

June 22, 2020

Sample School
Retirement Systems of Alabama
Montgomery, Alabama

Sample School:

Presented in this report is information to assist the employers participating in the Alabama Public Education Employee's Health Insurance Plan (PEEHIP) in meeting the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 75 and to identify the information to be provided by the actuary, Cavanaugh Macdonald Consulting (CMC). The information is presented for the period ending September 30, 2019 (the Measurement Date).

GASB Statement No. 75 establishes accounting and financial reporting requirements for governmental employers who provide Other Post-Employment Benefits (OPEB) to their employees through a trust.

The annual actuarial valuation used as a basis for much of the information presented in this report, including the Net OPEB Liability, was performed as of September 30, 2018. The valuation was based on data, provided by the Retirement System staff, for active, inactive and retired members along with pertinent financial information.

The actuarial calculations were performed by qualified actuaries according to generally accepted actuarial procedures and methods. The calculations are based on the current provisions of PEEHIP, the Teachers' Retirement System (TRS), and on actuarial assumptions that are, individually and in the aggregate, internally consistent and reasonably based on the actual experience of PEEHIP and TRS. In addition, the calculations were completed in compliance with the laws governing PEEHIP and TRS and, in our opinion, meet the requirements of GASB 74. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

These results are only for financial reporting and may not be appropriate for funding purposes or other types of analysis. Calculations for purposes other than satisfying the requirements of GASB 74 and GASB 75 may produce significantly different results. Future actuarial results may differ significantly from the current results presented in the report due to such factors as changes in plan experience or changes in economic or demographic assumptions.

Sincerely yours,

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Required Disclosures and Supplementary Information
For Employer's Fiscal Year Ended September 30, 2020 Financial Statements
Related to Participation in Alabama Public Education Employees' Health Insurance Plan
(September 30, 2019 Measurement Date)

Contributions made during the measurement period and applied to OPEB liability: \$ 42,048 (i)
(10/1/2018 to 9/30/2019)

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

Employer's proportionate share of collective net OPEB liability 557,766

Employer's proportion of collective net OPEB liability 0.014784%

Increase/(decrease) from proportion measured as of September 30, 2018 0.002023%

Employer's recognized OPEB expense (12,548)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	18,468	427,671
Changes of assumptions	26,665	231,030
Net difference between projected and actual earnings on OPEB plan investments	1,151	0
Changes in proportion and differences between Employer contributions and proportionate share of contributions	187,637	16,655
Employer contributions subsequent to the measurement date	*	0
Total	* (j)	675,356

*Enter FY 2020 employer contributions related to all components of employer rate net of any refunds or error service payments and add for total Deferred Outflows of Resources.

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

Year ended September 30:	
2021	(92,296)
2022	(92,296)
2023	(90,834)
2024	(69,544)
2025	(81,870)
Thereafter	(14,595)

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Sensitivity of the Employer’s proportionate share of the collective net OPEB liability to changes in the healthcare cost trend rate:

	1% Decrease (5.75% decreasing to 3.75% for pre-Medicare, Known decreasing to 3.75%for Medicare Eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.75% for pre-Medicare, Known decreasing to 4.75%for Medicare Eligible)	1% Increase (7.75% decreasing to 5.75% for pre-Medicare, Known decreasing to 5.75%for Medicare Eligible)
Employer’s proportionate share of the collective net OPEB liability	\$ 447,228	\$ 557,766	\$ 696,984

Sensitivity of the Employer’s proportionate share of the collective net OPEB liability to changes in the discount rate:

	1% Decrease (4.50%)	Current discount rate (5.50%)	1% Increase (6.50%)
Employer’s proportionate share of the collective net OPEB liability	\$ 674,189	\$ 557,766	\$ 462,686

Schedule of Proportionate Share of the Collective Net OPEB Liability

	<u>2020</u>
Employer’s proportion of the collective net OPEB liability	0.014784%
Employer’s proportionate share of the collective net OPEB liability	557,766
Employer’s covered payroll during the measurement period*	X,XXX
Employer’s proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	X.XX%
Plan fiduciary net position as a percentage of the total collective OPEB liability	28.14%

*Employer’s covered payroll during the measurement period is the total covered payroll.
For FY 2020, the measurement period is October 1, 2018 – September 30, 2019.

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Additional Information

	<u>9/30/2018</u>	<u>9/30/2019</u>
Collective deferred outflows of resources	154,733,476	313,063,329
Collective deferred inflows of resources	444,363,751	4,455,497,906
Collective net OPEB liability	8,218,726,392	3,772,767,863
Employer's proportion	0.012761%	0.014784%
Collective OPEB expense for the measurement period ended September 30, 2019:		(308,748,455)
The average of the expected remaining service:		6.17

In addition, the following are associated with the Employer's fiscal year ended September 30, 2020:

- Employer contributions:
 - October 1, 2018 to September 30, 2019: \$42,048 (reported as a deferred outflow of resources at September 30, 2019, as required by paragraph 68 of Statement 75)
 - October 1, 2019 to September 30, 2020: \$ X,XXX (contributions subsequent to the measurement date of the collective net OPEB liability and before the end of the Employer's reporting period)
- Beginning deferred outflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 64 and 65 of Statement 75): \$53,766
 - Amount to be recognized as an increase in the Employer's OPEB expense for the measurement period ended September 30, 2019: \$10,358 (h)
- Beginning deferred inflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 64 and 65 of Statement 75): \$21,812
 - Amount to be recognized as a reduction of the Employer's OPEB expense for the measurement period ended September 30, 2019: \$5,157 (g)

	Proportionate Share		Change in Proportionate Share of		
	At 9/30/2018	At 9/30/2019	Debit	Credit	
	0.012761%	0.014784%	Balances	Balances	
	(a)	(b)	(b) – (a)	(b) – (a)	
Deferred outflows of resources	19,746	46,284	26,538	(a)	0
Deferred inflows of resources	56,705	658,701	0		601,996 (d)
Net OPEB liability	1,048,792	557,766	0		(491,026) (f)
Proportionate share of collective OPEB expense:					(45,645)
Less amount of Employer Contributions 10/1/2018 - 9/30/2019 per Schedule of Employer Allocations					(42,048)
Net OPEB Expense					<u>(87,693)</u> (b)

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	Collective Amount at 9/30/2018	Proportionate Share at 0.012761% (a)	Proportionate Share at 0.014784% (b)	Change in Proportionate Share of	
				Debit Balances (b) – (a)	Credit Balances (b) – (a)
Deferred outflows of resources	154,733,476	19,746	22,876	3,130	
Deferred inflows of resources	444,363,751	56,705	65,695		8,990
Net OPEB liability	8,218,726,392	1,048,792	1,215,056		166,264
Total of changes in the Employer's beginning reported balances				3,130	175,254
Amount to be recognized for the net effect of the change in the Employer's proportion on beginning reported balances over 6.17 years					<u>172,124</u>

	Collective Amount at 9/30/2019	Proportionate Share at 0.014784% (a)	Employer Contributions (b)	Difference (c) = (b) – (a)
Employer contributions	284,405,772	42,047	42,048	1

	Deferred Outflows of Resources	OPEB Expense
Change in proportion	144,228	27,896
Contributions during the measurement period	1	0
Net amount recognized	144,229 (e)	27,896 (c)

Summary of State Employer Portion of All Deferred Outflows Due to Change in Proportion
Amount Recognized in OPEB Expense

Beginning Year	Amortization Period	Beginning Balance	2017	2018	2019	Remaining Balance 9/30/19
2017	6.23	0	0	0	0	0
2018	6.19	64,124		(10,358)	(10,358)	43,408
2019	6.17	172,125			(27,896)	144,229
		236,249	0	(10,358)	(38,254)	187,637

Summary of State Employer Portion of All Deferred Inflows Due to Change in Proportion
Amount Recognized in OPEB Expense

Beginning Year	Amortization Period	Beginning Balance	2017	2018	2019	Remaining Balance 9/30/19
2017	6.23	32,126	(5,157)	(5,157)	(5,157)	16,655
2018	6.19	0		0	0	0
2019	6.17	0			0	0
		32,126	(5,157)	(5,157)	(5,157)	16,655

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Journal Entries
For Employer’s Fiscal Year Ended September 30, 2020 (September 30, 2019 Measurement Date)

		DR		CR
Deferred outflows of resources – proportionate share of collective deferred outflows of resources	(a)	26,538		
OPEB Expense – net proportionate share of collective OPEB expense			(b)	87,693
OPEB Expense – current year change in proportionate share	(c)	27,896		
Deferred inflows of resources - proportionate share of collective deferred inflows of resources			(d)	601,996
Deferred Outflows of Resources – GASB 75 paragraph 64 and 65	(e)	144,229		
Proportionate share of collective net OPEB liability	(f)	491,026		
To record current year activity		689,689		689,689
Deferred inflows of resources – paragraph 64 and 65	(g)	5,157		
Deferred outflows of resources – paragraph 64 and 65			(h)	10,358
OPEB expense		5,201		
To record OPEB expense for paragraphs 64 and 65 deferred balances arising in prior measurement periods				
OPEB expense		x,xxx		
Deferred outflows of resources – Employer contributions subsequent to the measurement date – Prior year				x,xxx
To reverse the prior year GASB 75 entry. Amount used by actuary to calculate OPEB expense is \$42,048 (i) which may differ from actual entry made by employer.				
Deferred outflows of resources – Employer contributions 10/1/2019 – 9/30/2020 §	(j)	x,xxx		
OPEB expense			(j)	x,xxx
To record deferred outflows of resources for contributions subsequent to measurement date				

§ Amount of employer contributions related to retiree costs. For universities participating only for retirees, this is the total amount contributed. For all other participating employers, this amount is the total employer contributions multiplied by the percent attributed to retirees. For FY2020, the Retirement Systems of Alabama (RSA) will provide that percentage in October 2020.