

Public Education Employees' Health Insurance Fund

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Public Education Employees'
Health Insurance Plan Board of Control

Opinion

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, 2022, and the related notes to the financial statements, which collectively comprise the Public Education Employees' Health Insurance Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the Public Education Employees' Health Insurance Fund, as of September 30, 2022, and the respective changes in net position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Public Education Employees' Health Insurance Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Public Education Employees' Health Insurance Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material

misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Public Education Employees' Health Insurance Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Public Education Employees' Health Insurance Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of the net pension liability, schedule of pension contributions, schedule of proportionate share of net OPEB liability, schedule of OPEB contributions, and schedule of ten-year claims development information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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, 2021, from which such partial information was derived. We have previously audited the Public Education Employees' Health Insurance Fund's financial statements and we expressed an unmodified opinion on the respective financial statements in our report dated February 15, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Carr, Riggs & Ingram, L.L.C.

Montgomery, Alabama
January 31, 2023

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Management's Discussion and Analysis
September 30, 2022

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, 2022. 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 end of the fiscal year. It includes a Schedule of Proportionate Share of the Net Pension Liability and a Schedule of Contributions. Both schedules pertain to PEEHIF employees who participate in the Teachers' Retirement System of Alabama (TRS) pension plan. The Required Supplementary Information also includes the Schedule of Contributions and a Schedule of Proportionate Share of the Net OPEB Liability. Both schedules pertain to employees of Public Education Employees' Health Insurance Plan (PEEHIP) who participate in the State Employees' Health Insurance Plan (SEHIP).

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Management's Discussion and Analysis
September 30, 2022

Comparative Financial Statements

Summary Comparative Statement of Net Position

As of September 30, 2022 and 2021

(Amounts in Thousands)

	<u>2022</u>	<u>2021</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Assets and Deferred Outflows of Resources</i>				
Cash	\$ 314	\$ 722	\$ (408)	(56.51)
Receivables	38,244	14,396	23,848	165.66
Coronavirus Relief Fund Receivable	-	931	(931)	(100.00)
Deposit with Claims-Paying Agent	1,523	1,855	(332)	(17.90)
Investments	293,717	271,758	21,959	8.08
Deferred Outflows of Resources	4,337	1,543	2,794	181.08
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 338,135</u>	<u>\$ 291,205</u>	<u>\$ 46,930</u>	<u>16.12</u>
<i>Liabilities and Deferred Inflows of Resources</i>				
Payables	\$ 70,825	\$ 61,886	\$ 8,939	14.44
Claims Incurred but Not Reported	74,663	77,395	(2,732)	(3.53)
Deferred Revenue	3,545	-	3,545	100.00
Deferred Inflows of Resources	3,673	2,305	1,368	59.35
Total Liabilities and Deferred Inflows of Resources	152,706	141,586	11,120	7.85
Total Net Position - Unrestricted	185,429	149,619	35,810	23.93
<i>Total Liabilities, Deferred Inflows of Resources, and Net Position</i>	<u>\$ 338,135</u>	<u>\$ 291,205</u>	<u>\$ 46,930</u>	<u>16.12</u>

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

For the Fiscal Years Ended September 30, 2022 and 2021

(Amounts in Thousands)

	<u>2022</u>	<u>2021</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Operating Revenues</i>				
Premiums	\$ 1,078,983	\$ 1,084,562	\$ (5,579)	(0.51)
Transfers from Internal Service Fund	794	15,386	(14,592)	(94.84)
Total Operating Revenues	1,079,777	1,099,948	(20,171)	(1.83)
<i>Operating Expenses</i>				
Claims	1,042,658	1,135,163	(92,505)	(8.15)
Fees and Assessments	417	388	29	7.47
Administrative	3,539	3,595	(56)	(1.56)
Total Operating Expenses	1,046,614	1,139,146	(92,532)	(8.12)
Operating Income/(Loss)	33,163	(39,198)	72,361	(184.60)
<i>Investment Revenues</i>				
Interest Income	2,647	333	2,314	694.89
Total Investment Revenues	2,647	333	2,314	694.89
Change in Net Position	35,810	(38,865)	74,675	(192.14)
<i>Net Position</i>				
Beginning of Year	149,619	188,484	(38,865)	(20.62)
End of Year	<u>\$ 185,429</u>	<u>\$ 149,619</u>	<u>\$ 35,810</u>	<u>23.93</u>

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Management's Discussion and Analysis
September 30, 2022

Financial Highlights

- Cash on hand at September 30, 2022, was primarily held for the payment of administrative expenses of the PEEHIF.
- Receivables increased due to an increase in expected rebates.
- During Fiscal 2022, PEEHIP entered into a contract with a new pharmacy benefit manager which resulted in a significant reduction in pharmaceutical costs as evidenced by the reduction in Claims Expense. As a result, the net position increased which was reflected in an increase in Investments.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Statement of Net Position

September 30, 2022 with comparative amounts shown for 2021

(Amounts in Thousands)

	<u>2022</u>	<u>2021</u>
<i>Assets</i>		
Current Assets:		
Cash (Note 1)	\$ 314	\$ 722
Premiums Receivable (Note 1)	4,107	4,584
Rebates Receivable	26,890	9,811
Miscellaneous Receivable	7,186	-
Interest Receivable	61	1
Coronavirus Relief Funds	-	931
Deposit with Claims-Paying Agent	1,523	1,855
Total Current Assets	<u>40,081</u>	<u>17,904</u>
Noncurrent Assets:		
Investments, at Fair Value		
Investments, Unrestricted	293,717	271,758
Total Investments, at Fair Value (Note 3)	<u>293,717</u>	<u>271,758</u>
Total Assets	<u>333,798</u>	<u>289,662</u>
Deferred Outflows of Resources		
Net Pension Liability	4,115	1,207
Net Other Post Employment Benefit (OPEB) Liability	222	336
Total Deferred Outflows of Resources	<u>4,337</u>	<u>1,543</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 338,135</u>	<u>\$ 291,205</u>
<i>Liabilities</i>		
Current Liabilities:		
Accounts Payable	\$ 1,432	\$ 1,251
Due to Other Governments	415	392
Compensated Absences, Current (Note 1)	18	16
Reported Claims Payable (Note 4)	61,178	54,079
Claims Incurred but Not Reported (Note 4)	74,663	77,395
Deferred Revenue	3,545	-
Total Current Liabilities	<u>141,251</u>	<u>133,133</u>
Noncurrent Liabilities:		
Compensated Absences (Note 1)	568	510
Net Pension Liability (Note 5)	6,366	4,549
Net OPEB Liability (Note 6)	848	1,089
Total Noncurrent Liabilities	<u>7,782</u>	<u>6,148</u>
Total Liabilities	<u>149,033</u>	<u>139,281</u>
Deferred Inflows of Resources		
Net Pension Liability	1,875	84
Net OPEB Liability	1,798	2,221
Total Deferred Inflows of Resources	<u>3,673</u>	<u>2,305</u>
Total Liabilities and Deferred Inflows of Resources	<u>152,706</u>	<u>141,586</u>
Net Position Unrestricted (Note 1)	<u>185,429</u>	<u>149,619</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 338,135</u>	<u>\$ 291,205</u>

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, 2022 with comparative amounts shown for 2021

(Amounts in Thousands)

	<u>2022</u>	<u>2021</u>
<i>Operating Revenues</i>		
Premiums (Note 1)	\$ 1,078,983	\$ 1,084,562
Transfers from Internal Service Fund (Note 1)	<u>794</u>	<u>15,386</u>
Total Operating Revenues	<u>1,079,777</u>	<u>1,099,948</u>
<i>Operating Expenses</i>		
Claims (Notes 2 and 4)	1,042,658	1,135,163
Fees and Assessments	417	388
Administrative	<u>3,539</u>	<u>3,595</u>
Total Operating Expenses	<u>1,046,614</u>	<u>1,139,146</u>
Operating Income/(Loss)	<u>33,163</u>	<u>(39,198)</u>
<i>Investment Revenues</i>		
Interest Income	<u>2,647</u>	<u>333</u>
Change in Net Position	35,810	(38,865)
<i>Net Position</i>		
Beginning Net Position	149,619	188,484
Ending Net Position	<u><u>\$ 185,429</u></u>	<u><u>\$ 149,619</u></u>

See accompanying Notes to the Financial Statements.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Statement of Cash Flows

For the Fiscal Year Ended September 30, 2022 with comparative amounts shown for 2021

(Amounts in Thousands)

	2022	2021
<i>Cash Flows from Operating Activities</i>		
Receipts from Participants	\$ 1,080,391	\$ 1,087,587
Payments to Suppliers	(1,046)	(1,024)
Payments to Employees	(2,102)	(2,439)
Claims Paid	(1,058,679)	(1,092,378)
Fees and Assessments Paid	(394)	(369)
Transfers from Internal Service Fund	794	15,386
Net Cash Provided by Operating Activities	<u>18,964</u>	<u>6,763</u>
<i>Cash Flows from Investing Activities</i>		
Interest from Investments	2,587	334
Purchases of Investments	(3,637,363)	(3,885,061)
Sales and Maturities of Investments	3,615,404	3,878,227
Net Cash (Used for) Investing Activities	<u>(19,372)</u>	<u>(6,500)</u>
Net (Decrease)/Increase in Cash	(408)	263
Cash at Beginning of Year	722	459
<i>Cash at End of Year</i>	<u><u>\$ 314</u></u>	<u><u>\$ 722</u></u>
<i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>		
Operating Income/(Loss)	\$ 33,163	\$ (39,198)
(Increase)/Decrease in Assets:		
Premiums Receivable	477	(2,344)
Rebates Receivable	(17,079)	1,724
Miscellaneous Receivable	(7,186)	1,507
Coronavirus Relief Funds	931	5,369
Deposit with Claims-Paying Agent	332	(960)
Deferred Outflows of Resources	(2,794)	(160)
Increase/(Decrease) in Liabilities:		
Accounts Payable	181	394
Compensated Absences	60	(56)
Due to Other Governments	23	19
Net Pension Liability	1,817	622
Net OPEB Liability	(241)	(971)
Reported Claims Payable	7,099	23,649
Claims Incurred but Not Reported	(2,732)	16,865
Deferred Revenue	3,545	-
Deferred Inflows of Resources	1,368	303
Net Cash Provided by Operating Activities	<u><u>\$ 18,964</u></u>	<u><u>\$ 6,763</u></u>
<i>Noncash Investing Activities</i>		
Increase/(Decrease) in Interest Receivable	<u><u>\$ 60</u></u>	<u><u>\$ (1)</u></u>

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, 2022

1) Organization and Summary of Significant Accounting Policies

A. General

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 pursuant to the *Code of Alabama 1975, Title 16, Chapter 25A* (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 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. At this time, only two universities have elected 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 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 Board 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 Annual Comprehensive Financial Report.

In order to comply with the reporting requirements set by GASB Statement No. 74, *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 Medicare Advantage Plan with Prescription Drug Coverage Plan (MAPDP). 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 preventive services, as well as basic and major dental services. Diagnostic and preventive 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 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, 2022

A. General, Continued

The State Legislature specifies the monthly employer rate that participating school systems must contribute for each active employee. The monthly employer rate for fiscal year 2022 was \$800 per active participant. In accordance with the 2022 budget established by the Alabama Legislature, participating school systems paid the required monthly employer rate of \$800 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 2022 was \$251 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 accompanying financial statements are prepared in accordance with the requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, PEEHIF is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report. Premiums are recognized as revenues when earned, pursuant to plan requirements. Claims and assessments are recognized when due and payable in accordance with the terms of the plans provided. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. 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, 2022, was \$313,613.

D. Expense Fund

The Board designated \$4,360,000 of premiums received during the fiscal year ended September 30, 2022, 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 Teachers' Retirement System of Alabama (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.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements For the Fiscal Year Ended September 30, 2022

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Fees and Assessments

The Patient Protection and Affordable Care Act (ACA) levies certain fees and assessments upon group health insurance plans. During fiscal year 2022, the PEEHIF was subject to the Patient-Centered Outcomes Research Institute Fee (PCORI Fee). The fee is calculated based on the number of covered lives under the plan. The expense for the PCORI fee 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, 2022, were recorded as Due to Other Governments in the Statement of Net Position and amounted to \$414,910.

I. 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, 2022, 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.

J. Compensated Absences

The PEEHIF records a liability and a charge to expense for all compensated absences for leave that has not been used as of the end of the fiscal year as defined in GASB Statement No. 101, *Compensated Absences*.

K. 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, 2022, the PEEHIF's unrestricted net position was allocated as follows:

Net Position - Unrestricted	
(Amounts in Thousands)	
Insurance Fund	\$ 196,248
Expense Fund	(10,819)
Total Net Position	<u>\$ 185,429</u>

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

L. 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 accounting principles generally accepted in the United States of America. 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.

M. Deferred Outflows & Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources until that period. Deferred Outflows of Resources related to the employer's Net Pension Liability and Net OPEB Liability are reported as deferred outflows of resources.

In addition to liabilities, the Statement of Net Position reports a separate section for *Deferred Inflows of Resources*. This separate financial statement element represents an acquisition of net position that applies to future periods and will not be recognized until then. Deferred Inflows of Resources relate to Net Pension Liability and Net OPEB Liability.

N. Coronavirus Relief Funds and Transfers from Internal Service Funds

The federal Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) was signed into law on March 27, 2020. The CARES Act authorized \$150 billion through the Coronavirus Relief Fund (CRF) for state and local governments, including \$1.8 billion for Alabama, to pay for costs incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19) pandemic. PEEHIF requested reimbursement for health insurance claims processed for the members of PEEHIP through Blue Cross Blue Shield of Alabama and administrative expenses. For the year ended September 30, 2022, PEEHIF has recorded a total of \$794,000 as Transfers From Internal Service Fund in the Statement of Revenues, Expenses and Changes in Fund Net Position.

O. Future Accounting Pronouncements

There were no future accounting pronouncements affecting PEEHIP as of September 30, 2022.

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 \$15.70 per month per contract. The \$15.70 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 \$2.55 per month per contract.

Express Scripts Inc. (ESI), under contract with the Board, administered claims under the prescription drug plan. The ESI administrative fee was \$1.70 per eligible member per month.

Southland Benefit Solutions, LLC (Southland), under contract with the Board, administered claims under the optional plans. The processing fees per month per contract were \$0.82 for Group Hospital Indemnity, \$0.68 for Group Cancer, \$1.13 for Group Vision, and \$1.51 for Group Dental.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

2) Contract Administrators, continued

Effective January 1, 2020, Humana Insurance Company under contract with the Board, provided a fully-insured Medicare Advantage (MA) and Medicare Advantage Prescription Drug Plan (MAPDP) to Medicare eligible retirees and their eligible dependents.

VIVA Health, under contract with the Board, provided a fully-insured Hospital Medical plan option for actives and non-Medicare eligible retirees who do not have Medicare eligible dependents.

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, 2022:

	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	
Fixed Maturity							
Domestic							
Money Market Funds	\$ 57,222	\$ -	\$ -	\$ -	\$ 57,222	\$ 57,222	
Commercial Paper	236,495	-	-	-	236,495	236,495	
Total Domestic Fixed Maturity	<u>\$ 293,717</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>293,717</u>	<u>293,717</u>	
Total Investments					<u>\$ 293,717</u>	<u>\$ 293,717</u>	

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements For the Fiscal Year Ended September 30, 2022

A. Investment Risks, Continued

The following table provides information concerning the credit risk of the PEEHIF's investments as of September 30, 2022:

RATINGS OF FIXED MATURITIES (Amounts in Thousands)

Moody's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fair Value of Fixed Maturities
P-2	\$ 236,495	\$ 236,495	80.52%
NR	57,222	57,222	19.48
Total Moody's Rated Fixed Maturities	293,717	293,717	100.00
Total Fixed Maturities	\$ 293,717	\$ 293,717	100.00%

Standard & Poor's Ratings	Cost	Fair Value	Fair Value as a Percentage of Total Fair Value of Fixed Maturities
A-2	\$ 236,495	\$ 236,495	80.52%
NR	57,222	57,222	19.48
Total S&P Rated Fixed Maturities	293,717	293,717	100.00
Total Fixed Maturities	\$ 293,717	\$ 293,717	100.00%

B. Fair Value Measurements

The PEEHIF categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy prioritizes the inputs to valuation used to measure the fair value of the asset, giving the highest priority to quoted prices in an active market for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

- Level 1: Quoted (unadjusted) prices in an active market for identical assets or liabilities.
- Level 2: Significant other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in a less active market, or other market-corroborated inputs.
- Level 3: Valuations derived from valuation techniques using significant unobservable inputs for the asset or liabilities.

The categorization of investments within the hierarchy is based upon pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Investments in equity securities classified as Level 1 are valued using quoted prices in an active market for those securities. PEEHIF does not own any investments that are classified as Level 1.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements For the Fiscal Year Ended September 30, 2022

B. Fair Value Measurements, Continued

Investments in securities classified as Level 2 are valued using non-proprietary information that is readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotation, yields, maturities, call features, and ratings.

Investments in private equity, debt, and direct investments in real estate are classified as Level 3 due to lack of observable pricing inputs and are valued using annual appraisals based on a combination of market data and projected cash flows. PEEHIF does not own any investments that are classified as Level 3.

The following table provides information as of September 30, 2022, concerning fair value measurement:

		Fair Value Measurements Using		
		(Amounts in Thousands)		
		Quoted Prices		
		in Active	Significant Other	Significant
		Markets	Observable	Unobservable
		(Level 1)	Inputs (Level 2)	Inputs (Level 3)
	9/30/2022			
<i>Domestic Fixed Maturity</i>				
Money Market Funds	\$ 57,222	\$ -	\$ 57,222	\$ -
Commercial Paper	236,495	-	236,495	-
Total Domestic Fixed Maturity	293,717	-	293,717	-
Total Investments	293,717	-	293,717	-
Total Fair Value	\$ 293,717	\$ -	\$ 293,717	\$ -

C. Concentration of Investments

As of September 30, 2022, the PEEHIF owned short-term debt securities of Ameren Corp., Amcorp Flexibles North America Inc., NiSource Inc., Canadian Tire Corp., Consolidated Edison Co. of New York Inc., Oglethorpe Power Corp., Reckitt Benckiser Treasury Services PLC., Nutrien Ltd., HP Inc., and Dollarama Inc., which represented approximately 8.55%, 8.53%, 7.49%, 6.83%, 6.82%, 5.12%, 5.12%, 5.12%, 5.11%, and 5.11%, respectively of the total fair value of investments.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

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 2022:

UNPAID CLAIMS LIABILITIES

(Amounts in Thousands)

Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	<u>\$ 131,474</u>
Incurred Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Year	1,053,608
Increase in Provision for Insured Events of Prior Years	<u>(10,950)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>\$ 1,042,658</u>
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Year	\$ 939,004
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Prior Years	<u>99,287</u>
Total Payments	<u>1,038,291</u>
Total Unpaid Claims and Claim Adjustment Expenses at the End of the Year	<u><u>\$ 135,841</u></u>

5) Net Pension Liability

The employees of the PEEHIF participate in the TRS. The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (Act 419 of the Legislature of 1939) for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees as follows:

- 1) The State Superintendent of Education, ex officio.
- 2) The State Treasurer, ex officio.
- 3) The State Director of Finance, ex officio.
- 4) Twelve members of TRS who are elected by members from the same category of TRS for a term of three years as follows:
 - a. Teacher Place #1.
 - b. Teacher Place #2.
 - c. Teacher Place #3.
 - d. Educational Support Personnel Place #1.
 - e. Educational Support Personnel Place #2.
 - f. Retired Place #1.
 - g. Retired Place #2.
 - h. Superintendents' Place.
 - i. Principals' Place.
 - j. Postsecondary Place.
 - k. Higher Education Place #1.
 - l. Higher Education Place #2.

The Plan is administered by RSA and issues an Annual Comprehensive Financial Report each year. It is available at www.rsa-al.gov.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

5) Net Pension Liability, Continued

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation.

Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2022, was 12.43% of annual pay for Tier 1 members and 11.32% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total TRS employer contributions to the pension plan from the PEEHIF were \$296,479 for the fiscal year ended September 30, 2022.

At September 30, 2022, the PEEHIF reported a liability of \$6,366,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020. The PEEHIF's proportion of the collective net pension liability was based on its share of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2021, the PEEHIF's proportion was 0.067578%, which was an increase of 0.030806% from its proportion measured as of September 30, 2020.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

5) Net Pension Liability, Continued

For the year ended September 30, 2022, the PEEHIF recognized pension expense of \$996,609. At September 30, 2022, the PEEHIF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 295,000	\$ 371,000
Changes of Assumptions	668,000	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	1,503,000
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	2,856,000	1,000
Employer Contributions Subsequent to the Measurement Date	296,479	-
Total	<u>\$4,115,479</u>	<u>\$ 1,875,000</u>

The PEEHIF will recognize \$296,479 of reported deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date as a reduction of net pension liability in the fiscal year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended

September 30:

2023	\$ 692,000
2024	\$ 665,000
2025	\$ 465,000
2026	\$ 122,000
2027	\$ -
Thereafter	\$ -

The total pension liability was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected Salary Increases	3.25% - 5.00%
Investment Rate of Return*	7.45%

*Net of pension plan investment expense, including inflation

The actuarial assumptions used in the actuarial valuation were based on the assumptions from the Experience Investigation for the Five-Year Period ending September 30, 2020. The Teachers' Retirement System Board of Control accepted and approved these changes in September 2021, which applied to all periods included in the measurement.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements For the Fiscal Year Ended September 30, 2022

5) Net Pension Liability, Continued

Mortality rates for TRS were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019:

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

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation. The most recent target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	15.00%	2.80%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	9.00%
Real Estate	10.00%	6.50%
Cash Equivalents	5.00%	2.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.00%.

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

5) Net Pension Liability, Continued

The following table presents the PEEHIF's proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what its proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.45%) or 1-percentage-point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
PEEHIF's Proportionate Share			
of Collective Net Pension Liability	\$ 9,370,000	\$ 6,366,000	\$ 3,836,000

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Financial Report for the fiscal year ended September 30, 2022. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2021. The auditors' report on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2021, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

6) Net OPEB Liability

The Alabama Retired State Employees' Health Care Trust (SEIF Retired - 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 SEIF Retired - Trust and additions to/deductions from its 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.

The SEIF - Retired Trust is a single employer defined benefit health care plan, also known as other postemployment benefits (OPEB) trust, established in 2007 under the provisions of the Alabama Retiree Health Care Funding Act of 2007 (2007-16) as an irrevocable trust fund. Constitutional amendment 798 provides further legal authority to the SEIF - Retired Trust as an irrevocable trust fund. Active and retiree health insurance benefits are paid through the State Employees' Insurance Board (SEIB) pursuant to Act 833 of the Legislature of 1965. The assets of the SEIF - Retired Trust may not be used for any purpose other than to acquire permitted investments, pay administrative expenses, and provide postemployment health care benefits to or for retired employees and their dependents in accordance with the terms of the plan. Plan assets of SEIF - Retired Trust are legally protected from creditors. The legislature has no authority or power to appropriate the assets of the SEIF - Retired Trust. Responsibility for the general administration and operations of the SEIF - Retired Trust is vested in its trustees who consist of the State Employee's Insurance Board members. In accordance with GASB, the SEIF Retired - Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

The SEIF plan (the Plan) provides basic medical coverage for up to 365 days of care during each hospital confinement, outpatient care, physicians' benefits, radiation therapy, and major medical benefits with no lifetime maximum. A group dental contract provides basic dental maintenance coverage with a maximum benefit amount of \$1,500 during each year for each eligible participant who elects coverage.

At September 30, 2021, the following employees were covered by the benefit terms:

Active Members	31,217
Inactive Members	24,521
Total	<u>55,738</u>

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

6) Net OPEB Liability, Continued

The Plan provides that the employers contribute monthly for the medical and dental insurance of participating employees. Coverage is also available to dependents of employees with their medical premiums typically being paid by the employee. Employee and dependent premium amounts are determined annually and are set at a rate necessary to provide sufficient funds to pay all claims and reasonable expenses of administering the plans.

At September 30, 2022, the PEEHIP reported a liability of \$847,565 for its proportionate share of the Net OPEB Liability. The Net OPEB Liability was measured as of September 30, 2021, and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of September 30, 2020. The PEEHIP's proportion of the Net OPEB Liability was based on a projection of the PEEHIP's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2021, the PEEHIP's proportion was 0.099405000%, which was a decrease of 0.01030000% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the PEEHIP recognized OPEB expense of (\$550,350). At September 30, 2022, the PEEHIP reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected & Actual Experience	\$ -	\$ 808,253
Changes of Assumptions	68,831	557,112
Net Difference between Projected & Actual		
Earnings on OPEB Plan Investments	-	18,026
Changes in Proportion & Differences between Employer		
Contributions & Proportionate Share of Contributions	101,531	414,534
Employer Contributions Subsequent to the Measurement Date	51,693	-
Total	\$ 222,055	\$ 1,797,925

The PEEHIP will recognize \$51,693 of reported deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date as a reduction of Net OPEB Liability in the fiscal year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended

September 30:

2023	\$ (545,724)
2024	\$ (514,100)
2025	\$ (370,590)
2026	\$ (147,456)
2027	\$ (49,693)
Thereafter	\$ -

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2022

6) Net OPEB Liability, Continued

The Total Net OPEB Liability was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases*	6.00 - 3.25% for State and Local Employees 7.75 - 4.00% for State Police 3.50 - 2.75% for Judges 5.00 - 3.25% for Teachers
Long-Term Investment Rate of Return**	7.25%
Municipal Bond Index Rate at Measurement Date	2.29%
Municipal Bond Index Rate at Prior Measurement Date	2.25%
Projected Year for Fiduciary Net Position to be Depleted	N/A
Single Equivalent Interest Rate at Measurement Date	7.25%
Single Equivalent Interest Rate at Prior Measurement Date	7.50%
Healthcare Cost 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
Dental Trend Rate	4.50%

*Includes 2.75% wage inflation.

**Compounded annually, net of investment expense, and including inflation.

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

The rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females at ages on and after age 78. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Retiree Mortality Table Projected with Scale BB to 2020 with an adjustment of 130% at all ages for females.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements For the Fiscal Year Ended September 30, 2022

6) Net OPEB Liability, Continued

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 tables are adjusted forward and/or back depending on the plan and group covered, as shown in the table below:

Active Group	Membership Table	Set Forward(+)/ Setback (-)	Adjustment to Rates
Judges and Teachers	Teacher Employee Below Median	None	65%
Non-FLC	General Employee Below Medical	Male: -1 Female: -1	None
FLC/State Police	Public Safety Employee Below Median	Male: -1 Female: -1	None

Retiree Group	Membership Table	Set Forward(+)/ Setback (-)	Adjustment to Rates
Judges and Teachers	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
Non-FLC	General Below Median	Male: +2 Female: +2	Male: 90% ages < 65, 96% ages ≥ 65 Female: 96% all ages
FLC/State Police	Public Safety Below Median	Male: +1 Female: None	None

Disabled Group	Membership Table	Set Forward(+)/ Setback (-)	Adjustment to Rates
Judges and Teachers	Teacher Disability	Male: +8 Female: +3	None
Non-FLC	General Disability	Male: +7 Female: +3	None
FLC/State Police	Public Safety Disability	Male: +7 Female: None	None

Beneficiaries Group	Membership Table	Set Forward(+)/ Setback (-)	Adjustment to Rates
Judges and Teachers	Teacher Contingent Survivor Below	Male: +2 Female: None	None
Non-FLC	Contingent Survivor Below Median	Male: +2 Female: +2	None

The decremental assumptions and methods 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 September 14, 2021.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2020 valuation were based on a review of recent plan experience done concurrently with the September 30, 2020 valuation.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND

Notes to the Financial Statements For the Fiscal Year Ended September 30, 2022

6) Net OPEB Liability, Continued

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. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	28.20%	4.40%
U.S.Domestic Stocks	55.20%	8.70%
International Developed Market Stocks	10.80%	9.80%
Cash	5.80%	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2020 was 7.50%. The discount rate used to measure the total OPEB liability at September 30, 2021 was 7.25%. The projection of cash flows used to determine the discount rate assumed that as a base, plan contributions will be equal to the lesser of the average of the plan contributions over the last four years, indexed with inflation, or actual benefit payments plus expenses. Also, due to a Board decision on September 16, 2020 an additional \$1.2 million per year will be contributed on top of the base contribution. 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. The rate used, if necessary, for this purpose is the average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate, the Fidelity General Obligation AA 20-year Municipal Bond Index, and the S&P High Grade 20-year Municipal Bond Index. Projected future benefit payments for all current plan members were projected through 2120.

The following table presents the PEEHIP's proportionate shares 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:

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)
\$ 675,425	\$ 847,565	\$ 1,056,830

The following table presents the proportionate share of the Net OPEB liability for PEEHIP calculated using the discount rate of 7.25%, 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:

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
\$ 985,527	\$ 847,565	\$ 732,248

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

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									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
1) Net Earned Required Contribution & Investment Revenue	\$ 1,082,424	\$ 1,100,281	\$ 1,079,039	\$ 980,428	\$ 1,015,524	\$ 1,020,563	\$ 875,811	\$ 881,117	\$ 742,212	\$ 743,021
2) Unallocated Expenses	3,539	3,595	3,663	3,856	3,199	3,170	3,010	2,419	3,465	3,203
3) Estimated Incurred Claims & Expense at End of Policy Year	1,053,608	1,126,836	967,242	979,430	932,360	915,736	898,706	874,208	795,286	776,256
4) Paid (Cumulative) As Of:										
End of Policy Year	939,004	995,362	876,282	894,924	846,476	832,470	808,066	795,591	720,923	713,057
One Year Later			975,569	984,973	923,464	910,462	893,497	868,922	792,118	776,240
5) Reestimated Incurred Claims & Expense:										
End of Policy Year	1,053,608	1,126,836	967,242	979,430	932,360	915,736	898,706	874,208	795,286	776,256
One Year Later		1,137,786	975,569	984,973	923,464	910,462	893,497	868,922	792,118	776,240
6) Increase/(Decrease) in Estimated Incurred Claims & Expenses at End of Policy Year		10,950	8,327	5,543	(8,896)	(5,274)	(5,209)	(5,286)	(3,168)	(16)

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

The following schedules pertain to PEEHIF employees who participate in the TRS pension plan.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Measurement Date	Fiscal Year	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
9/30/2021	9/30/2022	0.03%	\$ 6,366,000	\$ 2,437,208	261.20%	76.44%
9/30/2020	9/30/2021	0.03%	\$ 4,549,000	\$ 2,621,456	173.53%	67.72%
9/30/2019	9/30/2020	0.03%	\$ 3,927,000	\$ 2,562,452	153.25%	69.85%
9/30/2018	9/30/2019	0.03%	\$ 3,421,000	\$ 2,316,795	147.66%	72.29%
9/30/2017	9/30/2018	0.03%	\$ 3,112,000	\$ 2,128,576	146.20%	71.50%
9/30/2016	9/30/2017	0.03%	\$ 3,450,000	\$ 2,075,999	166.19%	67.93%
9/30/2015	9/30/2016	0.03%	\$ 3,233,000	\$ 2,034,712	158.89%	67.51%
9/30/2014	9/30/2015	0.03%	\$ 2,468,000	\$ 1,803,707	136.83%	71.01%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

SCHEDULE OF PENSIONS CONTRIBUTIONS

For the Fiscal Years Ended September 30

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 296,479	\$ 295,609	\$ 317,000	\$ 308,784	\$ 276,266	\$ 250,565	\$ 237,968	\$ 223,000
Contributions in relation to the								
Contractually Required Contribution	(296,479)	(295,609)	(317,000)	(308,784)	(276,266)	(250,565)	(237,968)	(223,000)
Contribution Deficiency/(Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 2,437,208	\$ 2,533,405	\$ 2,621,456	\$ 2,562,452	\$ 2,316,795	\$ 2,128,576	\$ 2,075,999	\$ 2,023,105
Contributions as a Percentage of								
Covered Payroll	12.16%	11.67%	12.09%	12.05%	11.92%	11.77%	11.46%	11.02%

Schedule is intended to show information for 10 years.

Additional years will be displayed as they become available.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

Changes to Benefit Terms

- TRS's member contribution rates increased from 5% (6% for certified law enforcement, correctional officers, and firefighters) of earnable compensation to 7.25% (8.25%) of earnable compensation effective October 1, 2011, and to 7.50% (8.50%) of earnable compensation effective October 1, 2012.
- TRS members hired on or after January 1, 2013, are covered under a new benefit structure. TRS's member contribution rate is 6% (7% for certified law enforcement, correctional officers, and firefighters) of earnable compensation.

Changes to Assumptions

In 2021, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2021, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience, including a change in the discount rate from 7.70% to 7.45%. In 2021 and later, the expectation of retired life mortality was changed to the Pub-2010 Teacher Retiree Below Median Tables projected generationally with 66-2/3% of the MP-2020 scale beginning in 2019.

In 2018, the discount rate was changed from 7.75% to 7.70%

In 2016, rates of withdrawal, retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The following schedules pertain to employees of PEEHIP who participate in the State Employees' Health Insurance Plan (SEHIP) which is administered by the State Employees' Insurance Board (SEIB).

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

Measurement Date	Fiscal Year Ended	Proportion of the Net OPEB Liability (%)	Proportionate Share of the Net OPEB Liability	Covered Payroll	Proportionate Share of the Net OPEB Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
9/30/2021	9/30/2022	0.10	\$ 847,565	\$ 2,706,956	31.31%	17.16%
9/30/2020	9/30/2021	0.11	\$ 1,089,448	\$ 2,706,956	40.25%	17.16%
9/30/2019	9/30/2020	0.12	\$ 2,060,018	\$ 2,623,417	78.52%	9.94%
9/30/2018	9/30/2019	0.12	\$ 3,427,170	\$ 2,373,337	144.40%	5.96%
9/30/2017	9/30/2018	0.11	\$ 3,437,196	\$ 2,176,417	157.93%	5.05%

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

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

SCHEDULE OF OPEB CONTRIBUTIONS
For the Fiscal Years Ended September 30
PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE PLAN

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually Required Contribution	\$ 51,693	\$ 58,642	\$ 59,767	\$ 89,059	\$ 96,136
Contributions in relation to the					
Contractually Required Contribution	(51,693)	(58,642)	(59,767)	(89,059)	(96,136)
Contribution Deficiency/(Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered Payroll	 \$2,521,240	 \$2,481,891	 \$2,706,956	 \$2,623,417	 \$2,373,337
 Contributions as a Percentage of					
Covered Payroll	2.05%	2.36%	2.21%	3.39%	4.05%

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

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

Changes to Benefit Terms

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits were provided through a Medicare Advantage Plan with Prescription Drug Coverage Plan (MAPDP).

Effective January 1, 2020, the MAPDP plan moved from self-insured to fully insured.

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

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	Lowered from 2.75% to 2.50%
Investment Return (Net of Investment Expense)	Lowered from 7.50% to 7.25%
Wage Inflation	Lowered from 3.00% to 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	Judges
	* Revised to more closely reflect experience
	State and Local Regular Members
	* Decreased rates of retirement for members at most ages
	State and Local FLC Members
	* Decreased rates of retirement for members at ages 56 and younger
	* Increased rates of retirement slightly for members ages 57 and older
	State Police
	* Increased rates of retirement in some age categories and * Decreased rates of retirement in some age categories
Withdrawal Rates	Teachers
	* Decreased rates of retirement at most ages and extended retirement rates to age 80.
	Judges:
	* Changed from an age-based table broken down by service bands to a pure service based table. Increased rates of withdrawal for members with less than 10 years of service and decreased rates of withdrawal for members with 10 or more years of service.
	Non-Judges:
Disability Rates	* Changed from an age-based broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates.
	* Decreased rates of withdrawal at most service categories for non-Teachers.
Salary Increases	Lower rates of disability retirement at most ages for State, Teachers, and Local Members. No change for Judges.
	No change to total assumed rates of salary increases for Judges and Teachers. Increased merit salary scale by 0.25% to offset the recommended decrease in the wage inflation assumption by 0.25%.

PUBLIC EDUCATION EMPLOYEES' HEALTH INSURANCE FUND
Required Supplementary Information
For the Fiscal Year Ended September 30, 2022

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2019, two 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 recent contribution rate reported in that schedule.

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 years
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% in 2027
Medicare Eligible	4.75% in 2024
Dental Trend Rate	4.50%
Investment Rate of Return	5.00% including inflation

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