



THE STATE OF NORTH CAROLINA

REPORT OF THE ACTUARY ON THE

POSTEMPLOYMENT

MEDICAL BENEFITS VALUATION

PREPARED AS OF DECEMBER 31, 2005

AON Consulting, Inc.
3565 Piedmont Road, NE
Suite 600
Atlanta, GA 30305

Submitted by:
Kenneth C. Vieira, FSA, FCA, MAAA
Richard Ward, ASA, FCA, MAAA



Employee Benefits Consulting Group

December 1, 2006

Daniel Soper
Chief Operating Officer and Deputy Executive Administrator
The North Carolina Health Plan
4901 Glenwood Avenue, Suite 150
Raleigh, NC 27612-3820

Dear Dan:

Governmental Accounting Standards Board (GASB) Statements No. 43 and 45 require actuarial valuations of retiree medical and other post-employment benefit plans. We are submitting the results of the annual actuarial valuation prepared as of December 31, 2005. The valuation indicates that an annual required contribution of \$2,389,582,938 is required to support the retiree medical benefits of the State Health Plan. This contribution is valid for use for any fiscal year beginning within two years of the valuation date, as per GASB 43 and 45. This contribution reflects the assets currently held in support of these liabilities.

Benefits included in this valuation include post-employment medical and prescription drug benefits that are provided through the State Health Plan (SHP). Other post-employment benefits that may also carry required disclosures under GASB 43 and 45, such as life insurance and disability income, are not included in the results of this valuation.

Census data for this valuation was received from the Teachers' and State Employees' Retirement System (TSERS) pension actuary, as well as the State's University System. Claims and enrollment data was received from the SHP's claims processor. While this data was not verified at the source, tests for reasonability and consistency were conducted.

The State's Community College System was contacted to collect census data for employees participating in their Option Retirement Program. However, to date only one employee is enrolled, and the program is only available to college presidents which number 58 in total. It was excluded from the analysis as it was deemed to have a negligible impact on the total results.

The Medicare Modernization Act of 2003 (MMA) provides a Retiree Drug Subsidy (RDS) to plans and employers that provide Rx coverage to their Medicare-eligible retirees that is at least as good as the Basic Medicare Part D Plan. It has recently been determined by GASB that any RDS payments may not be used to offset OPEB liabilities. Therefore, the value of RDS payments to the State have not been factored into the determination of the liabilities calculated as part of this valuation.

The State Legislature recently passed Senate Bill 837, which establishes service-based contributions for employees hired October 1, 2006 or later (February 1, 2007 for legislators). This is expected to result in retiree contributions that are higher than the levels of the current provisions. However, there is no impact of this legislation on this valuation due to the valuation's effective date being prior to that of SB 837.



Employee Benefits Consulting Group

The results of this valuation were developed using the unit credit actuarial cost method with projected benefits. Assets at December 31, 2005 as reported by the State were used to offset the liabilities. Unfunded accrued liabilities are amortized using a level percent of pay method over 30 years, assuming annual payroll increases of 3.75%, which is the assumed annual rate of inflation.

The valuation was conducted using assumptions consistent with those used to value the pension benefits of TSERS where appropriate. These assumptions are based on the most recent experience study conducted by the TSERS actuary (dated December 31, 2004) and were adopted by TSERS beginning with the December 31, 2005 pension valuation. The use of these assumptions in the retiree medical valuation, as well as other assumptions specific to this valuation, were based on our recommendations, set by State officials, and meet the parameters for disclosures under GASB 43 and 45. The discount rate used reflects a pay-as-you-go approach.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations of public employer post employment benefits, that the valuation was prepared in accordance with principals 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.

In our opinion, if contributions were increased, the Plan would begin to operate in an actuarially sound basis. Required contributions made from year to year in the future at the levels required by this and subsequent valuations, would result in an increased actuarial soundness and may lead to higher assumed discount rates due to the increased amount of assets available for longer-term investments.

Respectfully submitted,

Kenneth Vieira, FSA, FCA, MAAA
Senior Vice President

Richard Ward, ASA, FCA, MAAA
Assistant Vice President

Table of Contents

<u>Section</u>	<u>Item</u>	<u>Page Number</u>
I	Summary of Principal Results	1
II	Membership Data	2
III	Assets	3
IV	Comments on Valuation	3
V	Contributions Payable Under the Plans	3
VI	Comments on Level of Funding	4
VII	Accounting Information	5
VIII	Additional Financial Information	6
<u>Schedule</u>		
A	Results of the Valuation	8
B	Summary of Assets	9
C	Outline of Actuarial Assumptions and Methods	10
D	Summary of Main Plan Provisions	15

THE STATE OF NORTH CAROLINA
 REPORT OF THE ACTUARY ON THE POSTEMPLOYMENT MEDICAL BENEFITS
 PREPARED AS OF DECEMBER 31, 2005

SECTION I – SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the valuation are summarized below:

Valuation Date	December 31, 2005
Number of Active Members	333,404
Annual Salaries	\$ 12,359,975,359
Number of Inactive Members and Dependents	191,618
Assets	\$ 139,174,878*
Unfunded actuarial accrued liability	\$ 23,785,963,864
Amortization period (years)	30
Annual Required Contribution (ARC)	
Normal Cost	\$ 1,540,208,977
Amortization of Unfunded Accrued Liability	<u>\$ 849,373,961</u>
Total	\$ 2,389,582,938

2. The valuation indicates that an ARC of \$2,389,582,938 is sufficient to support the current benefits of the plans.
3. Schedule C of this report outlines the full set of actuarial assumptions and methods employed in the current valuation.
4. The valuation does not include the impact of Senate Bill 837, recently passed legislation that enacts service based contributions in retirement for employees hired October 1, 2006 and later (February 1, 2007 for legislators) due to the effective date of the valuation being earlier than the effective date of the Bill.

* Source: Department of State Treasurer

SECTION II – MEMBERSHIP DATA

1. Census data regarding membership of the Teachers’ and Employees’ Retirement System (TSERS) participants for use as a basis of the valuation were furnished by TSERS by way of its actuary (Buck Consultants).
2. Census data regarding membership of the University System’s Optional Retirement Program (ORP) participants for use as a basis of the valuation were furnished by the University System.
3. Census data regarding membership of the Community College System’s Optional Retirement Program (ORP) participants was not collected for use in this valuation due to current membership containing one participant. Participation is optional and limited to the 58 community college presidents, provided they were hired January 1, 2003 or later. These provisions were adopted February 20, 2003 as part of Section 32.24 of Session Law 2001-424. It is suggested that participation levels be monitored in future years and a determination be made on a valuation-by-valuation basis as to whether inclusion of the ORP’s membership would have a material impact on overall results.
4. Membership data for certain legislative and judicial employees not included in the TSERS data was collected from the SHP enrollment data.
5. The following tables show the age and service (active employees only) distributions of the membership data at December 31, 2005:

ACTIVE EMPLOYEES

Age	Years of Service							Total
	Less than 5	5-9	10-14	15-19	20-24	25-29	30 and more	
Under 25	9,552	79						9,631
25-29	25,237	6,474	532					32,243
30-34	16,140	15,478	4,273	20				35,911
35-39	15,098	12,446	11,838	2,615	57			42,054
40-44	13,506	11,580	8,244	7,498	2,780	84		43,692
45-49	15,671	11,927	8,936	6,603	6,958	3,697	85	53,877
50-54	10,384	9,889	8,192	7,042	5,476	8,600	2,082	51,665
55-59	8,183	7,553	6,393	6,131	4,862	5,089	2,786	40,997
60-64	3,352	3,564	2,872	2,796	2,193	1,855	1,422	18,054
65 and older	1,081	1,211	858	653	470	359	648	5,280
Total Actives	118,204	80,201	52,138	33,358	22,796	19,684	7,023	333,404

INACTIVES AND COVERED SPOUSES

Under Age 65	96,311
Age 65 and Over	<u>95,307</u>
Total Inactives and Covered Spouses	191,618

SECTION III – ASSETS

1. As of December 31, 2005, the fair value of assets for valuation purposes amounted to \$139,174,878*.

SECTION IV – COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule C.
2. The valuation shows the Plan has an actuarial liability of \$13,730,305,833 for benefits expected to be paid on account of present active membership, based on service to the valuation date. The liability on account of benefits payable to inactives and their covered dependents amounts to \$10,194,832,909. The total actuarial liability of the Plan amounts to \$23,925,138,742. Against these liabilities, the Plan has present assets for valuation purposes of \$139,174,878*. When this amount is deducted from the actuarial accrued liability of \$23,925,138,742, there remains \$23,785,963,864 as the unfunded actuarial accrued liability.
3. The normal cost is equal to the actuarial present value of benefits accruing during the current year. The normal cost is determined to be \$1,540,208,977.

SECTION V – CONTRIBUTIONS PAYABLE UNDER THE PLAN

1. The valuation indicates that a normal cost contribution of \$1,540,208,977 is required to meet the cost of benefits currently accruing. The difference between the Annual Required Contribution and the normal cost contribution remains to be applied toward the liquidation of the unfunded accrued liability. This accrued liability payment is \$849,373,961.

Annual Required Contribution (ARC)	
Normal Cost	\$ 1,540,208,977
Amortization of Unfunded Accrued Liability	<u>\$ 849,373,961</u>
Total	\$ 2,389,582,938

* Source: Department of State Treasurer

2. The unfunded actuarial accrued liability amounts to \$23,785,963,864 as of the valuation date. An unfunded accrued liability contribution of \$849,373,961 is sufficient to amortize the unfunded accrued liability over a 30-year period, based on the assumption that the payroll will increase by 3.75% annually, which is the assumed inflation rate.
3. Employees hired October 1, 2006 and later (February 1, 2007 for legislators) will be charged contributions for post-employment coverage that will vary by service at termination, according to Senate Bill 837. SB 837 has no impact on this valuation; however subsequent valuation results will be impacted.

SECTION VI – COMMENTS ON LEVEL OF FUNDING

1. Effective October 1, 2006 contributions will be required for retiree coverage in some Plan options for the first time. Contributions will be required for retiree coverage in the BCBS Choice Select PPO Option. No contributions will be required for retiree coverage in the other plan options.
2. Contributions for spouse coverage have historically been targeted to be 100% of expected costs. However, targeted expected costs for non-Medicare eligible spouses has included dependents of active employees, resulting in a target lower than the true cost of coverage for the retirees' spouses.
3. The valuation indicates that a significant increase in the employer contribution rate is required to fund the Plan in an actuarially sound manner and to ensure the future solvency of the Benefit Trust. The ARC of \$2,389,582,938 covers the cost of benefits currently accruing and provides the amortization of the unfunded actuarial accrued liability over a period of 30 years. This ARC is for any fiscal year within two years of the valuation date, as per GASB 43 and 45.

SECTION VII – ACCOUNTING INFORMATION

1. Government Accounting Standards Board Statements 43 and 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the Plan and the employer.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
		Projected Unit Credit (b)				((b-a)/c)
12/31/2005	\$139,174,878*	\$23,925,138,742	\$23,785,963,864	0.6%	\$12,359,975,359	192.4%

* Source: Department of State Treasurer

2. The information in the required supplementary schedules was determined as part of the actuarial valuation at December 31, 2005. Additional information as of the latest actuarial valuation follows.

Valuation Date	December 31, 2005
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*	4.25%
Healthcare cost trend rate*	
Initial trend rate**	11.0%
Ultimate trend rate**	5.0%
Year of ultimate trend rate	2012

* Includes inflation at 3.75%.

** Trend rates apply to both Medicare eligible and pre-Medicare-eligible members.

SECTION VIII – ADDITIONAL FINANCIAL INFORMATION

1. The following shows the 10 year projected Plan assets, liabilities, and other accounting items of interest for disclosure, if the State contributions equal annual benefits payable from the Plan. This projection shows the impact on the Net OPEB Obligation and Annual OPEB Cost of following a pay-as-you-go approach. That is, benefits are not advance funded and state contributions equal net benefit payments. Projected values are calculated using the assumptions and methods outlined in Schedule C.

Year (12/31)	Accrued Liability (AL)	Normal Cost (NC)	Assets	Unfunded Accrued Liability (UAL)	Amortization of UAL	Annual Required Contribution (ARC) (NC+Amortization of UAL)
2005	\$23,925,138,742	\$1,540,208,977	\$139,174,878	\$23,785,963,864	\$849,373,961	\$2,389,582,938
2006	\$25,996,682,794	\$1,617,219,426	\$145,089,810	\$25,851,592,984	\$923,135,596	\$2,540,355,022
2007	\$28,083,759,244	\$1,698,080,397	\$151,256,127	\$27,932,503,117	\$997,442,902	\$2,695,523,299
2008	\$30,226,721,112	\$1,782,984,417	\$157,684,512	\$30,069,036,600	\$1,073,736,463	\$2,856,720,880
2009	\$32,422,930,114	\$1,872,133,638	\$164,386,104	\$32,258,544,010	\$1,151,921,674	\$3,024,055,312
2010	\$34,679,803,705	\$1,965,740,320	\$171,372,513	\$34,508,431,192	\$1,232,262,987	\$3,198,003,307
2011	\$37,015,501,532	\$2,064,027,336	\$178,655,845	\$36,836,845,687	\$1,315,408,436	\$3,379,435,772
2012	\$39,480,952,239	\$2,167,228,703	\$186,248,718	\$39,294,703,521	\$1,403,176,183	\$3,570,404,886
2013	\$42,089,408,953	\$2,275,590,138	\$194,164,289	\$41,895,244,664	\$1,496,039,013	\$3,771,629,151
2014	\$44,848,454,909	\$2,389,369,645	\$202,416,271	\$44,646,038,638	\$1,594,267,228	\$3,983,636,873

Year (12/31)	ARC	Annual Net Benefit Cost	Interest on Net OPEB Obligation (NOO)	Adjustment to NOO	Annual OPEB Cost (AOC) (ARC + Interest and Adj to NOO)	State Contribution	Net OPEB Obligation (prior NOO + current AOC - ER Contribution)
2005	\$2,389,582,938	\$539,478,290	\$0	\$0	\$2,389,582,938	\$550,942,204	\$1,838,640,734
2006	\$2,540,355,022	\$689,090,644	\$78,142,231	-\$68,446,482	\$2,550,050,771	\$703,733,820	\$3,684,957,686
2007	\$2,695,523,299	\$803,766,672	\$156,610,702	-\$137,178,723	\$2,714,955,278	\$820,846,714	\$5,579,066,250
2008	\$2,856,720,880	\$927,478,972	\$237,110,316	-\$207,690,088	\$2,886,141,108	\$947,187,900	\$7,518,019,458
2009	\$3,024,055,312	\$1,050,477,607	\$319,515,827	-\$279,870,870	\$3,063,700,269	\$1,072,800,257	\$9,508,919,470
2010	\$3,198,003,307	\$1,162,769,267	\$404,129,077	-\$353,985,458	\$3,248,146,926	\$1,187,478,114	\$11,569,588,283
2011	\$3,379,435,772	\$1,233,250,043	\$491,707,502	-\$430,697,307	\$3,440,445,967	\$1,259,456,606	\$13,750,577,643
2012	\$3,570,404,886	\$1,301,169,820	\$584,399,550	-\$511,888,290	\$3,642,916,146	\$1,328,819,678	\$16,064,674,111
2013	\$3,771,629,151	\$1,372,882,882	\$682,748,650	-\$598,034,408	\$3,856,343,393	\$1,402,056,644	\$18,518,960,860
2014	\$3,983,636,873	\$1,449,259,132	\$787,055,837	-\$689,399,344	\$4,081,293,366	\$1,480,055,889	\$21,120,198,337

2. The following shows the 10 year projected Plan assets, liabilities, and other accounting items of interest for disclosure if State contributions equal the ARC. State contributions are assumed to equal the ARC for each year, resulting in an advance funded liability. The Annual OPEB Cost is lower than in the pay-as-you-go approach and the Net OPEB Obligation remains a \$0, due to expected actual contributions matching future ARCs. Projected values are calculated using the assumptions and methods outlined in Schedule C. The sole exception is the investment return is assumed to be 7.00%, and the discount rate is set to match this expectation.

Year (12/31)	Accrued Liability (AL)	Normal Cost (NC)	Assets	Unfunded Accrued Liability (UAL)	Amortization of UAL	Annual Required Contribution (ARC) (NC+Amortization of UAL)
2005	\$15,534,399,169	\$851,061,389	\$139,174,878	\$15,395,224,291	\$774,700,555	\$1,625,761,944
2006	\$16,974,082,767	\$893,614,458	\$1,216,319,033	\$15,757,763,734	\$792,943,843	\$1,686,558,301
2007	\$18,405,227,215	\$938,295,181	\$2,274,810,850	\$16,130,416,365	\$811,696,035	\$1,749,991,216
2008	\$19,865,670,457	\$985,209,940	\$3,352,140,320	\$16,513,530,137	\$830,974,640	\$1,816,184,580
2009	\$21,350,501,290	\$1,034,470,437	\$4,443,033,987	\$16,907,467,303	\$850,797,888	\$1,885,268,325
2010	\$22,864,675,424	\$1,086,193,959	\$5,552,070,367	\$17,312,605,057	\$871,184,758	\$1,957,378,717
2011	\$24,423,964,049	\$1,140,503,657	\$6,694,627,819	\$17,729,336,230	\$892,155,019	\$2,032,658,676
2012	\$26,077,566,650	\$1,197,528,840	\$7,919,496,648	\$18,158,070,002	\$913,729,261	\$2,111,258,101
2013	\$27,837,641,411	\$1,257,405,282	\$9,238,408,751	\$18,599,232,660	\$935,928,935	\$2,193,334,217
2014	\$29,710,766,178	\$1,320,275,546	\$10,657,497,797	\$19,053,268,381	\$958,776,392	\$2,279,051,938

Year (12/31)	ARC	Annual Net Benefit Cost	Interest on Net OPEB Obligation (NOO)	Adjustment to NOO	Annual OPEB Cost (AOC) (ARC + Interest and Adj to NOO)	State Contribution	Net OPEB Obligation (prior NOO + current AOC - ER Contribution)
2005	\$1,625,761,944	\$539,478,290	\$0	\$0	\$1,625,761,944	\$1,625,761,944	\$0
2006	\$1,686,558,301	\$689,090,644	\$0	\$0	\$1,686,558,301	\$1,686,558,301	\$0
2007	\$1,749,991,216	\$803,766,672	\$0	\$0	\$1,749,991,216	\$1,749,991,216	\$0
2008	\$1,816,184,580	\$927,478,972	\$0	\$0	\$1,816,184,580	\$1,816,184,580	\$0
2009	\$1,885,268,325	\$1,050,477,607	\$0	\$0	\$1,885,268,325	\$1,885,268,325	\$0
2010	\$1,957,378,717	\$1,162,769,267	\$0	\$0	\$1,957,378,717	\$1,957,378,717	\$0
2011	\$2,032,658,676	\$1,233,250,043	\$0	\$0	\$2,032,658,676	\$2,032,658,676	\$0
2012	\$2,111,258,101	\$1,301,169,820	\$0	\$0	\$2,111,258,101	\$2,111,258,101	\$0
2013	\$2,193,334,217	\$1,372,882,882	\$0	\$0	\$2,193,334,217	\$2,193,334,217	\$0
2014	\$2,279,051,938	\$1,449,259,132	\$0	\$0	\$2,279,051,938	\$2,279,051,938	\$0

SCHEDULE A

RESULTS OF THE VALUATION
PREPARED AS OF DECEMBER 31, 2005

1.	ACTUARIAL ACCRUED LIABILITY	
	Present value of prospective benefits payable in respect of:	
	(a) Present active members	\$13,730,305,833
	(b) Present inactive members and covered dependents	<u>\$10,194,832,909</u>
	(c) Total actuarial accrued liability	\$23,925,138,742
2.	PRESENT ASSETS FOR VALUATION PURPOSES	\$139,174,878*
3.	UNFUNDED ACTUARIAL ACCRUED LIABILITY [1(c) – 2]	\$23,785,963,864
4.	NORMAL COST CONTRIBUTION	\$ 1,540,208,977
5.	DISCOUNT RATE	4.25%

* Source: Department of State Treasurer

SCHEDULE B

SUMMARY OF ASSETS

1. As of December 31, 2005, the fair value of assets for valuation purposes amounted to \$139,174,878*. No income or disbursement information was made available for 2005. However, this is not necessary since there is no December 31, 2004 valuation to use for reconciliation purposes. Subsequent valuation reports will contain a reconciliation of asset activity with previously reported asset balances.

* Source: Department of State Treasurer

SCHEDULE C

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

Assumptions common to the TSERS pension valuation are based on the experience investigation prepared as of December 31, 2004 and adopted beginning with the December 31, 2005 pension valuation. The use of these assumptions in the post employment medical benefits valuation, as well as other assumptions specific to this valuation, were based on our recommendations, set by State officials, and meet the parameters for disclosures under GASB 43 and 45. The discount rate used reflects a pay-as-you-go approach.

INTEREST RATE: 4.25%, compounded annually

SALARY INCREASES: Representative values of the assumed rates of salary increases are as follows:

Annual Rate of Salary Increases				
<u>Age</u>	<u>General Employees</u>	<u>Law Enforcement Officers</u>	<u>Service</u>	<u>Teachers</u>
25	10.28%	9.70%	0	14.73%
30	6.17	7.20	5	10.38
35	5.22	5.87	10	6.86
40	5.08	5.30	15	6.65
45	4.98	4.96	20	6.43
50	4.77	4.50	25	6.34
55	4.50	4.50	30	6.29
60	4.50	4.50	35	5.90
64	4.50	4.50	40	4.50
65	4.50	4.50	45	4.50
69	4.50	4.50	50	4.50

SEPARATION FROM ACTIVE SERVICE: Representative values of the assumed rates of separation from active service are as follows:

GENERAL EMPLOYEES								
Annual Rates of								
Age	Withdrawal* and Vesting		Death		Disability		Service Retirement**	
	Male	Female	Male	Female	Male	Female	Male	Female
25	0.0800	0.0850	0.0006	0.0003	0.0001	0.0001		
30	0.0800	0.0850	0.0008	0.0003	0.0004	0.0004		
35	0.0680	0.0740	0.0009	0.0005	0.0010	0.0010		
40	0.0530	0.0500	0.0010	0.0007	0.0029	0.0018		
45	0.0400	0.0400	0.0015	0.0009	0.0049	0.0033		
50	0.0400	0.0350	0.0023	0.0013	0.0084	0.0050	0.3500	0.3500
55	0.0400	0.0350	0.0040	0.0021	0.0144	0.0088	0.3000	0.3500
60			0.0071	0.0039	0.0240	0.0138	0.1500	0.1500
65			0.0129	0.0076			0.3000	0.3000
69			0.0199	0.0118			0.1500	0.2000

TEACHERS								
Annual Rates of								
Age	Withdrawal* and Vesting		Death		Disability		Service Retirement**	
	Male	Female	Male	Female	Male	Female	Male	Female
25	0.0550	0.0600	0.0006	0.0003	0.0001	0.0002		
30	0.0550	0.0600	0.0007	0.0003	0.0001	0.0003		
35	0.0550	0.0500	0.0008	0.0004	0.0003	0.0006		
40	0.0350	0.0350	0.0009	0.0006	0.0007	0.0010		
45	0.0300	0.0250	0.0013	0.0008	0.0014	0.0018		
50	0.0350	0.0300	0.0019	0.0011	0.0023	0.0032	0.3500	0.3500
55	0.0350	0.0300	0.0032	0.0017	0.0047	0.0055	0.3500	0.4500
60			0.0056	0.0029	0.0077	0.0102	0.1500	0.1500
65			0.0102	0.0058			0.3000	0.3500
69			0.0162	0.0097			0.2500	0.1500

* Higher rates of withdrawal are used during the first three years of service.

** An additional 15% of general employees and an additional 20% of teachers are assumed to retire in the initial year of eligibility for an unreduced service retirement pension benefit. Special rates are used for early service retirement.

LAW ENFORCEMENT OFFICERS - MALE						
Annual Rates of						
<u>Age</u>	<u>Withdrawal and Vesting</u>	<u>Death</u>		<u>Disability</u>		<u>Service Retirement*</u>
		<u>Ordinary</u>	<u>Accidental</u>	<u>Ordinary</u>	<u>Accidental</u>	
25	0.0980	0.00056	0.00006	0.0029	0.0003	
30	0.0570	0.00070	0.00008	0.0036	0.0004	
35	0.0370	0.00077	0.00009	0.0047	0.0005	
40	0.0300	0.00090	0.00010	0.0061	0.0007	
45	0.0220	0.00131	0.00015	0.0090	0.0010	
50	0.0220	0.00210	0.00023	0.0151	0.0017	0.2000
55		0.00358	0.00040			0.2000
60		0.00638	0.00071			0.2000
65		0.01165	0.00129			0.4000
69		0.01787	0.00199			0.3000

LAW ENFORCEMENT OFFICERS - FEMALE						
Annual Rates of						
<u>Age</u>	<u>Withdrawal and Vesting</u>	<u>Death</u>		<u>Disability</u>		<u>Service Retirement*</u>
		<u>Ordinary</u>	<u>Accidental</u>	<u>Ordinary</u>	<u>Accidental</u>	
25	0.0980	0.00026	0.00003	0.0029	0.0003	
30	0.0570	0.00030	0.00003	0.0036	0.0004	
35	0.0370	0.00041	0.00005	0.0047	0.0005	
40	0.0300	0.00059	0.00007	0.0061	0.0007	
45	0.0220	0.00083	0.00009	0.0090	0.0010	
50	0.0220	0.00118	0.00013	0.0151	0.0017	0.2000
55		0.00187	0.00021			0.2000
60		0.00347	0.00039			0.2000
65		0.00686	0.00076			0.4000
69		0.01058	0.00118			0.3000

* An additional 40% are assumed to retire in the first year of eligibility for an unreduced service retirement pension benefit. Special rates are used for early service retirement.

DEATH AFTER RETIREMENT:

According to 1994 Group Annuity Mortality Tables. These tables are not adjusted for male teachers, set forward one year for female teachers, set forward two years for general employees and law enforcement officers, and set forward two years for the beneficiaries of deceased members.

MORTALITY PROJECTIONS:

All mortality rates are projected using Scale AA.

ANNUAL ASSUMED COSTS:

The following is a table showing representative age-based annual claims and administrative costs per covered member for 2006 for the indemnity plan:

<u>Age</u>	<u>Indemnity Plan</u>
50	\$4,613
55	\$5,612
60	\$6,994
65	\$2,077
70	\$2,408
75	\$2,658
80	\$2,794
85	\$2,794

Claims for participants in the Basic PPO will be reduced by 10%, relative to the Indemnity Plan. The Choice PPO claims will be reduced by 5% and the Select PPO claims are assumed to be the same as those for the Indemnity Plan. Plan elections were not available for current vested terminations and University System ORP employees. Claims for these participants are reduced by 4%, relative to the Indemnity Plan.

DISABLED MORBIDITY:

Costs for the disabled follow the same assumptions as other beneficiaries, but are adjusted by the following factors, based on time since date of disablement:

<u>Year of Disability</u>	<u>Morbidity factor</u>
1	5.00
2	4.00
3	3.00
4	2.00
5+	1.25

Additionally, 75% of all disabled are assumed to qualify for Medicare after 29 months of disability. The Medicare offset is assumed to be 60%.

SPOUSE AGE DIFFERENCE:

Actual spouse data was used for spouses of current retirees. For future retirees, wives are assumed to be 4 years younger than their husbands.

HEALTH CARE COST TREND RATES:

The following shows the assumed annual trend rates. These apply to all ages and plans – claims and retiree contributions.

<u>Year</u>	<u>Annual Trend</u>
2006	11%
2007	10%
2008	9%
2009	8%
2010	7%
2011	6%
2012 and later	5%

FUTURE PLAN PARTICIPATION:

For current retirees and active employees, PPO and Indemnity plan elections as-of October 1, 2006 are assumed to be maintained in perpetuity. Spouses of current retirees covered on October 1, 2006 are assumed to maintain coverage for the remainder of their lifetimes. Spouses of current actives and vested terminations are assumed to be covered in retirement as follows (rates are aggregate for assumed married and covered):

<u>Plan</u>	<u>Spouse Coverage Rate</u>
Indemnity	5%
Basic PPO	80%
Choice PPO	20%
Select PPO	20%
ORP/TVs	15%

ACTUARIAL COST METHOD:

Costs were determined using the Projected Unit Credit Actuarial Cost Method. Service from hire date to full eligibility was used to allocate costs.

ASSETS:

Existing asset balance as reported by the Department of State Treasurer. Return on assets is assumed to be 4.25% annually.

SCHEDULE D

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

PLAN DESCRIPTION: The State Health Plan is a cost sharing multi-employer defined benefit post-employment health care plan that covers all current State retirees and covered dependents and will provide coverage for all future retirees and their covered dependents.

ELIGIBILITY: Employees are assumed to be eligible to retire as early as age fifty if they have at least twenty years of service, at age sixty with five years of service, at age sixty-five with any length of service, or at any age with thirty or more years of service (service retirement).

Law enforcement officers are assumed to be eligible to retire as early as age fifty if they have at least fifteen years of service, at age fifty-five with five years of service, or at any age with thirty or more years of service (service retirement).

CONTRIBUTIONS: Annual contributions for coverage through September 30, 2006 (indemnity plan only):

	<u>Indemnity</u>
Pre-Medicare	
Retiree	\$ 0
Spouse	\$ 5,762
Medicare-eligible	
Retiree	\$ 0
Spouse	\$ 4,380

Annual contributions for coverage effective October 1, 2006:

	<u>Basic PPO</u>	<u>PPO Choice</u>	<u>PPO Select</u>	<u>Indemnity</u>
Pre-Medicare				
Retiree	\$ 0	\$ 0	\$ 474	\$ 0
Spouse	\$ 4,189	\$ 4,982	\$ 6,089	\$ 5,762
Medicare-eligible				
Retiree	\$ 0	\$ 0	\$ 361	\$ 0
Spouse	\$ 3,041	\$ 3,719	\$ 4,666	\$ 4,379

Medical and Prescription Drug Plan Benefits
(Effective October 1, 2006)

Benefit	Indemnity	PPO Basic		PPO Choice		PPO Select	
		<u>Network</u>	<u>Non- Network</u>	<u>Network</u>	<u>Non- Network</u>	<u>Network</u>	<u>Non- Network</u>
Lifetime Maximum	\$5 million	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Annual Deductible (ind/family)	\$350/ \$1,050	\$600/ \$1,800	\$1,200/ \$3,600	\$300/ \$900	\$600/ \$1,800	\$150/ \$450	\$300/ \$900
Coinsurance	80%	70%	50%	80%	60%	90%	70%
Coinsurance Maximum (ind/family)	\$2,000/ \$6,000	\$2,500/ \$7,500	\$5,000/ \$15,000	\$1,750/ \$5,250	\$3,500/ \$10,500	\$1,000/ \$3,000	\$2,000/ \$6,000
Office Visits							
Primary Care	\$15+ ded & coins,	\$25	Ded & coins.	\$20	Ded & coins	\$15	Ded & coins
Specialist	\$15+ ded & coins,	\$25	Ded & coins.	\$20	Ded & coins	\$15	Ded & coins
Urgent Care		\$75	\$75	\$50	\$50	\$50	\$50
Inpatient Hospitalization	\$150 + ded & coins,	\$200 + ded & coins,	\$200 + ded & coins,	\$150 + ded & coins,	\$150 + ded & coins,	\$100 + ded & coins,	\$100 + ded & coins,
Outpatient Hospitalization	\$75+ ded & coins,	Ded & coins.	Ded & coins.	Ded & coins.	Ded & coins.	Ded & coins.	Ded & coins.
Emergency Room	\$200 + ded & coins	\$250 + ded & coins	\$250 + ded & coins	\$200 + ded & coins	\$200 + ded & coins	\$150 + ded & coins	\$150 + ded & coins
Prescription Drug Copays							
Generic	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Preferred Brand (no Generic equiv)	\$25	\$25	\$25	\$25	\$25	\$25	\$25
Preferred Brand (with Generic equiv)	\$40	\$40	\$40	\$40	\$40	\$40	\$40
Preferred Brand	\$50	\$50	\$50	\$50	\$50	\$50	\$50