)	1% Increase (7.50% decreasing to 5.50% for pre-Medicare, Known decreasing to 5.50% for Medicare eligible)
Net OPEB Liability	4,054,257,218	5,166,813,404	6,600,234,273

Paragraph 35.b.(2)

- (a) **Discount rate (SEIR).** The discount rate used to measure the Total OPEB Liability was 3.97%.
- (b) **Projected cash flows:** The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Currently, the monthly employer rate is \$800 per non-university active member. 14.802% of the employer contributions were used to assist in funding retiree benefit payments in 2020. 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021. It is assumed that the 12.990% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.00%. It is assumed the \$800 rate will increase with inflation at 2.50% starting in 2024. Retiree benefit payments for University members are paid by the Universities and are not included in the cash flow projections.
- (c) **Long term rate of return:** The long-term expected rate of return on OPEB plan investments will be determined based on the allocation of assets by asset class and by the mean and variance of real returns.
- (d) **Municipal bond rate:** The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid.
- (e) **Periods of projected benefit payments:** Projected future benefit payments for all current plan members were projected through 2119.
- (f) **Assumed asset allocation:** The target asset allocation and best estimates of geometric real rates of return for each major asset class were summarized on the prior page.



Section III – Financial Statement Notes (continued)

(g) Sensitivity analysis: This paragraph requires disclosure of the sensitivity of the Net OPEB Liability to changes in the discount rate. The following presents the Net OPEB Liability, calculated using the discount rate of 3.97%, as well as the Net OPEB Liability calculated using a discount rate that is 1-percentage-point lower (2.97%) or 1-percentage-point higher (4.97%) than the current rate:

	1% Decrease (2.97%)	Current Discount Rate (3.97%)	1% Increase (4.97%)
Net OPEB Liability	6,355,408,982	5,166,813,404	4,213,428,503

Paragraph 35.c.: September 30, 2020 is the actuarial valuation date upon which the TOL is based. The result is rolled forward using standard actuarial techniques to the measurement date. The roll forward calculation adds the normal cost (also called the service cost) for the period October 1, 2020 through September 30, 2021, subtracts the actual benefit payments for the same period and then applies the expected investment rate of return for the period. If applicable, actuarial gains and losses arising from benefit changes, the differences between estimates and actual experience, and changes in assumptions or other inputs are reconciled to the TOL as of the Measurement Date. The procedure was used to determine the TOL as of September 30, 2021, as shown in the following table:

TOL Roll Forward	
(a) TOL as of September 30, 2020*	\$ 8,091,610,784
(b) Actual Benefit Payments and Refunds, for the Period October 1, 2020 - September 30, 2021	(176,933,000)
(c) Interest on TOL = [(a) x (Prior SEIR)] + [(b) x (Prior SEIR * 0.5)]	244,095,901
(d) Service Cost for the Period October 1, 2020 - September 30, 2021 at the End of the Period	314,904,634
(e) Change Due to Change in Experience**	(27,975,210)
(f) Change Due to Change in Assumptions***	<u>(1,356,791,705)</u>
(g) TOL Rolled Forward to September 30, 2021 = (a) + (b) + (c) + (d) + (e) + (f)	\$ 7,088,911,404

* The TOL as of September 30, 2020 used in the roll forward was calculated using the discount rate as of the Prior Measurement Date.

** Change due to Experience includes demographic changes such as retirements, terminations, disabilities, and deaths different from expected as well as claims costs different from expected.

*** Change due to Assumptions was primarily due to the new experience study.



Section IV – Required Supplementary Information

There are several tables of Required Supplementary Information (RSI) that need to be included in the Plan’s financial statements. Paragraph numbers are provided for ease of reference.

Paragraphs 36.a.-c.: The required tables of schedules are provided in Schedule A.

Paragraph 36.d. and 37: The required schedule presenting the annual money-weighted rates of return is to be supplied by the Plan.

Paragraph 38: The following information should be noted regarding the RSI, particularly for the *Schedule of Employer Contributions*:

Changes in actuarial assumptions:

Changes to the actuarial assumptions as a result of the experience study for the five-year period ending June 30, 2020 are summarized below.

Assumption	Description
Price Inflation	2.50%
Investment Return (Net of Investment Expense)	7.00%
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%.

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.



Section IV – Required Supplementary Information (continued)

Recent Plan Changes:

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.



Section IV – Required Supplementary Information (continued)

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2021 is determined based on the actuarial valuation as of September 30, 2018. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry Age Normal
Amortization method	Level percent of pay, closed
Remaining amortization period	23 years
Asset valuation method	Market value of assets
Inflation	2.75%
Healthcare cost trend rate	
Pre-Medicare eligible	6.75%
Medicare eligible*	5.00% (beginning in 2019)
Ultimate trend rate	
Pre-Medicare eligible	4.75%
Medicare eligible	4.75%
Year of ultimate trend rate	2026 for pre-Medicare eligible 2024 for Medicare eligible
Optional Plans Trend Rate	2.00%
Investment rate of return	5.00%, including inflation

* Initial Medicare claims are set based on scheduled increases through plan year 2019.



Schedule A – Required Supplementary Information Tables

**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY
GASB 74 Paragraph 36.a.**

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total OPEB Liability										
Service Cost	\$ 327,568,574	\$ 299,066,115	\$ 219,135,939	\$ 157,316,135	\$ 314,904,634					
Interest	366,376,223	399,883,205	421,915,790	283,401,380	244,095,901					
Benefit changes	0	0	0	0	0					
Difference between expected and actual experience	0	184,547,248	(3,452,330,157)	81,989,858	(27,975,210)					
Changes of assumptions	(918,644,181)	266,452,038	(1,296,563,101)	2,513,243,548	(1,356,791,705)					
Benefit payments	(271,746,000)	(278,411,000)	(289,843,000)	(194,185,000)	(176,933,000)					
Refunds of contributions	0	0	0	0	0					
Net change in Total OPEB Liability	\$ (496,445,384)	\$ 871,537,606	\$ (4,397,684,529)	\$ 2,841,765,921	\$ (1,002,699,380)					
Total OPEB Liability - beginning	\$ 9,272,437,170	\$ 8,775,991,786	\$ 9,647,529,392	\$ 5,249,844,863	\$ 8,091,610,784					
Total OPEB Liability - ending (a)	\$ 8,775,991,786	\$ 9,647,529,392	\$ 5,249,844,863	\$ 8,091,610,784	\$ 7,088,911,404					
Plan Fiduciary Net Position (Estimated)										
Contributions – employer	\$ 243,146,000	\$ 245,545,000	\$ 284,411,000	\$ 198,014,000	\$ 172,676,000					
Contribution - non-employer	0	0	0	0	0					
Contributions – member	0	0	0	0	0					
Net investment income	138,261,000	114,501,000	55,407,000	122,121,000	325,661,000					
Benefit payments*	(271,746,000)	(278,411,000)	(289,843,000)	(194,185,000)	(176,933,000)					
Administrative expense	(1,354,000)	(1,346,000)	(1,653,000)	(1,226,000)	(1,001,000)					
Refund of contributions	0	0	0	0	0					
Other	56,000	(49,000)	(48,000)	(51,000)	(55,000)					
Net change in Plan Fiduciary Net Position	\$ 108,363,000	\$ 80,240,000	\$ 48,274,000	\$ 124,673,000	\$ 320,348,000					
Plan Fiduciary Net Position – beginning	\$ 1,240,200,000	\$ 1,348,563,000	\$ 1,428,803,000	\$ 1,477,077,000	\$ 1,601,750,000					
Plan Fiduciary Net Position - ending (b)	1,348,563,000	1,428,803,000	1,477,077,000	1,601,750,000	1,922,098,000					
Net OPEB Liability - ending (a) - (b)	\$ 7,427,428,786	\$ 8,218,726,392	\$ 3,772,767,863	\$ 6,489,860,784	\$ 5,166,813,404					

*Benefit payments are net of member contributions.



Schedule A – Required Supplementary Information Tables (continued)

**SCHEDULE OF THE NET OPEB LIABILITY
GASB 74 Paragraph 36.b.**

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Total OPEB Liability	\$ 8,775,991,786	\$ 9,647,529,392	\$ 5,249,844,863	\$ 8,091,610,784	\$ 7,088,911,404					
Plan Fiduciary Net Position	<u>1,348,563,000</u>	<u>1,428,803,000</u>	<u>1,477,077,000</u>	<u>1,601,750,000</u>	<u>1,922,098,000</u>					
Net OPEB Liability	\$ 7,427,428,786	\$ 8,218,726,392	\$ 3,772,767,863	\$ 6,489,860,784	\$ 5,166,813,404					
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	15.37%	14.81%	28.14%	19.80%	27.11%					
Covered-employee payroll	\$ 6,491,805,798	\$ 6,765,826,173	\$ 6,821,741,975	\$ 7,264,629,266	\$ 7,061,296,255					
Net OPEB Liability as a percentage of covered-employee payroll	114.41%	121.47%	55.31%	89.34%	73.17%					

	Total	Not Eligible for PEEHIP	Eligible for PEEHIP
Active Members	132,707	(2,479)	130,228
Compensation 9/30/2020	\$ 7,019,258,383	\$ (146,950,592)	\$ 6,872,307,791
Compensation rolled forward to 9/30/2021 (2.75% wage growth)			\$ 7,061,296,255



Schedule A – Required Supplementary Information Tables (continued)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
GASB 74 Paragraph 36.c.
(\$ in Thousands)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Actuarially determined employer contribution	\$697,677	\$516,343	\$566,237	\$626,062	\$642,141					
Actual employer contributions	<u>243,146</u>	<u>245,545</u>	<u>284,411</u>	<u>198,014</u>	<u>172,676</u>					
Annual contribution deficiency (excess)	\$454,531	\$270,798	\$281,826	\$428,048	\$469,465					
Covered-employee payroll	\$6,491,806	\$6,765,826	\$6,821,742	\$7,264,629	\$7,061,296					
Actual contributions as a percentage of covered-employee payroll	3.75%	3.63%	4.17%	2.73%	2.45%					



Schedule B – Summary of Main Benefit Provisions

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 2021 subsidy premium amount is \$201.25 per month. Upon Medicare entitlement, the subsidy component will be removed.



Schedule B – Summary of Main Benefit Provisions (continued)

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 2020-2021 Plan Year		
Coverage Type	*Premium if Retiree Subscriber is Non-Medicare-Eligible	Premium if Retiree Subscriber is Medicare-Eligible
Single Coverage	\$170	\$25
Family Coverage:		
Multiple Dependents but No Spouse	\$425	\$280
Multiple Dependents and Non-Medicare-Eligible Spouse	\$525	\$380
Multiple Dependents and Medicare-Eligible Spouse	\$455	\$310
Only Non-Medicare-Eligible Spouse	\$500	\$355
Only Medicare-Eligible Spouse	\$309	\$164
Only 1 Non-Spousal Medicare-Eligible Dependent	\$284	\$139
Only 1 Non-Spousal Non-Medicare Eligible Dependent	\$425	\$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 \$170 monthly effective October 1, 2020.

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 2021, the monthly amount is \$295 per retiree.



Schedule B – Summary of Main Benefit Provisions (continued)

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 two of these plans can be purchased for \$0 in lieu of taking the hospital medical coverage, 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 (\$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 2020-2021 Plan Year	
Type of Contract	Monthly Premium for PEEHIP Hospital Medical or VIVA Health Plan
Individual Coverage/Non-Medicare-eligible (NME) Survivor	\$920
Family Coverage/NME Survivor & More Than 1 Dependent or Only Dependent NME	\$1,192
Family Coverage/NME Survivor & Only Dependent Medicare-eligible (ME)	\$985
Individual Coverage/ME Survivor	\$244
Family Coverage/ME Survivor & More Than 1 Dependent or Only Dependent NME	\$613
Family Coverage/Medicare-eligible Survivor & Only Dependent ME	\$387
Supplemental Medical Plan (Single or Family)	\$170
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 B – Summary of Main Benefit Provisions (continued)

Benefit Policy and Premium Changes

Effective October 1, 2020

(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 was **\$2,700** beginning fiscal year October 1, 2019 and is **\$2,750** beginning fiscal year October 1, 2020. This is a benefit enhancement.
- ◆ The Dependent Care Reimbursement Account (DCRA) annual maximum contribution remains unchanged at \$5,000 (\$2,500 each if married filing separately).
- ◆ The Carryover Limit will increase from **\$500** to **\$550** beginning fiscal year October 1, 2020.

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 decreasing to **\$25** per consult effective October 1, 2020.
- ◆ 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 2020-2021 benefits. 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 calendar year deductible remains unchanged at **\$500** for individual and **\$1,500** per family contract for the 2021 fiscal year. ABA therapy will be available to those members with a diagnosis of autism, autism spectrum disorder, or pervasive developmental delay.



Schedule B – Summary of Main Benefit Provisions (continued)

- ◆ 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 now be a new benefit category, which is a benefit enhancement because the deductible no longer applies.

Maximum Annual Out-of-Pocket Amounts

- ◆ The combined medical and prescription drug in-network maximum annual out-of-pocket amounts was **\$8,150** per individual and **\$16,300** per family per calendar year effective January 1, 2020 and is **\$8,550** per individual and **\$17,100** per family per calendar year effective January 1, 2021.

Supplemental Medical Changes

- ◆ The annual maximum amount of claims paid under Group #61000 was **\$8,150** per individual and **\$16,300** per family per calendar year effective January 1, 2020 and is **\$8,550** per individual and **\$17,100** per family per calendar year effective January 1, 2021. This is a benefit enhancement.

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.



Schedule B – Summary of Main Benefit Provisions (continued)

Medicare Advantage PPO Plans

- ◆ Humana® will replace UnitedHealthcare® in administering the PEEHIP Group Medicare Advantage (PPO) Plan for Medicare-eligible retirees and Medicare-eligible dependents of retirees starting 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 2021 fiscal year is the wellness screening. All other activities of the wellness program are on a voluntary basis.



Schedule C – Statement of Actuarial Assumptions and Methods

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, 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, 2020

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			
Year	Pre-Medicare Medical Trend*	Medicare-Eligible Medical Trend*	Optional Plans Trend
2020	6.50%	**	2.00%
2021	6.25	**	2.00
2022	6.00	5.00%	2.00
2023	5.75	5.00	2.00
2024	5.50	4.75	2.00
2025	5.25	4.50	2.00
2026	5.00	4.50	2.00
2027	4.75	4.50	2.00
2028	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.

** No trend is applied to the MAPD until 2022 because the rates are guaranteed through 2021.



Schedule C – Statement of Actuarial Assumptions and Methods (continued)

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%

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%
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



Schedule C – Statement of Actuarial Assumptions and Methods (continued)

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

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	\$13,208
Post-65	\$1,200

MEDICARE ADVANTAGE PREMIUMS: Claims for Medicare-Eligible retirees are set based on scheduled premium rate increases until the 2022 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
\$449	\$69	\$125	\$178

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 (continued)

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 (continued)

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 (continued)

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 (continued)

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 (continued)

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 (continued)

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. We have considered available information and the only explicit change incorporated at this time was the use of pre-Medicare claims experience for the two-year period ending April 30, 2020 instead of September 30, 2020 to avoid bias in claims costs due to the pandemic. No other 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 – Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future (currently 3.97%), of each participant's expected retiree health benefit at retirement or death based on his age and service. The calculations take into account the probability of a participant's death or termination of employment prior to becoming eligible for a benefit, as well as the probability of his terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable on account of the active participants is added to the present value of the expected future payments to retired participants and beneficiaries to obtain the present value of all expected benefits payable from the Plan on account of the present group of participants and beneficiaries.
2. The contributions required to support the benefits of the Plan are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Using this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of each participant during the entire period of his anticipated covered service, would be required in addition to the contributions of the participant to meet the cost of all benefits payable on his behalf.
4. The present value of future unfunded accrued liability contributions is determined by subtracting the present value of prospective normal contributions, together with the current assets held, from the present value of expected benefits to be paid from the Plan.