ERS

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

ACTUARIAL VALUATION OF OTHER POST-EMPLOYMENT BENEFITS PROVIDED UNDER THE TEXAS EMPLOYEES GROUP BENEFITS PROGRAM

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 43 FOR THE FISCAL YEAR ENDING AUGUST 31, 2013

Rudd and Wisdom, Inc.
CONSULTING ACTUARIES

Rudd and Wisdom, Inc.

CONSULTING ACTUARIES

November 1, 2013

Board of Trustees
Employees Retirement System of Texas
1801 Brazos
Austin, Texas 78701

Attached is our Actuarial Valuation of the Other Post-Employment Benefits (OPEB) provided under the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS) for the Fiscal Year ending August 31, 2013. The purpose of this valuation is to provide accounting information that is required by the Governmental Accounting Standards Board Statement No. 43 (GASB No. 43) which sets forth the financial reporting standards for plans of state and local governments that provide post-employment benefits other than pension benefits. Such benefits are referred to collectively as OPEB. The results of this valuation are appropriate only for purposes of GASB No. 43.

The GBP provides OPEB for retired employees of the State of Texas and certain institutions of higher education and other agencies as specified in Chapter 1551 of the Texas Insurance Code. For purposes of this report, the participating employers are referred to collectively as the Employer.

GASB No. 43 and GASB No. 45 operate together to form the basis of financial reporting for OPEB by the plan (GASB No. 43) and by the employer/plan sponsor (GASB No. 45). Depending upon plan structure, GASB presents several alternatives for coordinated plan and employer/sponsor reporting.

The Office of the Comptroller of Public Accounts (CPA) has determined that the GBP is a cost-sharing multiple employer plan that is administered in accordance with paragraph 4 of GASB No. 43 which applies to trusts, or equivalent arrangements, that meet the following criteria:

a) Employer contributions to the plan are irrevocable,

b) Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan, and

c) Plan assets are legally protected from creditors of the employer or the plan administrator.

Therefore, based on the determination of the CPA, ERS reports under paragraphs 16 through 40 of GASB No. 43 and references to GASB No. 43 should be interpreted accordingly.

Please refer to the glossary in Section IX of this report for the definitions of certain GASB No. 43 terms which are indicated below in boldface type the first time they appear.

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Disclosures Required to be Included with the Plan's Financial Statements

Under GASB No. 43 the plan financial statements must disclose the **Annual Required Contribution (ARC)** which is equal to the plan's **Normal Cost** plus an amount to amortize the **Unfunded Actuarial Accrued Liability** over a period that does not exceed 30 years.

Despite the apparent implications of the term ARC, the Employer is not *required* to contribute the ARC to the plan each year; instead, if the Employer contributes an amount less than the ARC, this fact is disclosed as Required Supplementary Information, as described below.

The ARC provides a basis for evaluating whether the employer's contributions for OPEB are adequate to fund the benefits during the working lifetime of current employees (i.e., the Normal Cost) and to amortize existing unfunded obligations (i.e., the obligations for current retirees plus that portion of the current employees' obligations that are attributed to past service) in a systematic manner over the amortization period prescribed by GASB. Per GASB No. 43, the following information is to be disclosed as Required Supplementary Information under the "Schedule of Funding Progress" as shown on page V-1 of this report.

The ARC for the fiscal year ending August 31, 2013 is $1.936 billion. Employer contributions for the period totaled $550 million. Therefore, Employer contributions were equal to about 28% of the ARC.

Consistency with Assumptions Used for Retirement Plan Valuations

Most of the employees and retirees covered by the GBP are also covered by either the ERS or Teacher Retirement System (TRS) retirement plans that are subject to periodic actuarial valuations. Where appropriate, for purposes of this report, we have utilized assumptions previously adopted by the ERS and TRS Boards for use in performing the retirement plan valuations. However, certain aspects of the OPEB valuation process require the use of assumptions that are unique to OPEB; specifically, the investment return assumption and the health benefit cost trend as discussed below.

Changes in Actuarial Assumptions

Since the last valuation was prepared for this plan, assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution Trends have been updated to reflect recent experience and its effects on our short-term expectations. Furthermore, the assumed Expenses now include a provision for the Affordable Care Act's Patient-Centered Outcomes Research Institute fee and the Transitional Reinsurance Program fee. In addition, the percentage of future retirees electing coverage for their spouses and dependent children as well as the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence have been updated to reflect recent plan experience and expected trends.

Furthermore, demographic assumptions for select classes of State Agency employees have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study performed by the ERS retirement plan actuary on the ERS retirement plan.

For a complete list of assumptions, see Section VII of this report.

Investment Return Assumption (Discount Rate)

In accordance with GASB No. 43, the investment return assumption (discount rate) is the estimated long-term investment yield on investments expected to be used to finance the payment of benefits with consideration given to the nature and mix of current and expected investments. For this purpose, the investments expected to be used to finance the benefits are:

(i) the plan assets, if the employer's funding policy is to contribute an amount at least equal to the ARC,

(ii) assets of the employer, for plans that have no plan assets, or

(iii) a combination of (i) and (ii), for plans being partially funded.

Presently, the amount that the Employer contributes to the plan each year is equal to the expected cost of providing the benefits incurred during that year. This amount is determined on a pay-as-you-go basis (PAYGO) and does not accumulate funds in advance of retirement as ARC-level contributions would. Therefore, the PAYGO amount is significantly less than the ARC. As a result of this funding policy and because the plan has no material level of assets held under a different investment policy that would materially affect the determination of the discount rate, under GASB No. 43 the investment return assumption must be based upon the expected yield of the "assets of the employer," as indicated in Item (ii) above. For the State of Texas, the "assets of the employer" are the assets held in the State Treasury Pool and managed by the Comptroller of Public Accounts.

Based upon the investment policy of the Treasury Pool, the historical returns of the Treasury Pool, and the long-term inflation assumption used in this report, we have utilized an investment return assumption (discount rate) of 5.50%.

If a policy was implemented to consistently fund the ARC or a significant portion thereof, the discount rate discussed above could be higher than the current 5.50% assumption if the underlying investments of the plan assets were expected to yield a return in excess of 5.50%. This higher discount rate would produce a smaller ARC.

Health Benefit Cost Trend

For purposes of this valuation, the health benefit cost trend represents the expected annual rate of increase in health benefit costs, excluding the effects of changes in demographics and changes in plan provisions.

The health benefit cost trend has exceeded the rate of price increases in the general economy, as measured by changes in the Consumer Price Index (CPI), for many decades. Although this pattern is expected to continue for the foreseeable future, many economists anticipate that the degree to which the health benefit cost trend exceeds general inflation will eventually abate. These economists believe that the health benefit cost trend will reach an ultimate level that still exceeds general inflation, but not by as wide a margin as in past decades.

The health benefit cost trend assumption used in this report begins with our short term expectations of expected health benefit cost increases in the next year and gradually declines to a rate that exceeds the assumed rate of general price inflation by 2.0%.

Changes in Plan Provisions

Under Q/A #49 of GASB's Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the impact of S.B. 1459 which was adopted by the 83rd Texas Legislature. S.B. 1459 amends Chapter 1551 of the Texas Insurance Code to require insurance contribution rates for retirees to vary based on the number of years of eligible service credit at retirement. This change becomes effective on September 1, 2014 and applies only to employees who: (a) have less than five years of eligible service credit on August 31, 2014 and (b) retire on or after September 1, 2014. Such employees who retire with less than 20 years of eligible service credit will be required to pay a larger portion of the cost of insurance than those retiring with 20 or more years of eligible service credit. (See Section VIII for details.) Although this amendment is not effective until September 1, 2014, its impact is included in this valuation since this change was communicated to plan members in advance of the preparation of this report.

The net impact of the plan change reduces the employer's cost of providing OPEB and results in a reduction to the employer's Unfunded Actuarial Accrued Liability, Normal Cost and ARC of $51 million, $42 million and $44 million, respectively.

For a complete description of the benefit provisions, see Section VIII of this report.

High-Cost Plan Excise Tax

Consistent with the prior valuation, the effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 4980I (sometimes referred to as the "Cadillac Tax") have been included in this valuation. The Excise Tax becomes effective in 2018, but the plan is not expected to be subject to the tax until 2061 based on current plan provisions, assumptions and participant demographics. The Unfunded Actuarial Accrued Liability is increased by the $89 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is $4 million.

Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D (the Retiree Drug Subsidy).

For purposes of GASB No. 43, the valuation of future OPEB may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare Part D Prescription Drug Program as required under GASB Technical Bulletin No. 2006-1. The Bulletin requires that the subsidy payments to an employer be reported by the employer as revenue, rather than being netted against the employer's OPEB cost for prescription drug coverage.

ERS implemented an Employer Group Waiver Plan plus Commercial Wrap (EGWP plus Wrap) on January 1, 2013 in order to provide the plan with the benefit of increased subsidies and discounts available under such an arrangement. The Retiree Drug Subsidy is being phased out as a result of the implementation of the EGWP plus Wrap. The Retiree Drug Subsidies are excluded from this valuation in accordance with GASB Technical Bulletin No. 2006-1.

The projected cost of the EGWP plus Wrap reflects the subsidies to SilverScript Insurance Company, the administrator of the plan, which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the Affordable Care Act.

Variability in Future Actuarial Measurement

Future actuarial measurements may differ significantly from the current measurements 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); and
- Changes in plan provisions, applicable law or applicable accounting standards.

We have not been asked to perform and have not performed any stochastic or deterministic sensitivity analyses of the potential ranges of such future measurements. If you have an interest in the results of any such analysis, please let us know.

Please let us know if you have any questions or need additional information concerning this report.

Respectfully submitted,

Philip S. Dial, F.S.A.

Mitchell L. Bilbe, F.S.A.

Christopher S. Johnson, F.S.A.

PSD/MLB/CSJ:ph

Enclosures

GASB STATEMENT NO. 43
ACTUARIAL VALUATION

AS OF AUGUST 31, 2013
FOR THE FISCAL YEAR ENDING AUGUST 31, 2013

FOR THE
OTHER POST-EMPLOYMENT BENEFITS UNDER THE
TEXAS EMPLOYEES
GROUP BENEFITS PROGRAM

RUDD AND WISDOM, INC.
AUSTIN, TEXAS

NOVEMBER 2013

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Section I - Certification of GASB No. 43 Actuarial Valuation

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2013. The purpose of this report is to present the results of our valuation and provide the information necessary to determine financial statement entries consistent with the Governmental Accounting Standards Board Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans (GASB No. 43).

Actuarial computations under GASB No. 43 are for purposes of fulfilling governmental plan financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB No. 43 and the GBP.

We have based our valuation on employee data as of August 31, 2013 provided by ERS and the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VIII.

To the best of our knowledge, all current active and retired employees eligible to participate in the plan as of the valuation date and all other individuals who have a vested benefit under the plan have been included in the valuation. Furthermore, to the best of our knowledge and belief, all plan benefits have been considered in the development of costs.

ERS and TRS remain solely responsible for the accuracy and comprehensiveness of the respective data provided. However, to the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any imperfections exist in the data records, we have relied on best estimates provided by ERS and TRS. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. In our opinion, each of the assumptions used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption.

Rudd and Wisdom, Inc. prepared and presented in Section V of this report the Schedule of Funding Progress and the Schedule of Employer Contributions that are to be included in the Required Supplementary Information.

The undersigned individuals are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Mitchell L. Bilbe, F.S.A.
Member of American Academy of Actuaries

Philip S. Dial, F.S.A.
Member of American Academy of Actuaries

Christopher S. Johnson, F.S.A.
Member of American Academy of Actuaries

Section II - Summary of Valuation Results

All employer liabilities and costs presented throughout this report are net of any member contributions, member cost sharing and formulary rebates. For convenience, the information presented in Item D on page II-3 combines the information presented in Items A, B and C below.

A. Number of Group Benefits Program Members as of August 31, 2013

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	226,181[1]	43,315[2]	127,708[2]	397,204[2]
Deferred Vesteds	11,255	0[2]	0[2]	11,255[2]
Retirees and Nominees	100,054[3]	26,928	8,902	135,884
Total	**337,490**	**70,243**	**136,610**	**544,343**

[1] Includes return-to-work retirees and employees who have not yet satisfied the 90-day waiting period.
[2] Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.
[3] Includes 3,305 retirees who receive the Opt-Out Credit in lieu of health benefits.

B. Liabilities as of August 31, 2013

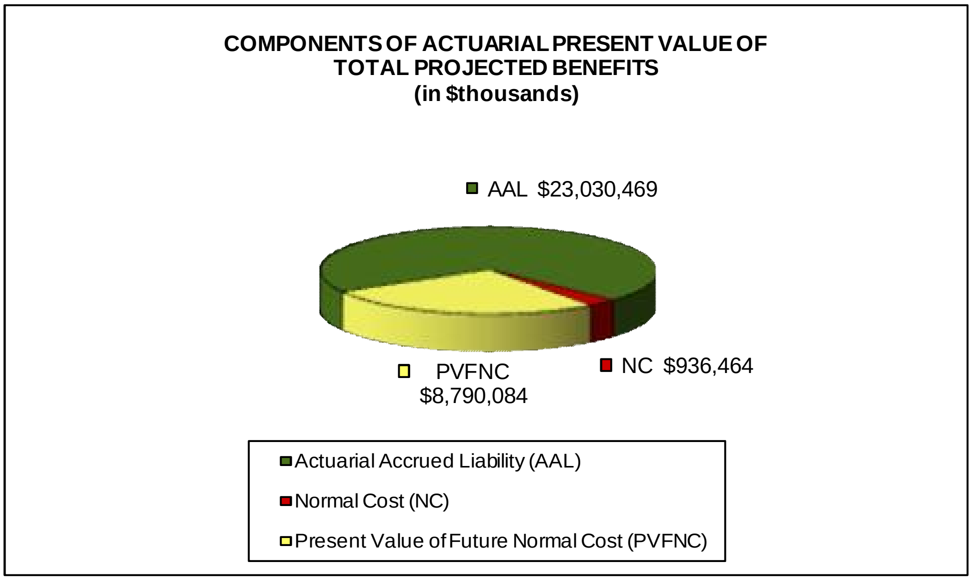
The **Actuarial Present Value of Total Projected Benefits** is the amount of assets that would have to be invested on the valuation date so that the amount invested plus future investment earnings would provide sufficient assets to pay total projected benefits when due.

The **Actuarial Accrued Liability** is the portion of the Actuarial Present Value of Total Projected Benefits that is attributed to the plan members' past employment service as of the valuation date.

The **Normal Cost** is the portion of the Actuarial Present Value of Total Projected Benefits that is attributed to the plan members' current year of employment service.

The **Actuarial Present Value of Future Normal Costs** is the portion of the Actuarial Present Value of Total Projected Benefits expected to be attributed to plan members' future years of employment service. (As shown below, it does not include the current year Normal Cost.)

	Actuarial Present Value of Total Projected Benefits ($ thousands)	Actuarial Accrued Liability ($ thousands)	Normal Cost ($ thousands)	Actuarial Present Value of Future Normal Costs ($ thousands)
Actives	$ 23,018,976	$ 13,292,428	$ 936,464	$ 8,790,084
Deferred Vesteds	1,160,288	1,160,288	0	0
Retirees and Nominees	8,577,753	8,577,753	0	0
Total	**$ 32,757,017**	**$ 23,030,469**	**$ 936,464**	**$ 8,790,084**



C. Actuarial Value of Plan Assets, Unfunded Actuarial Accrued Liability and Annual Required Contribution for FY 2013

The **Actuarial Value of Plan Assets** is the fair market value of plan assets available as of the valuation date to pay for plan benefits.

The **Unfunded Actuarial Accrued Liability** is excess of the Actuarial Accrued Liability over the Actuarial Value of Plan Assets.

The **Annual Required Contribution** (ARC) represents the amount of the contribution that would be required to fund the Normal Cost and amortize the Unfunded Actuarial Accrued Liability over a period of 30 years. Details of the development of the ARC may be found in the next section of this report.

Actuarial Valuation Date	Actuarial Value of Plan Assets ($ thousands)	Unfunded Actuarial Accrued Liability ($ thousands)	Annual Required Contribution (ARC) ($ thousands)
August 31, 2013	**$ 0**	**$ 23,030,469**	**$ 1,935,922[1]**

[1] Comprised of Normal Cost of $936,464,348 and $999,457,298 to amortize the Unfunded Actuarial Accrued Liability over a period of 30 years.

D. Summary of Results for FY 2013

Actuarial Valuation Results as of August 31, 2013		
	($ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	226,181	
b. Deferred Vesteds	11,255	
c. Retirees and Nominees	100,054	
d. Total Number of Members	337,490	
2. Payroll of Active Members for FY 2013	$ 10,478,117	
3. Actuarial Present Value of Total Projected Benefits		
a. Actives	$ 23,018,976	
b. Deferred Vesteds	1,160,288	
c. Retirees and Nominees	8,577,753	
d. Total	$ 32,757,017	312.6%
4. Actuarial Accrued Liability		
a. Actives	$ 13,292,428	
b. Deferred Vesteds	1,160,288	
c. Retirees and Nominees	8,577,753	
d. Total	$ 23,030,469	219.8%
5. Actuarial Value of Assets	$ 0	0.0%
6. Unfunded Actuarial Accrued Liability [4.d. – 5.]	$ 23,030,469	219.8%
7. Annual Required Contribution for FYE August 31, 2013		
a. Normal Cost	$ 936,464	9.0%
b. Amortization of UAAL	999,458	9.5%
c. Total ARC for FYE August 31, 2013	$ 1,935,922	18.5%

E. Changes in Liabilities Since the Prior Valuation

The Actuarial Accrued Liability and the Normal Cost have both decreased since the prior valuation due to the combined effect of growth due to passage of time, Actuarial Gains, changes to the Actuarial Assumptions, and changes to the plan provisions.

An **Actuarial Gain or Loss** occurs from one valuation to the next if the experience of the plan differs from that anticipated by the actuarial assumptions. The plan experienced gains during the fiscal year ending August 31, 2013 as shown in the table below.

The **Actuarial Assumptions** are used to project the demographic events and economic forces that affect the cost of the plan. Since the last valuation was prepared for this plan, the assumptions for Expenses and Per Capita Health Benefit Costs have been updated to reflect recent health plan experience and its effects on our short-term expectations. Furthermore, the assumed expenses now include a provision for the Affordable Care Act's Patient-Centered Outcomes Research Institute fee and the Transitional Reinsurance Program fee. In addition, the percentage of future retirees electing coverage for their spouses and dependent children as well as the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence have been updated to reflect recent plan experience and expected trends. Lastly, demographic assumptions for select classes of State Agency employees have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study performed by the ERS retirement plan actuary on the ERS retirement plan.

Since the last valuation was prepared for this plan, S.B. 1459 was adopted by the 83rd Texas Legislature. S.B. 1459 amends Article 1551 of the Texas Insurance Code to require insurance contribution rates for retirees to vary based on the number of years of eligible service credit at retirement. This change is effective on September 1, 2014 and applies only to certain employees who: (a) have less than five years of eligible service credit on August 31, 2014 and (b) retire on or after September 1, 2014. Such employees who retire with less than 20 years of eligible service credit will be required to pay a larger portion of the cost of insurance than those retiring with 20 or more years of eligible service credit. (See Section VIII for details.)

The table below summarizes the effects of significant factors affecting the Actuarial Accrued Liability and the Normal Cost. Because 100% of the Normal Cost is attributable to Active plan members while only 58% of the Actuarial Accrued Liability is attributable to Active plan members, these factors affect the total Actuarial Accrued Liability and the Normal Cost differently. Additionally, due to the mechanics of the Entry Age Normal cost method, some factors affect the Active Actuarial Accrued Liability and Normal Cost differently as well.

Changes to Liability Since the Prior Valuation		
	Approximate Increase / (Decrease)	
Factor	Actuarial Accrued Liability (in $ thousands)	Normal Cost (in $ thousands)
Growth due to passage of time[1]	$ 1,459,944	$ 31,406
Actuarial Gains	(314,563)	18,494
Assumption Changes	1,112,367	31,221
Plan Changes	(50,689)	(41,971)
Total	$ 2,207,059	$ 39,150

1 Since OPEB is funded on a PAYGO basis, the excess of (a) the Normal Cost plus (b) interest over (c) the PAYGO contribution increases the Actuarial Accrued Liability. Since the Normal Cost is determined as a level percentage of payroll, it will increase due to payroll growth resulting from growth in the number of active employees and inflationary increases in the salaries.

Section III - Accounting Information

A. Development of the Annual Required Contribution (ARC)

Under GASB No. 43, the ARC[1] is sum of: (1) the value of benefits accrued during the year (the Normal Cost) and (2) the amortization of the Unfunded Actuarial Accrued Liability. We have computed the ARC amortizing the Unfunded Actuarial Accrued Liability over the maximum period of 30 years as a level percentage of projected payroll.

The Employer is not ***required*** to contribute the ARC, as the name implies. The ARC represents the amount of the contribution that would be required to fund the Normal Cost and amortize the Unfunded Actuarial Accrued Liability over a period of 30 years.

1. Normal Cost	$ 936,464,348
2. Amortization of Unfunded Actuarial Accrued Liability[2]	999,457,298
3. ARC for Fiscal Year Ending August 31, 2013 [1. + 2.]	**$ 1,935,921,646**

B. Contribution Deficiencies/(Excess Contributions)

Contribution Deficiencies/(Excess Contributions) occur when the Employer makes contributions that are less than (that exceed) the ARC. Amortization of a Contribution Deficiency/(Excess Contribution) is delayed until the next actuarial valuation[3]. Such amortization occurs in the development of the following year's ARC.

1. Annual Required Contribution (ARC)	$ 1,935,921,646
2. Employer Contributions for Fiscal Year Ending August 31, 2013	549,510,157[4]
3. Contribution Deficiency/(Excess Contribution) [1. – 2.]	**$ 1,386,411,489**

[1] Defined in Paragraph No. 34.f. of GASB No. 43.
[2] Amortized over 30 years as a level percentage of projected payroll.
[3] Pursuant to Paragraph No. 34.g. of GASB No. 43.
[4] Includes Medicare Part D Retiree Drug Subsidies.

Section IV - Notes to the Financial Statements

Pursuant to Paragraphs No. 30 of GASB No. 43 the following information should be included in the Notes to the Financial Statements.

A. Plan Description

1. Plan Name

   Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP)

2. Plan Type

   The GBP is a cost-sharing multiple-employer defined benefit OPEB plan. Employers participating in the GBP include:

   a. the State of Texas which is the employer for all state agency employees and employees of senior colleges and universities,

   b. 51 Texas junior and community colleges,

   c. the Texas Municipal Retirement System, Texas County and District Retirement System and the Texas Turnpike Authority,

   d. Community Supervision and Corrections Departments.

3. Employees Covered

   a. State agency and higher education employees must meet the following classification requirements in order to be eligible for OPEB provided they also meet certain age and service conditions.

      i. State Agency or Higher Education Employee

         An individual must be an elected or appointed officer or employee who performs service (other than an independent contractor) for the State of Texas, including an institution of higher education, other than the University of Texas or Texas A&M University Systems, and who:

         a) receives compensation for the service performed pursuant to a payroll certified by a state agency or by an elected or appointed officer, or

         b) receives compensation for service performed for an institution of higher education pursuant to a payroll certified by an institution of higher education or by an elected or appointed officer of the State.

ii. Employees of Certain Other Entities

a) Officers or employees of Texas Municipal Retirement System or Texas County and District Retirement System

b) Certain employees or officers of the Texas Turnpike Authority

c) Employees of the Community Supervision and Corrections Departments

b. Number of Plan Members as of August 31, 2013

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	226,181[1]	43,315[2]	127,708[2]	397,204[2]
Deferred Vesteds	11,255	0[2]	0[2]	11,255[2]
Retirees and Nominees	100,054[3]	26,928	8,902	135,884
Total	**337,490**	**70,243**	**136,610**	**544,343**

[1] Includes return-to-work retirees and employees who have not yet satisfied the 90-day waiting period.
[2] Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.
[3] Includes 3,305 retirees who receive the Opt-Out Credit in lieu of health benefits.

4. Brief Description of Benefit Provisions

a. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan. An eligible retiree who has retired from full-time employment does not contribute toward the cost of coverage for himself/herself, but he/she pays a portion of the cost if he/she covers an eligible spouse or dependent child*. An eligible retiree who has retired from part-time employment contributes toward the cost of coverage for himself/herself, as well as paying a portion of the cost if he/she covers an eligible spouse or dependent child.

b. The GBP also provides life insurance benefits to eligible retirees via a minimum premium funding arrangement.

* SB 1459 requires employees who have less than 5 years of eligible service credit at August 31, 2014 to pay a larger portion of the cost of insurance if they retire with less than 20 years of eligible service credit on or after September 1, 2014.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

The GBP financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when related expenses are incurred.

2. Method Used to Value Investments

Investments are reported at fair value.

C. Contributions and Reserves

1. The authority under which the obligations of the plan members and Employer are established and/or may be amended is Chapter 1551, Texas Insurance Code.

2. The Employer and member contribution rates are determined annually by the ERS Board Trustees based on the recommendations of the ERS staff and consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

3. There are no long-term contracts for contributions to the plan.

D. Funded Status of the Plan as of Current Valuation Date

(Although this information is repeated in the RSI, it is required to be included in the Notes to the Financial Statements.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	**Actuarial Value of Assets**	**Actuarial Accrued Liability**	**Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}**	**Funded Ratio {(2)/(3)}**	**Annual Covered Payroll**	**Ratio of UAAL to Covered Payroll {(4)/(6)}**
August 31, 2013	**$ 0**	**$ 23,030,469,060**	**$ 23,030,469,060**	**0.0%**	**$ 10,478,117,095**	**219.8%**

E. Statement of Plan Net Assets

Statement of Plan Net Assets as of August 31, 2013		
Investment Category	**Fair Value**	
1. Current Assets		
a. Cash and Cash Equivalents		
i) Cash on Hand	$ 141	
ii) Cash in State Treasury	11,643,824	
iii) Certificates of Deposit	0	
iv) Total Cash and Cash Equivalents	$ 11,643,965	
b. Securities Lending Collateral	$ 0	
c. Short-Term Investments	$ 174,417,418	
d. Receivables		
i) Interest Receivable	$ 1,595	
ii) Contributions/Accounts Receivable	19,877,488	
iii) Due from Other Funds	670,284	
iv) Federal Receivable	14,828,981	
v) Total Receivables	$ 35,378,348	
e. Total Current Assets [1.a.iv.+ 1.b. + 1.c. + 1.d.v.]		$ 221,439,731
2. Non-Current Assets		
a. Investments		
i) U.S. Government and Agency Obligations	$ 0	
ii) Corporate Obligations	0	
iii) Total Investments	$ 0	
b. Capital Assets, Depreciable		
i) Furniture and Equipment	$ 0	
ii) Less: Accumulated Depreciation	0	
iii) Net Capital Assets	$ 0	
c. Total Non-Current Assets [2.a.iii. + 2.b.iii.]		$ 0
3. Liabilities		
a. Claims Payable	$ 124,581,929	
b. Payables Due to Other Funds	96,132,715	
c. Deferred Revenue	725,087	
d. Total Liabilities [3.a. + 3.b. + 3.c.]		$ 221,439,731
4. Total Fair Value of Plan Net Assets as of August 31, 2013 [1.e. + 2.c. - 3.d.]		$ 0

F. Statement of Changes in Plan Net Assets

Statement of Changes in Plan Net Assets for FYE August 31, 2013		
1. Plan Net Assets as of September 1, 2012		**$ 0**
2. Additions		
a. Contributions		
i. Employer[1]	**$ 549,510,157**	
ii. Plan Members	**141,008,189**	
iii. Federal Revenue – Medicare Part D - EGWP	**37,269,110**	
iv. Total Contributions		**$ 727,787,456[2]**
b. Net Investment Income		
i. Net appreciation/(depreciation) in Fair Value of Plan Investments	**$ 0**	
ii. Interest income, dividend income, and other income	**235,772**	
iii. Total Investment Expense	**0**	
iv. Net Investment Income		**$ 235,772**
c. Other Additions		**$ 0**
d. Total Additions [2.a.iv. + 2.b.iv. + 2.c.]		**$ 728,023,228**
3. Deductions		
a. Benefits	**$ 724,381,544**	
b. Refunds to Plan Members	**0**	
c. Total Administrative Expense	**3,641,684**	
d. Total Deductions		**$ 728,023,228[3]**
4. Plan Net Assets as of August 31, 2013 [1. + 2.d. – 3.d.]		**$ 0**

1 Includes Federal Revenues of $13,605,050 for Medicare Part D Retiree Drug Subsidies.
2 Includes $35,378,348 in receivables and amounts due from other funds. See page IV-4 for details.
3 Includes $221,439,731 in payables and deferred revenue. See page IV-4 for details.

G. Disclosure of Information about Actuarial Methods and Assumptions

The following information is required to be disclosed in accordance with Paragraph No. 30.d. of GASB 43.

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

2. The required schedule of funding progress immediately following the notes to the financial statements 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.

3. GASB No. 43 calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes ***does not*** explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

4. Actuarial calculations reflect a long-term perspective. In addition, consistent with that perspective, actuarial methods and assumptions used in developing the amounts in this report include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

5. The information presented in the required supplementary schedules was determined as part of the actuarial valuation using the actuarial methods and assumptions summarized below. (For a complete description of all actuarial methods and assumptions, see Section VII of this report.)

Summary of Actuarial Methods and Assumptions	
Actuarial cost method	Entry Age Normal (Level percent of pay)
Asset valuation method	Market
Actuarial assumptions:	
Annual investment return assumption (discount rate)[1]	5.50%
Projected annual salary increases[1]	3.50% to 11.50%
Weighted-average at valuation date[1]	6.53%
Annual Healthcare Trend Rates[1]	8.00% in FY 2015 declining to 5.50% in FY 2021
Amortization method	Level percent of pay
Amortization period	30 year open period

1 Includes inflation assumption of 3.50%.

Section V - Required Supplementary Information

Per Paragraph Nos. 17 and 31 of GASB No. 43, the following information should be presented immediately after the notes to the financial statements. GASB No. 43 requires that the notes illustrate the most recent three (3) years of historical data.

A. Schedule of Funding Progress

The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates.

Schedule of Funding Progress						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}	Funded Ratio {(2)/(3)}	Annual Covered Payroll	Ratio of UAAL to Covered Payroll {(4)/(6)}
08/31/11	$ 0	$ 21,502,434,475	$ 21,502,434,475	0.0%	$ 10,376,486,738	207.2%
08/31/12	$ 0	$ 20,823,410,447	$ 20,823,410,447	0.0%	$ 10,268,696,185	202.8%
08/31/13	$ 0	$ 23,030,469,060	$ 23,030,469,060	0.0%	$ 10,478,117,095	219.8%

B. Schedule of Employer Contributions

The Schedule of Employer Contributions presents contribution information as of the current valuation date and the two preceding valuation dates.

Schedule of Contributions from the Employer and Other Contributing Entities[1]			
Fiscal Year	Contribution[2]	ARC	Percentage of ARC Contributed
09/01/10 to 08/31/11	$ 513,277,587	$ 1,882,731,828	27.3%
09/01/11 to 08/31/12	$ 563,972,365	$ 1,800,991,324	31.3%
09/01/12 to 08/31/13	$ 549,510,157	$ 1,935,921,646	28.4%

[1] Title of table required by Paragraph No. 36 of GASB No. 43.
[2] Includes Medicare Part D Retiree Drug Subsidies for all years and Early Retiree Reinsurance Program receipts for FY11 and FY12.

C. Notes to the Required Schedules

Per Paragraph No. 37 of GASB No. 43, the employer should disclose factors that significantly affect the identification of trends in the amounts reported above. For example, changes in benefit provisions or changes in actuarial methods and assumptions should be identified.

The following assumptions have been changed since the previous valuation:

- the Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience and the Assumed Expenses now include a provision for the Affordable Care Act's Patient-Centered Outcomes Research Institute fee and the Transitional Reinsurance Program fee;

- the percentage of future retirees electing coverage for their spouses and dependent children as well as the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence have been updated to reflect recent plan experience and expected trends;

- the Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience; and

- for select classes of State Agency members, certain demographic assumptions (Retirement Rates, Termination Rates, Disability Rates, Salary Increases, Mortality Rates and Rates of Withdrawal of Contributions) were updated since the prior valuation to be consistent with the assumptions used in the actuarial valuation of the ERS retirement plan as of August 31, 2013; these demographic assumptions were based on an experience study and were previously approved by the ERS Trustees for use in the retirement plan valuation.

The plan provisions have been changed since the prior valuation in order to reflect the impact of S.B. 1459 which was adopted by the 83rd Texas Legislature. S.B. 1459 amends Article 1551 of the Texas Insurance Code to require insurance contribution rates for retirees to vary based on the number of years of eligible service credit at retirement. This change is effective on September 1, 2014 and applies only to employees who: (a) have less than five years of eligible service credit on August 31, 2014 and (b) retire on or after September 1, 2014. Such employees who retire with less than 20 years of eligible service credit will be required to pay a larger portion of the cost of insurance than those retiring with 20 or more years of eligible service credit. (See Section VIII for details.) This change becomes effective September 1, 2014 and is incorporated into this valuation in accordance with Question Number 49 of the *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits*. The new contribution rates will reduce the employer's cost, resulting in a decrease to the employer's Annual OPEB Cost and Actuarial Accrued Liability below the levels they would have otherwise been in the absence of these changes to the plan provisions.

Section VI - Detailed Valuation Results

A. Actuarial Valuation Date: August 31, 2013

B. Summary of Results as of August 31, 2013

	Number of Members	Actuarial Present Value of Total Projected Benefits	Actuarial Accrued Liability	Normal Cost	Payroll
Actives	226,181	$ 23,018,976,353	$ 13,292,428,165	$ 936,464,348	$ 10,478,117,095
Deferred Vesteds	11,255	1,160,287,802	1,160,287,802	-	-
Retirees & Nominees	100,054	8,577,753,093	8,577,753,093	-	-
Total	337,490	$ 32,757,017,248	$ 23,030,469,060	$ 936,464,348	$ 10,478,117,095

Annual Required Contribution (ARC) for FY 13	Employer Contributions[1] for FY 13	Percentage of ARC Contributed
$ 1,935,921,646	$ 549,510,157	28.4%

[1] Includes Medicare Part D Retiree Drug Subsidies.

C. Summary of Active Member Census

State Agency Employees[1]

Age and Service Table for Actives as of August 31, 2013

	Current Years of Benefit Service									Age	Percent
Current Age	*t<5*	*5 <= t < 10*	*10 <= t < 15*	*15 <= t < 20*	*20 <= t < 25*	*25 <= t < 30*	*30 <= t < 35*	*35 <= t < 40*	*40 <= t*	*Totals*	*of Total*
x < 20	644									644	0.44%
20 <= x < 25	7,375	138								7,513	5.08%
25 <= x < 30	11,055	2,724	52							13,831	9.36%
30 <= x < 35	9,067	5,897	1,507	96						16,567	11.21%
35 <= x < 40	6,641	4,919	3,152	1,430	59					16,201	10.96%
40 <= x < 45	6,121	4,490	3,477	3,702	1,564	65				19,419	13.14%
45 <= x < 50	5,178	4,108	3,023	3,653	3,558	1,694	115			21,329	14.42%
50 <= x < 55	4,646	3,821	2,941	3,384	3,153	2,345	610	18		20,918	14.15%
55 <= x < 60	3,554	3,471	2,692	2,986	2,290	1,186	583	155	9	16,926	11.45%
60 <= x < 65	1,989	2,385	1,899	1,803	1,190	567	242	119	47	10,241	6.93%
65 <= x < 70	535	875	689	515	341	134	60	31	41	3,221	2.18%
x >= 70	170	247	229	169	120	37	16	17	6	1,011	0.68%
Service Totals	56,975	33,075	19,661	17,738	12,275	6,028	1,626	340	103	147,821	100.00%
Percent of Total	38.54%	22.38%	13.30%	12.00%	8.30%	4.08%	1.10%	0.23%	0.07%	100.00%	

[1] *Excludes 2,599 Return-to-Work Retirees.*

Higher Education Employees[1]

Age and Service Table for Actives as of August 31, 2013

Current Age	Current Years of Benefit Service									Age Totals	Percent of Total
	t<5	5 <= t < 10	10 <= t < 15	15 <= t < 20	20 <= t < 25	25 <= t < 30	30 <= t < 35	35 <= t < 40	40 <= t		
x < 20	8									8	0.01%
20 <= x < 25	993	4								997	1.45%
25 <= x < 30	4,043	639	7							4,689	6.80%
30 <= x < 35	4,093	2,338	444	17						6,892	10.00%
35 <= x < 40	3,191	2,272	1,481	374	16					7,334	10.64%
40 <= x < 45	2,832	2,349	1,787	1,127	235	16				8,346	12.11%
45 <= x < 50	2,236	2,054	1,643	1,791	380	131	15			8,250	11.97%
50 <= x < 55	2,218	1,988	1,785	2,614	383	149	150	7		9,294	13.48%
55 <= x < 60	1,823	1,911	1,698	3,081	405	133	199	23	3	9,276	13.45%
60 <= x < 65	1,226	1,532	1,415	2,992	296	83	139	34	21	7,738	11.22%
65 <= x < 70	480	772	721	715	1,348	29	37	17	19	4,138	6.00%
x >= 70	187	311	242	209	350	663	14	2	1	1,979	2.87%
Service Totals	23,330	16,170	11,223	12,920	3,413	1,204	554	83	44	68,941	100.00%
Percent of Total	33.85%	23.45%	16.28%	18.74%	4.95%	1.75%	0.80%	0.12%	0.06%	100.00%	

[1] *Excludes 84 Return-to-Work Retirees.*

Other Employees (i.e., Employees of TMRS, TCDRS, TTA and CSCD)[1]

Age and Service Table for Actives as of August 31, 2013

	Current Years of Benefit Service										
Current Age	*t<5*	*5 <= t < 10*	*10 <= t < 15*	*15 <= t < 20*	*20 <= t < 25*	*25 <= t < 30*	*30 <= t < 35*	*35 <= t < 40*	*40 <= t*	*Age Totals*	*Percent of Total*
x < 20	33									33	0.49%
20 <= x < 25	296	5								301	4.49%
25 <= x < 30	499	101	2							602	8.97%
30 <= x < 35	424	268	56	3						751	11.19%
35 <= x < 40	325	229	132	47	2					735	10.95%
40 <= x < 45	276	223	146	133	57	4				839	12.50%
45 <= x < 50	236	209	145	139	149	70	5			953	14.20%
50 <= x < 55	213	175	154	133	154	114	35	1		979	14.58%
55 <= x < 60	169	157	147	121	114	65	35	9	1	818	12.19%
60 <= x < 65	92	110	106	75	59	31	14	9	3	499	7.44%
65 <= x < 70	25	38	34	22	17	7	4	2	2	151	2.25%
x >= 70	8	12	13	7	6	2	1	1		50	0.75%
Service Totals	2,596	1,527	935	680	558	293	94	22	6	6,711	100.00%
Percent of Total	38.69%	22.75%	13.93%	10.13%	8.31%	4.37%	1.40%	0.33%	0.09%	100.00%	

[1] *Excludes 25 Return-to-Work Retirees.*

D. Summary of Deferred Vested Member Census by Age and Employer

Vested Members By Age and Employer

Age as of August 31, 2013

Current Age	*Employer*			*Age Totals*	*Percent of Total*
	State Agency	*Higher Education*	*Other* [1]		
x < 35	**111**	**64**	**0**	**175**	**1.55%**
35 <= x < 40	**433**	**249**	**0**	**682**	**6.06%**
40 <= x < 45	**1,092**	**425**	**0**	**1,517**	**13.48%**
45 <= x < 50	**1,591**	**505**	**0**	**2,096**	**18.62%**
50 <= x < 55	**2,045**	**760**	**1**	**2,806**	**24.93%**
55 <= x < 60	**1,686**	**825**	**2**	**2,513**	**22.33%**
60 <= x < 65	**587**	**591**	**0**	**1,178**	**10.47%**
x >= 65	**82**	**206**	**0**	**288**	**2.56%**
Employer Totals	**7,627**	**3,625**	**3**	**11,255**	**100.00%**
Percent of Total	**67.76%**	**32.21%**	**0.03%**	**100.00%**	

[1] ***Employees of TMRS, TCDRS, TTA and CSCD.***

E. Summary of Retiree and Nominee Member Census by Age and Employer

Age as of August 31, 2013

Current Age	Employer			Age Totals	Percent of Total
	State Agency	Higher Education	Other [2]		
x < 40	79	3	1	83	0.08%
40 <= x < 45	74	10	8	92	0.09%
45 <= x < 50	503	31	26	560	0.56%
50 <= x < 55	3,800	184	100	4,084	4.08%
55 <= x < 60	8,406	891	274	9,571	9.57%
60 <= x < 65	15,461	2,451	363	18,275	18.27%
65 <= x < 70	17,194	4,646	394	22,234	22.22%
70 <= x < 75	12,377	4,991	155	17,523	17.51%
75 <= x < 80	8,473	3,805	44	12,322	12.32%
80 <= x < 85	5,436	2,652	11	8,099	8.09%
85 <= x < 90	3,162	1,521	7	4,690	4.69%
90 <= x < 95	1,393	616	4	2,013	2.01%
95 <= x < 100	322	117	1	440	0.44%
x >= 100	46	22	0	68	0.07%
Employer Totals	76,726	21,940	1,388	100,054 [3]	100.00%
Percent of Total	76.68%	21.93%	1.39%	100.00%	

[1] *Includes 2,827 State Agency Retirees, 445 Higher Education Retirees and 33 Other Retirees receiving the Opt-Out Annuity.*

[2] *Employees of TMRS, TCDRS, TTA and CSCD.*

[3] *Comprised of 41,631 retirees and nominees enrolled in HealthSelect Medicare Advantage, 55,118 retirees and nominees enrolled in HealthSelect and 3,305 retirees who receive the Opt-Out Credit in lieu of health benefits.*

Section VII - Actuarial Methods and Assumptions

A. Actuarial Methods

1. <u>Actuarial Funding Method</u>

The Entry Age Normal actuarial funding method is used in determining the contribution requirements for the plan. The actuarial funding method is the procedure by which the actuary determines a series of annual contributions which, along with current assets and future investment earnings, will fund the expected plan benefits. The Entry Age Normal funding method compares the excess of the present value of expected future plan benefits over the current value of plan assets. This difference represents the expected present value of current and future contributions that will be paid into the plan. The contributions are divided into two components: an annual Normal Cost and an amortization charge for the unfunded accrued liability.

The Normal Cost for the plan is the sum of individually determined Normal Costs for each active member. Each active member's Normal Cost is the current annual contribution in a series of annual contributions which, if made throughout the member's total period of employment, would fund his expected benefits from the plan. Each member's Normal Cost is calculated to be a constant percentage of his expected compensation in each year of employment.

The plan's current accrued liability is the excess of the present value of expected future benefits over the present value of all future remaining Normal Cost contributions for all active members. The unfunded accrued liability is the amount by which the accrued liability exceeds the current plan assets. The unfunded accrued liability is recalculated each time a valuation is performed and is amortized as a level percentage of projected payroll in accordance with employer funding goals and GASB guidelines. Experience gains and losses, which represent deviations of the unfunded accrued liability from its expected value based on the prior valuation, are determined at each valuation and are amortized as part of the unfunded accrued liability.

2. <u>Actuarial Value of Assets</u>

The Actuarial Value of Assets is equal to the fair market value of plan assets as determined by the plan administrator, including any receivable contributions made for a prior plan year which were not recognized by the plan administrator as of the asset valuation date.

B. Actuarial Assumptions

The actuarial valuation of the GBP OPEB requires the use of numerous actuarial assumptions many of which are similar to the assumptions used in performing the actuarial valuations of the retirement plans in which the GBP members participate. State agency members participate in the ERS retirement plan while many higher education members participate in the TRS retirement plan. For consistency with those valuations, for purposes of our valuation of the

GBP OPEB we have utilized the applicable assumptions previously adopted by the Trustees of the respective systems at the time our valuation is performed. In other words, we have used applicable ERS retirement plan assumptions for the valuation of OPEB for state agency members and, except as indicated below, we have used TRS retirement plan assumptions for the valuation of OPEB for higher education members. It should be noted that we have applied the TRS assumptions to all higher education members including those who have opted to participate in the optional retirement plan (ORP) instead of TRS. Although it may be preferable to eventually develop a body of data that would enable ORP specific assumptions to be used, such data does not presently exist. In the absence of such data, it is our opinion that the TRS demographic and pay-related assumptions can be reasonably applied to ORP participants.

In addition to the assumptions used in the retirement plan valuations, the OPEB valuation requires certain unique assumptions, specifically, the health benefit cost trend and the discount rate, both of which are described below.

The assumptions used in this report are summarized below.

1. Demographic Assumptions

The tables of decrements below contain rates (not probabilities) of decrement.

a. **Mortality**: The members of the GBP are expected to exhibit mortality in accordance with the following mortality tables:

   i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

      a) Service Retirees, Survivors and other Inactive Members (Regular, Elected, CPO/CO and JRS I and II Employee Classes):
      Generational Mortality using 1994 Group Annuity Mortality tables without adjustment for males and set forward 2 years for females and Projection Scale AA from the year 2000

      b) Disability Retirees (Regular, Elected, CPO/CO and JRS I and II Employee Classes):
      RP-2000 Disabled Retiree Mortality set forward 6 years for males and set back one year for females

      c) Active Members*:
      Generational Mortality using 1994 Group Annuity Mortality tables without adjustment for males and set forward 2 years for females and Projection Scale AA from the year 2000

      * For Regular Employee Class and CPO/CO Class members, 2.0% of active male deaths and 0.3% of active female deaths are assumed to be occupational.

ii. Higher Education Members[1] (assumptions used in valuing the TRS retirement plan)

a) Service Retirees, Survivors and other Inactive Members:
Tables based on TRS experience. Illustrative rates are shown in the table below.

Annual Rates of Inactive Member Mortality per 100 Members

Age	Male	Female
50	0.2499	0.1891
60	0.6335	0.4096
70	1.8730	1.0343
80	5.5375	3.7181
90	16.3717	11.9898
100	29.9764	20.6596

b) Disability Retirees:
The PBGC Male Disabled Mortality Table for plan terminations after December 1, 1980, with a six-year setback and the PBGC Female Disabled Mortality Table for plan terminations after December 1, 1980, with a four-year setback.

c) Active Members:
Tables based on TRS experience. Illustrative rates are shown in the tables below:

1) Non-Occupational Mortality

Annual Rates of Active Mortality per 100 Members

Age	Male	Female
20	0.0297	0.0189
30	0.0624	0.0291
40	0.0849	0.0449
50	0.1458	0.0923
60	0.3979	0.2084
70	1.2940	0.7621

2) Occupational Mortality: None

[1] Mortality Improvement: To account for future mortality improvement, the rates were chosen so that the assumed mortality rates are smaller than the rates observed in the most recent TRS experience study. The ratio of the actual number of deaths occurring during this period to the expected number based on the selected assumptions was 108% for healthy male annuitants, 112% for healthy female annuitants, 103% for disabled male annuitants, and 110% for disabled female annuitants.

b. **Retirement**: A member is assumed to retire in accordance with the following annual rates:

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

a) Active Regular Employee Class Members hired before September 1, 2009: ERS Decrement Service is used to determine when the rates apply:

- Age 60 with 5 years of service
- Rule of 80 with 5 years of service

Sample rates for eligible members:

Annual Service Retirement Rates Per 100
Regular Employee Class Members Hired Before September 1, 2009

	Males – Years of ERS Decrement Service							Females – Years of ERS Decrement Service						
Age	5	10	15	20	25	30	35	5	10	15	20	25	30	35
50						35	40						45	40
55					23	25	25					40	25	25
60	10	15	18	38	20	28	28	10	15	15	35	20	20	20
65	20	45	45	35	35	35	35	20	45	45	33	33	33	33
70	20	38	28	33	33	33	33	20	38	28	33	33	33	33
75	100	100	100	100	100	100	100	100	100	100	100	100	100	100

b) Active Regular Employee Class Members hired after August 31, 2009: ERS Decrement Service is used to determine when the rates apply:

- Age 65 with 10 years of service
- Rule of 80 with 5 years of service

Sample rates for eligible members:

Annual Service Retirement Rates Per 100
Regular Employee Class Members Hired After August 31, 2009

	Males – Years of ERS Decrement Service							Females – Years of ERS Decrement Service						
Age	5	10	15	20	25	30	35	5	10	15	20	25	30	35
50						15	13						20	15
55					25	8	8					30	10	10
60				25	58	68	68				25	45	45	45
65		85	38	30	45	40	40		85	38	18	35	30	30
70		80	60	90	35	35	35		80	60	90	33	33	33
75	100	100	100	100	100	100	100	100	100	100	100	100	100	100

c) Active Elected Class Members: ERS Decrement Service is used to determine when the rates apply:

- Age 60 with 8 years of service
- Rule of 50 with 12 years of service

Sample rates for eligible members:

Annual Service Retirement Rates Per 100
Elected Class Members

Age	Male and Female
50-64	10
65-74	20
75+	100

d) Active CPO/CO Employee Class Members hired before September 1, 2009:
CPO/CO Decrement Service is used to determine when the rates apply:

- Any age with 20 years CPO/CO service
- Age 55 with 10 years CPO/CO service

Sample rates for eligible members for both males and females:

Annual Service Retirement Rates Per 100 CPO/CO
Employee Class Members Hired Before September 1, 2009

	Years of CPO/CO Decrement Service					
Age	5	10	15	20	25	30
45				5	5	5
50				45	55	55
55		12	12	45	35	35
60		16	16	55	35	35
65		35	35	50	60	60
70		50	50	50	50	50
75	100	100	100	100	100	100

e) Active CPO/CO Employee Class Members hired after August 31, 2009:
CPO/CO Decrement Service is used to determine when the rates apply:

- Any age with 20 years CPO/CO service
- Age 55 with 10 years CPO/CO service

Sample rates for eligible members for both males and females:

Annual Service Retirement Rates Per 100 CPO/CO
Employee Class Members Hired After August 31, 2009

	Years of CPO/CO Decrement Service					
Age	5	10	15	20	25	30
45				5	5	5
50				5	5	5
55		12	12	83	65	65
60		16	16	55	35	35
65		35	35	50	60	60
70		50	50	50	50	50
75	100	100	100	100	100	100

f) JRS Members:
JRS I and II Decrement Service is used to determine when the rates apply:

- Age 65 with 10 years of service, if member currently holding judicial office.
- Age 65 with 12 years of service.
- 20 years of service.
- Age plus service equal to or greater than 70, if member has at least 12 years of service on an appellate court.

Sample rates for eligible members:

Annual Service Retirement Rates Per 100 Members

Age	
50-69	20
70-74	25
75+	100

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

a) Males:

1) Members Hired before September 1, 2007

Annual Service Retirement Rates per 100 Members

	Years of Service						
Age	0-4	5	10	15	20	25	30
50	0	0	0	0	0	0	39
55	0	1	1	1	3*	20	18
60	0	2	2	2	24	22	22
65	0	24	24	24	22	22	22
70	0	22	20	20	20	20	20
75	0	100	100	100	100	100	100

* This rate is for grandfathered members in TRS (i.e., a member who was age 50, or had 25 years of service, or whose age and service totaled at least 70 years as of August 31, 2005). This rate is changed to 1 per 100 members for non-grandfathered members hired before September 1, 2007.

2) Members Hired after August 31, 2007

Annual Service Retirement Rates per 100 Members

	Years of Service						
Age	0-4	5	10	15	20	25	30
50	0	0	0	0	0	0	0
55	0	1	1	1	1	1	1
60	0	2	2	2	24	24	24
65	0	24	24	24	22	22	22
70	0	22	20	20	20	20	20
75	0	100	100	100	100	100	100

b) Females:

1) Members Hired before September 1, 2007

Annual Service Retirement Rates per 100 Members

	Years of Service						
Age	0-4	5	10	15	20	25	30
50	0	0	0	0	0	0	34
55	0	1	1	1	3*	20	16
60	0	2	2	2	24	20	20
65	0	26	26	26	22	22	22
70	0	24	20	20	20	20	20
75	0	100	100	100	100	100	100

* This rate is for grandfathered members in TRS (i.e., a member who was age 50, or had 25 years of service, or whose age and service totaled at least 70 years as of August 31, 2005). This rate is changed to 1 per 100 members for non-grandfathered members hired before September 1, 2007.

2) Members Hired after August 31, 2007

Annual Service Retirement Rates per 100 Members

	Years of Service						
Age	0-4	5	10	15	20	25	30
50	0	0	0	0	0	0	0
55	0	1	1	1	1	1	1
60	0	2	2	2	24	24	24
65	0	26	26	26	22	22	22
70	0	24	20	20	20	20	20
75	0	100	100	100	100	100	100

c. **Disability Retirement**: Active members are expected to become disabled as defined under the plan in accordance with annual rates as illustrated below.

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

ERS Decrement Service is used to determine when the rates apply:

- The rates do not apply before member is eligible for the benefit.
- Service greater than zero is required for occupational disability retirement.
- For Regular, CPO/CO, and JRS I members, 10 years of service is required for non-occupational disability retirement.
- For JRS II members, 7 years of service is required for non-occupational disability retirement.
- For Elected Class members, 8 years of service is required for non-occupational disability retirement.
- Regular Class and JRS II Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule

of 80. Members who suffer a non-occupational disability after satisfying the Rule of 80 are therefore assumed to retire on service retirement.

- JRS I Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 70. Members who suffer a non-occupational disability after satisfying the Rule of 70 are therefore assumed to retire on service retirement.
- Elected Class Members are not eligible for non-occupational disability retirement if they are eligible for service retirement (age 60 with 8 years of service; or age 50 with 12 years of service). Members who suffer a non-occupational disability after becoming eligible for service retirement are therefore assumed to retire on service retirement.
- CPO/CO Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 80, or under the age 55 with at least 10 years of CPO/CO service provisions.
- For a member with 20 years CPO/CO service the combined ERS/LECO service retirement annuity is much greater than the ERS non-occupational disability retirement annuity. Therefore, the rates of non-occupational disability retirement are zero for members with 20 years of CPO/CO service.

Annual Disability Retirement Rates Per 100 Members

	Regular Class[1], Elected Class, JRS		CPO/CO Class[2]
Age	Male	Females	Males/Females
25	0.0006	0.0006	0.0003
30	0.0366	0.0180	0.0123
35	0.0867	0.0589	0.0418
40	0.0999	0.1195	0.0781
45	0.1369	0.1940	0.1307
50	0.1979	0.2762	0.2365
55	0.3302	0.4651	0.3280
60	0.4986	0.7444	0.4200

[1] 99% of all disabilities are assumed to be non-occupational and 1% are assumed to be occupational. No occupational disabilities are assumed for JRS I, JRS II or the Elected classes.

[2] 95% of all disabilities are assumed to be non-occupational, 4% are assumed to be occupational but not total disability, and 1% are assumed to be occupational and total disability.

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

Annual Disability Retirement Rates Per 100 Members

Age	Male	Female
20	0.0003	0.0006
30	0.0042	0.0065
40	0.0381	0.0234
50	0.1287	0.1256
60	0.2455	0.2436
70	0.0574	0.0551

d. **Termination**: The active members are assumed to terminate their employment for causes other than death, disability or retirement in accordance with annual rates as illustrated below.

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

a) Regular Class Members hired before September 1, 2009:
Graded Tables Based on ERS Experience.

Sample rates for members not eligible for service retirement:

Annual Rates of Termination Per 100 Regular Employee Class Members Hired Before September 1, 2009*

Attained	Male and Females – Years of ERS Decrement Service								
Age	0	1	2	3	4	5	10	15	20+
20	50	40	30	30	30	30			
25	35	30	26	22	20	15	15		
30	28	23	19	15	14	12	6	6	
35	27	21	16	14	11	10	6	3	3
40	25	18	13	11	10	9	6	3	3
45	25	18	13	11	9	8	4	3	1
50	22	17	13	10	9	7	4	2	1
55	21	15	11	9	7	7	4	2	1
60	20	15	10	8	7	6	4	2	1

b) Regular Class Members hired after August 31, 2009:
Graded Tables Based on ERS Experience.

Sample rates for members not eligible for service retirement:

Annual Rates of Termination Per 100 Regular Employee Class Members Hired After August 31, 2009*

Attained	Male and Females – Years of ERS Decrement Service								
Age	0	1	2	3	4	5	10	15	20+
20	52	42	32	27	27	27			
25	42	32	29	25	22	18	18		
30	32	27	21	18	15	14	6	6	
35	31	25	19	16	12	11	6	4	4
40	30	21	15	13	11	9	6	2	2
45	27	21	13	12	10	8	4	2	1
50	26	19	13	11	10	7	4	2	1
55	25	17	12	10	7	7	4	2	1
60	24	17	11	9	6	6	4	1	1
65	22	16	10	6	6	6	4	1	1

* Rates of termination are zero for members eligible for service retirement.

c) CPO/CO Class Members hired before September 1, 2009:

Annual Rates of Termination Per 100 CPO/CO Employee Class Members Hired Before September 1, 2009*

Attained	Male and Females – Years of ERS Decrement Service							
Age	0	1	2	3	4	5	10	15
20	23	19	17	17	17	17		
25	20	17	14	14	14	13		
30	16	13	12	11	10	10	8	8
35	16	11	9	9	8	7	6	4
40	14	10	8	7	7	7	5	2
45	13	10	7	6	6	6	3	2
50	12	9	7	6	6	6	3	2
55	12	7	5	5	4	4	1	1
60	13	7	5	5	4	4	1	1

d) CPO/CO Class Members hired after August 31, 2009:

Annual Rates of Termination Per 100 CPO/CO Employee Class Members Hired After August 31, 2009*

Attained	Male and Females – Years of ERS Decrement Service							
Age	0	1	2	3	4	5	10	15
20	24	20	17	17	17	17		
25	22	19	16	16	16	15		
30	17	15	14	12	12	12	8	8
35	18	12	11	11	10	8	6	4
40	15	11	9	8	8	8	5	2
45	14	11	8	7	7	7	3	2
50	13	11	8	7	7	6	3	2
55	13	8	5	5	4	4	1	1
60	15	8	5	5	4	4	1	1
65	15	8	5	5	4	4	1	1

* Rates of termination are zero for members eligible for service retirement.

e) Elected ERS Members:

Four per 100 for members not eligible for service retirement.

f) JRS I and II Members:

Four per 100 for members not eligible for service retirement.

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

a) Males:

1) Select Period

Rate of Decrement Due to Termination per 100 Male Members

Attained Age	Years of Service 0	1	2	3	4	5	6	7	8	9
20	26.06	22.66	17.16	13.35	10.50					
30	21.73	18.90	15.60	12.33	9.52	7.89	6.52	6.48	6.28	5.36
40	21.72	18.88	14.30	12.53	8.73	8.33	6.90	6.08	5.42	4.64
50	19.37	16.84	12.45	9.93	7.54	6.84	6.44	5.44	5.12	4.66
60	20.21	17.57	13.24	11.60	7.51	6.64	5.18	4.95	4.26	3.41
70	23.71	20.62	17.24	11.74	10.17	0.00	0.00	0.00	0.00	0.00

2) Ultimate Period

Rates of Decrement Due to Termination per 100 Male Members –
Years until Normal Retirement Eligibility

Years from Retirement	Male Rates	Years from Retirement	Male Rates
1	0.90	16	2.91
2	1.21	17	2.99
3	1.43	18	3.06
4	1.62	19	3.13
5	1.78	20	3.18
6	1.92	21	3.22
7	2.05	22	3.25
8	2.17	23	3.27
9	2.28	24	3.28
10	2.39	25	3.29
11	2.48	26	3.30
12	2.58	27	3.31
13	2.67	28	3.32
14	2.75	29	3.33
15	2.83		

b) Females:

1) Select Period

Rate of Decrement Due to Termination per 100 Female Members

Attained Age	Years of Service 0	1	2	3	4	5	6	7	8	9
20	19.38	16.85	14.38	12.63	10.75					
30	19.48	16.94	14.35	12.18	10.07	9.35	8.25	7.24	5.64	5.70
40	18.07	15.71	12.35	10.52	8.26	7.43	6.41	5.78	5.60	4.59
50	17.55	15.26	11.99	9.71	7.92	7.08	6.38	5.49	4.72	4.02
60	19.59	17.03	13.56	10.82	8.46	6.60	6.71	5.09	4.63	4.38
70	24.83	21.59	19.29	19.94	12.54	0.00	0.00	0.00	0.00	0.00

2) Ultimate Period

Rates of Decrement Due to Termination per 100 Female Members –
Years until Normal Retirement Eligibility

Years from Retirement	Female Rates	Years from Retirement	Female Rates
1	0.68	16	3.26
2	1.01	17	3.37
3	1.27	18	3.48
4	1.49	19	3.59
5	1.69	20	3.69
6	1.87	21	3.78
7	2.04	22	3.86
8	2.20	23	3.93
9	2.35	24	3.99
10	2.50	25	4.04
11	2.64	26	4.08
12	2.77	27	4.11
13	2.90	28	4.13
14	3.02	29	4.14
15	3.14		

e. **Withdrawal of Contribution**:

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

Annual Rates of Withdrawal of Employee Contributions
Per 100 New Vested Terminations Male and Female

	Regular Employee Class ERS Decrement Service				CPO/CO Employee Class ERS Decrement Service				Elected Class Members and JRS*			
Age	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+
20-24	100	100			100							
25-29	75	65	60		75	60	60					
30-34	65	60	50		75	60	50					
35-39	65	50	50	35	70	60	50					
40-44	65	50	45	35	70	60	50					
45-49	60	45	35	25	60	40	20					
50-54	55	40	30	20	55	40	20					
55+	50	30	25	15	50	30	20					

* Elected Class and JRS Members are assumed not to withdraw employee contributions.

100% of Non-vested terminations are assumed to withdraw their employee contributions.

ii. Higher Education Members

Members eligible to receive a deferred annuity are assumed to withdraw their contributions in accordance with the rates illustrated below.

Annual Rates of Withdrawal
of Employee Contributions per 100 New
Vested Terminations Male and Female

	Years of Service			
Age	5-10	10-15	15-20	20+
20-24	100	100		
25-34	80	80	60	
35-44	50	40	30	25
45-54	28	28	25	18
55+	0	0	0	0

f. **Salary Increases**: Increases are assumed to occur at the beginning of the valuation year and vary by employee group. The components of the annual increases are:

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

Employee Group	Inflation	Real Wage Growth (Productivity)	Merit, Promotion and Longevity
Legislators	0%	0%	0%
Elected Class (other than Legislators)	3.5%	0%	0%
Regular Employee Class	3.5%	0%	See sample rates
CPO/CO Class	3.5%	0%	See sample rates
JRS I & II	3.5%	0%	0%

a) Regular Employee Class: Merit, Promotion and Longevity Sample Rates:

Annual Salary Increases for Merit, Promotion and Longevity
Male and Female Regular Employee Class Members

	Years of ERS Decrement Service						
Age	0	1	2-4	5-9	10-14	15-19	20+
20	6.80%	5.25%	4.75%	4.30%			
25	6.40	5.25	4.75	3.50	2.50%		
30	5.90	5.25	4.75	3.00	2.50	2.00%	
35	5.40	4.75	4.00	3.00	2.50	2.00	1.90%
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80
45	4.40	4.25	3.75	3.00	2.40	1.90	1.70
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60
55	3.40	3.20	2.80	2.40	1.90	1.60	1.50
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30

b) CPO/CO Employee Class: Merit, Promotion and Longevity Sample Rates:

Annual Salary Increases for Merit, Promotion and Longevity
Male and Female CPO/CO Employee Class Members

	Years of ERS Decrement Service						
Age	0	1	2	3	4	5-9	10+
All	8.0%	5.0%	4.5%	4.0%	3.5%	2.0%	1.5%

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

a) Inflation: 3.5%[1]

b) Real Wage Growth (Productivity): 1.25%

c) TRS Merit, Promotion and Longevity:

Years of Service	Annual Salary Increase for Merit, Promotion and Longevity
1	3.00%
2	3.00
3	2.75
4	2.50
5	2.25
6	2.00
7	1.75
8	1.75
9	1.50
10	1.50
11	1.25
12	1.00
13-18	0.75
19-21	0.50
22-24	0.25
25 or more	0.00

[1] This assumption varies from the inflation assumption used in the TRS retirement valuation in order to be consistent with all other inflation-related assumptions that are used in this report.

g. **Payroll Growth**: For purposes of total member projected payroll, payroll is assumed to increase 3.50% per year.

h. **Dependency Status**: Marital status and spouse/dependent children coverage elections in accordance with GBP records were used for current retired members.

For future retired members and their spouses:

i. a) State Agency Members
For Male members, female spouse is assumed to be 3 years younger. For Female members, male spouse is assumed to be the same age.
b) Higher Education Members
Female spouses are assumed to be 3 years younger than their male counterparts.

ii. 40% of the male members are assumed to be married and electing coverage for their spouse, and 22% of the female members are assumed to be married and electing coverage for their spouse.

iii. The proportion of future retirees covering dependent children is based upon the retiree's age at retirement as follows:

Age at Retirement	Percentage of Retirees Covering Dependent Children
<50	36%
50-54	33%
55-59	17%
60-64	7%
65-69	2%
>70	1%

iv. Current retirees covering dependent children are assumed to continue such coverage until the child reaches age 23. Future retirees who cover dependent children are expected to cover dependent children for a period of seven years on average.

v. 40% of current and future retiree spouses are assumed to continue health coverage for their lifetime after the death of the retiree. No dependent children are assumed to continue health coverage after the death of the retiree.

i. **Declinations**:

98% of future Service Retirees are assumed to elect health coverage at retirement and remain covered until death. The remaining 2% of future Service Retirees are expected to demonstrate outside health coverage and receive an Employer contribution towards certain other optional benefits (i.e., Opt-Out Credit).

100% of future retirees who decrement for causes other than Service Retirement (e.g., Disability and Termination–without account balance withdrawal) are assumed to elect health coverage at retirement and remain covered until death.

j. **HealthSelect Medicare Advantage Participation**:

i. For current retirees and retiree spouses eligible for participation in the HealthSelect Medicare Advantage Plan: based on actual election.

ii. For current retirees and retiree spouses not yet eligible for HealthSelect Medicare Advantage participation and for future retirees and retiree spouses: 65% are assumed to participate in HealthSelect Medicare Advantage at the earliest date at which coverage can commence under this program.

k. **Tobacco Usage**:

i. For current retirees and retiree spouses, tobacco usage is based on records of the System.

ii. 4.0% of future retirees are assumed to use tobacco, and 5.0% of future retiree spouses are assumed to use tobacco.

2. **Economic Assumptions**

a. **Administrative Expenses**: The expenses to administer the GBP health benefits are (i) $229.80 ($213.36 for medical plus $16.44 for prescription drugs) per year per covered member for external HealthSelect administrative expenses for FY 2014 and (ii) approximately $47.15 per year per covered member for internal administrative expenses for FY 2014 (including the ACA Patient-Centered Outcomes Research Institute (PCORI) fee). The external and internal administrative expenses per covered member are the same regardless of whether the member covers dependents. In addition, the ACA Transitional Reinsurance Program Fee on each non-Medicare participant ($63 per year in 2014, $42 per year in 2015, $26.25 per year in 2016 and $0 thereafter) is included in this valuation.

b. **Stop-loss Reinsurance:** Stop-loss reinsurance is not purchased for the GBP.

c. **Discount Rate**: Equal to the assumed return on assets of the Employer of 5.50%.

d. **Health Benefit Cost Trend**: The assumed Per Capita Health Benefit Cost assumptions shown in items 2.i., 2.j., and 2.k. below are assumed to increase at the rates shown below.

Fiscal Year	Annual Rate of Increase
2015	8.00%
2016	8.00%
2017	7.50%
2018	7.00%
2019	6.50%
2020	6.00%
2021 and beyond	5.50%

e. **Trend Rate for Retiree Contributions**: The portions of retiree contributions attributable to non-life insurance benefits for both HealthSelect and HealthSelect Medicare Advantage Plan are assumed to increase from their amounts in FY 2014 at the rates shown below.

Fiscal Year	Annual Rate of Increase*
2015	7.00%
2016	8.00%
2017	7.50%
2018	7.00%
2019	6.50%
2020	6.00%
2021 and beyond	5.50%

* The retiree contribution rates are assumed to increase at the same rate as the Health Benefit Cost Trend except for FY15 for which the increase will be limited by the increase provided under the Legislative Appropriation Act.

f. **Expense Trend Rate**: Internal and external administrative expenses are assumed to increase 3.50% per annum.

g. **Trend Rate for the Opt-Out Credit**: The monthly benefit of $60 in FY 2014 is not assumed to increase in the future.

h. **Health Coverage by Governmental Plans**: There has been no consideration of anticipated changes in laws concerning health costs covered by governmental programs. However, presently enacted changes in the law that take effect in future periods that will affect future benefit coverages are considered. The proportion of health benefits which are currently covered by governmental programs has been assumed to remain constant in the future.

i. Assumed HealthSelect Per Capita Health Benefit Cost (Medical and Prescription Drugs) for Fiscal Year 2014 for Covered Retirees and Spouses* (reflects benefits in effect September 1, 2013)

Age	Assumed Annual Per Capita Benefit Cost Male	Assumed Annual Per Capita Benefit Cost Female	Age	Assumed Annual Per Capita Benefit Cost Male	Assumed Annual Per Capita Benefit Cost Female	Age	Assumed Annual Per Capita Benefit Cost Male	Assumed Annual Per Capita Benefit Cost Female
22	$ 1,680	$ 3,906	52	$ 5,843	$ 7,126	82	$ 4,344	$ 3,995
23	1,697	3,946	53	6,290	7,326	83	4,379	4,019
24	1,714	3,986	54	6,737	7,526	84	4,414	4,043
25	1,731	4,026	55	7,184	7,725	85	4,449	4,067
26	1,748	4,066	56	7,631	7,925	86	4,485	4,092
27	1,766	4,108	57	8,078	8,125	87	4,521	4,116
28	1,863	4,124	58	8,476	8,385	88	4,557	4,141
29	1,960	4,141	59	8,873	8,646	89	4,594	4,166
30	2,056	4,157	60	9,270	8,906	90	4,630	4,191
31	2,153	4,174	61	9,667	9,166	91	4,667	4,216
32	2,250	4,190	62	10,065	9,426	92	4,705	4,241
33	2,332	4,322	63	10,467	9,803	93	4,742	4,267
34	2,414	4,455	64	10,886	10,195	94	4,780	4,292
35	2,497	4,587	65	3,871	3,773	95	4,819	4,318
36	2,579	4,720	66	3,910	3,811	96	4,857	4,344
37	2,661	4,852	67	3,950	3,849	97	4,896	4,370
38	2,819	4,933	68	3,970	3,847	98	4,935	4,396
39	2,976	5,013	69	3,990	3,845	99	4,975	4,423
40	3,134	5,094	70	4,009	3,842	100	5,014	4,449
41	3,292	5,175	71	4,029	3,840	101	5,054	4,476
42	3,449	5,255	72	4,049	3,838	102	5,095	4,503
43	3,750	5,405	73	4,069	3,836	103	5,136	4,530
44	4,051	5,555	74	4,089	3,833	104	5,177	4,557
45	4,352	5,705	75	4,109	3,831	105	5,218	4,584
46	4,653	5,855	76	4,142	3,854	106	5,260	4,612
47	4,954	6,005	77	4,175	3,877	107	5,302	4,639
48	5,132	6,229	78	4,208	3,900	108	5,344	4,667
49	5,310	6,453	79	4,242	3,924	109	5,387	4,695
50	5,488	6,677	80	4,276	3,947	110	5,430	4,723
51	5,666	6,902	81	4,310	3,971			

* Spouses' per capita costs are assumed to be 122% of the amounts shown in this table.

j. **Assumed HealthSelect Medicare Advantage Plan Per Capita Health Benefit Cost (Medical and Prescription Drugs) for Fiscal Year 2014 for Covered Retirees and Spouses* (reflects benefits in effect September 1, 2013)**

	Assumed Annual Per Capita Benefit Cost			Assumed Annual Per Capita Benefit Cost	
Age	Male	Female	Age	Male	Female
65	$ 2,999	$ 3,021	88	$ 3,290	$ 3,191
66	3,014	3,036	89	3,303	3,201
67	3,028	3,050	90	3,317	3,211
68	3,040	3,053	91	3,330	3,220
69	3,052	3,056	92	3,344	3,230
70	3,064	3,058	93	3,358	3,240
71	3,076	3,061	94	3,372	3,250
72	3,087	3,064	95	3,386	3,260
73	3,099	3,067	96	3,401	3,269
74	3,111	3,070	97	3,415	3,279
75	3,123	3,072	98	3,430	3,290
76	3,135	3,081	99	3,444	3,300
77	3,148	3,090	100	3,459	3,310
78	3,160	3,099	101	3,474	3,320
79	3,173	3,108	102	3,489	3,330
80	3,185	3,117	103	3,504	3,341
81	3,198	3,126	104	3,519	3,351
82	3,211	3,135	105	3,535	3,362
83	3,224	3,145	106	3,550	3,372
84	3,237	3,154	107	3,566	3,383
85	3,250	3,163	108	3,581	3,394
86	3,263	3,173	109	3,597	3,404
87	3,276	3,182	110	3,613	3,415

* The prescription drug components of spouses' per capita costs are assumed to be 122% of the prescription drug amounts included in this table.

k. **Dependent Children: Assumed Per Capita Health Benefit Cost for Fiscal Year 2014 (reflects benefits in effect September 1, 2013)**:

$5,214 annual per capita benefit cost for each retiree covering dependent children irrespective of the number of children covered.

l. **Dental Benefits**: The present value of future expected dental benefits is assumed to be equal to the present value of future retiree contributions towards dental benefits.

m. **Cost Sharing Provisions:** Deductibles, copayments and coinsurance levels and retiree contribution levels are assumed to increase at the same rate as the health benefit cost trend, consistent with the expected operation of the substantive plan (i.e., the proportion of non-Medicare expenses covered by the employer/employee is assumed to remain constant).

n. **General Price Inflation**: Both the health benefit cost trend and the discount rate include the same inflationary element attributable to changes in general price levels, 3.50%.

3. **Other Assumptions**

a. **Valuation Payroll**

Valuation Payroll (earnings applied to the current valuation year) is the payroll for the fiscal year ending on the valuation date. It is based on reported payroll determined from August member contributions.

b. **Missing Data**

i. Service for Non-ERS Members

Service for all employees who are not members of ERS (except as indicated in (ii) below) is determined as follows: (i) for employees hired before September 1, 2003, service is calculated as the elapsed time from original date of hire to the valuation date, and (ii) for employees hired after August 31, 2003, service is calculated as the elapsed time from 90 days after their original date of hire to the valuation date.

ii. Pre-September 1, 1992 Higher Education Hires

Service for pre-September 1, 1992 Higher Education hires, whose date of hire was reported as September 1, 1992, is assumed to have the same service distribution as State Agency employees.

iii. ORP Vested Terminated Employees

Census data for vested terminated higher education employees participating in the ORP was not available at the time of this valuation. As a result, the ORP vested terminated employees liability is assumed to have the same ratio to the ORP retiree liability as the ratio of TRS vested terminated employee liability to the TRS retiree liability. In other words, the ORP retiree liability is multiplied by this TRS ratio to determine the ORP vested terminated liability. The estimated number of ORP vested terminated members is determined in the same manner.

c. **Demographic Assumptions for TMRS, TCDRS, TTA and CSCD**

Employees of Texas Municipal Retirement System, Texas County and District Retirement System, Texas Turnpike Authority and Community Supervision and Corrections Departments are assumed to exhibit the same demographic decrements as Regular Class ERS members.

d. **Eligibility Service Adjustments**

Eligibility Service at Service Retirement and Death-in-Service is assumed to be increased due to purchase of Additional Service Credits and/or Accumulated Sick and Annual Leave by:

i. 0 years for members retiring from the Elected Class;
ii. 2.0 years for members retiring from regular employee class service who were hired before September 1, 2009 if age plus service, prior to adjustment, are greater than or equal to 78;
iii. 1.0 year for members retiring from regular employee class service who were hired before September 1, 2009 if age plus service, prior to adjustment, are less than 78;
iv. 1.0 year for members retiring from regular employee class service who were hired after August 31, 2009;
v. 2.0 years for members retiring from CPO/CO class service who were hired before September 1, 2009 if service, prior to adjustment, is at least 18 years;
vi. 1.0 year for members retiring from CPO/CO class service who were hired before September 1, 2009 if service, prior to adjustment, is less than 18 years; and
vii. 1.0 year for members retiring from CPO/CO class service who were hired after August 31, 2009.

e. **Graduate Students**

Graduate students are excluded from this valuation because none of the graduate students are assumed to satisfy the eligibility criteria for benefits under this plan during the period of their employment as a graduate student.

4. **Changes in Assumptions**

a. **Demographic Assumptions**

Changes have been made since the previous valuation to reflect differences in expected rates of mortality, expected rates of retirement, expected rates of disability, expected rates of termination, expected salary increases, and expected rates of employee contribution withdrawal for select classes of ERS members. These changes are consistent with the changes made to the ERS retirement plan assumptions previously adopted by the ERS Trustees. In addition, the following assumptions have been updated to reflect recent plan experience and expected trends:

- Percentage of future female retirees assumed to be married and electing coverage for their spouse.

- Percentage of future retirees covering dependent children.
- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.

b. **Economic Assumptions**

Assumptions for Administrative Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations. In addition, the Administrative Expenses assumption includes provisions for the ACA PCORI fee and the Transitional Reinsurance Program fee.

Please see our previous valuation report dated November 6, 2012 for a complete list of our previous economic assumptions.

Section VIII - Outline of Principal Eligibility and Benefit Provisions

A. Plan Identification

1. Plan Name

   Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP)

2. Plan Type

   The GBP is a cost-sharing multiple-employer defined benefit OPEB plan. Employers participating in the GBP include:

   a. the State of Texas which is the employer for all state agency employees and employees of senior colleges and universities,

   b. 51 Texas junior and community colleges,

   c. the Texas Municipal Retirement System, Texas County and District Retirement System and the Texas Turnpike Authority,

   d. Community Supervision and Corrections Departments.

3. Contributions and Reserves

   a. The authority under which the obligations of the plan members and Employer are established and or may be amended is Chapter 1551, Texas Insurance Code.

   b. The Employer and member contribution rates are determined annually by the ERS Board Trustees based on the recommendations of the ERS staff and consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

   c. There are no long-term contracts for contributions to the plan.

B. Employee Classification Requirements for Future Benefit Eligibility

State agency and higher education employees must meet the following classification requirements in order to be eligible for OPEB provided they also meet the age and service conditions described in item C. below.

1. State Agency or Higher Education Employee

   An individual must be an elected or appointed officer or employee who performs service (other than an independent contractor) for the State of Texas, including an institution of higher education, other than the University of Texas or Texas A&M University Systems, and who:

   a. receives compensation for the service performed pursuant to a payroll certified by a state agency or by an elected or appointed officer, or

   b. receives compensation for service performed for an institution of higher education pursuant to a payroll certified by an institution of higher education or by an elected or appointed officer of the State.

2. Employees of Certain Other Entities

   a. Officers or employees of Texas Municipal Retirement System or Texas County and District Retirement System

   b. Certain employees or officers of the Texas Turnpike Authority

   c. Employees of the Community Supervision and Corrections Departments

C. Eligibility for OPEB

The employee's eligibility for GBP OPEB is dependent upon the event which initiates the employee's severance from employment.

Event		GBP OPEB Eligibility			
		At Least			Commencement of GBP Benefits
1. Service Retirement or Death		Age	Service	Age + Service	Age
a. ERS - Regular Class		60	10		65
	or		10	80	Immediately upon Retirement
b. ERS - CPO/CO		55	10		Immediately upon Retirement
	or		20		Immediately upon Retirement
	or		10	80	Immediately upon Retirement
c. ERS - Elected Class		60	8		Immediately upon Retirement
	or	50	12		Immediately upon Retirement
d. TRS (Higher Education)		55	10		65
	or		30		65
	or		10	80	Immediately upon Retirement
e. ORP (Higher Education)			10	80	Immediately upon Retirement
f. JRS I and II		60	10*		Immediately upon Retirement
	or		20		Immediately upon Retirement
	or		12**	70	Immediately upon Retirement

* 10 years required if holding a judicial office at the time of retirement; otherwise 12 years.
** 12 years of service on an appellate court.

Event	GBP OPEB Eligibility			
	At Least			Commencement of GBP Benefits
2. Disability	Age	Service	Age + Service	Age
a. ERS - Regular Class		10*		Immediately upon Disability
b. ERS - CPO/CO		10*		Immediately upon Disability
c. ERS - Elected Class		8*		Immediately upon Disability
d. TRS (Higher Education)		10		Immediately upon Disability
e. ORP (Higher Education)		10		Immediately upon Disability
f. JRS I and II		7		Immediately upon Disability

* Service Requirement is waived if the disability is an occupational disability.

3. Termination

   a. Same Age/Service/Age+Service requirements as Service Retirement in item 2.a. above, provided at the time of termination the employee has at least:

      1. 10 service years for Regular, CPO/CO, TRS and ORP classes
      2. 8 service years for Elected class members
      3. 12 service years for the JRS I and II classes

   b. Only eligible for benefits at commencement age if employee contributions are not withdrawn prior to commencement age.

D. Post-Employment Health Benefits

1. For purposes of the valuation, all retirees, including those presently enrolled in HMOs, are assumed to have GBP health coverage under HealthSelect (unless they elect or are assumed to elect the HealthSelect Medicare Advantage Plan for Medicare-primary years of coverage), a self-funded health plan providing medical and prescription drug coverage. (See chart at end of this section for details.) We have adopted this assumption due to the small number of retirees enrolled in HMOs and the similarity between the cost of HealthSelect and HMO coverage.
2. For benefit years prior to the date on which Medicare becomes primary, HealthSelect (Medical and Prescription Drug) is primary. (See chart at end of this section for details.)
3. For benefit years after the date on which Medicare becomes primary:
   a. For retirees and spouses participating in HealthSelect:
      (i) HealthSelect medical coverage is secondary to Medicare (secondary via Coordination of Benefits method) (See chart at end of this section for details.)
      (ii) HealthSelect prescription drug coverage remains primary.
   b. For retirees and spouses participating in the HealthSelect Medicare Advantage Plan:
      (i) HealthSelect Medicare Advantage Plan medical coverage is provided in lieu of Medicare and HealthSelect medical coverage. (See chart at end of this section for details.)
      (ii) HealthSelect prescription drug coverage remains primary.
4. Covered Retirees are eligible for coverage until death.
5. Retiree Spouses may be covered until death provided the applicable monthly contribution is paid on behalf of the covered spouse.
6. Dependent Children may be covered provided the applicable monthly contribution is paid on behalf of the dependent children.
   a. Coverage ceases when the child reaches age 26 or when the child marries, if earlier. However, a child who is mentally retarded or physically incapacitated may continue coverage beyond age 26 provided such child remains a dependent of the retired member.
   b. The term child includes an adopted child, a foster child, a stepchild or other child in a parent-child relationship.

E. Post-Employment Life Insurance Coverage

1. Retirees participating in GBP health coverage are eligible for $2,500 life insurance coverage funded by the Employer.
2. Retirees who opt-out of health coverage are not eligible for Employer-funded life insurance.
3. Employer funded life insurance coverage is not available for spouses or other dependent children.

F. Opt-Out Credit

Applicable to certain optional benefits for retirees who opt-out of GBP health coverage provided they demonstrate that they have health coverage outside of the GBP.

1. Retirees who opt out of the GBP health benefits are eligible.
2. Opt-Out credit is up to $60 per month for full-time retirees and $30 per month for part-time retirees. Retirees may use the credit only to purchase dental coverage.
3. The retiree qualifies for a $60 credit without regard to whether the retiree has a spouse or dependent children.

G. Other Optional Benefits Available at Cost to Eligible Retirees

1. Dental Options
   a. State of Texas Dental Choice Plan
   b. Dental HMO
2. Optional Group Term Life Insurance with a face value of $10,000 or up to two times salary.
3. Optional Dependent Group Term Life Insurance with a face value of $2,500.

H. Retiree Contributions

1. Health Coverage
   a. HealthSelect
   Annually, ERS determines the uniform contribution rates for members participating in HealthSelect. The monthly member contribution rates for FY14 are:

	Current Retirees and Future Retirees with 5+ YOS on August 31, 2014[1]		Future Retirees with Fewer than 5 YOS on August 31, 2014					
			Less than 15 YOS at Retirement[2]		At least 15 YOS but less than 20 YOS at Retirement[3]		20+ YOS at Retirement[4]	
	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time
Member	$ 0.00	$ 250.46	$ 250.46	$ 375.69	$ 125.23	$ 313.08	$ 0.00	$ 250.46
Member plus Spouse	$ 288.02	$ 682.49	$ 682.49	$ 879.73	$ 485.25	$ 781.11	$ 288.02	$ 682.49
Spouse, if Retiree is deceased	$ 576.04	$ 576.04	$ 576.04	$ 576.04	$ 576.04	$ 576.04	$ 576.04	$ 576.04
Member plus Dependent Children	$ 192.86	$ 539.75	$ 539.75	$ 713.20	$ 366.30	$ 626.47	$ 192.86	$ 539.75
Dependent Children, if Retiree is deceased	$ 385.72	$ 385.72	$ 385.72	$ 385.72	$ 385.72	$ 385.72	$ 385.72	$ 385.72
Member plus Family, if Retiree is alive	$ 480.88	$ 971.78	$ 971.78	$ 1,217.24	$ 726.32	$ 1,094.50	$ 480.88	$ 971.78
Spouse plus Children, if Retiree is deceased	$ 961.76	$ 961.76	$ 961.76	$ 961.76	$ 961.76	$ 961.76	$ 961.76	$ 961.76

1 Actual Retiree Contribution Rates for FY14. Tobacco users pay an additional $30 per month. These rates will also apply to ERS - Elected Class members, JRS I and II members, and disabled members from any class, irrespective of those members' YOS at August 31, 2014.

2 Hypothetical Retiree Contribution Rates for FY14. Tobacco users pay an additional $30 per month. These rates (adjusted for post-FY14 increases) will not be used until FY19 since that will be the first time an employee with less than 5 YOS on August 31, 2014 could retire with 10 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at August 31, 2014.

3 Hypothetical Retiree Contribution Rates for FY14. Tobacco users pay an additional $30 per month. These rates (adjusted for post-FY14 increases) will not be used until FY24, since that will be the first time an employee with less than 5 YOS on August 31, 2014 could retire with 15 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at August 31, 2014.

4 Hypothetical Retiree Contribution Rates for FY14. Tobacco users pay an additional $30 per month. These rates (adjusted for post-FY14 increases) will not be used until FY29, since that will be the first time an employee with less than 5 YOS on August 31, 2014 could retire with 20 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at August 31, 2014.

b. HealthSelect Medicare Advantage Plan

Annually, ERS determines the uniform contribution rates for members participating in the HealthSelect Medicare Advantage Plan option. The monthly member contribution rates for calendar year 2014 are:

	Current Retirees and Future Retirees with 5+ YOS on August 31, 2014[1]		Future Retirees with Fewer than 5 YOS on August 31, 2014					
			Less than 15 YOS at Retirement[2]		At least 15 YOS but less than 20 YOS at Retirement[3]		20+ YOS at Retirement[4]	
	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time
Member	$ 0.00	$ 135.84	$ 135.84	$ 203.76	$ 67.92	$ 169.80	$ 0.00	$ 135.84
Member plus Spouse	$ 135.84	$ 339.60	$ 339.60	$ 441.48	$ 237.72	$ 390.54	$ 135.84	$ 339.60
Spouse, if Retiree is deceased	$ 271.68	$ 271.68	$ 271.68	$ 271.68	$ 271.68	$ 271.68	$ 271.68	$ 271.68
Member plus Dependent Children	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dependent Children, if Retiree is deceased	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Member plus Family, if Retiree is alive	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Spouse plus Children, if Retiree is deceased	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

2. Annually, ERS determines the retiree contribution rate for basic life insurance. The monthly member contribution rates for FY14 are:

Basic Life Insurance ($2,500 of Coverage) for	All Retirees Except Part-time Retirees	Part-time Retirees
Retiree	$ 0	$ 1.11

[1] Actual Retiree Contribution Rates for CY14. Tobacco users pay an additional $30 per month. These rates will also apply to ERS - Elected Class members, JRS I and II members, and disabled members from any class, irrespective of those members' YOS at August 31, 2014.

[2] Hypothetical Retiree Contribution Rates for CY14. Tobacco users pay an additional $30 per month. These rates (adjusted for post-CY14 increases) will not be used until FY19 since that will be the first time an employee with less than 5 YOS on August 31, 2014 could retire with 10 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at August 31, 2014.

[3] Hypothetical Retiree Contribution Rates for CY14. Tobacco users pay an additional $30 per month. These rates (adjusted for post-CY14 increases) will not be used until FY24, since that will be the first time an employee with less than 5 YOS on August 31, 2014 could retire with 15 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at August 31, 2014.

[4] Hypothetical Retiree Contribution Rates for CY14. Tobacco users pay an additional $30 per month. These rates (adjusted for post-CY14 increases) will not be used until FY29, since that will be the first time an employee with less than 5 YOS on August 31, 2014 could retire with 20 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at August 31, 2014.

I. Funding Mechanism

1. HealthSelect Medical and Prescription Drug benefits are self-funded. Medical benefits under the HealthSelect Medicare Advantage Plan are fully insured.
2. Basic Life Insurance benefits are fully insured under a minimum premium funding arrangement.
3. Dental
   a. State of Texas Dental Choice Plan is self-funded through contributions made by employees and retirees.
   b. Dental HMO is fully insured through contributions made by employees and retirees.
   c. The State does not contribute toward dental coverage.
4. Optional Group Term Life Insurance and Dependent Group Term Life Insurance are fully insured under a minimum premium funding arrangement. Such coverages are fully funded by employee and retiree contributions. The State does not contribute toward these coverages.

J. Health Benefits Chart Out-of-Pocket Expenses in effect September 1, 2013

1. Medical Benefits
   a. HealthSelect (Non-Medicare primary)

Plan Overview	In-Area (within Texas)		Out-of-Area[2] (outside Texas)
	Network	Non-Network	
Calendar year deductible (per participant/family)	$0	$500/$1,500	$200/$600
Calendar year out-of-pocket coinsurance maximum (per participant and doesn't include copays)	$2,000	$7,000	$3,000
Lifetime maximum	None	None	None
Primary care physician (PCP) required?	Yes	No	No

Plan Details	In-Area (within Texas)				Out-of-Area[2] (outside Texas)	
	Network		Non-Network			
	You pay	Plan pays	You pay	Plan pays	You pay	Plan pays
PCP office visit	$25 copay for office visit	100%, after you pay copay, or 80% if you receive services subject to coinsurance	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
Specialist office visit Be sure to get a referral from your PCP to avoid possible out-of-pocket costs.	$40 copay for office visit					
Retail health clinic (convenience care) (no PCP referral required)	$25 copay	100%, after you pay copay, or 80% if you receive services subject to coinsurance	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
Urgent care clinic (no PCP referral required)	$50 copay + 20% coinsurance					
Routine physicals (including vision screenings for children) **and well-woman exams**[1]	$0[1]	100%[1]	40% coinsurance, after you pay deductible	60%, after you pay deductible	$0 if services are provided by a network provider	100% if services are provided by a network provider
Routine eye exams (when not performed in conjunction with a routine physical) — **for all participants**	$40 specialist copay + 20% coinsurance for lab or radiology done outside office visit	100%, after you pay copay, or 80% if you receive services subject to coinsurance	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
Maternity care Physician charges only, including delivery fees; inpatient hospital benefit applies for the inpatient stay (complications of pregnancy are treated as any other medical condition)	$0[1]	100%[1]	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
Office surgery and diagnostic procedures **Allergy antigens/serum** **Allergy injections** **Allergy testing**	20% coinsurance (office surgery) $0 (office diagnostics) $0 (allergy services)	80%, after you pay copay (if applicable), or 100% (for office diagnostics and allergy-related services)	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible

Plan Details	In-Area (within Texas)				Out-of-Area[2] (outside Texas)	
	Network		Non-Network			
	You pay	Plan pays	You pay	Plan pays	You pay	Plan pays
Diagnostic low-tech radiology X-rays Mammography Bone density scan Echocardiogram Ultrasound	$0 (for office-based services) 20% coinsurance (for non-office based services)	100% (for office-based radiology), or 80% (for non-office based services)	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
High-tech radiology CT scan MRI Nuclear medicine You will be responsible for the copay and coinsurance per visit.	$100 copay[3] + 20% coinsurance	80%, after you pay copay	$100 copay[3] + 40% coinsurance, after you pay deductible	60%, after you pay copay and deductible	$100 copay[3] + 30% coinsurance, after you pay deductible	70%, after you pay copay and deductible
Chiropractic care (benefit maximum of $75 per visit and maximum 30 visits per calendar year, per participant; no PCP referral required, must meet medical necessity)	You pay $40 specialist copay and/or 20% coinsurance in addition to amounts above the benefit maximum	100% after copay (if applicable), or 80% if you receive services subject to coinsurance	40% coinsurance, after you pay deductible, plus amount over benefit maximum	60%, after you pay deductible	30% coinsurance, after you pay deductible, plus amount over benefit maximum	70%, after you pay deductible
Inpatient hospital[4] (facility charges per admission, $750 copay maximum per admission, $2,250 calendar year inpatient copay max per participant)	$150 copay per day up to five days + 20% coinsurance	80%, after you pay copay	$150 copay per day up to five days + 40% coinsurance, after you pay deductible	60%, after you pay deductible and copay	$150 copay per day up to five days + 30% coinsurance, no deductible	70%, after you pay deductible
Inpatient physician[5] (per admission)	20% coinsurance	80%	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
Emergency room In a non-emergency situation, consider less expensive options like a retail health clinic or urgent care clinic.	$150 copay + 20% coinsurance (waived if admitted)	80%, after you pay copay	$150 copay + 20% coinsurance (waived if admitted)	80%, after you pay copay	30% coinsurance, after you pay deductible	70%, after you pay deductible
Outpatient day-surgery (facility charges)	$100 copay + 20% coinsurance	80%, after you pay copay	$100 copay + 40% coinsurance, after you pay deductible	60%, after you pay deductible and copay	$100 copay + 30% coinsurance, after you pay deductible	70%, after you pay deductible and copay
Outpatient day-surgery (physician charges)	20% coinsurance	80%	40% coinsurance, after you pay deductible	60%, after you pay deductible	30% coinsurance, after you pay deductible	70%, after you pay deductible
Hearing aids	Plan pays up to $500 maximum benefit (per ear) for any consecutive three-year period.					
Ambulance services[4] (Prior Authorization required for non-emergent air and ground)	20% coinsurance	80%	20% coinsurance	80%	30% coinsurance, after you pay deductible	70%, after you pay deductible

[1]Under the Affordable Care Act, certain preventive and women's health services are paid at 100% (i.e., at no cost to the participant) conditioned upon physician billing and diagnosis. In some cases, member will still be responsible for payment on some services.
[2]Includes Medicare-eligible participants and out-of-state residents.
[3]No copay if high-tech radiology performed during ER visit or inpatient admission.
[4]Preauthorization required.
[5]Member may have to pay additional costs if treated by a non-network physician during member's hospital stay.

b. HealthSelect (Medicare primary)

Plan Overview	Retirees with Medicare Primary (Parts A and B) for services covered by Medicare	Grandfathered Retirees (over age 65 and retired prior to 9/1/1992 without Medicare benefits)	When services are not covered by Medicare
Calendar year deductible (per participant/family)	$200/$600 (includes Medicare's Part B deductible)	$200/$600	$200/$600
Calendar year out-of-pocket coinsurance maximum (per participant and doesn't include copays)	Medicare pays 80%, HealthSelect will coordinate paying secondary	$3,000	$3,000
Lifetime maximum	None		
Primary care physician (PCP) required?	No	No	No

Plan Details	Retirees with Medicare Primary (Parts A and B) for services covered by Medicare	Grandfathered Retirees (over age 65 and retired prior to 9/1/1992 without Medicare benefits)		When services are not covered by Medicare	
		You pay	Plan pays	You pay	Plan pays
Physician's services	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Retail health clinic and urgent care clinic In a non-emergency situation, consider these less expensive options before you go to the ER.	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Routine physicals (including vision screenings for children) **and well-woman exams**[1]	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Routine eye exams (when not performed in conjunction with a routine physical) — **for all participants**	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Office surgery and diagnostic procedures	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Allergy antigens/serum Allergy injections Allergy testing	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Diagnostic low-tech radiology: X-rays Mammography Bone density scan Echocardiogram Ultrasound	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%

Plan Details	Retirees with Medicare Primary (Parts A and B) for services covered by Medicare	Grandfathered Retirees (over age 65 and retired prior to 9/1/1992 without Medicare benefits)		When services are not covered by Medicare	
		You pay	Plan pays	You pay	Plan pays
High-tech radiology: CT scan MRI Nuclear medicine	Medicare pays 80%, HealthSelect will coordinate paying secondary	\$100 copay[2] + 30% You will be responsible for the copay per visit	70%	\$100 copay[2] + 30% You will be responsible for the copay per visit	70%
Chiropractic care (benefit maximum of \$75 per visit and maximum 30 visits per calendar year, per participant)	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Inpatient hospital[3] (facility charges, per admission) \$750 copay maximum per admission, \$2,250 calendar year inpatient copay max (per participant)	HealthSelect will coordinate with Medicare	HealthSelect will coordinate with Medicare		\$150 copay per day (\$750 max per admission) + 30%	70%
Inpatient physician (per admission)	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Emergency room	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Outpatient day-surgery	Medicare pays 80%, HealthSelect will coordinate paying secondary You may be responsible for a \$100 copay	\$100 copay[2] + 30% You will be responsible for the copay per visit	70%	\$100 copay[2] + 30% You will be responsible for the copay per visit	70%
Hearing aids	Plan pays up to \$500 maximum benefit (per ear) for any consecutive three-year period				
Durable medical equipment	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%
Ambulance services	Medicare pays 80%, HealthSelect will coordinate paying secondary	30%	70%	30%	70%

[1]Under the Affordable Care Act, certain preventive and women's health services are paid at 100% (i.e., at no cost to the participant) conditioned upon physician billing and diagnosis. In some cases, member will still be responsible for payment on some services.

[2]No copay if high-tech radiology performed during ER visit or inpatient admission.

[4]Preauthorization required if member does not have Medicare Part A.

c. HealthSelect Medicare Advantage Plan (Medicare primary)

	Benefit	Original Medicare Plan* Pays:	HealthSelect Medicare Advantage* (for Services Provided by an In-Network and Out-of-Network Provider) Pays:
Physician Services	Office visits in conjunction with an illness or injury	**80%** after **$140** deductible	**100%**
	Allergy injections and serum	**80%** after **$140** deductible	**100%**
	Diagnostic tests and X-rays	**80%** after **$140** deductible	**100%**
	Medicare-approved lab services	**100%**	**100%**
	Medicare-covered chiropractic services (3)	**80%** after **$140** deductible	**100%**
Preventive Care	Physical exams	**100%** for one exam every 12 months; does not include lab tests	**100%** (limited to one per year)
	Diabetes self-monitoring training	**80%** after **$140** deductible	**100%**
	Bone mass measurement	**100%** once every 24 months (for people with Medicare who are at risk)	**100%** (limited to one per year)
	Colorectal screening exams	**100%** for screening colonoscopy or screening flexible sigmoidoscopy; visits are limited depending on the type of test (for people with Medicare age 50 and older)	**100%** (limited to one per year)
	Immunizations (flu vaccine, Hepatitis B vaccine, and pneumonia vaccine)	**100%** (you may only need the pneumonia vaccine once in your lifetime. Please contact your doctor for further details)	**100%**
	Mammograms	**100%** once every 12 months (annual screening for women with Medicare age 40 and older)	**100%** (limited to one per year)
	Pap smears and pelvic exams (for women with Medicare)	**100%** for pelvic exam (there is no copayment for a Pap smear once every 24 months; once every 12 months for beneficiaries at high risk)	**100%** (limited to one per year)

	Benefit	Original Medicare Plan* Pays:	HealthSelect Medicare Advantage* (for Services Provided by an In-Network and Out-of-Network Provider) Pays:
Preventive Care (Continued)	Prostate cancer screening exams	**100%** for the PSA test once every 12 months; **80%** for the digital rectal exam and other related services once every 12 months (for men with Medicare age 50 and older)	**100%** (limited to one per year)
	Nutrition therapy (for ESRD or diabetic patients)	**100%**	**100%**
	Smoking cessation	**80%** after **$140** deductible if ordered by a doctor. Covers up to 8 face-to-face visits every 12 months; **100%** if you have not been diagnosed with an illness caused or complicated by tobacco use (Medicare-covered)	**100%**
	Abdominal aortic aneurysm screening	**100%** for one time screening if deemed necessary from your physical exam (for people with Medicare who are at risk)	**100%** (limited to one per year)
	Cardiovascular disease testing	**100%** for the test once every five years	**100%** (limited to one per year)
	Glaucoma screening	**80%** after **$140** deductible once every 12 months (for people at high risk)	**100%** (limited to one per year)
	HIV screening (for pregnant women and people at high risk)	**100%** for the test once every 12 months or three times during pregnancy	**100%** (limited to one per year)
	EKG screening	**80%** after **$140** deductible for one time screening if deemed necessary from your physical exam	**100%** (limited to one per year)
	Diabetes screening	**100%** for the test up to two times per year (for people at high risk)	**100%** (limited to one per year)
	Kidney disease education services	**80%** after **$140** deductible for up to 6 sessions if you have Stage IV chronic kidney disease, and your doctor refers you for the service	**100%**

	Benefit	Original Medicare Plan* Pays:	HealthSelect Medicare Advantage* (for Services Provided by an In-Network and Out-of-Network Provider) Pays:
Hospital Services	Inpatient care (semiprivate room, ancillary services, physician visits)	**100%** after the following amounts for each benefit period - **$1,156** deductible for days 1-60; **$289** copayment per day (days 61-90); **$578** copayment per lifetime reserve day (days 91-150) (2)	**100%** (1)
	Outpatient nonsurgical services	**80%** after **$140** deductible	**100%**
	Outpatient surgical services	**80%** after **$140** deductible	**100%**
	Emergency care (emergency room, emergency services)	**80%** after **$140** deductible and emergency room copayment (waived if admitted to hospital within 3 days of emergency room visit)	**100%**
Additional Medical Services	Ambulatory surgical center	**80%** after **$140** deductible	**100%**
	Immediate care facility	**80%** after **$140** deductible	**100%**
	Ambulance	**80%** after **$140** deductible	**100%**
	Physical, respiratory, audiology, cardiac, occupational or speech therapy	**80%** after **$140** deductible	**100%**
	High-tech radiology (CT scan, MRI, Nuclear Medicine)	**80%** after **$140** deductible	**100%**
	Home health services	**100%**	**100%**
	Durable medical equipment (includes oxygen received from a durable medical equipment provider or a pharmacy)	**80%** after **$140** deductible	**100%** (unlimited compression stockings)
	Diabetic monitoring supplies	**80%** after **$140** deductible	**100%**
	Renal dialysis	**80%** after **$140** deductible	**100%**

	Benefit	Original Medicare Plan* Pays:	HealthSelect Medicare Advantage* (for Services Provided by an In-Network and Out-of-Network Provider) Pays:
Additional Medical Services (Continued)	Skilled nursing facility	**100%** for days 1-20 (3-day hospital stay required); **100%** after **$144.50** copayment per day (days 21-100); per benefit period (2)	**100%** up to 100 days (no 3-day hospital stay is required); per benefit period (2)
Mental and Nervous Disorder Services	Inpatient care (semiprivate room, ancillary services, physician visits)	**100%** after the following amounts for each benefit period - **$1,156** deductible for days 1-60; **$289** copayment per day (days 61-90); **$578** copayment per lifetime reserve day (days 91-150) (190-day lifetime maximum in a psychiatric hospital) (2)	**100%** (190-day lifetime maximum in a psychiatric hospital) (1)
	Outpatient	**60%** after **$140** deductible	**100%**
Alcohol and Drug Abuse Services	Inpatient care (semiprivate room, ancillary services, physician visits)	**100%** after the following amounts for each benefit period - **$1,156** deductible for days 1-60; **$289** copayment per day (days 61-90); **$578** copayment per lifetime reserve day (days 91-150) (2)	**100%** (1)
	Outpatient	**80%** after **$140** deductible	**100%**
Hearing Services	Routine Hearing	This benefit is not offered	**$500** benefit allowance per ear every three years for hearing aids (all types) and batteries
Vision Services	Routine Vision	This benefit is not offered	**100%** for routine eye exam (limited to one per year)
Chiropractic Services	Routine Chiropractic	This benefit is not offered	**70%** for routine chiropractic services up to a **$75** maximum benefit per visit. Limit to 30 visits per plan year

	Benefit	Original Medicare Plan* Pays:	HealthSelect Medicare Advantage* (for Services Provided by an In-Network and Out-of-Network Provider) Pays:
Additional Services	• Private Duty Nursing	This benefit is not offered	**70%** up to a maximum benefit of **$8,000** per year
	• World Wide Coverage	This benefit is not offered	**80%** after **$100** deductible up to a **$25,000** maximum annual benefit or 60 consecutive days, whichever is reached first (Limited to emergency Medicare-covered services)
Out-of-Pocket Maximum		None	**100%** after **$1,000** per plan year (If you reach this maximum, no further out-of-pocket will be required of you for covered expenses during the year. Expenses for outpatient Part D prescription drugs, routine hearing, private duty nursing, extra services, worldwide coverage and plan premiums do not apply.)

* This Summary of Benefits includes the 2012 Medicare cost sharing amounts. These amounts were increased for 2013 and will be increased again for 2014. Medicare Part B premium must be paid by members enrolled in the HealthSelect Medicare Advantage Plan.

Benefits apply to Medicare-covered services only and costs are calculated using Medicare-approved amounts.

(1) Inpatient hospital admissions, except in emergency or urgently needed care situations, require prior authorization from Humana.
(2) A "benefit period" starts the day the member goes into the hospital. It ends when the members goes for 60 days in a row without hospital care. If the member goes into the hospital after one benefit period has ended, a new benefit period begins. The member must pay the inpatient hospital deductible for each benefit period. There is no limit to the number of benefit periods the member has.
(3) Medicare-covered chiropractic visits are for manual manipulation of the spine to correct subluxation (a displacement or misalignment of a joint or body part) if the member gets it from a chiropractor or other qualified providers.

2. Prescription Drug Benefits (HealthSelect and HealthSelect Medicare Advantage)

Deductible	$50 per person per plan year		
	Retail	EDS	Mail
Tier 1	$15 for short-term $20 for maintenance	$15 for short-term $20 for maintenance (if 1-30 day supply) $30 for 31-60 day supply $45 for 61-90 day supply	$30 for 31-60 day supply $45 for 61-90 day supply
Tier 2	$35 for short-term $45 for maintenance	$35 for short-term $45 for maintenance (if 1-30 day supply) $70 for 31-60 day supply $105 for 61-90 day supply	$70 for 31-60 day supply $105 for 61-90 day supply
Tier 3	$60 for short-term $75 for maintenance	$60 for short-term $75 for maintenance (if 1-30 day supply) $120 for 31-60 day supply $180 for 61-90 day supply	$120 for 31-60 day supply $180 for 61-90 day supply

* If a generic is available and member chooses to buy the brand-name drug, member will pay the generic copay plus the cost difference between the brand-name and the generic drug.

Section IX - Glossary

Actuarial Accrued Liability (Past Service Liability): This is computed differently under different actuarial cost methods. Generally, the actuarial accrued liability represents the portion of the Actuarial Present Value of Total Projected Plan Benefits attributed to periods of service preceding the valuation date.

Actuarial Gain or Loss: From one plan year to the next, if the experience of the plan differs from that anticipated by the actuarial assumptions, an actuarial gain or loss occurs.

Actuarial Present Value of Total Projected Plan Benefits: Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Value of Assets: The value of Plan Assets used by an actuary for an actuarial valuation. *(See the Actuarial Methods and Assumptions section of this report for a description of the methodology used to determine the Actuarial Value of Assets used in this report.)*

Annual Required Contribution (ARC): A cost measurement related to a defined benefit postemployment benefits plan (other than pensions) calculated under the parameters of GASB No. 43 using actuarially determined information and assumptions. Notably, there is no requirement for a plan sponsor to actually contribute an amount equal to the ARC. It serves only as a basis for recognizing cost and recording financial statement entries.

Normal Cost: Computed differently under different actuarial cost methods, the Normal Cost generally represents the portion of the Actuarial Present Value of Total Projected Plan Benefits attributed to the current year of service for active employees.

Plan Assets: Under GASB No. 43, Plan Assets are defined to be 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.

Unfunded Actuarial Accrued Liability: This is the excess of the Actuarial Accrued Liability over the Actuarial Value of Plan Assets.