



**Cavanaugh Macdonald**  
CONSULTING, LLC

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**Alabama State Employees' Health Insurance Plan  
Report of Actuary on the Retiree Medical Valuation**

**Prepared as of September 30, 2015**





# Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

September 9, 2016

State Employees' Insurance Board  
RSA Tower  
201 South Union Street, Suite 200  
Montgomery, AL 36104

Members of the Board:

Governmental Accounting Standards Board Statement No. 45 (GASB 45) requires actuarial valuations of retiree medical and other post employment benefit plans. We have submitted the results of the annual actuarial valuation of the Alabama State Employees' Health Insurance Plan (SEHIP) prepared as of September 30, 2015. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that an annual required contribution of \$201,465,349 or 13.20% of active payroll payable for the fiscal year ending September 30, 2017 is required to fund the benefits of the SEHIP.

The promised medical, drug, dental and vision benefits of the Plan are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. GASB requires the discount rate used to value a plan be based on the likely return of the assets held in trust to pay benefits. As of September 30, 2015, the Plan has \$149,258,206 in a trust solely to provide benefits to retirees and their beneficiaries. A policy has been established to make regular contributions representing a partial payment toward the actuarially determined contribution each year. This valuation was based on an assumed discount rate of 5.00%. If the Plan starts fully pre-funding benefits, the discount rate may be increased to reflect equity investments the fund may have after full pre-funding begins. Gains and losses are reflected in the unfunded accrued liability that is assumed amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 3.25% annually. The assumptions recommended by the actuary are, in the aggregate, reasonably related to the experience under the Plan and to reasonable expectations of anticipated experience under the Plan and meet the parameters for the disclosures under GASB 45.

The impact of the Affordable Care Act (ACA) was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results. While the impact of certain provisions such as the excise tax on high-value health insurance plans beginning in 2020 (if applicable), mandated benefits and participation changes due to the individual mandate should be recognized in the determination of liabilities, overall future plan costs and the resulting liabilities are driven by amounts employers and retirees can afford (i.e., trend). The trend assumption forecasts the anticipated increase to initial per capita costs, taking into account health care cost inflation, increases in benefit utilization, plan changes, government-mandated benefits, and technological advances. Given the uncertainty regarding the ACA's implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting from the implementation of state-based health insurance exchanges), continued monitoring of the ACA's impact on the Plan's liability will be required. Plan design changes mandated by the ACA and incorporated in the 2015 plan designs are included in the current baseline claims costs.

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September 9, 2016  
State Employees' Insurance Board  
Page 2

On June 2, 2015, GASB Statement No. 74 and GASB Statement No. 75 (GASB 74 and 75) were unanimously adopted by the GASB Board. The disclosure requirements of GASB 74 and 75 will be similar to the disclosure requirements for pension benefits under GASB Statement No. 67 and GASB Statement No. 68. GASB 74 relates to accounting disclosures for plan sponsors and, as such, replaces GASB 43 beginning with fiscal years ending September 30, 2017. GASB 75 relates to accounting disclosures for contributing employers and, as such, replaces GASB 45 beginning with fiscal years ending September 30, 2018. GASB 74 and 75 will require applicable OPEB plan sponsors and contributing employers to disclose the net OPEB liability on the statement of financial position and book an accounting expense based upon the entry age normal actuarial cost method. Beyond the use of a specified actuarial cost method, GASB's new disclosure standards will also require the discount rate used to calculate liabilities to be based upon the yield of 20-year, tax-exempt municipal bonds and the expected rate of return on plan assets, to the extent plan assets are projected to be available for the payment of future benefits. Additionally, GASB 74 and 75 will bring about many other changes in the liability valuation and accounting disclosure processes currently in place which are expected to significantly impact data collection, timing, and effort. As details for the new GASB OPEB disclosure standards emerge, planning and coordination between plan sponsors, contributing employers, actuaries, and auditors is recommended.

This is to certify that the independent consulting actuaries are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We certify that we have experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the medical plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Plan.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion, if the required contributions to the Trust Fund are made by the employer from year to year in the future at the levels required on the basis of the successive actuarial valuations, the current assets and future anticipated contributions are in our opinion sufficient to meet all the benefit obligations of the Plan for current active and retired members.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Alisa Bennett'.

Alisa Bennett, FSA, EA, FCA, MAAA  
Principal and Consulting Actuary

A handwritten signature in blue ink, appearing to read 'Eric H. Gary'.

Eric H. Gary, FSA, FCA, MAAA  
Chief Health Actuary



## TABLE OF CONTENTS

<u>Section</u>	<u>Item</u>	<u>Page No.</u>
I	Summary of Principal Results	1
II	Membership Data	3
III	Assets	4
IV	Comments on Valuation	4
V	Contributions Payable Under the Plan	5
VI	Comments on Level of Funding	6
VII	Accounting Information	7
 <u>Schedule</u>		
A	Results of the Valuation	9
B	Plan Assets	11
C	Outline of Actuarial Assumptions and Methods	12
D	Summary of Main Plan Provisions as Interpreted for Valuation Purposes	24



**ALABAMA STATE EMPLOYEES'  
HEALTH INSURANCE PLAN (SEHIP)  
REPORT OF ACTUARY ON THE RETIREE MEDICAL VALUATION  
PREPARED AS OF SEPTEMBER 30, 2015**

**SECTION I - SUMMARY OF PRINCIPAL RESULTS**

1. For convenience of reference, the principal results of the valuation are summarized below, along with the previous year's results.

Valuation Date	September 30, 2015	September 30, 2014
Number of active members*	32,625	30,635
Number of retired members	20,962	21,393
Number of spouses of retirees	7,545	6,939
Total	61,132	58,967
Annual salaries*	\$ 1,525,692,929	\$ 1,331,646,530
Assets:		
Market value	\$ 149,258,206	\$ 156,837,323
Unfunded actuarial accrued liability	\$ 2,798,793,417	\$ 2,915,862,446
Amortization period (years)	30	30
<b>Contribution for fiscal year ending:</b>	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Annual Required Contribution (ARC):		
Normal	\$ 83,676,846	\$ 81,619,987
Accrued liability	117,788,503	122,715,406
Total	\$ 201,465,349	\$ 204,335,393
Annual Required Contribution as a Percent of Payroll	13.20%	15.35%
Discount Rate	5.00%	5.00%
Payroll Growth	3.25%	3.25%

\* Includes participants in the DROP program and 2,076 TRS participants with compensation totaling \$107,219,263.

2. The valuation indicates that contributions of \$201,465,349 or 13.20% of active payroll are sufficient to support the current benefits of the Plan. Comments on the valuation results as of September 30, 2015 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.



3. This valuation was based on an assumed discount rate of 5.00% because a trust has been established along with a policy to make partial payments toward the actuarially determined contribution each year. The assumed rate of payroll growth is 3.25%.
4. Since the prior valuation, the following plan changes have been made that affect the valuation:
  - Increased non-Medicare retirees' monthly premiums by \$15 for single and family coverage.
  - Increased surviving spouse's monthly premiums by \$35 for single and family coverage.
  - Increased non-tobacco user monthly discount by \$10, paired with a \$10 increase in the family spousal rate.
  - Increased monthly dental premiums by \$5 single and \$7 family.
  - Added Cancer Coverage to the Optional policy choices with monthly premiums of \$12 for single and \$24 for family coverage.
5. We have shown in Schedule A the liabilities and the ARC using an assumed discount rate of 6.0%, 7.0%, and 8.0% representing various levels of prefunding.
6. Schedule C details the actuarial assumptions and methods employed. Schedule D provides a summary of the benefit and contribution provisions of the plan.
7. Claims were updated to reflect the most recent claims information available. See Schedule C of the report.
8. The medical trend used to project costs for Pre Medicare and Medicare was updated to reflect the most recent economic and industry trends.
9. We have included in the valuation for the first time the following employers whose active employees are covered under the Teachers Retirement System but obtain healthcare coverage through SEHIP as active employees and retirees:
  - Alabama Community College System
  - Alabama Commission on Higher Education
  - Alabama Department of Rehabilitation Services
  - Alabama Department of Education
  - Alabama Department of Youth Services



**SECTION II - MEMBERSHIP DATA**

Data regarding the membership and recent claims and enrollment experience of the Plan for use as a basis of the valuation were furnished by the Retirement System office and the SEIB. Pension data was used for active and DROP participants. Data for current retired members with their medical, dental, and optional plan elections were supplied separately from the pension data. The following table shows the breakdown by age and service of the active membership:

**Active members as of September 30, 2015\***

Age/Svc	<1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
<25	518	391	2	0	0	0	0	0	0	911
25-29	712	1,496	411	8	0	0	0	0	0	2,627
30-34	433	1,139	1,414	362	4	0	0	0	0	3,352
35-39	325	789	1,134	1,294	284	4	0	0	0	3,830
40-44	278	666	925	1,065	864	233	6	0	0	4,037
45-49	240	591	751	866	740	982	341	3	0	4,514
50-54	221	568	701	743	594	888	864	187	2	4,768
55-59	163	417	623	669	497	682	680	472	181	4,384
60-64	179	425	394	440	343	404	458	117	61	2,821
65-69	44	141	242	195	106	159	125	20	12	1,044
70+	13	32	74	64	38	49	52	5	10	337
<b>Total</b>	<b>3,126</b>	<b>6,655</b>	<b>6,671</b>	<b>5,706</b>	<b>3,470</b>	<b>3,401</b>	<b>2,526</b>	<b>804</b>	<b>266</b>	<b>32,625</b>

\* Includes participants in the DROP program and 2,076 TRS participants.

**Enrolled Retirees and Covered Dependents**

Age	Retirees	Dependents	Total
Under 65	6,863	3,165	10,028
65 & Older	<u>14,099</u>	<u>4,380</u>	<u>18,479</u>
<b>Total</b>	<b>20,962</b>	<b>7,545</b>	<b>28,507</b>



### **SECTION III - ASSETS**

Schedule B shows information regarding assets for valuation purposes. As of September 30, 2015, the Plan has \$149,258,206 in a trust solely to provide benefits to retirees and their beneficiaries. A policy has been established to make regular contributions representing a partial payment toward the actuarially determined contribution each year. This valuation was based on an assumed discount rate of 5.00%. If the Plan starts fully pre-funding benefits, the discount rate may be increased to reflect equity investment the fund may have after full pre-funding begins.

### **SECTION IV - COMMENTS ON VALUATION**

1. Schedule A of this report outlines the results of the actuarial valuation. The results are shown based on a discount rate of 5.00%. If the full amount of the actuarially determined contribution is paid to the OPEB trust from year to year, the discount rate used in the valuation may be increased to the likely return of the assets held in the trust. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C. The Summary of Main Plan Provisions is presented in Schedule D.
2. The valuation shows that the Plan has an actuarial accrued liability of \$1,336,448,414 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to retirees and covered dependents amounts to \$1,611,603,209. The total actuarial accrued liability of the Plan amounts to \$2,948,051,623. Against these liabilities, the Plan has present assets for valuation purposes of \$149,258,206. Therefore, the unfunded actuarial accrued liability is equal to \$2,798,793,417.
3. The normal contribution is equal to the actuarial present value of benefits accruing during the current year. The normal contribution is determined to be \$83,676,846.





**SECTION V - CONTRIBUTIONS PAYABLE UNDER THE PLAN**

**ANNUAL REQUIRED CONTRIBUTION  
For Fiscal Year Ending September 30, 2017**

<b>Annual Required Contribution (ARC)</b>	
Normal	\$ 83,676,846
Accrued Liability	<u>117,788,503</u>
Total	\$ 201,465,349

1. The valuation indicates that a normal contribution of \$83,676,846 is required to meet the cost of benefits currently accruing.
2. The unfunded actuarial accrued liability amounts to \$2,798,793,417 as of the valuation date. An accrued liability contribution of \$117,788,503 is sufficient to amortize the unfunded actuarial accrued liability over a 30-year period, based on a 5.00% investment rate of return and the assumption that the payroll will increase by 3.25% annually. If the State were to establish a policy of contributing the full actuarially determined contribution each year, the discount rate may be increased to reflect equity investment the fund may have after full pre-funding begins..
3. The total Annual Required Contribution is, therefore, \$201,465,349 or 13.20% of total active payroll.



## **SECTION VI - COMMENTS ON LEVEL OF FUNDING**

1. The monthly contribution for retirees to opt into the medical plan is based on plan election, dependent coverage, Medicare eligibility and election, tobacco use, wellness participation and spousal surcharge. Plan costs are determined for valuation purposes considering claims costs net of member premiums paid. For members retiring October 1, 2005 or after, a Retiree Sliding Scale premium based on years of service will be applicable.
2. The valuation indicates that a recommended employer contribution of \$201,465,349 or 13.20% of payroll is required to fund the plan. This State contribution is required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. This valuation was based on an assumed discount rate of 5.00% because a trust has been established since the valuation date along with a policy to make partial payments toward the actuarially determined contribution each year.



## **SECTION VII - ACCOUNTING INFORMATION**

Governmental Accounting Standards Board Statements 43 and 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at September 30, 2015. Additional information as of the latest actuarial valuation follows.

Valuation Date	9/30/2015
Actuarial Cost Method	Projected unit credit
Amortization Method	Level percent of pay, open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value of Assets
Actuarial Assumptions	
Investment Rate of Return*	5.00%
Medical Cost Trend Rate*	
Pre-Medicare	7.75%
Medicare Eligible	5.75%
Ultimate Trend Rate*	
Pre-Medicare	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2020
Dental Trend Rate	4.50%

*\*Includes price inflation at 3.00%*

The assumed investment rate of return reflects the fact that as of September 30, 2015 the Plan has \$149,258,206 in a trust solely to provide benefits to retirees and their beneficiaries. A policy has been established to make regular contributions representing a partial payment toward the actuarially determined contribution each year. If the Plan starts fully pre-funding benefits, the discount rate may be increased to reflect equity investment the fund may have after full pre-funding begins.



### SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c) <sup>1</sup>	UAAL as a Percentage Covered Payroll ((b - a) / c)
9/30/2010 <sup>1</sup>	\$97,484,665	\$4,162,276,302	\$4,064,791,637	2.34%	\$1,594,766,870	254.88%
9/30/2011 <sup>2</sup>	108,723,499	3,369,896,864	3,261,173,365	3.23%	1,506,539,188	216.47%
9/30/2012	126,670,288	3,215,956,125	3,089,285,837	3.94%	1,385,013,035	223.05%
9/30/2013 <sup>3</sup>	142,685,282	3,465,783,677	3,323,098,395	4.12%	1,344,092,114	247.24%
9/30/2014	156,837,323	3,072,699,769	2,915,862,446	5.10%	1,331,646,530	218.97%
9/30/2015	149,258,206	2,948,051,623	2,798,793,417	5.06%	1,525,692,929	183.44%

1 Reflects Act 2011-27, which closes the DROP program to new participants effective March 24, 2011 and Act 2011-698, which increases retiree premiums for members retiring on or after January 1, 2012.

2 Reflects the impact of the EGWP + Wrap plan and the five year experience study.

3 Reflects Tier II benefit structure for those hired on or after January 1, 2013 and plan changes made for the Affordable Care Act



SCHEDULE A

**RESULTS OF THE VALUATION  
AND THE BENEFITS OF ADVANCE FUNDING  
PREPARED AS OF SEPTEMBER 30, 2015**

		5.00% Discount Rate	6.00% Discount Rate	7.00% Discount Rate	8.00% Discount Rate
1.	<b>PAYROLL</b>	\$ 1,525,692,929	\$ 1,525,692,929	\$ 1,525,692,929	\$ 1,525,692,929
2.	<b>ACTUARIAL ACCRUED LIABILITY</b>				
	Present value of prospective benefits payable in respect of:				
(a)	Present active members:	\$ 1,336,448,414	\$ 1,097,259,926	\$ 913,329,691	\$ 769,803,796
(b)	Present retired members and dependents:	<u>1,611,603,209</u>	<u>1,448,535,846</u>	<u>1,311,981,521</u>	<u>1,196,563,919</u>
(c)	Total actuarial accrued liability	\$ 2,948,051,623	\$ 2,545,795,772	\$ 2,225,311,212	\$ 1,966,367,715
3.	<b>PRESENT ASSETS FOR VALUATION PURPOSES</b>	\$ 149,258,206	\$ 149,258,206	\$ 149,258,206	\$ 149,258,206
4.	<b>UNFUNDED ACTUARIAL ACCRUED LIABILITY [(2)(C) minus (3)]</b>	\$ 2,798,793,417	\$ 2,396,537,566	\$ 2,076,053,006	\$ 1,817,109,509
5.	<b>AMORTIZATION PERIOD</b>	30	30	30	30
6.	<b>NORMAL CONTRIBUTION</b>	\$ 83,676,846	\$ 66,466,606	\$ 53,611,577	\$ 43,854,761
7.	<b>ACCRUED LIABILITY CONTRIBUTION</b>	<u>117,788,503</u>	<u>113,975,005</u>	<u>110,730,030</u>	<u>107,913,049</u>
8.	<b>TOTAL CONTRIBUTION (6) + (7)</b>	\$ 201,465,349	\$ 180,441,611	\$ 164,341,607	\$ 151,767,810
9.	<b>TOTAL CONTRIBUTION AS A PERCENT OF PAYROLL (8) ÷ (1)</b>	13.20%	11.83%	10.77%	9.95%



## GAIN/LOSS

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is assumed that gains and losses will be in balance over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the (gain)/loss for the year ended September 30, 2015 is shown below.

Gain/Loss		
1. UNFUNDED ACCRUED LIABILITY (UAL) 9/30/2014	\$	2,915,862,446
2. NORMAL COST 9/30/2014	\$	81,619,987
3. EXPECTED EMPLOYER CONTRIBUTIONS (ARC calculated in 9/30/2014 valuation)	\$	204,335,393
4. INTEREST ACCRUAL (1) X .05 + [(2) - (3)] X .025	\$	<u>142,725,237</u>
5. EXPECTED UAL 9/30/2015 (1) + (2) - (3) + (4)	\$	2,935,872,277
6. (GAIN)/LOSS DUE TO CLAIMS EXPERIENCE	\$	(365,905,653)
7. (GAIN)/LOSS DUE INCLUSION OF TRS GROUPS	\$	<u>106,757,386</u>
8. EXPECTED UAL 9/30/2015 AFTER CHANGES (5) + (6) + (7)	\$	2,676,724,010
9. ACTUAL UAL AS OF 9/30/2015	\$	2,798,793,417
10. (GAIN)/LOSS INCLUDING CONTRIBUTION SHORTFALL* (9) - (8)	\$	122,069,407
11. (GAIN)/LOSS AS % OF LAST YEAR'S ACCRUED LIABILITY		3.97%

\*Includes contribution shortfall, investment experience, and all other actuarial gains and losses.



**SCHEDULE B**

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**PLAN ASSETS**

GASB 43 and 45 define plan assets as resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan. As of the valuation date, the Plan has \$149,258,206 in a trust solely to provide benefits to retirees and their beneficiaries. The development of the market value of assets is shown in the following table.

**Market Value of Assets as of September 30, 2015**

<b>Asset Summary Based on Market Value</b>	
Market Value September 30, 2014	\$ 156,837,323
Investment Income	262,749
Transfer to State Employees' Health Insurance Plan	<u>(7,841,866)</u>
Market Value September 30, 2015	\$ 149,258,206



**SCHEDULE C**

**OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS**

The assumptions and methods used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2010, submitted to and adopted by the Board on January 27, 2012.

**VALUATION DATE:** September 30, 2015

**DISCOUNT RATE:** 5.0% per annum, compounded annually.

**PAYROLL GROWTH:** 3.25% per annum

**HEALTH CARE COST TREND RATES:** The following chart details the trend assumptions.

Year	Pre-Medicare Medical Trend*	Medicare-Eligible Medical Trend*	SEHIP Dental Trend
2015	7.75%	5.75%	4.50%
2016	7.00%	5.50%	4.50%
2017	6.50%	5.25%	4.50%
2018	6.00%	5.00%	4.50%
2019	5.50%	5.00%	4.50%
2020 and beyond	5.00%	5.00%	4.50%

\* Includes sliding scale base amounts. 2.0% annual trend is applied to all other healthcare retiree contributions. Southland Plan and Supplemental Plan claims are trended at 5.0%.

**AGE RELATED MORBIDITY:** Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims was assumed to be:

Participant Age	Annual Increase**
< 40	0.0%
40 – 44	2.6%
45 – 49	2.6%
50 – 54	3.2%
55 – 59	3.4%
60 - 64	3.7%
65 – 69	3.2%
70 – 74	2.4%
75 – 79	1.8%
80 – 84	1.3%
85 and over	0.0%

\*\*Dental, and Southland Plan costs are not age adjusted.





**ANTICIPATED PLAN PARTICIPATION:** Retirees who are eligible for post-employment health benefits may choose to waive coverage or elect full medical, prescription drug and dental coverage, dental coverage only, or Southland optional plans. Those who elect coverage may elect to cover dependents. Current retirees are included in the valuation based on their actual plan and tier elections. Assumptions must be made for actives who will retire in the future. The assumed annual rates of plan participation, spouse coverage, wellness participation and tobacco use for future retirees are as follows. For future retirees who participate in the plan, we assume they all choose full medical, prescription drug and dental coverage.

Medical	Under 65	Over 65
Plan Participation	90% if eligible for immediate retirement 0% if terminating with a deferred benefit.	90% if eligible for immediate retirement 0% if terminating with a deferred benefit.
Wellness	85%	N/A
Tobacco	4%	4%
Spouse Surcharge	16%	16%
Spouse Coverage		
Male	50%	50%
Female	20%	20%

Wives are assumed to be three years younger than husbands.

**ANNUAL EXPECTED MEDICAL/PRESCRIPTION DRUGS/DENTAL CLAIMS (AGE 65):** Following is a chart detailing expected per member per year BlueCard PPO medical/prescription drugs, Supplemental Plan and dental claims for pre and post Medicare for the year following the valuation date. BlueCard PPO Medical and prescription drug claims and Supplemental Plan claims are age-adjusted to age 65, dental claims are not age-adjusted. The SEHIP Vision Plan was determined to be self-financed by retiree contributions and thus no liability was assumed.

	Medical/Prescription Drugs	Dental
Pre-Medicare	\$10,486	\$233
Medicare-Eligible	\$2,731	\$233

**ANNUAL EXPECTED OPTIONAL PLAN CLAIMS:** Following is a chart detailing expected Southland Plan claims for the year following the valuation date. Southland Plan claims are not age-adjusted. Only retirees who have currently elected the Southland Plan are assumed to elect them in the future. Active employees are assumed to elect the SEHIP BlueCard PPO Medical/Prescription Drug Plan upon retirement.

Vision Plan	Cancer Plan	Hospital Indemnity Plan	Dental
\$95	\$156	\$250	\$504



**ACTUARIAL METHOD:** Costs were determined using the Projected Unit Credit Actuarial Cost Method. The annual service cost is the present value of the portion of the projected benefit attributable to participation service during the upcoming year, and the Actuarial Accrued Liability (AAL) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through full retirement eligibility date was used in allocating costs.

**ASSET VALUATION METHOD:** Market value.



**STATE AND LOCAL EMPLOYEES**

**SEPARATIONS BEFORE SERVICE RETIREMENT:** Representative values of the assumed annual rates of death, disability, and withdrawal are as follows:

Annual Rate of							
Age	Death*	Disability		Withdrawal			
		Years of Service		Years of Service			
		0-24	25+	0-4	5-9	10-20	20+
<b>Male</b>							
20	0.03%	0.04%		28.00%			
25	0.03	0.06		19.50	10.00%		
30	0.05	0.08		17.50	7.00	5.00%	
35	0.08	0.10		16.00	6.00	4.75	
40	0.10	0.27		15.50	4.50	3.50	2.50%
45	0.14	0.42	0.25%	14.00	4.00	3.00	2.25
50	0.20	0.77	0.25	13.00	4.00	2.75	2.00
55	0.36	1.53	0.25	12.00	3.75	2.75	2.00
60	0.71	2.50	0.25	12.00	4.25		
65	1.30			16.00	7.00		
69	1.99			17.00	7.00		
<b>Female</b>							
20	0.01%	0.04%		34.00%			
25	0.01	0.06		24.00	12.00%		
30	0.02	0.08		20.00	8.25	6.50%	
35	0.03	0.14		18.00	7.25	6.00	
40	0.04	0.29		16.00	6.00	4.00	3.00%
45	0.07	0.43	0.25%	14.75	5.25	3.75	2.50
50	0.10	0.69	0.25	14.00	4.50	3.50	2.50
55	0.19	1.24	0.25	14.00	4.00	3.00	2.50
60	0.38	0.25	0.25	14.00	4.00		
65	0.71			14.00	8.50		
69	1.09			14.00	8.50		

\* Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and set forward one year for females with an adjustment factor of 90% for males and 70% for females.



**STATE AND LOCAL EMPLOYEES**

**SERVICE RETIREMENT:** The assumed annual rates of service retirement for Tier I members are as follows:

Age	Annual Rate – Tier I			
	Under age 65 with 25 or more years of service		Under age 65 with less than 25 years of service & All over age 65	
	Male <sup>1</sup>	Female <sup>2</sup>	Male	Female
47 & Under	16.00%	13.00%		
48 to 51	11.00	11.00		
52 to 54	10.00	10.00		
55 to 59	16.00	16.00		
60	16.00	25.00	12.00%	16.00%
61	20.00	16.00	11.00	13.00
62	42.00	32.00	28.00	26.00
63	35.00	28.00	23.00	20.00
64	30.00	25.00	18.00	15.00
65			30.00	28.00
66			30.00	28.00
67			25.00	23.00
68 to 74			23.00	23.00
75 & Above			100.00	100.00

<sup>1</sup> Rates are increased by 10% in year when member attains 25 years of service at or before age 60.

<sup>2</sup> Rates are increased by 7% in year when member attains 25 years of service at or before age 60.

The assumed annual rates of service retirement for Tier II members are as follows:

Age	Annual Rate – Tier II			
	Less than 25 years of service		25 or more years of service	
	Male	Female	Male	Female
62	40.00%	45.00%	55.00%	60.00%
63	23.00	20.00	35.00	28.00
64	18.00	15.00	30.00	25.00
65	30.00	28.00	30.00	28.00
66	30.00	28.00	30.00	28.00
67	25.00	23.00	25.00	23.00
68 to 74	23.00	23.00	23.00	23.00
75 & Above	100.00	100.00	100.00	100.00



**DEATH AFTER RETIREMENT:** The rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Mortality Table. In our opinion, the projection of the RP-2000 mortality rates with Scale AA continues to provide a sufficient margin in the assumed rates of mortality to allow for additional improvement in mortality experience.



**STATE POLICE**

**SEPARATIONS BEFORE SERVICE RETIREMENT & SERVICE RETIREMENT:** Representative values of the assumed annual rates of death, disability, withdrawal, and service retirement are as follows:

Annual Rate of

Age	Death <sup>2</sup>		Disability	Withdrawal <sup>1</sup>
	Male	Female		
20	0.03%	0.01%	0.08%	3.00%
25	0.03	0.01	0.10	3.00
30	0.05	0.02	0.14	2.50
35	0.08	0.03	0.22	1.75
40	0.10	0.04	0.34	1.75
45	0.14	0.07	0.46	1.75
50	0.20	0.10	0.60	
55	0.36	0.19		
60	0.71	0.38		
62	0.91	0.50		
65	1.30	0.71		

<sup>1</sup> A rate of 4.00% is assumed during the first four years of employment.

<sup>2</sup> Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and set forward one year for females with an adjustment factor of 90% for males and 70% for females.

Age	Annual Rate of Service Retirement for Tier I Members		
	Under Age 60 with <20 years of service and all over age 60	Under Age 60 with between 20 and 24 years of service	Under Age 60 with 25 or more years of service
< 52			25.00%
52	10.00%	25.00%	25.00
53	10.00	25.00	25.00
54	10.00	25.00	25.00
55	10.00	15.00	25.00
56	10.00	15.00	25.00
57	10.00	15.00	25.00
58	10.00	15.00	25.00
59	10.00	15.00	25.00
60	40.00		
62	40.00		
65	100.00		



Age	Annual Rate of Service Retirement for Tier II Members		
	Under Age 60 with <20 years of service and all over age 60	Under Age 60 with between 20 and 24 years of service	Under Age 60 with 25 or more years of service
55			
56	40.00%	60.00%	75.00%
57	10.00	15.00	25.00
58	10.00	15.00	25.00
59	10.00	15.00	25.00
60	40.00		
62	40.00		
65	100.00		

**DEATH AFTER RETIREMENT:** The rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward three years for males and two years for females. The rates of mortality for the period after disability retirement are according to the sex distinct RP-2000 Disabled Mortality Table. In our opinion, the projection of the RP-2000 mortality rates with Scale AA continues to provide a sufficient margin in the assumed rates of mortality to allow for additional improvement in mortality experience.



**JUDICIAL**

**SEPARATIONS BEFORE RETIREMENT:** Representative values of the assumed annual rates of withdrawal, death and disability are as follows:

Age	Annual Rate of			
	Withdrawal	Death*		Disability**
		Male	Female	
30	2.5%	0.0309%	0.0185%	0.040%
35	2.5	0.0538	0.0305	0.080
40	2.5	0.0717	0.0432	0.135
45	2.5	0.0929	0.0672	0.215
50	2.5	0.1221	0.1002	0.325
55	2.5	0.2038	0.1917	0.500
60	2.5	0.3973	0.3775	0.790
64	2.5	0.6847	0.6302	1.140

\* Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set forward one year for females with an adjustment of factor of 0.75% for males and 0.70% for females.

\*\*Disability rates turn off at retirement eligibility.

**SERVICE RETIREMENT:** Before age 70, 30% of members are assumed to retire in the year when first eligible and 10% in each year thereafter. 50% of the remaining members are assumed to retire each year between age 70 and 74, and all remaining members are assumed to retire at age 75.

**DEATH AFTER RETIREMENT:** Rates of mortality for the period after service retirement are according to the RP-2000 Mortality Table with projection scale AA to 2015 set forward one year for females. The RP-2000 Disabled Mortality Table adjusted for males by a factor of 0.85 is used for the period after disability retirement. Representative values of assumed mortality are as follows:

Age	Service Retirement		Disability Retirement	
	Male	Female	Male	Female
55	0.2718%	0.2739%	3.0126%	1.6544%
60	0.5297	0.5393	3.5736	2.1839
65	1.0309	1.0161	4.2648	2.8026
70	1.7702	1.7233	5.3196	3.7635
75	3.0622	2.7451	6.9757	5.2230
80	5.5360	4.5702	9.2966	7.2312
85	9.9680	7.8920	12.0363	10.0203
90	17.2706	13.8232	15.5897	14.0049





**Teachers**

SEPARATIONS BEFORE SERVICE RETIREMENT: Representative values of the assumed annual rates of death, disability, and withdrawal are as follows:

Age	Death*	Annual Rate of					
		Disability		Withdrawal			
		Years of Service		Years of Service			
		0-24	25+	0-4	5-9	10-19	20+
<b><u>Male</u></b>							
20	0.02%	0.04%		30.00%			
25	0.02	0.05		15.68	10.00%		
30	0.03	0.05		14.25	5.40	5.00%	
35	0.05	0.10		14.25	5.40	3.00	
40	0.07	0.18		14.00	5.40	2.50	1.00%
45	0.09	0.31	0.10%	14.00	5.00	2.50	1.00
50	0.12	0.51	0.10	12.50	4.50	2.50	1.00
55	0.20	0.96	0.10	12.00	4.00	2.50	1.00
60	0.40	0.50	0.10	12.00	4.00		
65	0.77			12.00	6.00		
69	1.20			12.00	6.00		
<b><u>Female</u></b>							
20	0.01%	0.10%		28.50%			
25	0.01	0.10		14.00	8.00%		
30	0.01	0.10		14.00	5.80	4.00%	
35	0.02	0.15		14.00	5.00	3.00	
40	0.03	0.16		12.00	4.50	2.10	1.10%
45	0.04	0.33	0.15%	11.50	3.75	2.10	0.75
50	0.06	0.63	0.15	11.00	3.75	2.10	0.75
55	0.11	0.99	0.15	11.00	3.75	2.50	0.75
60	0.21	0.25	0.25	12.00	4.50		
65	0.40			14.00	6.00		
69	0.62			14.00	6.00		

\* Rates of pre-retirement mortality are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females with an adjustment of factor of 0.75 for males and 0.50 for females.



**SERVICE RETIREMENT:**

The assumed annual rates of service retirement for **Tier I** members are as follows:

For members first eligible for service retirement benefits upon attaining 25 years of service but before age 65, rates are as follows:

<u>Age Group</u>	<u>Annual Rate</u>	
	<u>Male*</u>	<u>Female**</u>
47 & Under	20.0%	25.0%
48	20.0	17.0
49	20.0	16.0
50 to 52	15.0	16.0
53 to 54	14.0	16.0
55 to 59	15.0	20.0
60	15.0	15.0
61	20.0	25.0
62	35.0	35.0
63	30.0	25.0
64	25.0	30.0

\*Retirement rates are increased by 7% in the year first eligible for service retirement from age 50 through age 54 and by 10% from age 55 through age 60.

\*\*Retirement rates are increased by 7% in the year first eligible for service retirement from age 50 through age 54 and by 20% from age 55 through age 60.

For members first eligible for service retirement benefits before attaining 25 years of service and all members age 65 and over, the rates are as follows:

<u>Age Group</u>	<u>Annual Rate</u>	
	<u>Male</u>	<u>Female</u>
60	13.0%	20.0%
61	12.0	15.0
62	28.0	25.0
63	20.0	20.0
64	15.0	18.0
65	30.0	30.0
66	28.0	30.0
67	20.0	25.0
68	20.0	28.0
69	20.0	22.0
70	20.0	25.0
71 to 74	20.0	22.0
75 & Above	100.0	100.0



The assumed annual rates of service retirement for **Tier II** members are as follows:

Age Group	Annual Rate			
	Male		Female	
	Less than 25 years of service	25 or more years of service	Less than 25 years of service	25 or more years of service
62	50.0%	60.0%	50.0%	65.0%
63	20.0	30.0	20.0	25.0
64	15.0	25.0	18.0	30.0
65	30.0	30.0	30.0	30.0
66	28.0	28.0	30.0	30.0
67	20.0	20.0	25.0	25.0
68	20.0	20.0	28.0	28.0
69	20.0	20.0	22.0	22.0
70	20.0	20.0	25.0	25.0
71 to 74	20.0	20.0	22.0	22.0
75 & above	100.0	100.0	100.0	100.0

DEATHS AFTER RETIREMENT: Rates of mortality for the period after service retirement are according to the sex distinct RP-2000 Combined Mortality Table Projected with Scale AA to 2015 set back one year for females. Rates of mortality for the period after disability retirement are according to the RP-2000 Disabled Mortality Table, adjusted for males by a factor of 0.85. Representative values of the assumed annual rates of death after retirement are as follows:

Age	Annual Rate			
	After Service Retirement		After Disability Retirement	
	Male	Female	Male	Female
35	0.07%	0.04%	1.92%	0.75%
40	0.10	0.05	1.92	0.75
45	0.12	0.08	1.92	0.75
50	0.16	0.12	2.46	1.15
55	0.27	0.21	3.01	1.65
60	0.53	0.41	3.57	2.18
65	1.03	0.80	4.26	2.80
70	1.77	1.38	5.32	3.76
75	3.06	2.26	6.98	5.22
80	5.54	3.74	9.30	7.23
85	9.97	6.35	12.04	10.02
90	17.27	11.39	15.59	14.00
95	25.96	17.74	22.74	19.45

In our opinion, the projection to 2015 of the RP-2000 mortality rates with Scale AA continues to provide a sufficient margin in the assumed rates of mortality to allow for additional improvement in mortality experience.



## SCHEDULE D

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### SUMMARY OF MAIN PLAN PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

**ELIGIBILITY:** Retiree medical eligibility is attained when a retired employee with at least ten years of service to the State retires, and is immediately eligible to draw a retirement annuity from the Alabama Employees' Retirement System, the Alabama Judicial Retirement System, and for a small group of employers, the Teachers' Retirement System of Alabama.

**BENEFITS:** The State Employees' Insurance Board (SEIB) serves as the Plan Administrator for the SEHIP. This is a self-insured comprehensive health benefit plan serving active and retired State employees and their dependents. As Plan Administrator, the SEIB is primarily responsible for the control and supervision for the SEHIP. The SEIB is also responsible for designing benefits and setting premiums.

**PROVISIONS FOR MEDICARE:** The SEHIP remains the primary insurer for medical coverage until the retiree is entitled to Medicare. Health benefits will be modified when the retiree or dependent becomes entitled to Medicare.

A Medicare retiree and/or spouse should have both Medicare Parts A and B to have adequate coverage with the State of Alabama. A retiree cannot have SEHIP prescription drug coverage if enrolled for Medicare Part D prescription drug coverage.

The SEHIP prescription drug benefit for Medicare retirees and/or spouses is provided through the SEHIP Employer Group Waiver Plan (EGWP).

**RETIREE CONTRIBUTIONS:** Retiree contributions vary based on type of contract, dependent coverage, Medicare eligibility and election, wellness participation, spousal surcharge, and tobacco usage.

A sliding scale premium is applied after September 30, 2005 to all employees retiring after September 30, 2005, based on their years of service. The premium for retiree coverage is broken down into the employer share (what SEHIP pays) and the retiree share. Under the sliding scale, the retiree will still be responsible for the retiree share, however, the employer share will increase or decrease based upon a retiree's years of service. For those employees retiring with 25 years of service, the employer would pay 100% of the employer share of the premium. For each year less than 25, the employer share would be reduced by 2% and the retiree share will be increased accordingly. For each year over 25, the employer share would be increased by 2% and the retiree share reduced accordingly.

For members retiring on or after January 1, 2012, the 2% reduction in the employer share of the premium for each year of service less than 25 will be increased to 4%. In addition, an 1% reduction in the employer share of the premium will be added for each year of age less than the Medicare entitlement age. This additional age premium component will be removed upon attaining Medicare entitlement. This additional premium amount will be phased in over five years so that the full premium increase will not be charged to retirees until 2016.

Furthermore, monthly retiree contributions are subject to discounts for wellness, non-tobacco use and spousal surcharge waiver and are as follows:

- Wellness (Pre-Medicare only): \$25 retiree, \$25 spouse.
- Non-Tobacco use: \$60 retiree, \$60 spouse
- Spousal Surcharge: Spousal surcharge of \$50 if a spouse is covered but is eligible for other insurance coverage.



### Sliding Scale (Employer base share)

Type of Contract	Sliding Scale Employer Base Share
Individual Coverage/ Non-Medicare Eligible Retired Member	\$ 555.00
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 968.00
Family Coverage/Non-Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$ 845.00
Individual Coverage/ Medicare Eligible Retired Member	\$ 350.00
Family Coverage/Medicare Eligible Retired Member	\$ 604.00
Family Coverage/Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$ 640.00

### Retired Members

The base retiree premiums as of January 1, 2016 before sliding scale adjustment, if applicable, are shown below.

Type of Contract	Retiree Monthly Base Premium	Non-Tobacco User, Wellness and No Spouse Surcharge Premium Discount	Retiree Monthly Base Premium With All Discounts
Individual Coverage/ Non-Medicare Eligible Retired Member	\$ 336.00	\$ (85.00)	\$ 251.00
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$ 733.00	\$ (220.00)	\$ 513.00
Individual Coverage/ Medicare Eligible Retired Member	\$ 75.00	\$ (60.00)	\$ 15.00
Family Coverage/Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$ 306.00	\$ (170.00)	\$ 136.00

Dental monthly premiums are \$8 for single coverage and \$15 for family coverage for Blue Cross Blue Shield or Southland.



Highlights of the BlueCard PPO effective 1/1/2016 are as follows:

<b>Medical Benefit</b>	<b>In Network (PPO)</b>	<b>Out Of Network (Non-PPO)</b>
Inpatient Hospital Benefits	\$200 per admission deductible with pre-certification. \$25 co-pay for days 2-5	\$200 per admission deductible with pre-certification. Covered at 80% of the allowance.
	All hospital admissions require pre-admission certification except maternity.	
Outpatient Hospital Benefits	Most services covered at 100%, subject to co-pay.	Most services covered at 80%, subject to deductible.
	In Alabama, outpatient benefits for non-member hospitals are available only in cases of accidental injury.	
Physician/Nurse Practitioner Benefits and Routine Preventive Care	Most services covered at 100%, subject to co-pay.	Most services covered at 80%, subject to deductible.
Major Medical General Provisions	\$300 per person each calendar year, maximum of three deductibles per family. \$6,250 individual out-of-pocket maximum; \$12,500 aggregate family maximum. Most services are covered at 80%.	
<b>Prescription Drug Benefit</b>	<b>Participating Pharmacy</b>	<b>Non-Participating Pharmacy</b>
Prescription Drugs	<p>Covered at 100% subject to the following co-pays:</p> <p>Active employees and Non-Medicare Retirees:</p> <ul style="list-style-type: none"> <li>•\$10 co-pay per prescription for Tier 1 Drugs</li> <li>•20% co-pay with a \$40 minimum and a \$80 maximum per prescription for Tier 2 Drugs</li> <li>•20% co-pay with a \$60 minimum and a \$120 maximum per prescription for Tier 3 Drugs</li> <li>•50% co-pay with a \$150 maximum per prescription for Tier 4 Drugs</li> </ul> <p>Medicare Retirees:</p> <ul style="list-style-type: none"> <li>•\$10 co-pay per prescription for Tier 1 Drugs</li> <li>•\$30 maximum co-pay per prescription for Tier 2 Drugs</li> <li>•\$60 maximum co-pay per prescription for Tier 3 and Tier 4 Drugs</li> </ul>	No benefits
<b>SEIB Discounted Vision Care Program – administered by SEIB</b>	<b>In Network</b>	<b>Out Of Network</b>
	One examination per year subject to a \$40 co-pay.	Not covered.
<b>Dental Benefits (Separate Plan)</b>	<b>In Network</b>	<b>Out of Network</b>
	\$25 per person each calendar year Deductible, maximum three deductibles per family, \$1,500 maximum per person per calendar year. Covered at 100% with no deductible for diagnostic and preventive services. 50% plus deductible for other services.	Same as in network except member is responsible for difference in between billed charges and in network fee schedule.