

## **Illustration 2—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Provides OPEB through a Defined Benefit OPEB Plan That Is Administered through a Trust That Meets the Criteria in Paragraph 4 of This Statement (No Nonemployer Contributing Entities)**

[Note: This illustration includes only note disclosures and required supplementary information required by this Statement.]

### **Sample School System Notes to the Financial Statements for the Year Ended September 30, 2023**

(Dollar amounts in thousands)

#### **Summary of Significant Accounting Policies**

##### ***Postemployment Benefits Other Than Pensions (OPEB)***

The Alabama Retired Education Employees' Health Care Trust (Trust) financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the Net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the Fiduciary Net Position of the Trust and additions to/deductions from the Trust's Fiduciary Net Position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

##### ***Note X – Other Post-Employment Benefit Plans (OPEB)***

[If the System's employees were provided with benefits through more than one defined benefit OPEB plan, the System should disclose information required by paragraph 89 of this Statement and should apply the requirements of paragraph 90 of this Statement.]

#### **General Information about the OPEB Plan**

##### ***Plan description***

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan (PEEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Annual Comprehensive Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A* (Act 83-455) to provide a uniform plan of health insurance for active and retired employees

of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4* provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the Alabama Retired Education Employees' Health Care Trust 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 PEEHIP and, consequently, serves as the administrator of the Trust.

### ***Benefits provided***

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, eyeglasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their 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 retired members and covered dependents are eligible to enroll in the PEEHIP Supplemental Medical Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. Members who are enrolled in the PEEHIP Hospital Medical Plan (Group 14000), VIVA Health Plan (offered through PEEHIP), Marketplace (Exchange) Plans, State Employees Insurance Board (SEIB), Local Government Board (LGB), Medicare, Medicaid, ALL Kids, Tricare, or Champus as their primary coverage, or are enrolled in a Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA), are not eligible to enroll in the PEEHIP Supplemental Plan. The plan cannot be used as a supplement to Medicare. Retired members who become eligible for Medicare are eligible to enroll in the PEEHIP Group Medicare Advantage (PPO) Plan or the Optional Coverage Plans.

Effective January 1, 2020, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2023, United Health Care (UHC) Group replaced the Humana contract. The MAPDP

plan is fully insured by UHC and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the UHC plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

### ***Contributions***

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

### ***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

At September 30, 2023, the [School System] reported a liability of \$[See Detail Report Page 1] for its proportionate share of the Net OPEB liability. The Net OPEB liability was measured as of September 30, 2022 and the total OPEB liability used to calculate the Net OPEB liability was determined by an actuarial valuation as of September 30, 2021. The [School System's] proportion of the Net OPEB liability was based on [School System's] share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2022, the [School System's] proportion was [See Detail Report Page 1] percent, which was an increase of [See Detail Report Page 1] % from its proportion measured as of September 30, 2021.

For the year ended September 30, 2023, the System recognized OPEB expense of \$[See System's general ledger], with no special funding situations. At September 30, 2023, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	See Detail Table Pg 1	See Detail Table Pg 1
Changes of assumptions	See Detail Table Pg 1	See Detail Table Pg 1
Net difference between projected and actual earnings on OPEB plan investments	See Detail Table Pg 1	See Detail Table Pg 1
Changes in proportion and differences between Employer contributions and proportionate share of contributions	See Detail Table Pg 1	See Detail Table Pg 1
Employer contributions subsequent to the measurement date	*	
Total	<u>Total of above</u>	<u>Total of above</u>

\*Enter FY 2023 employer contributions related to retirees paid subsequent to the measurement date.  
[RSA will annually (no later than October 31<sup>ST</sup>) provide a percentage to multiply the current fiscal year's contributions by to calculate this amount.]

\$(FY 2023 Employer Contributions paid subsequent to the measurement date (see amount \* above))  
reported as deferred outflows of resources related to OPEB resulting from the [School System's]  
contributions subsequent to the measurement date will be recognized as a reduction of the Net OPEB  
liability in the year ended September 30, 2024.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB  
will be recognized in OPEB expense as follows:

**Year ended September 30:**

2024	[See School System's Detail Report Page 1]
2025	[See School System's Detail Report Page 1]
2026	[See School System's Detail Report Page 1]
2027	[See School System's Detail Report Page 1]
2028	[See School System's Detail Report Page 1]
Thereafter	[See School System's Detail Report Page 1]

***Actuarial assumptions***

The total OPEB liability was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	5.00 - 3.25%, including 2.75% wage inflation
Long-Term Investment Rate of Return	7.00% compounded annually, net of investment expense, and including inflation
Municipal Bond Index Rate at Measurement Date	4.40%
Municipal Bond Index Rate at Prior Measurement Date	2.29%
Year Fiduciary Net Position (FNP) is Projected to be Depleted	N/A
Singe Equivalent Interest Rate at Measurement Date	7.00%
Singe Equivalent Interest Rate at Prior Measurement Date	3.97%
Healthcare Cost Trend Rate	
Initial Trend Rate	
Pre-Medicare Eligible	6.50%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2031
Medicare Eligible	4.50% in 2027

\*\* Initial Medicare claims are set based on scheduled increases through plan year 2025.

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	Teacher 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, 2021 valuation.

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 Teachers' Retirement System of Alabama. 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 long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Fixed Income	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
<b>Total</b>	<b>100.00%</b>	

\* Geometric mean, includes 2.5% inflation

### ***Discount Rate***

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability was 7.00%. 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. 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 active member for participating employers. Approximately, 15.257% of the employer contributions were used to assist in funding retiree benefit payments in 2022 and it is assumed that the 15.257% will increase or decrease at the same rate as expected benefit payments for the closed group with a cap of 20.00%. It is assumed the \$800 rate will increase with inflation at 2.50% starting in 2027. Retiree benefit payments for University members are paid by the Universities and are not included

in the cash flow projections. 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. Projected future benefit payments for all current plan members are projected through 2120.

***Sensitivity of the [School System’s] proportionate share of the Net OPEB liability to changes in the healthcare cost trend rates.***

The following table presents the [School System’s] proportionate share of the Net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the Net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (5.50% decreasing to 3.50% for pre- Medicare, Known decreasing to 3.50% for Medicare eligible)</b>	<b>Current Healthcare Trend Rate (6.50% decreasing to 4.50% for pre-Medicare, Known decreasing to 4.50% for Medicare eligible)</b>	<b>1% Increase (7.50% decreasing to 5.50% for pre- Medicare, Known decreasing to 5.50% for Medicare eligible)</b>
	(Amounts in Thousands)		
Net OPEB Liability	See Detail Report, Pg 2	See Detail Report, Pg 2	See Detail Report, Pg 2

The following table presents the [School System’s] proportionate share of the Net OPEB liability of the Trust calculated using the discount rate of 7.00%, as well as what the Net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
	(Amounts in Thousands)		
Net OPEB Liability	See Detail Report, Pg 2	See Detail Report, Pg 2	See Detail Report, Pg 2

***OPEB Plan Fiduciary Net Position***

Detailed information about the OPEB plan’s Fiduciary Net Position is in the Trust’s financial statements for the fiscal year ended September 30, 2023. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2023. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

## Schedules of Required Supplementary Information

### SCHEDULE OF [SCHOOL SYSTEM'S] PROPORTIONATE SHARE

#### OF THE NET OPEB LIABILITY

#### ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Fiscal Year Ended September 30

(Dollar Amounts in Thousands)

*(refer to the Schedule of Employer Allocations and the Schedule of OPEB Amounts by Employer)*

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
[School Systems] proportion of the net OPEB liability	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%
[School Systems] proportionate share of the net OPEB liability	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
[School Systems] covered-employee payroll	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
[School Systems] proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%	14.81%	28.14%	19.80%	27.11%	48.39%

Schedule is intended to show information for 10 years.  
 Additional years will be displayed as they become available.



## Schedules of Required Supplementary Information

### SCHEDULE OF [SCHOOL SYSTEM'S] CONTRIBUTIONS ALABAMA RETIRED EDUCATION EMPLOYEES' HEALTH CARE TRUST

For the Fiscal Year Ended September 30

(Dollar Amounts in Thousands)

*(refer to the Schedule of Other Postemployment Benefit (OPEB) Amounts by Employer)*

	2018	2019	2020	2021	2022	2023
Contractually required contribution	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
Contributions in relation to the contractually required contribution	(\$X,XXX)	(\$X,XXX)	(\$X,XXX)	(\$X,XXX)	(\$X,XXX)	(\$X,XXX)
Contribution deficiency (excess)	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
[School System's] covered-employee payroll	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX	\$X,XXX
Contributions as a percentage of covered-employee payroll	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%	XX.XXXX%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

## Notes to Required Supplementary Information for the Year Ended September 30, 2023

### *Changes in actuarial assumptions*

In 2021, rates of withdrawal, retirement, disability, and mortality were adjusted to reflect actual experience more closely. In 2021, economic assumptions and the assumed rates of salary increases were adjusted to reflect actual and anticipated experience more closely.

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

### *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 Affordable Care Act maximum annual out-of-pocket amounts.

### *Method and assumptions used in calculations of actuarially determined contributions*

The actuarially determined contribution rates in the Schedule of OPEB Contributions were calculated as of September 30, 2019, which is three years prior to the end of the fiscal year in which contributions are reported. 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
Remaining Amortization Period	22 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible	**
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2027 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 2022.