State of Connecticut Other Post-Employment Benefits Program

Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011 In accordance with GASB Statements No. 43 and No. 45

SEGAL

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THE SEGAL COMPANY
30 Waterside Drive, Suite 300 Farmington, CT 06032-3069
T 860.678.3000 F 860.678.3090 www.segalco.com

May 16, 2012

Thomas C. Woodruff, Ph.D., Director
Healthcare Policy & Benefit Services Division
Office of the State Comptroller
55 Elm Street
Hartford, Connecticut 06106-1775

Dear Dr. Woodruff:

We are pleased to submit this Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2011 under Governmental Accounting Standards Board Statements 43 and 45. The report summarizes the actuarial data used in the valuation, discloses the Net OPEB obligation (NOO) as of June 30, 2011, establishes the Annual Required Contribution (ARC) for the coming year, and analyzes the preceding year's experience. This report was based on the census and financial data provided by the Healthcare Policy & Benefit Services Division of the Office of the State Comptroller and the terms of the Plan. The actuarial calculations were completed under the supervision of K. Eric Fredén, FSA, MAAA, FCA, Enrolled Actuary, Vice President & Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions used in this valuation and described in Exhibit II are reasonably related to the experience of and the expectations for the Plan. The actuarial projections are based on these assumptions and the plan of benefits as summarized in Exhibit III.

Sincerely,
THE SEGAL COMPANY

By:

Daniel J. Rhodes, ASA, MAAA, FCA	*Theresa DeMattie*	*K. Eric Fredén, FSA, MAAA, FCA, EA*
Consulting Actuary	*Consultant*	*Vice President & Actuary*

SECTION 1

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PURPOSE

This report presents the results of our actuarial valuation of the State of Connecticut (the "State") OPEB plan as of June 30, 2011. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

HIGHLIGHTS OF THE VALUATION

This report includes actuarial information designed to assist the Employer with bringing the accounting entries under GASB 45 up to date through June 30, 2011, and to show the preliminary accounting information for the fiscal year ending June 30, 2012. Other consulting actuaries completed the actuarial calculations for prior fiscal years. This report contains limited historical information based on actuarial reports made available to us and from the Comprehensive Annual Financial Reports for the State of Connecticut for the four fiscal years ending in 2008 through 2011.

In an actuarial report dated April 1, 2008, the actuary reported the actuarial accrued liability (AAL) for benefits earned to date was $26.6 billion. The State, working with the State Employees Bargaining Agent Coalition, has made numerous changes to the design, administration, and funding of the Employer's OPEB plans since the obligations were reported in 2008.

If there had been no changes, we would have expected the AAL to grow to $31.2 billion as of June 30, 2011 based on the plan provisions and expected cost levels from the April 1, 2008 report projected to June 30, 2011 and the census as of July 1, 2011. Compared to previous actuarial valuations, this valuation includes a much smaller group of terminated employees expected to be entitled to OPEB in the future. Only terminated employees with a vested benefit in the relevant pension plan and with at least 10 years of service as of July 1, 2009 are included as deferred vested retirees for the purpose of this valuation. The obligation associated with deferred vested employees has been reduced from $3.495 billion in the April 1, 2008 valuation to $283 million in this valuation. The expected value (before changes) of $31.2 billion already includes this change of approach to the valuation of terminated vested employees.

The actual unfunded AAL (UAAL) as of June 30, 2011 is $17.9 billion, a reduction of $8.7 billion from the prior valuation, and a reduction of $13.3 billion from the expected value for this year's valuation. The difference between the actual and expected UAAL was the net effect of several factors:

- Changes in **actuarial assumptions** reduced the obligation by $6.20 billion. We reviewed recent claims experience and concluded that claims were lower than projected from the previous valuation. In addition, the State has set up an OPEB trust fund and provided for employee and employer contributions to advance-fund future retirement benefits. With some of the funds invested on a long-term basis, we were able to increase the discount rate used to value plan obligations from 4.5% to 5.0% on a preliminary basis. When investment earnings provide some of the resources for paying future benefits, the valuation shows reduced State obligations.

- Changes in **plan design and funding methodologies** reduced obligations by $4.94 billion. Changes in benefit design, eligibility requirements, contribution requirements for employees and retirees, the introduction of a Health Enhancement Program, and the conversion of the Medicare-aged prescription drug program to an Employer Group Waiver Program all contributed to a reduction in the State's obligation for OPEB. Note that these plan design changes may lead to later average retirement ages. Any additional savings from later retirements have not been anticipated in this valuation but will emerge as experience unfolds in future years. The current plan of benefits is summarized in Exhibit III of Section 4.

- A ten-year projection of the OPEB Trust Fund was completed to study whether the discount rate used to value plan obligations could be further increased. Based on our analysis presented in our memo dated May 10, 2012, the State decided to increase the interest rate to 5.7%, which lowered the obligation by an additional $2.12 billion. A description of the method used to determine the discount rate is found in Exhibit II of Section 4.

- The State established an OPEB trust fund. This fund has $49.6 million as of June 30, 2011, but is expected to accumulate rapidly under the new arrangement for employee and State contributions to the fund. These assets can be offset against the AAL for the plan to create the UAAL used for the GASB 45 calculations. As of June 30, 2011, the ratio of assets to the AAL (the funded ratio) is 0.28%.

The following offers a comparison of key figures from prior years to the current year:

- The **Net OPEB Obligation (NOO)** increased to $4.930 billion for the year ending June 30, 2011. The NOO generally increases if the contributions in relation to the ARC are less than the ARC. The contributions in relation to the ARC during the year ending June 30, 2011 were $544,767,000 compared to an ARC of $1,276,099,128. Contributions in relation to the ARC totaled 42.69% of the ARC in the year ending June 30, 2011. Chart 6 shows the detailed derivation of the NOO as of June 30, 2011.

- The **Annual Required Contribution (ARC)** decreased to $1,276,099,128 for the year ending June 30, 2011. The ARC was $2,145,724,000 for the prior year. The ARC for the fiscal year ending June 30, 2012 is $1,354,737,672, and is 34.72% of covered payroll.

- The **Annual OPEB Cost (AOC)** was $2,349,663,000 for the fiscal year ending June 30, 2010. The AOC for the fiscal year ending June 30, 2011 is $1,324,394,882, and it is $1,405,243,778 for the fiscal year ending June 30, 2012.

The key valuation results for the current and prior years are shown.

SUMMARY OF VALUATION RESULTS

	June 30, 2011	April 1, 2008*
Actuarial Accrued Liability (AAL)	$17,954,273,540	$26,566,940,000
Actuarial Value of Assets	49,647,000	0
Unfunded Actuarial Accrued Liability	17,904,626,540	26,566,940,000
Funded Ratio	0.28%	N/A
Market Value of Assets	$49,647,000	$0
Total Participants	101,438	104,635
Annual Required Contribution (ARC) for Fiscal Year Ending:	**June 30, 2012**	**June 30, 2010****
Normal cost (beginning of year)	$477,675,100	N/A
Amortization of the unfunded actuarial accrued liability	837,155,521	N/A
Adjustment for timing	39,907,051	N/A
Total Annual Required Contribution, including adjustment for timing	$1,354,737,672	$2,145,724,000
Covered payroll	$3,902,248,185	N/A
ARC as a percentage of pay	34.72%	N/A
Annual OPEB Cost (AOC) for Fiscal Year Ending:	**June 30, 2012**	**June 30, 2010****
Annual Required Contributions	$1,354,737,672	$2,145,724,000
Interest on Net OPEB Obligations	281,038,151	12,719,000
ARC Adjustments	-230,532,045	191,220,000
Total Annual OPEB Cost	$1,405,243,778	$2,349,663,000
AOC as a percent of pay	36.01%	N/A

** April 1, 2008 numbers are from the April 1, 2008 valuation report issued by the prior actuary. N/A indicates numbers that were not available in that report.*

*** June 30, 2010 numbers are from the Comprehensive Annual Report for the State of Connecticut for the Fiscal Year Ended June 30, 2010.*

May 16, 2012

ACTUARIAL CERTIFICATION

This is to certify that The Segal Company has conducted an actuarial valuation of certain benefit obligations of the State of Connecticut's other postemployment benefit programs as of June 30, 2011, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statements 43 and 45 for the determination of the liability for postemployment benefits other than pensions.

The actuarial valuation is based on the plan of benefits verified by the Employer and reliance on participant, premium, claims and expense data provided by the Employer or from vendors employed by the Employer. The Segal Company does not audit the data provided. The accuracy and comprehensiveness of the data is the responsibility of those supplying the data. Segal, however, does review the data for reasonableness and consistency.

The actuarial computations made are for purposes of fulfilling plan accounting requirements. Determinations for purposes other than meeting financial accounting requirements may be significantly different from the results reported here. Accordingly, additional determinations may be needed for other purposes, such as judging benefit security at termination of the plan, or determining short-term cash flow requirements.

To the best of my knowledge, this report is complete and accurate and in my opinion presents the information necessary to comply with GASB Statements 43 and 45 with respect to the benefit obligations addressed. The signing actuary is a member of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and meets their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein. Further, in my opinion, the assumptions as approved by the State are reasonably related to the experience and expectations of the post-employment benefit programs.

K. Eric Fredén, FSA, MAAA, FCA, EA
Vice President & Actuary

The actuarial present value of total projected benefits uses the actuarial assumptions disclosed in Section 4 to calculate the value today of all benefits expected to be paid to current actives and retired plan members. The actuarial balance sheet shows the expected breakdown of how these benefits will be financed. The present values shown below include benefits provided by future employee contributions that have not been returned directly to terminating employees.

CHART 1

Actuarial Present Value of Total Projected Benefits (APB) and Actuarial Balance Sheet

	Actuarial Present Value of Total Projected Benefits (APB) June 30, 2011
Participant Category	
Current retirees, beneficiaries, and dependents	$8,265,852,130
Current active members	14,057,310,049
Terminated members entitled but not yet eligible	282,961,719
Total as of June 30	$22,606,123,898

	June 30, 2011
Actuarial Balance Sheet	
The actuarial balance sheet as of the valuation date is as follows:	
Assets	
1. Actuarial value of assets	$49,647,000
2. Present value of future normal costs	4,651,850,358
3. Unfunded actuarial accrued liability	17,904,626,540
4. Present value of current and future assets	$22,606,123,898
Liabilities	
5. Actuarial Present Value of total Projected Benefits	$22,606,123,898

The actuarial accrued liability shows that portion of the APB (Chart 1) allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion covered by retiree contributions, the portion covered by accumulated plan assets, and reconciles the unfunded actuarial liability from last year to this year.

The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. The State of Connecticut Other Post-Employment Benefits Program has elected to amortize unfunded actuarial accrued liability using the following rules: 30-year level percent of a growing payroll as of June 30, 2007.

CHART 2

Actuarial Accrued Liability (AAL) and Unfunded AAL (UAAL)

	June 30, 2011	April 1, 2008*
Participant Category		
Current retirees, beneficiaries, and dependents	$8,265,852,130	$8,423,446,000
Current active members	9,405,459,691	14,648,592,000
Terminated members entitled but not yet eligible	282,961,719	3,494,903,000
Total	$17,954,273,540	$26,566,941,000
Effect of Retiree Contributions		
Actuarial accrued liability before reduction for retiree contributions	$18,683,105,760	N/A
Less projected retiree contributions	728,832,220	N/A
Net employer actuarial accrued liability	17,954,273,540	$26,566,941,000
Actuarial value of assets	49,647,000	0
Unfunded actuarial accrued liability	$17,904,626,540	$26,566,941,000

** April 1, 2008 numbers are from the April 1, 2008 valuation report issued by the prior actuary. N/A indicates numbers that were not available in that report.*

The Annual Required Contribution (ARC) is the amount calculated to determine the annual cost of the OPEB plan for accounting purposes *as if* the plan were being funded through contributions to a trust fund. The GASB standards cannot require contributions actually be made to a trust fund. The ARC is simply a device used to measure annual plan costs on an accrual basis. The calculation consists of adding the Normal Cost of the plan to an amortization payment. The resulting sum is then adjusted to the start of the accounting period and adjusted as if the annual cost were to be contributed in twelve equal monthly installments.

The amortization payment is based on a 30-year amortization (26 years remaining as of June 30, 2011) of the Unfunded Actuarial Accrued Liability on a level percentage of a growing payroll base.

CHART 3

Determination of Annual Required Contribution (ARC) – Payable Throughout Fiscal Year

	Cost Element	Fiscal Year Beginning July 1, 2011 and Ending June 30, 2012		Fiscal Year Beginning July 1, 2009 and Ending June 30, 2010
		Amount	Percentage of Compensation	Amount
1.	Normal cost	$477,675,100	12.24%	N/A
2.	Amortization of the unfunded actuarial accrued liability (26 years)	837,155,521	21.45%	N/A
3.	Adjustment for timing	39,907,051	1.03%	N/A
4.	Total Annual Required Contribution (ARC)	$1,354,737,672	34.72%	$2,145,724,000
5.	Total Compensation	$3,902,248,185		N/A

The Annual OPEB Cost (AOC) adjusts the ARC for timing differences between the ARC and contributions in relation to the ARC. The AOC is the cost of OPEB actually booked as an expense for the Fiscal Year under GASB 45.

CHART 3 (continued)

Determination of Annual OPEB Cost (AOC) – Payable Throughout Fiscal Year

Cost Element	Fiscal Year Beginning July 1, 2011 and Ending June 30, 2012		Fiscal Year Beginning July 1, 2009 and Ending June 30, 2010
	Amount	**Percentage of Compensation**	**Amount**
1. Annual Require Contribution	$1,354,737,672	34.72%	$2,145,724,000
2. Interest on Beginning of Year Net OPEB Obligation (NOO)	281,038,151	7.20%	12,719,000
3. ARC adjustment	-230,532,045	-5.91%	191,220,000
4. Annual OPEB Cost	$1,405,243,778	36.01%	$2,349,663,000

For GASB 43 (plan reporting) purposes, the schedule of employer contributions compares actual contributions to the ARC. For GASB 45 (employer reporting) purposes, the schedule of employer contributions compares actual contributions to the AOC.

CHART 4

Required Supplementary Information – Schedule of Employer Contributions

GASB 43

Fiscal Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2008	$1,602,739,000	$463,697,000	28.93%
2009	1,703,712,000	452,029,000	26.53%
2010	2,145,724,000	555,131,000	25.87%
2011	1,276,099,128	544,767,000	42.69%
2012	1,354,737,672	Not made yet	N/A

Required Supplementary Information – Schedule of Employer Contributions

GASB 45

Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2008	$1,602,739,000	$463,697,000	28.93%
2009	1,669,321,000	452,029,000	27.08%
2010	2,349,663,000	555,131,000	23.63%
2011	1,324,394,882	544,767,000	41.13%
2012	1,405,243,778	Not made yet	N/A

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CHART 5

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
04/01/2006	$0	$21,681,444,000	$21,681,444,000	0.00%	N/A	N/A
04/01/2008	0	26,566,940,000	26,566,940,000	0.00%	N/A	N/A
06/30/2011	49,647,000	17,954,273,540	17,904,626,540	0.28%	3,902,248,185	458.83%

Note: The April 1, 2006 and April 1, 2008 numbers were taken from the April 1, 2008 valuation report issued by the prior actuary.

The Net OPEB obligation measures the accumulated differences between the annual OPEB cost and the actual contributions in relation to the ARC.

CHART 6

Required Supplementary Information – Net OPEB Obligation (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Fiscal Year (g)
04/01/2006	06/30/2008	$1,602,739,000	$0	$0	$1,602,739,000	$463,697,000	$1,139,042,000	$1,139,042,000
04/01/2006	06/30/2009	1,703,712,000	7,667,000	-42,058,000	1,669,321,000	452,029,000	1,217,292,000	2,356,334,000
04/01/2008	06/30/2010	2,145,724,000	12,719,000	191,220,000	2,349,663,000	555,131,000	1,794,532,000	4,150,866,000
06/30/2011	06/30/2011	1,276,099,128	236,599,362	-188,303,608	1,324,394,882	544,767,000	779,627,882	4,930,493,882
06/30/2011	06/30/2012	1,354,737,672	281,038,151	-230,532,045	1,405,243,778	Not made yet	N/A	N/A

This exhibit summarizes the participant data used for the current and prior valuations.

EXHIBIT A

Summary of Participant Data

	June 30, 2011	April 1, 2008
Retirees		
Number of retirees	39,785	38,454
Average age of retirees	69.3	69.9
Number of spouses	21,458	16,515*
Average age of spouses	65.9	N/A
Surviving Spouses		
Number	3,617	N/A
Average age	76.1	N/A
Active Participants		
Number	56,968	58,727
Average age	46.7	46.4
Average years of service	15.1	N/A
Average expected retirement age	61.4	58.5
Inactive Vested Participants		
Number	1,068	7,454
Average age	50.1	48.8

** Surviving spouses are included with spouses in the prior actuary's report.*

EXHIBIT B

Financial Information

Employers may accumulate assets to pay for future OPEB. In order to be treated as plan assets, the funds must be set aside in a trust fund or equivalent arrangement that has the following characteristics:

a. Employer contributions are irrevocable
b. Plan assets are dedicated to OPEB only
c. Plan assets are legally protected from the creditors of the employer and the plan administrator.

The State of Connecticut Other Post-Employment Benefits Program has an arrangement that meets those requirements.

Statement of Plan Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010
Assets		
Cash equivalents	$74,975,000	$44,406,000
Accounts receivable from other funds	-$1,000	$42,000
Total assets	$74,974,000	$44,448,000
Liabilities		
Less accounts payable:	-25,327,000	-8,792,000
Net assets held in trust for other postemployment benefits	$49,647,000	$35,656,000

EXHIBIT C

Statement of Changes in Plan Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010
Additions		
Employer contributions	$544,767,000	$555,131,000
Investment income	$3,000	$177,000
Total additions:	$544,770,000	$555,308,000
Deductions		
Benefit Payments	-$530,779,000	-$544,313,000
Expenses	0	0
Total deductions	-$530,779,000	-$544,313,000
Net increase	$13,991,000	$10,995,000
Net assets held in trust for other postemployment benefits		
Beginning of year	$35,656,000	$24,661,000
End of year	$49,647,000	$35,656,000

** Employer contributions include both implicit and explicit subsidies for the retirees' cost of OPEB. These are the contributions in relation to the ARC.*

EXHIBIT I

Summary of Required Supplementary Information

Valuation date	June 30, 2011	
Actuarial cost method	Projected Unit Credit	
Amortization method	Level percent of growing payroll, closed, 30 years	
Remaining amortization period	26 years as of June 30, 2011	
Asset valuation method	Market Value	
Actuarial assumptions:		
Investment rate of return	5.70%	
Payroll growth rate	4.00%	
Medical cost trend rate	8.50% graded to 5.0% over 7 years	
Drug cost trend rate	6.00% graded to 5.0% over 4 years	
Dental and Part B trend rates	5.00%	
Plan membership:	June 30, 2011	April 1, 2008
Current retirees, beneficiaries, and dependents	64,860	54,969
Current active participants	56,968	58,727
Terminated participants entitled but not yet eligible	1,068	7,454
Total	122,896	121,150

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method

Data: Detailed census data, premium data and/or claim experience, and summary plan descriptions for OPEB were provided by the Healthcare Policy & Benefit Services Division of the Office of the State Comptroller. Eligible groups for the Program include State employees covered under the State Employees Retirement System (SERS), State Teachers' Retirement System (STRS), Probate Judges and Employees Retirement System (PJERS), Judges, Family Support Magistrates and Compensation Commissioners Retirement System (JFSMCCRS) and the Alternative Retirement Program (ARP). In addition, there are other State employees not covered under the retirement systems who are eligible for this program (OTHER). Actuarial assumptions that differ by group are noted.

Actuarial Cost Method: Projected Unit Credit. The accrued benefit for actives is the pro-rata portion (based on service to date divided by service at first eligibility for early retirement) of the projected benefit payable upon retirement, disability, termination or death.

Asset Valuation Method: Market Value

Measurement Date: June 30, 2011

Discount Rate: 5.70% determined using the following methodology to blend discount rates:

1. The expected return on trust assets for each of the next ten years was calculated assuming that trust assets earn 8.25%, except that pay-as-you-go amounts were assumed to reside in the trust for an average of 3 months and be invested in funds similar to the State's general assets (i.e., earn 4.50% annually).
2. The expected asset level in the trust was then determined for each of the next ten years, based on any initial deposits plus any ongoing contributions.
3. A weighted average blended rate was determined for each of the next ten years based on 8.25% weighted by the expected asset level in the trust and 4.50% weighted by the annual pay-as-you-go level.
4. The weighted average blended rates for the ten-year period were then averaged to arrive at the final blended discount rates.

Salary Increases:

SERS, ARP, OTHER: Rates vary by years of service as follows:

Years of Service	Rate	Years of Service	Rate
0	10.00%	5	5.75%
1	20.00	6-9	5.50
2	10.00	10-14	5.00
3	6.25	15+	4.00
4	6.00		

STRS: Rates vary by years of service as follows:

Years of Service	Rate	Years of Service	Rate
0-4	7.50%	10-14	5.50%
5-9	6.50	15+	4.00

PJERS: 5.00%

JFSMCCRS: 5.25%

Payroll Growth Rate: 4.00%

Mortality Rates:

<u>Healthy:</u>

SERS, PJERS, JFSMCCRS, ARP, OTHER:

RP-2000 Combined Healthy Mortality Table with sex-distinct rates with male rates projected 15 years and female rates projected 25 years under Scale AA

STRS - post-retirement: RP-2000 Combined Healthy Mortality Table with sex-distinct rates projected forward 19 years under Scale AA with a 2-year age setback for male and female rates

STRS – pre-retirement: Pre-retirement mortality rates equal to 75% of post-retirement healthy mortality rates

<u>Disabled:</u>

SERS, PJERS, JFSMCCRS, ARP, OTHER:

RP-2000 Disabled Retiree Mortality Table with sex-distinct rates using 75% of the male rates for male participants and 115% of the female rates for female participants

STRS: Disability mortality rates equal to post-retirement healthy mortality rates set forward 10 years in age

The RP-2000 Combined Healthy Mortality Table with a 15-year projection for males and a 25-year projection for females for participants in the SERS, PJERS, JFSMCCRS, ARP and OTHER groups and with a 19-year projection and a two-year setback for participants in the STRS group was selected based on the most recent pension valuations available for each group and was assumed to contain provision appropriate to reasonably reflect future mortality improvement based on a review by the pension actuary of the mortality experience.

Termination Rates before Retirement:

SERS

	Rate (%)					
	Mortality		Disability*		Turnover**	
Age	Male	Female	Male	Female	Male	Female
25	0.0323	0.0146	0.0854	0.0854	5.0000	5.0000
35	0.0717	0.0360	0.1474	0.1474	3.0000	3.0000
45	0.1239	0.0751	0.3595	0.3595	2.2000	2.0000
55	0.2718	0.2223	1.0089	1.0089	0.0000	0.0000
65	1.0309	0.8563	0.0000	0.0000	0.0000	0.0000

*Represents Hazardous and non-Hazardous rates for non-service incurred disabilities with rates equal to 30% of the 1975 Social Security Table; Hazardous in-service disability rates equal 0.45% at all ages; non-Hazardous in-service disability rates equal 0.14% at all ages.

**Represents rates for non-Hazardous participants. Higher select period turnover rates varying by age and gender are used for participants with less than 10 years of service. For Hazardous participants, the male rates are multiplied by 35% and the female rates by 55%.

STRS

	Rate (%)					
	Mortality		Disability*		Turnover**	
Age	Male	Female	Male	Female	Male	Female
25	0.0210	0.0109	0.0455	0.0500	1.2000	3.5000
35	0.0430	0.0249	0.0455	0.0410	1.2000	3.5000
45	0.0789	0.0528	0.1625	0.1200	1.2600	1.3000
55	0.1490	0.1316	0.7150	0.4380	3.3600	1.6000
65	0.5744	0.5215	1.2805	0.5000	4.0000	1.9000

*No disability is assumed during the first five years of service.

**Higher select period turnover rates varying by age and gender are used for participants with less than 10 years of service.

PJERS

	Rate (%)					
	Mortality		Disability*		Turnover	
Age	Male	Female	Male	Female	Male	Female
25	0.0323	0.0146	0.0854	0.0854	5.0000	7.5000
35	0.0717	0.0360	0.1474	0.1474	1.2500	1.8800
45	0.1239	0.0751	0.3595	0.3595	0.3800	0.6300
55	0.2718	0.2223	1.0089	1.0089	0.0000	0.0000
65	1.0309	0.8563	0.0000	0.0000	0.0000	0.0000

*Represents non-service incurred disabilities with rates equal to 30% of the 1975 Social Security Table; in-service disability rates equal 0.14% at all ages.

Termination Rates before Retirement (continued):

JFSMCCRS

	Rate (%)					
	Mortality		Disability*		Turnover**	
Age	Male	Female	Male	Female	Male	Female
25	0.0323	0.0146	0.0854	0.0854	0.0000	0.0000
35	0.0717	0.0360	0.1474	0.1474	0.0000	0.0000
45	0.1239	0.0751	0.3595	0.3595	0.0000	0.0000
55	0.2718	0.2223	1.0089	1.0089	0.0000	0.0000
65	1.0309	0.8563	0.0000	0.0000	0.0000	0.0000

*Represents non-service incurred disabilities with rates equal to 30% of the 1975 Social Security Table; in-service disability rates equal 0.14% at all ages.
**No pre-retirement turnover is assumed.

ARP

	Rate (%)					
	Mortality		Disability*		Turnover	
Age	Male	Female	Male	Female	Male	Female
25	0.0323	0.0146	0.0854	0.0854	10.2000	10.2000
35	0.0717	0.0360	0.1474	0.1474	5.5300	5.5300
45	0.1239	0.0751	0.3595	0.3595	3.8500	3.8500
55	0.2718	0.2223	1.0089	1.0089	0.0000	0.0000
65	1.0309	0.8563	0.0000	0.0000	0.0000	0.0000

*Rates based on 30% of the 1975 Social Security Table.

OTHER

	Rate (%)					
	Mortality		Disability*		Turnover**	
Age	Male	Female	Male	Female	Male	Female
25	0.0323	0.0146	0.0854	0.0854	5.0000	5.0000
35	0.0717	0.0360	0.1474	0.1474	3.0000	3.0000
45	0.1239	0.0751	0.3595	0.3595	2.2000	2.0000
55	0.2718	0.2223	1.0089	1.0089	0.0000	0.0000
65	1.0309	0.8563	0.0000	0.0000	0.0000	0.0000

*Represents non-service incurred disabilities with rates equal to 30% of the Social Security Table; in-service disability rates equal 0.14% at all ages.
**Higher select period turnover rates varying by age and gender are used for participants with less than 10 years of service.

Actives' Retirement Rates:

SERS

Hazardous			Non-Hazardous			
Age	First Year Eligible	Subsequent Years	Age	First Year Eligible for Reduced	First Year Eligible for Unreduced	Subsequent Years
<45	18.0%	10.0%	55	15.0%	15.0%	12.5%
45-48	25.0	10.0	56-59	10.0	15.0	12.5
49-59	10.0	10.0	60	10.0	25.0	12.5
60-69	25.0	15.0	61	20.0	25.0	15.0
70-79	100.0	20.0	62	20.0	10.0	30.0
80+	100.0	100.0	63	20.0	35.0	25.0
			64	20.0	45.0	25.0
			65-69	50.0	65.0	25.0
			70-79	50.0	100.0	20.0
			80+	100.0	100.0	100.0

Actives' Retirement Rates (continued):

STRS	Unreduced		Portable		Reduced	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
50-51	27.5%	15.0%	--	--	2.0%	2.0%
52	27.5	15.0	--	--	3.0	4.0
53	27.5	15.0	--	--	3.0	4.5
54	27.5	15.0	--	--	5.0	5.5
55	38.5	30.0	--	--	5.0	7.5
56	38.5	30.0	--	--	7.0	8.5
57	38.5	30.0	--	--	10.0	9.5
58	38.5	30.0	--	--	11.0	10.0
59	38.5	30.0	--	--	12.0	10.0
60	22.0	20.0	6.0%	5.4%	--	--
61	25.3	22.5	6.0	7.2	--	--
62	25.3	22.5	15.0	9.9	--	--
63-64	27.5	22.5	10.0	7.2	--	--
65	36.3	30.0	20.0	13.5	--	--
66	27.5	30.0	20.0	10.8	--	--
67	27.5	30.0	20.0	13.5	--	--
68	27.5	30.0	20.0	10.8	--	--
69	27.5	30.0	35.0	10.8	--	--
70-73	100.0	40.0	35.0	10.8	--	--
74	100.0	40.0	35.0	18.0	--	--
75-79	100.0	40.0	40.0	18.0	--	--
80+	100.0	100.0	40.0	18.0	--	--

Actives' Retirement Rates (continued):

PJERS

Age	Rate
55-61	3.0%
62-64	10.0
65-69	16.0
70+	100.0

JFSMCCRS: 50% are assumed to retire at the later of age 65 and 10 years of service with 100% at age 70

ARP

Age	First Year Eligible	Subsequent Years
55-56	15.0%	6.0%
57-59	15.0	7.0
60-61	15.0	10.0
62-64	15.0	15.0
65	25.0	25.0
66-69	20.0	20.0
70+	100.0	100.0

Actives' Retirement Rates (continued):

OTHER

Age	First Year Eligible for Reduced	First Year Eligible for Unreduced	Subsequent Years
55	15.0%	15.0%	12.5%
56-59	10.0	15.0	12.5
60	10.0	25.0	12.5
61	20.0	25.0	15.0
62	20.0	10.0	30.0
63	20.0	35.0	25.0
64	20.0	45.0	25.0
65-69	50.0	65.0	25.0
70-79	50.0	100.0	20.0
80+	100.0	100.0	100.0

Inactive Vesteds' Retirement Rates: 100% are assumed to retire at first eligibility for normal retirement

Missing Participant Data: A missing census item for a given participant was assumed to equal the average value of that item over all other participants of the same status for whom the item is known. For this valuation, 3,829 active members were reported with missing compensation. Spousal coverage was set for current retirees based on their medical and/or dental tier. For retirees with spousal coverage who did not have demographic data available, the assumption for the respective active group was used. Retirees missing date of retirement were assumed to retire before June 1, 2009 and therefore receive the prescription drug benefit for retirements prior to June 1, 2009.

Continuation of Medical and Dental Benefits after Retiree's Death: For retiree medical and dental benefits, we assumed that 64% of current and future retired members have medical and dental benefits that continue after the retiree's death, and 36% have medical and dental benefits that stop upon the retiree's death.

Participation and Coverage Election: 100% of current active and inactive vested participants are assumed to elect coverage.

Health Enhancement Program Election: 100% of future retirees were assumed to elect to participate in the Health Enhancement Program.

Dependents: Demographic data was available for spouses of current retirees. The percentage of future retirees electing coverage and assumed age differences between husbands and wives are shown below:

	Percentage Electing Spousal Coverage	Age of Spouse
SERS	80%	Females same age as males
STRS	85% of males; 75% of females	Females 3 years younger than males
PJERS	100%	Females 3 years younger than males
JFSMCCRS	80%	Females 3 years younger than males
ARP	100%	Females same age as males
OTHER	80%	Females same age as males

Per Capita Cost Development:

Self-Funded (Medical and Drug Plan)	Per capita claims costs were based on actual paid retiree claim experience furnished by the State for the period July 1, 2009 through June 30, 2011. Claims were separated by plan and adjusted as follows: ➤ paid claims were multiplied by a factor to yield an estimate of incurred claims, ➤ total claims were divided by the number of adult members to yield a per capita claim, ➤ the per capita claim was trended to the midpoint of the valuation year at assumed trend rates, and ➤ the per capita claim was adjusted for the effect of any plan changes. Per capita claims for each plan year were then combined by taking a weighted average. The weights used in this average account for a number of factors including each plan year's volatility of claims experience and distance to the valuation year. Actuarial factors were then applied to the weighted average cost to estimate individual retiree and spouse costs by age and by gender.
Fully Insured Dental Plan	Per capita costs were based on actual premium rates effective July 1, 2011.
Administrative Expenses	Administrative expenses were based on UHC and Anthem's access fees furnished by the State

Per Capita Health Costs: Dental claims costs for the valuation year are $400. Medical and prescription drug claims costs for the valuation year, excluding assumed expenses, are shown in the table below for retirees and for spouses at selected ages. These costs are net of deductibles and other benefit plan cost sharing provisions. Medical claims costs for retirees not eligible for Medicare are approximately six times higher than the costs listed at ages 65 and above. Prescription drug costs for retirees who retired before June 1, 2009 are approximately 7% higher than the cost shown below for ages under age 65.

	Medical				Prescription Drug			
	Retiree		Spouse		Retiree		Spouse	
Age	Male	Female	Male	Female	Male	Female	Male	Female
50	$7,466	$8,504	$5,215	$6,828	$2,357	$2,685	$1,646	$2,156
55	8,867	9,154	6,978	7,904	2,799	2,890	2,203	2,495
60	10,530	9,867	9,342	9,167	3,324	3,115	2,949	2,894
64	12,081	10,468	11,793	10,317	3,814	3,304	3,723	3,257
65	2,020	1,717	2,020	1,717	2,287	1,944	2,287	1,944
70	2,341	1,850	2,341	1,850	2,651	2,095	2,651	2,095
75	2,523	1,992	2,523	1,992	2,856	2,255	2,856	2,255

Health Care Cost Trend Rates: Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are "net" and are applied to the net per capita costs shown above. The trend shown for a particular plan year is the rate that is applied to that year's cost to yield the next year's projected cost.

	Rate (%)			
Year Ending June 30,	Medical	Prescription Drug	Dental	Part B
2011	8.50	6.00	5.00	5.00
2012	8.00	5.75	5.00	5.00
2013	7.50	5.50	5.00	5.00
2014	7.00	5.25	5.00	5.00
2015	6.50	5.00	5.00	5.00
2016	6.00	5.00	5.00	5.00
2017	5.50	5.00	5.00	5.00
2018 & later	5.00	5.00	5.00	5.00

Medicare Part D Subsidy Assumption: The State no longer participants in the Retiree Drug Subsidy (RDS) program. The prior valuation did not reflect Part D subsidies, as GASB guidelines prohibit the offset of OPEB obligations by the future value of RDS payments. As of January 1, 2012, the State provides prescription drug benefits to Medicare-eligible retirees through an Employer Group Waiver Plan (EGWP). Subsidies implicit in lower costs for the EGWP program are recognized in this valuation.

Retiree Contributions: An average contribution of $341 was used for plan's requiring contributions in the valuation year. An average contribution of $320 was used in the valuation year for dental benefits. Early Retiree Premiums were based on an average premium of $8,196 in the valuation year.

Retiree Contribution Increase Rate: Contributions for dental benefits are assumed to increase at 5.00% per year. An annual increase in required retiree contributions for medical and prescription drugs was assumed, as shown below.

Year Ending June 30,	Rate (%)
2011	0.00
2012	3.70
2013	7.00
2014	6.60
2015	6.20
2016	5.80
2017	5.40
2018 & later	5.00

Administrative Expenses: An administrative expense load of $271 per participant increasing at 3.00% per year was added to projected incurred medical claim costs in developing the benefit obligations.

Plan Design: Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.

Annual Maximum Benefits: No increase in the annual maximum benefit levels was assumed.

Assumption Changes since Prior Valuation:

The discount rate changed from 4.50% to 5.70%.

Medical, Prescription drug and dental claims costs were updated for recent experience and trend rates on each were adjusted.

An explicit administrative expense assumption of $271 per participant increasing at 3.00% per year was added.

The assumption for Medicare Part B was adjusted as was the associated trend assumption.

The retiree contribution increase rate was adjusted.

EXHIBIT III

Summary of Plan

This exhibit summarizes the major benefit provisions as included in the valuation. To the best of our knowledge, the summary represents the substantive plans as of the measurement date. It is not intended to be, nor should it be interpreted as, a complete statement of all benefit provisions.

Eligibility:

Retired and receiving a Normal, Early, Disabled, or Pre-retirement Survivor pension from the following Retirement Plan.

- SERS – State Employees Retirement System.
- JFSMCCRS – Judges, Family Support Magistrates, and Compensation Commissioners Retirement System.
- PJERS – Probate Judges and Employees Retirement System.
- STRS – State Teachers' Retirement System.
- ARP – Alternate Retirement System.

In addition, there are a small number of "Other" State employees who are not covered by the retirement systems above but who are eligible for OPEB benefits. As part of the 2009 and 2011 SEBAC agreement, employees with less than 10 years of service as of July 1, 2009, must have 10 years of service to receive retiree medical benefits. In addition, an employee must have a combined age plus service of 75 years to receive retiree medical benefits unless they retire directly from active service. New employees must have 15 years of service to receive retiree medical benefits.

Benefit Types:

Medical, prescription drug, dental, life insurance. Prescription drug benefits for Medicare-eligible retirees are provided through a Part D Employer Group Waiver Plan (EGWP). The State also reimburses the Medicare Part B premium for Medicare-eligible retirees.

Probate judges, probate employees, and terminated vested participants are not eligible for life insurance.

Teachers and terminated vested participants are not eligible for pre-retirement death benefits.

Duration of Coverage: Lifetime

Spouse Benefits: Same benefits as for retirees except no life insurance. Spousal coverage is for life if the spouse receives a survivor pension from their retirement system; otherwise coverage ends at the retiree's death.

Retiree Contributions: The monthly retiree contributions are as follows:

Medical and Rx

Retired prior to July 1, 1997 None.

Retired July 1, 1997 to May 1, 2009 None for POE and OOA plans. Monthly contributions for POS plans are as follows:

	Anthem State Bluecare	Anthem State Preferred *(closed to new entrants)*		Oxford Freedom Select
Tier	Retirement Date 7/99 and Later	Retirement Date 7/97 to 6/99	Retirement Date 7/99 and Later	Retirement Date 7/99 and Later
1 on Medicare	$0.00	$0.00	$0.00	$0.00
1 not on Medicare	$12.85	$41.73	$44.38	$13.23
1 not on Medicare and 1 on Medicare	$12.85	$39.08	$43.87	$13.23
1 not on Medicare and 2 on Medicare	$12.85	$7.16	$32.05	$13.23
2 on Medicare	$0.00	$0.00	$0.00	$0.00
2 not on Medicare	$28.27	$92.18	$98.00	$29.10
2 not on Medicare and 1 on Medicare	$28.27	$87.41	$95.72	$29.10
3+ on Medicare	$0.00	$0.00	$0.00	$0.00
3+ not on Medicare	$34.69	$112.08	$119.24	$35.71
3+ not on Medicare and 1 on Medicare	$34.69	$90.20	$100.29	$35.71

Retired June 1, 2009 and later

None for POE and OOA plans. Monthly contributions for POS plans are as follows:

Tier	Anthem State Bluecare	Oxford Freedom Select
1 on Medicare	$0.00	$0.00
1 not on Medicare	$12.85	$13.23
1 not on Medicare and 1 on Medicare	$12.85	$13.23
1 not on Medicare and 2 on Medicare	$12.85	$13.23
2 on Medicare	$0.00	$0.00
2 not on Medicare	$28.27	$29.10
2 not on Medicare and 1 on Medicare	$28.27	$29.10
3+ on Medicare	$0.00	$0.00
3+ not on Medicare	$34.69	$35.71
3+ not on Medicare and 1 on Medicare	$34.69	$35.71

Dental

	United Basic	United Enhanced	CIGNA DHMO
1 person	$26.42	$24.30	$27.86
2 persons	$52.85	$48.61	$61.30
3+ persons	$52.85	$48.61	$75.23

Health Enhancement Program

As part of the 2011 SEBAC agreement, individuals who retire after October 1, 2011, and who decline participation in the Health Enhancement Program, or who are removed from the program, must pay an additional $100 per month in premium share.

Early Retiree Premiums

As part of the 2011 SEBAC agreement, individuals who elect early retirement will be charged the greater of the retiree contribution described above and a percentage of the premium (as described on the following page) until they reach their normal retirement date, or age 65, whichever is earlier. The percentages will also be applied to individuals who are eligible for a deferred vested benefit that elect to receive their pension benefits before age 65. No early retiree health care premium will be charged for any employee who has 25 years of service as of July 1, 2011, and who retires before July 1, 2013. If the participant has fewer than 15 years of service, 15 years is used. If the participant has more than 25 years of service, 25 years is used. If the participant retires more than 5 years early, 5 years is used. The premium is capped at 25% of the person's actual pension benefit.

		Years Retired Early				
		5	4	3	2	1
Years of Service	15	40.00%	32.00%	24.00%	16.00%	8.00%
	16	37.00%	29.60%	22.20%	14.80%	7.40%
	17	34.00%	27.20%	20.40%	13.60%	6.80%
	18	31.00%	24.80%	18.60%	12.40%	6.20%
	19	28.00%	22.40%	16.80%	11.20%	5.60%
	20	25.00%	20.00%	15.00%	10.00%	5.00%
	21	22.00%	17.60%	13.20%	8.80%	4.40%
	22	19.00%	15.20%	11.40%	7.60%	3.80%
	23	16.00%	12.80%	9.60%	6.40%	3.20%
	24	13.00%	10.40%	7.80%	5.20%	2.60%
	25	10.00%	8.00%	6.00%	4.00%	2.00%

Employee Contributions:

As part of the 2009 and 2011 SEBAC agreements, current active employees pay a percentage of their pay into the Retiree Health Care Trust Fund for pre-funding of OPEB benefits.

All employees hired after July 1, 2009, or with fewer than five years of service as of July 1, 2010, are contributing 3.0% of their salaries to the Fund, for a period of 10 years or until their retirement, whichever is sooner.

All employees not paying into the Fund as of June 30, 2013, will begin paying a contribution at that time. The contribution will be 0.5% for the year beginning July 1, 2013, increasing to 2.0% for the year beginning July 1, 2014, and to 3.0% for the year beginning July 1, 2015. Contributions will continue for a period of 10 years or until the employee retires, whichever is sooner.

Contributions are refundable to employees who leave State employment prior to completing 10 years of service.

Effective July 1, 2017, the State will begin to contribute into the Retiree Health Care Trust Fund an amount equal to the amount contributed by employees each year.

Benefit Descriptions:

Medical (Anthem or UnitedHealthcare)

Point of Service	**In-Network**	**Out-Of-Network**
Deductible	$350/person, up to $1,400/family*	$300/person, up to $900/family
Member Coinsurance	None	80%
Out-of-pocket Maximum (not incl. ded.)	None	$2,000/$4,000 single/family
Office Visit Copay	$15**	Deductible and coinsurance
Emergency Room Copay	$35 (waived if admitted)	$35 (waived if admitted)

Point of Enrollment, Out of Area	**Participating Provider**
Deductible	$350/person, up to $1,400/family*
Member Coinsurance	None
Out-of-pocket Maximum (not incl. ded.)	None
Office Visit Copay	$10**
Emergency Room Copay	$35 (waived if admitted)

* Waived for post-October 2011 retirees enrolled in Health Enhancement Program.
** $5 copay for retirees who retired prior to July 1, 1999.

Prescription Drug (CVS Caremark)

Retirement Date Prior to 5/1/2009	**34-Day Supply Retail or 3-Month Supply Mail**
Generic	$3
Brand-name (no generic available)	$6
Brand-name (with generic available)	$3 plus difference between brand and generic cost

Retirement Date 6/1/2009 to 10/1/2011	**34-Day Supply Retail or 3-Month Supply Mail**
Generic	$5
Preferred brand-name	$10
Non-preferred brand-name	$25 ($10 if non-preferred is medically necessary

Retirement Date 10/2/2011 or Later	**Non-Maintenance Drug (34-Day Supply)**	**Maintenance Drug (3-month Supply*)**
Generic	$5	$5
Preferred brand-name	$20	$10
Non-preferred brand-name	$35	$25
Mail Order Program	N/A	Mandatory for under-65 retirees; optional for over-65 retirees.

* If enrolled in Health Enhancement Program, copay for drugs prescribed for certain chronic conditions will be waived or reduced to $0/$5/$12.50.

Dental

	United Basic	United Enhanced	CIGNA DHMO
Deductible	None	$25/$75 single/family	None
Annual Maximum	$500* for periodontics	$3,000	None
*Exam and X-rays**	Covered at 80%	Covered at 100%	Covered at 100%
Simple Restoration			
Fillings	Covered at 80%	Covered at 80%	Covered w/ copay
Oral Surgery	Covered at 67%	Covered at 67%	Covered w/ copay
Major Restoration			
Crowns	Covered at 67%	Covered at 67%	Covered w/ copay
Dentures, Fixed Bridges	Not covered	Covered at 50%	Covered w/ copay
Orthodontia	Not covered	$1,500 lifetime maximum per person	Covered w/ copay

* If enrolled in the Health Enhancement Program, annual dental cleaning (up to two) and unlimited periodontal care provided.

Life Insurance

Pay-related coverage, equal to 50% of the basic coverage amount immediately before retirement. The basic coverage amount is a function of the employee's salary and the position held by the employee. The minimum post-retirement coverage amount is $10,000 for employees with 25 or more years of service.

For retirees with less than 25 years of service, the above coverage amount is proportionately reduced based on years of service, and has no minimum amount of coverage.

Members who retire under the hazardous duty provisions of C.G.S. 5-173 receive coverage equal to 50% of the basic coverage amount immediately before retirement, regardless of the number of years of service.

Retired members who are totally and permanently disabled before age 60 receive coverage equal to 100% of the basic coverage amount.

Plan Changes since Prior Valuation:	This report includes all the plan changes agreed to in the SEBAC 2009 and the REVISED SEBAC 2011 agreements between the State of Connecticut and the State Employees Bargaining Agent Coalition that were not reflected in the April 1, 2008 valuation.

EXHIBIT IV

Definitions of Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or Actuarial Assumptions: The estimates on which the cost of the Plan is calculated including:

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age;

(d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Actuarial Present Value of Total Projected Benefits (APB): Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

Normal Cost: The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial Accrued Liability For Actives: The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Retirees: The single sum value of lifetime benefits to existing retirees. This sum takes account of life expectancies appropriate to the ages of the retirees and of the interest which the sum is expected to earn before it is entirely paid out in benefits.

Actuarial Value of Assets (AVA):	The value of assets used by the actuary in the valuation. These may be at market value or some other method used to smooth variations in market value from one valuation to the next.
Funded Ratio:	The ratio AVA/AAL.
Unfunded Actuarial Accrued Liability (UAAL):	The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.
Amortization of the Unfunded Actuarial Accrued Liability:	Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.
Investment Return (discount rate):	The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next. If the plan is funded on a pay-as-you-go basis, the discount rate is tied to the expected rate of return on day-to-day employer funds.
Covered Payroll:	Annual reported salaries for all active participants on the valuation date.
ARC as a Percentage of Covered Payroll:	The ratio of the annual required contribution to covered payroll.
Health Care Cost Trend Rates:	The annual rate of increase in net claims costs per individual benefiting from the Plan.
Annual Required Contribution (ARC):	The ARC is equal to the sum of the normal cost and the amortization of the unfunded actuarial accrued liability.

Net OPEB Obligation (NOO): The NOO is the cumulative difference between the ARC and actual contributions made. If the plan is not pre-funded, the actual contribution would be equal to the annual benefit payments less retiree contributions. There are additional adjustments in the NOO calculations to adjust for timing differences between cash and accrual accounting, and to prevent double counting of OPEB plan costs.

EXHIBIT V

Accounting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement Number 43 -- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement Number 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Under these statements, all state and local government entities that provide other post employment benefits (OPEB) are required to report the cost of these benefits on their financial statements. The accounting standards supplement cash accounting, under which the expense for postemployment benefits is equal to benefit and administrative costs paid on behalf of retirees and their dependents (*i.e.*, a pay-as-you-go basis).

The statements cover postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are *not* offered as part of a pension plan; and long-term disability insurance for employees. The benefits valued in this report are limited to those described in Exhibit III of Section 4, which are based on those provided under the terms of the substantive plan in effect at the time of the valuation and on the pattern of sharing costs between the employer and plan members. The projection of benefits is not limited by legal or contractual limits on funding the plan unless those limits clearly translate into benefit limits on the substantive plan being valued.

The new standards introduce an accrual-basis accounting requirement, thereby recognizing the employer cost of postemployment benefits over an employee's career. The standards also introduce a consistent accounting requirement for both pension and non-pension benefits.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions. These assumptions are summarized in Exhibit II of Section 4. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

Once the UAAL is determined, the Annual Required Contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made and any difference is reported as the Net OPEB Obligation (NOO). In addition, Required Supplementary Information (RSI) must be reported, including historical information about the UAAL and the progress in funding the Plan. Exhibits IV and VI of Section

4 contain a definition of terms as well as more information about GASB 43/45 concepts.

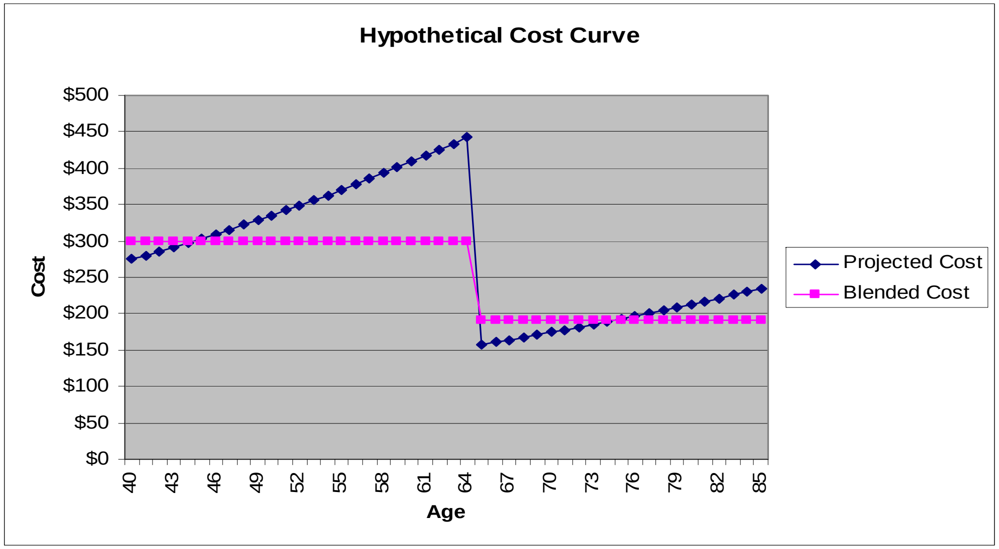
The calculation of an accounting obligation does not, in and of itself, imply that there is any legal liability to provide the benefits valued, nor is there any implication that the Employer is required to implement a funding policy to satisfy the projected expense.

Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and the actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

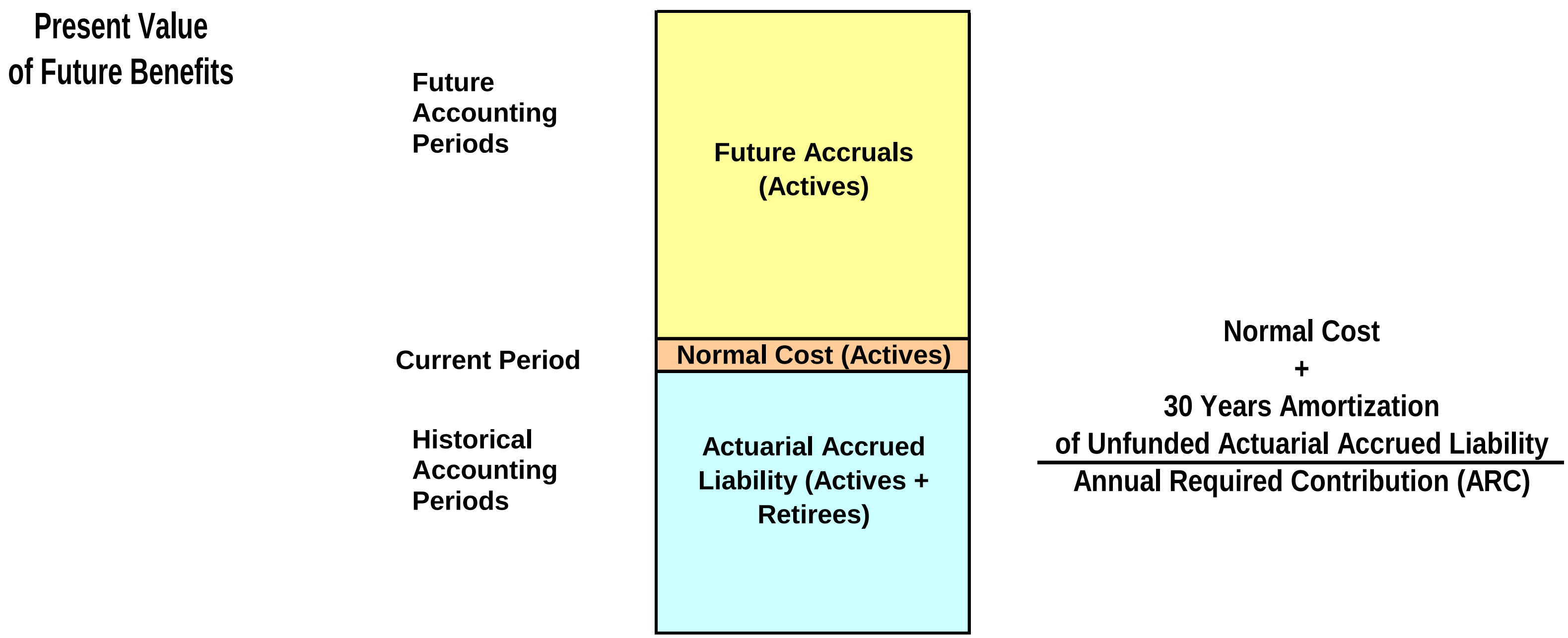
EXHIBIT VI
GASB 43/45 Concepts

The following graph illustrates why a significant accounting obligation may exist even though the retiree contributes most or all of the blended premium cost of the plan. The average cost for retirees is likely to exceed the average cost for the whole group, leading to an implicit subsidy for these retirees. The accounting standard requires the employer to identify and account for this implicit subsidy as well as any explicit subsidies the employer may provide.



This graph shows how the actuarial present value of the total projected benefits (APB) is broken down and allocated to various accounting periods. The exact breakdown depends on the actuarial cost method and amortization methods selected by the employer.

GASB 43/45 Measurement Elements Using Actuarial Cost Methods



Net OPEB Obligation = $ARC_1 + ARC_2 + ARC_3 + \ldots\ldots$
$- Contribution_1 - Contribution_2 - Contribution_3 - \ldots\ldots$