



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, 2014**

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November 3, 2014

Board of Trustees
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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, 2014. 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.

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, 2014 is \$2.056 billion. Employer contributions for the period totaled \$621 million. Therefore, Employer contributions were equal to about 30% 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. In addition, the percentage of future retirees electing coverage for their spouses, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence and the percentage of future retirees assumed to use tobacco have been updated to reflect recent plan experience and expected trends. Lastly, assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014 were updated to remain consistent with the assumptions used by the TRS retirement plan actuary.

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 benefit changes that became effective September 1, 2014 (except as noted below), since these changes were communicated to plan members in advance of the preparation of this report. The benefit changes include: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2015), (b) mental health benefit changes, (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs. The net impact of the benefit changes is no change in the employer's cost of providing OPEB.

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 \$115 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is \$5 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 Retiree Drug 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 ACA.

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.

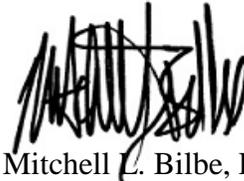
We have not been asked to perform and have not performed any stochastic or deterministic sensitivity analyses of the potential ranges of such future measurements. If you have an interest in the results of any such analysis, please let us know.

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, 2014
FOR THE FISCAL YEAR ENDING AUGUST 31, 2014**

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

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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, 2014. 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. The information presented in this report is solely for purposes of compliance with GASB No. 43. This report does not provide any advice with respect to the manner in which the benefits are funded (i.e., pay-as-you go funding as opposed to prefunding the benefits).

We have based our valuation on employee data as of August 31, 2014 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.
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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, 2014

| | Members | Covered Spouses | Covered Dependent Children | Total |
|-----------------------|----------------------|---------------------|----------------------------|----------------------|
| Actives | 228,805 ¹ | 42,335 ² | 126,947 ² | 398,087 ² |
| Deferred Vesteds | 11,269 | 0 ² | 0 ² | 11,269 ² |
| Retirees and Nominees | 104,770 ³ | 27,722 | 9,211 | 141,703 |
| Total | 344,844 | 70,057 | 136,158 | 551,059 |

¹ Includes return-to-work retirees and employees who have not yet satisfied the 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 3,687 retirees who receive the Opt-Out Credit in lieu of health benefits.

B. Liabilities as of August 31, 2014

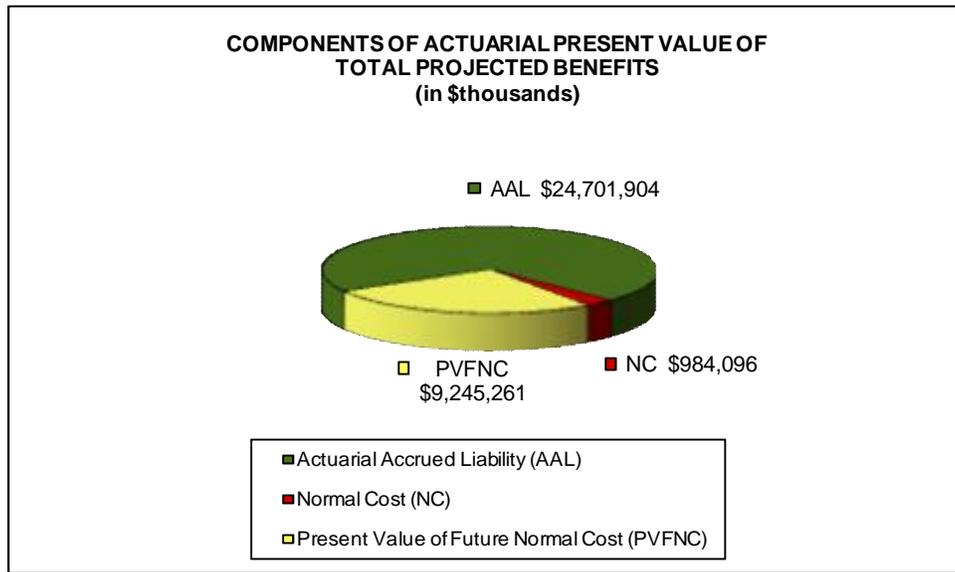
The **Actuarial Present Value of Total Projected Benefits** is the amount of assets that would have to be invested on the valuation date so that the amount invested plus future investment earnings would provide sufficient assets to pay total projected benefits when due.

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 | \$ 24,206,625 | \$ 13,977,268 | \$ 984,096 | \$ 9,245,261 |
| Deferred Vesteds | 1,235,275 | 1,235,275 | 0 | 0 |
| Retirees and Nominees | 9,489,361 | 9,489,361 | 0 | 0 |
| Total | \$ 34,931,261 | \$ 24,701,904 | \$ 984,096 | \$ 9,245,261 |



C. Actuarial Value of Plan Assets, Unfunded Actuarial Accrued Liability and Annual Required Contribution for FY 2014

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, 2014 | \$ 0 | \$ 24,701,904 | \$ 2,056,089¹ |

¹ Comprised of Normal Cost of \$984,096,155 and \$1,071,992,848 to amortize the Unfunded Actuarial Accrued Liability over a period of 30 years.



D. Summary of Results for FY 2014

| Actuarial Valuation Results as of August 31, 2014 | | |
|--|-----------------------|--------------------------|
| | (\$ thousands) | As a % of Payroll |
| 1. Number of Members (actual count, not in thousands) | | |
| a. Actives | 228,805 | |
| b. Deferred Vesteds | 11,269 | |
| c. Retirees and Nominees | <u>104,770</u> | |
| d. Total Number of Members | 344,844 | |
| 2. Payroll of Active Members for FY 2014 | \$ 10,963,773 | |
| 3. Actuarial Present Value of Total Projected Benefits | | |
| a. Actives | \$ 24,206,625 | |
| b. Deferred Vesteds | 1,235,275 | |
| c. Retirees and Nominees | <u>9,489,361</u> | |
| d. Total | \$ 34,931,261 | 318.6% |
| 4. Actuarial Accrued Liability | | |
| a. Actives | \$ 13,977,268 | |
| b. Deferred Vesteds | 1,235,275 | |
| c. Retirees and Nominees | <u>9,489,361</u> | |
| d. Total | \$ 24,701,904 | 225.3% |
| 5. Actuarial Value of Assets | \$ 0 | 0.0% |
| 6. Unfunded Actuarial Accrued Liability [4.d. – 5.] | \$ 24,701,904 | 225.3% |
| 7. Annual Required Contribution for FYE August 31, 2014 | | |
| a. Normal Cost | \$ 984,096 | 9.0% |
| b. Amortization of UAAL | <u>1,071,993</u> | <u>9.8%</u> |
| c. Total ARC for FYE August 31, 2014 | \$ 2,056,089 | 18.8% |



E. Changes in Liabilities Since the Prior Valuation

The Actuarial Accrued Liability and the Normal Cost have both increased 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, 2014 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. In addition, the percentage of future retirees electing coverage for their spouses, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence and the percentage of future retirees assumed to use tobacco have been updated to reflect recent plan experience and expected trends. Lastly, assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014 were updated to remain consistent with the assumptions used by the TRS retirement plan actuary.

Since the last valuation was prepared for this plan, the following benefit changes have been adopted: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the ACA, (b) mental health benefit changes, (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs.

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 57% 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 | | |
|---|--|--|
| Factor | Approximate Increase / (Decrease) | |
| | Actuarial Accrued Liability (in \$ thousands) | Normal Cost (in \$ thousands) |
| Growth due to passage of time¹ | \$ 1,549,213 | \$ 32,776 |
| Actuarial Gains | (90,357) | 11,758 |
| Assumption Changes | 212,579 | 3,098 |
| Plan Changes | 0 | 0 |
| Total | \$ 1,671,435 | \$ 47,632 |

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 ARC¹ 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 | \$ 984,096,155 |
| 2. Amortization of Unfunded Actuarial Accrued Liability² | 1,071,992,848 |
| 3. ARC for Fiscal Year Ending August 31, 2014 [1. + 2.] | \$ 2,056,089,003 |

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 valuation³. Such amortization occurs in the development of the following year's ARC.

| | |
|---|--------------------------|
| 1. Annual Required Contribution (ARC) | \$ 2,056,089,003 |
| 2. Employer Contributions for Fiscal Year Ending August 31, 2014 | 620,640,622 ⁴ |
| 3. Contribution Deficiency/(Excess Contribution) [1. - 2.] | \$ 1,435,448,381 |

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. 50 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, 2014

| | Members | Covered Spouses | Covered Dependent Children | Total |
|------------------------------|----------------------|---------------------|----------------------------|----------------------|
| Actives | 228,805 ¹ | 42,335 ² | 126,947 ² | 398,087 ² |
| Deferred Vesteds | 11,269 | 0 ² | 0 ² | 11,269 ² |
| Retirees and Nominees | 104,770 ³ | 27,722 | 9,211 | 141,703 |
| Total | 344,844 | 70,057 | 136,158 | 551,059 |

- ¹ Includes return-to-work retirees and employees who have not yet satisfied the 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 3,687 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, 2014 | \$ 0 | \$ 24,701,903,876 | \$ 24,701,903,876 | 0.0% | \$ 10,963,773,005 | 225.3% |



E. Statement of Plan Net Assets

| Statement of Plan Net Assets as of August 31, 2014 | |
|--|-----------------------|
| Investment Category | Fair Value |
| 1. Current Assets | |
| a. Cash and Cash Equivalents | |
| i) Cash on Hand | \$ 4,572 |
| ii) Cash in State Treasury | 15,410,211 |
| iii) Certificates of Deposit | <u>0</u> |
| iv) Total Cash and Cash Equivalents | \$ 15,414,783 |
| b. Securities Lending Collateral | \$ 0 |
| c. Short-Term Investments | \$ 274,247,456 |
| d. Receivables | |
| i) Interest Receivable | \$ 2,476 |
| ii) Contributions/Accounts Receivable | 11,911,761 |
| iii) Due from Other Funds | 246,602 |
| iv) Federal Receivable | <u>29,280,913</u> |
| v) Total Receivables | \$ 41,441,752 |
| e. Total Current Assets [1.a.iv. + 1.b. + 1.c. + 1.d.v.] | \$ 331,103,991 |
| 2. Non-Current Assets | |
| a. Investments | |
| i) U.S. Government and Agency Obligations | \$ 0 |
| ii) Corporate Obligations | <u>0</u> |
| iii) Total Investments | \$ 0 |
| b. Capital Assets, Depreciable | |
| i) Furniture and Equipment | \$ 0 |
| ii) Less: Accumulated Depreciation | <u>0</u> |
| iii) Net Capital Assets | \$ 0 |
| c. Total Non-Current Assets [2.a.iii. + 2.b.iii.] | \$ 0 |
| 3. Liabilities | |
| a. Claims Payable | \$ 157,456,062 |
| b. Payables Due to Other Funds | 173,028,993 |
| c. Deferred Revenue | <u>618,936</u> |
| d. Total Liabilities [3.a. + 3.b. + 3.c.] | \$ 331,103,991 |
| 4. Total Fair Value of Plan Net Assets as of August 31, 2014 [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, 2014 | |
|--|-----------------------------------|
| 1. Plan Net Assets as of September 1, 2013 | \$ 0 |
| 2. Additions | |
| a. Contributions | |
| i. Employer ¹ | \$ 620,640,622 |
| ii. Plan Members | 155,275,815 |
| iii. Federal Revenue – Medicare Part D - EGWP | <u>48,233,256</u> |
| iv. Total Contributions | \$ 824,149,693² |
| b. Net Investment Income | |
| i. Net appreciation/(depreciation) in Fair Value of Plan Investments | \$ 0 |
| ii. Interest income, dividend income, and other income | 273,496 |
| iii. Total Investment Expense | <u>(17,598)</u> |
| iv. Net Investment Income | \$ 255,898 |
| c. Other Additions | <u>\$ 0</u> |
| d. Total Additions [2.a.iv. + 2.b.iv. + 2.c.] | \$ 824,405,591 |
| 3. Deductions | |
| a. Benefits | \$ 813,823,181 |
| b. Refunds to Plan Members | 0 |
| c. Total Administrative Expense | <u>10,582,410</u> |
| d. Total Deductions | \$ 824,405,591³ |
| 4. Plan Net Assets as of August 31, 2014 [1. + 2.d. – 3.d.] | \$ 0 |

¹ Includes Federal Revenues of \$15,128,234 for Medicare Part D Retiree Drug Subsidies.
² Includes \$41,441,752 in receivables and amounts due from other funds. See page IV-4 for details.
³ Includes \$331,103,991 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 | 6.57% |
| Annual Healthcare Trend Rates ¹ | 8.50% in FY 2016 declining to 5.50% in FY 2022 |
| 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)} |
| 08/31/12 | \$ 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% |
| 08/31/14 | \$ 0 | \$ 24,701,903,876 | \$ 24,701,903,876 | 0.0% | \$ 10,963,773,005 | 225.3% |

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 |
| 09/01/11 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% |
| 09/01/13 to 08/31/14 | \$ 620,640,622 | \$ 2,056,089,003 | 30.2% |

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 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;
- the percentage of future retirees electing coverage for their spouses, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence, and the percentage of future retirees assumed to use tobacco have been updated to reflect recent plan experience and expected trends;
- assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014 were updated to remain consistent with the assumptions used by the TRS retirement plan actuary; and
- the Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience.

The following benefit revisions have been adopted since the prior valuation: (a) implementation of an overall annual out-of-pocket maximum in accordance with the requirements of the ACA, (b) mental health benefit changes, (c) benefit enhancements for hearing aids and breast pumps and (d) copay reductions for generic prescription drugs. These changes became effective September 1, 2014 (except for the out-of-pocket maximum which becomes effective January 1, 2015) and are 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 benefit provisions are expected to have no impact on the employer's cost.



Section VI - Detailed Valuation Results

A. Actuarial Valuation Date: August 31, 2014

B. Summary of Results as of August 31, 2014

| | Number of Members | Actuarial Present Value of Total Projected Benefits | Actuarial Accrued Liability | Normal Cost | Payroll |
|---------------------|-------------------|---|-----------------------------|-----------------------|--------------------------|
| Actives | 228,805 | \$ 24,206,624,947 | \$ 13,977,267,547 | \$ 984,096,155 | \$ 10,963,773,005 |
| Deferred Vesteds | 11,269 | 1,235,275,351 | 1,235,275,351 | - | - |
| Retirees & Nominees | 104,770 | 9,489,360,978 | 9,489,360,978 | - | - |
| Total | 344,844 | \$ 34,931,261,276 | \$ 24,701,903,876 | \$ 984,096,155 | \$ 10,963,773,005 |

| Annual Required Contribution (ARC) for FY 14 | Employer Contributions ¹ for FY 14 | Percentage of ARC Contributed |
|--|---|-------------------------------|
| \$ 2,056,089,003 | \$ 620,640,622 | 30.2% |

¹ Includes Medicare Part D Retiree Drug Subsidies.



C. Summary of Active Member Census

State Agency Employees¹

Age and Service Table for Actives as of August 31, 2014

| 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 | 591 | | | | | | | | | 591 | 0.40% |
| 20 ≤ x < 25 | 7,686 | 108 | | | | | | | | 7,794 | 5.24% |
| 25 ≤ x < 30 | 11,798 | 2,427 | 51 | | | | | | | 14,276 | 9.61% |
| 30 ≤ x < 35 | 9,537 | 5,964 | 1,436 | 101 | | | | | | 17,038 | 11.46% |
| 35 ≤ x < 40 | 6,806 | 5,152 | 2,963 | 1,440 | 69 | | | | | 16,430 | 11.06% |
| 40 ≤ x < 45 | 6,144 | 4,531 | 3,243 | 3,467 | 1,609 | 82 | | | | 19,076 | 12.84% |
| 45 ≤ x < 50 | 5,140 | 4,272 | 2,824 | 3,369 | 3,579 | 1,638 | 122 | | | 20,944 | 14.09% |
| 50 ≤ x < 55 | 4,711 | 3,883 | 2,871 | 3,114 | 3,248 | 2,332 | 631 | 27 | | 20,817 | 14.01% |
| 55 ≤ x < 60 | 3,497 | 3,639 | 2,596 | 2,695 | 2,319 | 1,218 | 621 | 189 | 5 | 16,779 | 11.29% |
| 60 ≤ x < 65 | 1,998 | 2,531 | 1,879 | 1,759 | 1,222 | 579 | 293 | 129 | 44 | 10,434 | 7.02% |
| 65 ≤ x < 70 | 546 | 944 | 691 | 497 | 369 | 179 | 77 | 40 | 46 | 3,389 | 2.28% |
| x ≥ 70 | 148 | 254 | 220 | 188 | 125 | 56 | 23 | 12 | 20 | 1,046 | 0.70% |
| Service Totals | 58,602 | 33,705 | 18,774 | 16,630 | 12,540 | 6,084 | 1,767 | 397 | 115 | 148,614 | 100.00% |
| Percent of Total | 39.43% | 22.68% | 12.63% | 11.19% | 8.44% | 4.09% | 1.19% | 0.27% | 0.08% | 100.00% | |

1) Excludes 2,610 Return-to-Work Retirees.



Higher Education Employees ¹

Age and Service Table for Actives as of August 31, 2014

| 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 | 10 | | | | | | | | | 10 | 0.01% |
| 20 <= x < 25 | 1,122 | 6 | | | | | | | | 1,128 | 1.59% |
| 25 <= x < 30 | 4,235 | 628 | 8 | | | | | | | 4,871 | 6.88% |
| 30 <= x < 35 | 4,396 | 2,381 | 500 | 31 | | | | | | 7,308 | 10.32% |
| 35 <= x < 40 | 3,475 | 2,409 | 1,445 | 439 | 18 | | | | | 7,786 | 11.00% |
| 40 <= x < 45 | 2,831 | 2,323 | 1,641 | 1,260 | 268 | 24 | | | | 8,347 | 11.79% |
| 45 <= x < 50 | 2,227 | 2,072 | 1,642 | 1,765 | 523 | 131 | 13 | | | 8,373 | 11.83% |
| 50 <= x < 55 | 2,254 | 1,999 | 1,578 | 2,580 | 570 | 166 | 151 | 22 | | 9,320 | 13.16% |
| 55 <= x < 60 | 1,832 | 1,889 | 1,630 | 3,047 | 571 | 129 | 142 | 96 | 2 | 9,338 | 13.19% |
| 60 <= x < 65 | 1,223 | 1,528 | 1,385 | 3,054 | 468 | 85 | 94 | 83 | 29 | 7,949 | 11.23% |
| 65 <= x < 70 | 515 | 769 | 735 | 1,061 | 1,071 | 33 | 36 | 28 | 25 | 4,273 | 6.04% |
| x >= 70 | 173 | 301 | 302 | 209 | 515 | 576 | 12 | 6 | 4 | 2,098 | 2.96% |
| Service Totals | 24,293 | 16,305 | 10,866 | 13,446 | 4,004 | 1,144 | 448 | 235 | 60 | 70,801 | 100.00% |
| Percent of Total | 34.31% | 23.03% | 15.35% | 18.99% | 5.66% | 1.62% | 0.63% | 0.33% | 0.08% | 100.00% | |

1) Excludes 85 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, 2014

| 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 | 28 | | | | | | | | | 28 | 0.43% |
| 20 <= x < 25 | 302 | 3 | | | | | | | | 305 | 4.58% |
| 25 <= x < 30 | 524 | 87 | 1 | | | | | | | 613 | 9.19% |
| 30 <= x < 35 | 445 | 268 | 50 | 4 | | | | | | 768 | 11.51% |
| 35 <= x < 40 | 332 | 239 | 125 | 47 | 3 | | | | | 746 | 11.19% |
| 40 <= x < 45 | 279 | 217 | 132 | 129 | 55 | 4 | | | | 816 | 12.24% |
| 45 <= x < 50 | 233 | 212 | 122 | 140 | 143 | 65 | 5 | | | 920 | 13.79% |
| 50 <= x < 55 | 215 | 181 | 141 | 129 | 153 | 112 | 35 | 3 | | 969 | 14.52% |
| 55 <= x < 60 | 166 | 162 | 131 | 118 | 111 | 65 | 34 | 12 | 0 | 800 | 11.99% |
| 60 <= x < 65 | 94 | 113 | 97 | 75 | 58 | 31 | 16 | 9 | 3 | 496 | 7.44% |
| 65 <= x < 70 | 24 | 41 | 36 | 23 | 17 | 9 | 4 | 2 | 3 | 159 | 2.38% |
| x >= 70 | 7 | 13 | 10 | 9 | 6 | 3 | 1 | 1 | 1 | 50 | 0.75% |
| Service Totals | 2,650 | 1,536 | 847 | 675 | 545 | 289 | 95 | 27 | 7 | 6,671 | 100.00% |
| Percent of Total | 39.72% | 23.03% | 12.69% | 10.11% | 8.18% | 4.34% | 1.42% | 0.40% | 0.10% | 100.00% | |

1) Excludes 24 Return-to-Work Retirees.



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

Vested Members By Age and Employer

Age and Service Table for Actives as of August 31, 2014

| <i>Current Age</i> | <i>Employer</i> | | | <i>Age Totals</i> | <i>Percent of Total</i> |
|---------------------------|---------------------|-------------------------|--------------------------|-------------------|-------------------------|
| | <i>State Agency</i> | <i>Higher Education</i> | <i>Other¹</i> | | |
| <i>x < 35</i> | 96 | 60 | 0 | 156 | 1.38% |
| <i>35 <= x < 40</i> | 401 | 272 | 0 | 673 | 5.97% |
| <i>40 <= x < 45</i> | 1,008 | 449 | 0 | 1,457 | 12.93% |
| <i>45 <= x < 50</i> | 1,570 | 585 | 0 | 2,155 | 19.12% |
| <i>50 <= x < 55</i> | 2,001 | 806 | 1 | 2,808 | 24.92% |
| <i>55 <= x < 60</i> | 1,719 | 816 | 1 | 2,536 | 22.50% |
| <i>60 <= x < 65</i> | 541 | 631 | 1 | 1,173 | 10.41% |
| <i>x >= 65</i> | 82 | 229 | 0 | 311 | 2.76% |
| <i>Employer Totals</i> | 7,418 | 3,848 | 3 | 11,269 | 100.00% |
| <i>Percent of Total</i> | 65.83% | 34.15% | 0.03% | 100.00% | |

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



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

Retirees and Nominees By Age and Employer^{1,2}

Age and Service Table for Actives as of August 31, 2014

| Current Age | Employer | | | Age Totals | Percent of Total |
|-------------------------|---------------|------------------|--------------------|----------------|------------------|
| | State Agency | Higher Education | Other ³ | | |
| $x < 40$ | 55 | 3 | 3 | 61 | 0.06% |
| $40 \leq x < 45$ | 76 | 11 | 5 | 92 | 0.09% |
| $45 \leq x < 50$ | 451 | 25 | 30 | 506 | 0.48% |
| $50 \leq x < 55$ | 3,933 | 163 | 93 | 4,189 | 4.00% |
| $55 \leq x < 60$ | 8,756 | 858 | 281 | 9,895 | 9.44% |
| $60 \leq x < 65$ | 15,611 | 2,449 | 425 | 18,485 | 17.64% |
| $65 \leq x < 70$ | 18,585 | 4,877 | 444 | 23,906 | 22.82% |
| $70 \leq x < 75$ | 13,157 | 5,177 | 196 | 18,530 | 17.69% |
| $75 \leq x < 80$ | 8,859 | 4,021 | 64 | 12,944 | 12.35% |
| $80 \leq x < 85$ | 5,783 | 2,811 | 11 | 8,605 | 8.21% |
| $85 \leq x < 90$ | 3,243 | 1,608 | 6 | 4,857 | 4.64% |
| $90 \leq x < 95$ | 1,489 | 649 | 5 | 2,143 | 2.05% |
| $95 \leq x < 100$ | 350 | 139 | 1 | 490 | 0.47% |
| $x \geq 100$ | 50 | 17 | 0 | 67 | 0.06% |
| Employer Totals | 80,398 | 22,808 | 1,564 | 104,770 | 100.00% |
| Percent of Total | 76.74% | 21.77% | 1.49% | 100.00% | |

1) Comprised of 45,579 retirees and nominees enrolled in HealthSelect Medicare Advantage, 55,504 retirees and nominees enrolled in HealthSelect and 3,687 retirees who receive the Opt-Out Credit in lieu of health benefits.

2) Includes 3,010 State Agency Retirees, 642 Higher Education Retirees and 35 Other Retirees receiving the Opt-Out Annuity.

3) Employees of TMRS, TCDRS, TTA and CSCD.



Section VII - Actuarial Methods and Assumptions

A. Actuarial Methods

1. Actuarial Funding Method

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. Actuarial Value of Assets

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 Members¹ (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

| Age | Males – Years of ERS Decrement Service | | | | | | | Females – Years of ERS Decrement Service | | | | | | |
|-----|--|-----|-----|-----|-----|-----|-----|--|-----|-----|-----|-----|-----|-----|
| | 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

| Age | Males – Years of ERS Decrement Service | | | | | | | Females – Years of ERS Decrement Service | | | | | | |
|-----|--|-----|-----|-----|-----|-----|-----|--|-----|-----|-----|-----|-----|-----|
| | 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

| Age | Years of CPO/CO Decrement Service | | | | | |
|-----|-----------------------------------|-----|-----|-----|-----|-----|
| | 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

| Age | Years of CPO/CO Decrement Service | | | | | |
|-----|-----------------------------------|-----|-----|-----|-----|-----|
| | 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

| Age | Annual Service Retirement Rates per 100 Members | | | | | | |
|-----|---|-----|-----|-----|----------------|-----|-----|
| | Years of Service | | | | | | |
| | 0-4 | 5 | 10 | 15 | 20 | 25 | 30 |
| 50 | 0 | 0 | 0 | 0 | 0 | 0 | 39 |
| 55 | 0 | 1 | 1 | 1 | 3 ¹ | 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 |

¹ 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, 2007²

| Age | Annual Service Retirement Rates per 100 Members | | | | | | |
|-----|---|-----|-----|-----|-----|-----|-----|
| | Years of Service | | | | | | |
| | 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 |

² The rates of retirement for members who are not grandfathered under the current TRS Care eligibility as of August 31, 2014 are 85% of the rates described herein prior to age 62 and an increased rate at age 62.



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 ¹ | 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 |

¹ 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, 2007²

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 |

² The rates of retirement for members who are not grandfathered under the current TRS Care eligibility as of August 31, 2014 are 85% of the rates described herein prior to age 62 and an increased rate at age 62.

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

| Age | Regular Class ¹ | | CPO/CO Class ² |
|-----|----------------------------|---------|---------------------------|
| | 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 Age | Male and Females – Years of ERS Decrement Service | | | | | | | | |
|-----------------|---|----|----|----|----|----|----|----|-----|
| | 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 Age | Male and Females – Years of ERS Decrement Service | | | | | | | | |
|-----------------|---|----|----|----|----|----|----|----|-----|
| | 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 Age | Male and Females – Years of ERS Decrement Service | | | | | | | |
|--------------|---|----|----|----|----|----|----|----|
| | 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 Age | Male and Females – Years of ERS Decrement Service | | | | | | | |
|--------------|---|----|----|----|----|----|----|----|
| | 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

| <u>Years from Retirement</u> | <u>Male Rates</u> | <u>Years from Retirement</u> | <u>Male Rates</u> |
|----------------------------------|-----------------------|----------------------------------|-----------------------|
| 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

| <u>Years from Retirement</u> | <u>Female Rates</u> | <u>Years from Retirement</u> | <u>Female Rates</u> |
|------------------------------|---------------------|------------------------------|---------------------|
| 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

| Age | Regular Employee Class ERS Decrement Service | | | | CPO/CO Employee Class ERS Decrement Service | | | | Elected Class Members and JRS* | | | |
|-------|---|-------|-------|-----|--|-------|-------|-----|-----------------------------------|-------|-------|-----|
| | 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

| Age | Years of Service | | | |
|-------|------------------|-------|-------|-----|
| | 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

| Age | Years of ERS Decrement Service | | | | | | |
|-----|--------------------------------|-------|-------|-------|-------|-------|-------|
| | 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

| Age | Years of ERS Decrement Service | | | | | | |
|-----|--------------------------------|------|------|------|------|------|------|
| | 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. 38% of the male members are assumed to be married and electing coverage for their spouse, and 21% 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: 67% 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. 10.0% of future retirees are assumed to use tobacco, and 9.0% 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 2015 and (ii) approximately \$53.50 per year per covered member for internal administrative expenses for FY 2015 (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 (for 4 months), \$44 per year in 2015, \$27.48 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.

| <u>Fiscal Year</u> | <u>Annual Rate of Increase</u> |
|--------------------|--------------------------------|
| 2016 | 8.50% |
| 2017 | 8.50% |
| 2018 | 7.50% |
| 2019 | 7.00% |
| 2020 | 6.50% |
| 2021 | 6.00% |
| 2022 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 2015 at the rates shown below.

| <u>Fiscal Year</u> | <u>Annual Rate of Increase*</u> |
|--------------------|---------------------------------|
| 2016 | 6.90% |
| 2017 | 6.90% |
| 2018 | 7.50% |
| 2019 | 7.00% |
| 2020 | 6.50% |
| 2021 | 6.00% |
| 2022 and beyond | 5.50% |

* The retiree contribution rates are assumed to increase at the same rate as the Health Benefit Cost Trend except for FY16 and FY17 for which the increase is assumed to be limited in accordance with the increase included in the Legislative Appropriation Request.

- 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 2015 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 2015 for Covered Retirees and Spouses* (reflects benefits in effect September 1, 2014)**

| Age | Assumed Annual Claims Cost per Retiree | | Age | Assumed Annual Claims Cost per Retiree | | Age | Assumed Annual Claims Cost per Retiree | |
|-----|---|----------|-----|---|----------|-----|---|----------|
| | Male | Female | | Male | Female | | Male | Female |
| 22 | \$ 2,165 | \$ 4,120 | 52 | \$ 6,771 | \$ 7,496 | 82 | \$ 4,422 | \$ 3,955 |
| 23 | 2,187 | 4,162 | 53 | 7,090 | 7,718 | 83 | 4,457 | 3,979 |
| 24 | 2,209 | 4,204 | 54 | 7,409 | 7,940 | 84 | 4,493 | 4,003 |
| 25 | 2,231 | 4,246 | 55 | 7,729 | 8,161 | 85 | 4,529 | 4,027 |
| 26 | 2,254 | 4,289 | 56 | 8,048 | 8,383 | 86 | 4,565 | 4,051 |
| 27 | 2,276 | 4,333 | 57 | 8,367 | 8,605 | 87 | 4,601 | 4,075 |
| 28 | 2,330 | 4,414 | 58 | 8,936 | 8,900 | 88 | 4,638 | 4,100 |
| 29 | 2,383 | 4,496 | 59 | 9,504 | 9,196 | 89 | 4,675 | 4,124 |
| 30 | 2,437 | 4,578 | 60 | 10,073 | 9,491 | 90 | 4,713 | 4,149 |
| 31 | 2,491 | 4,659 | 61 | 10,642 | 9,786 | 91 | 4,750 | 4,174 |
| 32 | 2,544 | 4,741 | 62 | 11,211 | 10,081 | 92 | 4,788 | 4,199 |
| 33 | 2,638 | 4,869 | 63 | 11,659 | 10,485 | 93 | 4,827 | 4,224 |
| 34 | 2,732 | 4,996 | 64 | 12,126 | 10,904 | 94 | 4,865 | 4,250 |
| 35 | 2,826 | 5,124 | 65 | 4,576 | 3,694 | 95 | 4,904 | 4,275 |
| 36 | 2,920 | 5,251 | 66 | 4,622 | 3,732 | 96 | 4,943 | 4,301 |
| 37 | 3,014 | 5,379 | 67 | 4,669 | 3,769 | 97 | 4,983 | 4,327 |
| 38 | 3,157 | 5,467 | 68 | 4,608 | 3,772 | 98 | 5,023 | 4,353 |
| 39 | 3,300 | 5,555 | 69 | 4,547 | 3,775 | 99 | 5,063 | 4,379 |
| 40 | 3,444 | 5,643 | 70 | 4,486 | 3,778 | 100 | 5,104 | 4,405 |
| 41 | 3,587 | 5,731 | 71 | 4,425 | 3,781 | 101 | 5,144 | 4,431 |
| 42 | 3,731 | 5,818 | 72 | 4,365 | 3,784 | 102 | 5,186 | 4,458 |
| 43 | 4,026 | 5,969 | 73 | 4,304 | 3,787 | 103 | 5,227 | 4,485 |
| 44 | 4,321 | 6,119 | 74 | 4,243 | 3,790 | 104 | 5,269 | 4,512 |
| 45 | 4,617 | 6,269 | 75 | 4,182 | 3,793 | 105 | 5,311 | 4,539 |
| 46 | 4,912 | 6,419 | 76 | 4,215 | 3,816 | 106 | 5,354 | 4,566 |
| 47 | 5,208 | 6,569 | 77 | 4,249 | 3,839 | 107 | 5,396 | 4,593 |
| 48 | 5,520 | 6,754 | 78 | 4,283 | 3,862 | 108 | 5,440 | 4,621 |
| 49 | 5,833 | 6,940 | 79 | 4,317 | 3,885 | 109 | 5,483 | 4,649 |
| 50 | 6,146 | 7,125 | 80 | 4,352 | 3,908 | 110 | 5,527 | 4,676 |
| 51 | 6,458 | 7,310 | 81 | 4,387 | 3,932 | | | |

* 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 2015 for Covered Retirees and Spouses* (reflects benefits in effect September 1, 2014)**

| Age | Assumed Annual Claims Cost per Retiree | | Age | Assumed Annual Claims Cost per Retiree | |
|-----|---|----------|-----|---|----------|
| | Male | Female | | Male | Female |
| 65 | \$ 3,313 | \$ 3,363 | 88 | \$ 3,599 | \$ 3,501 |
| 66 | 3,329 | 3,380 | 89 | 3,614 | 3,512 |
| 67 | 3,345 | 3,396 | 90 | 3,629 | 3,523 |
| 68 | 3,354 | 3,393 | 91 | 3,644 | 3,533 |
| 69 | 3,363 | 3,390 | 92 | 3,659 | 3,544 |
| 70 | 3,372 | 3,386 | 93 | 3,675 | 3,555 |
| 71 | 3,381 | 3,383 | 94 | 3,690 | 3,566 |
| 72 | 3,390 | 3,380 | 95 | 3,706 | 3,577 |
| 73 | 3,398 | 3,376 | 96 | 3,721 | 3,588 |
| 74 | 3,407 | 3,373 | 97 | 3,737 | 3,599 |
| 75 | 3,416 | 3,370 | 98 | 3,753 | 3,610 |
| 76 | 3,430 | 3,380 | 99 | 3,769 | 3,621 |
| 77 | 3,443 | 3,389 | 100 | 3,785 | 3,632 |
| 78 | 3,457 | 3,399 | 101 | 3,802 | 3,644 |
| 79 | 3,471 | 3,409 | 102 | 3,818 | 3,655 |
| 80 | 3,484 | 3,419 | 103 | 3,835 | 3,667 |
| 81 | 3,498 | 3,429 | 104 | 3,851 | 3,678 |
| 82 | 3,512 | 3,439 | 105 | 3,868 | 3,690 |
| 83 | 3,527 | 3,450 | 106 | 3,885 | 3,701 |
| 84 | 3,541 | 3,460 | 107 | 3,902 | 3,713 |
| 85 | 3,555 | 3,470 | 108 | 3,920 | 3,725 |
| 86 | 3,570 | 3,481 | 109 | 3,937 | 3,737 |
| 87 | 3,584 | 3,491 | 110 | 3,955 | 3,749 |

* 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 2015 (reflects benefits in effect September 1, 2014):**

\$5,378 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 completion of the waiting period 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**

The following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

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



- Assumed rates of retirements for Higher Education members who are not grandfathered under current TRS Care eligibility provisions as of August 31, 2014 were updated to remain consistent with the assumptions used by the TRS retirement plan actuary.

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.

Please see our previous valuation report dated November 1, 2013 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. 50 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.

| <u>Event</u> | <u>GBP OPEB Eligibility</u> | | | <u>Commencement of GBP Benefits</u> |
|---------------------------------------|-----------------------------|----------------|----------------|-------------------------------------|
| | <u>At Least</u> | | <u>Age +</u> | |
| | <u>Age</u> | <u>Service</u> | <u>Service</u> | <u>Age</u> |
| 1. <u>Service Retirement or Death</u> | | | | |
| 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.

| <u>Event</u> | <u>GBP OPEB Eligibility</u> | | | <u>Commencement of GBP Benefits</u> |
|---------------------------|-----------------------------|----------------|----------------|-------------------------------------|
| | <u>At Least</u> | | <u>Age +</u> | |
| | <u>Age</u> | <u>Service</u> | <u>Service</u> | <u>Age</u> |
| 2. <u>Disability</u> | | | | |
| 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 FY15 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 | | | | | |
|---|--|-------------|--|-------------|---|-------------|------------------------------------|-------------|
| | Full-Time | Part-Time | 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 |
| Member | \$ 0.00 | \$ 267.72 | \$ 267.72 | \$ 401.58 | \$ 133.86 | \$ 334.65 | \$ 0.00 | \$ 267.72 |
| Member plus Spouse | \$ 307.88 | \$ 729.54 | \$ 729.54 | \$ 940.37 | \$ 518.71 | \$ 834.96 | \$ 307.88 | \$ 729.54 |
| Spouse, if Retiree is deceased | \$ 615.76 | \$ 615.76 | \$ 615.76 | \$ 615.76 | \$ 615.76 | \$ 615.76 | \$ 615.76 | \$ 615.76 |
| Member plus Dependent Children | \$ 206.14 | \$ 576.93 | \$ 576.93 | \$ 762.33 | \$ 391.53 | \$ 669.63 | \$ 206.14 | \$ 576.93 |
| Dependent Children, if Retiree is deceased | \$ 412.28 | \$ 412.28 | \$ 412.28 | \$ 412.28 | \$ 412.28 | \$ 412.28 | \$ 412.28 | \$ 412.28 |
| Member plus Family, if Retiree is alive | \$ 514.02 | \$ 1,038.75 | \$ 1,038.75 | \$ 1,301.12 | \$ 776.38 | \$ 1,169.94 | \$ 514.02 | \$ 1,038.75 |
| Spouse plus Children, if Retiree is deceased | \$ 1,028.04 | \$ 1,028.04 | \$ 1,028.04 | \$ 1,028.04 | \$ 1,028.04 | \$ 1,028.04 | \$ 1,028.04 | \$ 1,028.04 |

¹ Actual Retiree Contribution Rates for FY15. 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 FY15. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-FY15 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 FY15. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-FY15 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 FY15. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-FY15 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 2015 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 | | | | | |
|---|--|-----------|--|-----------|---|-----------|------------------------------------|-----------|
| | Full-Time | Part-Time | 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 |
| Member | \$ 0.00 | \$ 159.60 | \$ 159.60 | \$ 239.40 | \$ 79.80 | \$ 199.50 | \$ 0.00 | \$ 159.60 |
| Member plus Spouse | \$ 159.60 | \$ 399.00 | \$ 399.00 | \$ 518.70 | \$ 279.30 | \$ 458.85 | \$ 159.60 | \$ 399.00 |
| Spouse, if Retiree is deceased | \$ 319.20 | \$ 319.20 | \$ 319.20 | \$ 319.20 | \$ 319.20 | \$ 319.20 | \$ 319.20 | \$ 319.20 |
| 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 FY15 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 CY15. 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 CY15. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-CY15 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 CY15. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-CY15 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 CY15. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-CY15 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, 2014

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

| Benefits | HealthSelect ¹ | | | HMO |
|---|--|--|--|--|
| | In-Area | | Out-of-Area ² | |
| | Network | Non-Network | | |
| Calendar year deductible | None | \$500 per person \$1,500 per family ³ | \$200 per person \$600 per family ³ | None |
| Out-of-pocket coinsurance maximum ¹³ | \$2,000 per person ⁴ per calendar year | \$7,000 per person ⁴ per calendar year | \$3,000 per person ⁴ per calendar year | \$2,000 per person ⁴ per plan year |
| Total Out-of-Pocket Maximum ¹³ (including deductibles, coinsurance and copays) | \$6,350 per person \$12,700 per family ³ | None | \$6,350 per person \$12,700 per family ³ | \$6,350 per person \$12,700 per family ³ |
| Lifetime maximum | None | None | None | None |
| Primary care physician required | Yes | No | No | Contact your HMO |
| Primary care physicians' office visits | \$25 | 40% | 30% | \$25 |
| Physicals* | No Charge | 40% | Network provider - No Charge; Non-network provider - 30% | No charge |
| Specialty physicians' office visits | \$40 | 40% ³ | 30% | \$40 |
| Routine eye exam, one per year per participant* | \$40 | \$40 | 30% | \$40 ⁷ |
| Family planning services* | 20% | 40% ³ | 30% | \$40 ⁷ |
| Well woman exam* | No Charge | 40% | Network provider - No charge; Non-network provider - 30% | No charge |
| Speech and hearing testing/therapy | 20% without office visit; \$40 copay plus 20% with office visit | 40% | 30% | 20% without office visit; \$40 copay plus 20% with office visit |
| Allergy antigens/serum, injections, and testing | No charge without office visit; \$25 or \$40 with office visit | 40% | 30% | 20% |
| Diagnostic x-rays, lab tests, and mammography | 20% ⁶ | 40% | 30% | 20% |
| Office surgery and diagnostic procedures | 20% | 40% | 30% | 20% |
| High-tech radiology (CT scan, MRI, and nuclear medicine) ^{8,9} | \$100 copay plus 20% ¹¹ | \$100 copay plus 40% ¹¹ | \$100 copay plus 30% | \$100 copay plus 20% coinsurance ¹¹ |
| Urgent care clinic | \$50 plus 20% | \$50 plus 40% | 30% | \$50 plus 20% |
| Chiropractic care | | | | |
| a. Coinsurance | 20% | 40% | 30% | |
| b. Maximum benefit per visit | \$75 | \$75 | \$75 | |
| c. Maximum visits each participant each calendar year | 30 | 30 | 30 | Not covered |

See footnotes on following page.



| Benefits | HealthSelect ¹ | | | HMO |
|---|---|---|---|---|
| | In-Area | | Out-of-Area ² | |
| | Network | Non-Network | | |
| Immunizations: | | | | |
| All ages* immunizations, Meningitis childhood, beginning in 7th grade | No charge | 40% | Network provider - no charge; Non-network provider - 30% | No charge |
| Maternity care: | | | | |
| Dr. charges only*; inpatient hospital copays will apply | \$25 or \$40 for first post-natal office visit \$0 for routine prenatal appointments | 40% | 30% | \$25 or \$40 for first post-natal office visit \$0 for routine prenatal appointments |
| Inpatient hospital (semi-private room and day's board, and intensive care unit) | \$150/day copay plus 20% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per calendar year per person ⁸) | \$150/day copay plus 40% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per calendar year per person ⁸) | \$150/day copay plus 30% (\$750 copay max- up to 5 days per hospital stay, \$2,250 copay max per calendar year per person ⁸). | \$150/day copay plus 20% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per plan year per person ⁸) |
| Emergency care | \$150 plus 20% (if admitted copay will apply to hospital copay) | \$150 plus 20% (if admitted copay will apply to hospital copay) | 30% | \$150 plus 20% (if admitted copay will apply to hospital copay) |
| Outpatient surgery other than in physician's office | \$100 plus 20% | \$100 plus 40% | \$100 plus 30% | \$100 plus 20% |
| Bariatric surgery ^{8,10} | a. Deductible \$5,000 b. Coinsurance 20% c. Lifetime max \$13,000 | Not Covered | a. Deductible \$5,000 b. Coinsurance 20% c. Lifetime max \$13,000 | Not covered |
| Skilled nursing facility | 20%; 60-day max. per calendar year ⁸ | 40% 60-day max. per calendar year ⁸ | No charge (no deductible ⁸) | 20%; 60-day max. per plan year ^{7,8} |
| Hospice | 20% ⁸ | 40% ⁸ | 30% (no deductible) ⁸ | 20% ⁸ |
| ¹ Home health care | 20% ⁸ | 40%; 100 visits max. per calendar year ⁸ | No charge; 100 visits max. per calendar year (no deductible ⁸) | 20% ⁸ |
| Hearing aids | Plan pays up to \$1,000 per ear every three years (no deductible). | | | |
| Durable medical equipment | 20% ^{8,12} | 40% ^{8,12} | 30% ^{8,12} | 20% ⁸ |
| Ambulance services (non-emergent) | 20% ⁸ | 20% ⁸ | 30% ⁸ | 20% ⁸ |

¹ Benefits are paid on allowable amounts; using providers who contract with UnitedHealthcare will protect you from liability for amounts over the allowable amount.

² Out-of-area applies to members living outside of Texas, retirees 65 and over, and disabled retirees with Medicare.

³ Applies to calendar year, January 1-December 31.

⁴ Does not include copays.

⁵ Charges could vary when performed during an office visit.

⁶ Copay depends on whether treatment is given by PCP or specialist.

⁷ Applies to plan year, September 1- August 31; for treatment charges, one visit per plan year.

⁸ Preauthorization required.

⁹ Outpatient testing only. Does not apply to inpatient services.

¹⁰ Active employees only; see health plan for additional requirements/limitations.

¹¹ No copay if high-tech radiology is performed during ER visit or inpatient admission.

¹² \$2,500 limit on non-essential DME. Replacement limit of one every three years unless change in condition or physical status.

¹³ Out-of-pocket maximums are not mutually exclusive from other out-of-pocket limits. This means that a Participant's total out-of-pocket maximum could contain a combination of coinsurance and/or copayments. (For example, a Participant could pay up to \$6,350 in copayments alone if there was no coinsurance paid throughout the year. If a Participant met the \$2,000 coinsurance out-of-pocket maximum, he/she would pay \$4,350 in copayments, totaling \$6,350 in overall out-of-pocket expense.)

Behavioral Care Benefits follow those of medical and surgical benefits listed in this chart. This comparison chart offers a general overview of benefits and their associated out-of-pocket expenses under HealthSelect and the HMOs.

Contact the plan's customer service department for specific questions.

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



b. HealthSelect (Medicare primary)

| Plan Overview | Retirees with Medicare Primary (Parts A and B) for services covered by Medicare ¹ | Grandfathered Retirees (over age 65 and retired prior to 9/1/1992 without Medicare benefits) | When services are not covered by Medicare |
|---|---|---|---|
| Deductible (per participant/family) | \$200/\$600 (includes Medicare's Part B deductible) | \$200/\$600 | \$200/\$600 |
| Out-of-pocket coinsurance maximum (per participant) | Medicare pays 80%, HealthSelect will coordinate paying secondary | \$3,000 | \$3,000 |
| TOTAL ANNUAL OUT-OF-POCKET MAXIMUM ² (per participant/family; includes copayments, deductibles and coinsurance) | \$6,350/\$12,700 | | |
| 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 ¹ | 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 ³ Coverage 100% when using a network provider. | 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% |

¹ This applies to those who are eligible for Medicare regardless of whether they have enrolled in Medicare or not.

² If you have family coverage, the out-of-pocket maximum amount of \$12,700 could be satisfied by one or more persons covered by the plan through a combination of deductibles, coinsurance and copays.

³ Under the Affordable Care Act, certain preventive and women's health services are paid at 100% (at no cost to the participant) based on physician billing and diagnosis. In some cases, you will still be responsible for payment on some services.



| Plan Details | Retirees with Medicare Primary (Parts A and B) for services covered by Medicare ¹ | 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 No copay if services performed during ER visit or inpatient admission. | Medicare pays 80%, HealthSelect will coordinate paying secondary | \$100 copay + 30% You will be responsible for the copay per visit | 70% | \$100 copay + 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 (facility charges, per admission) \$750 copay maximum per admission, \$2,250 calendar year inpatient copay max (per participant) Preauthorization required unless you have Medicare Part A. | 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 + 30% You will be responsible for the copay per visit | 70% | \$100 copay + 30% You will be responsible for the copay per visit | 70% |
| Hearing aids | Plan pays up to \$1,000 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% |
| Mental health and substance use disorder | These benefits are the same as your medical/surgical benefits listed within this chart. | | | | |

¹ This applies to those who are eligible for Medicare regardless of whether they have enrolled in Medicare or not.



c. HealthSelect Medicare Advantage Plan (Medicare primary)

| Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|------------------------------|--|--|--|
| Out-of-Pocket Maximum | None | 100% after \$1,000 for In-Network services 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, and plan premiums do not apply toward this maximum) | 100% after \$1,000 for In and Out-of- Network services 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, care during foreign travel, and plan premiums do not apply toward this maximum) |
| Physician Services | Office visits in conjunction with an illness or injury | 80% after \$147 deductible | 100% |
| | Allergy injections and serum | 80% after \$147 deductible | 100% |
| | Diagnostic tests and X-rays | 80% after \$147 deductible | 100% |
| | Medicare-approved lab services | 100% | 100% |



| | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|----------------------------|--|---|--|--|
| Preventive Services | <ul style="list-style-type: none"> – Abdominal Aortic Aneurysm Screening – Bone Mass Measurement. Covered once every 24 months (more often if medically necessary) if you meet certain medical conditions. – Cardiovascular Screening – Cervical and Vaginal Cancer Screening. Covered once every 2 years. Covered once a year for women with Medicare at high risk. – Colorectal Cancer Screening – Diabetes Screening – Influenza Vaccine – Hepatitis B Vaccine for people with Medicare who are at risk – HIV Screening. \$0 copay for the HIV screening, but you generally pay 20% of the Medicare-approved amount for the doctor’s visit. HIV screening is covered for people with Medicare who are pregnant and people at increased risk for the infection, including anyone who asks for the test. Medicare covers this test once every 12 months or up to three times during a pregnancy. | <p>100% for all preventive services covered under Original Medicare.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by Original Medicare.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> |



| Preventive Services (Continued) | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|------------------------------------|---|---|--|--|
| | <ul style="list-style-type: none"> – Breast Cancer Screening (Mammogram). Medicare covers screening mammograms once every 12 months for all women with Medicare age 40 and older. Medicare covers one baseline mammogram for women between ages 35-39. | <p>100% for all preventive services covered under Original Medicare.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by Original Medicare.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> |
| | <ul style="list-style-type: none"> – Medical Nutrition Therapy Services Nutrition therapy is for people who have diabetes or kidney disease (but aren't on dialysis or haven't had a kidney transplant) when referred by a doctor. These services can be given by a registered dietitian and may include a nutritional assessment and counseling to help you manage your diabetes or kidney disease. | | | |
| | <ul style="list-style-type: none"> – Personalized Prevention Plan Services (Annual Wellness Visits) | | | |
| | <ul style="list-style-type: none"> – Pneumococcal Vaccine. You may only need the Pneumonia vaccine once in your lifetime. Call your doctor for more information. | | | |



| | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|--|--|---|--|--|
| Preventive Services (Continued) | <ul style="list-style-type: none"> – Prostate Cancer Screening – Prostate Specific Antigen (PSA) test only. Covered once a year for all men with Medicare over age 50. – Smoking and Tobacco Use Cessation (counseling to stop smoking and tobacco use). Covered if ordered by your doctor. Includes two counseling attempts within a 12-month period. Each counseling attempt includes up to four face-to-face visits. – Screening and behavioral counseling interventions in primary care to reduce alcohol misuse – Screening for depression in adults – Screening for sexually transmitted infections (STI) and high-intensity behavioral counseling to prevent STIs – Intensive behavioral counseling for Cardiovascular Disease (bi-annual) – Intensive behavioral therapy for obesity | <p>100% for all preventive services covered under Original Medicare.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by Original Medicare.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> |



| | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|--|--|--|--|--|
| Preventive Services (Continued) | <p>– Welcome to Medicare Preventive Visits (initial preventive physical exam). When you join Medicare Part B, then you are eligible as follows; during the first 12 months of your new Part B coverage, you can get either a Welcome to Medicare Preventive Visits or an Annual Wellness Visit. After your first 12 months, you can get one Annual Wellness Visit every 12 months.</p> | <p>100% for all preventive services covered under Original Medicare.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by Original Medicare.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> | <p>100% for all preventive services covered under Original Medicare at zero cost sharing.</p> <p>Any additional preventive services approved by Medicare mid-year will be covered by the plan or by Original Medicare.</p> <p>Plan covers a physical exam annually.</p> |
| Hospital Services | <p>Inpatient care at network hospitals (semiprivate room, ancillary services, physician visits)</p> | <p>100% after the following amounts for each benefit period - \$1,216 deductible for days 1-60; \$304 copayment per day (days 61-90); \$608 copayment per lifetime reserve day (days 91-150) (2)</p> | 100% (1) | 100% (1) |
| | <p>Outpatient nonsurgical services</p> | 80% after \$147 deductible | 100% | 100% |
| | <p>Outpatient surgical services</p> | 80% after \$147 deductible | 100% | 100% |
| | <p>Emergency care (emergency room, emergency services)</p> | 80% after \$147 deductible and emergency room copayment (waived if admitted to hospital within 3 days of emergency room visit) | 100% | 100% Worldwide coverage |



| | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|---|--|---|--|--|
| Alcohol and Substance Abuse Services | Inpatient care at network hospitals (semiprivate room, ancillary services, physician visits) | 100% after the following amounts for each benefit period - \$1,216 deductible for days 1-60; \$304 copayment per day (days 61-90); \$608 copayment per lifetime reserve day (days 91-150) (2) | 100% (1) | 100% (1) |
| | Outpatient | 80% after \$147 deductible | 100% | 100% |
| Routine Benefits | Chiropractic | Not covered by original Medicare | 70% for routine chiropractic services up to a \$75 maximum benefit per visit. Limited to 30 visits per plan year. | 70% for routine chiropractic services up to a \$75 maximum benefit per visit. Limited to 30 visits per plan year. |
| | Vision | Not covered by original Medicare | 100% for routine eye exam. Limited to one exam per plan year. | 100% for routine eye exam. Limited to one exam per plan year. |
| | Hearing | Not covered by original Medicare | \$500 benefit allowance per ear every 36 months for hearing aids (all types) and batteries | \$500 benefit allowance per ear every 36 months for hearing aids (all types) and batteries |
| Other Services | Private Duty Nursing | Not covered by original Medicare | 70% up to a maximum benefit of \$8,000 per calendar year | 70% up to a maximum benefit of \$8,000 per calendar year |



| | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|---|---|---|--|--|
| Additional Medical Services | Ambulatory surgical center | 80% after \$147 deductible | 100% | 100% |
| | Immediate care facility | 80% after \$147 deductible | 100% | 100% |
| | Ambulance | 80% after \$147 deductible | 100% | 100% |
| | Physical, respiratory, audiology, cardiac, occupational or speech therapy | 80% after \$147 deductible | 100% | 100% |
| | Home health services | 100% | 100% | 100% |
| | Durable medical equipment (includes oxygen received from a durable medical equipment provider or a pharmacy) | 80% after \$147 deductible | 100% | 100% |
| | Diabetic monitoring supplies | 80% after \$147 deductible | 100% | 100% |
| | Renal dialysis | 80% after \$147 deductible | 100% | 100% |
| | Skilled nursing facility | 100% for days 1-20 (3-day hospital stay required); 100% after \$152 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 (1), (2) | 100% up to 100 days (no 3-day hospital stay is required); per benefit period (1), (2) |
| Mental and Nervous Disorder Services | Inpatient care at network hospitals (semiprivate room, ancillary services, physician visits) (190-day lifetime maximum in a psychiatric hospital) | 100% after the following amounts for each benefit period - \$1,216 deductible for days 1-60; \$304 copayment per day (days 61-90); \$608 copayment per lifetime reserve day (days 91-150) (2) | 100% (1) | 100% (1) |
| | Outpatient | 65% after \$147 deductible | 100% | 100% |



| | Benefit | Original Medicare Plan Pays: | HealthSelect Medicare Advantage (for Services Provided by an In-Network Provider) Pays: | HealthSelect Medicare Advantage (for Services Provided by an Out-of-Network Provider) Pays: |
|---------------------------|---|-------------------------------------|--|--|
| Prescription Drugs | Prescription drugs covered under Part B | 80% after \$147 deductible | 100% | 100% |

Benefits apply to Medicare-covered services only and costs are calculated using Medicare-approved amounts. Please see your Evidence of Coverage for a complete list of covered benefits. You may also choose to contact Humana to confirm that planned inpatient services are Medicare-covered services and therefore covered by your plan. Please refer to the customer service number on the back of your ID card.

- (1) Inpatient hospital admissions, except in emergency or urgently needed care situations, require prior authorization from Humana.
- (2) A “benefit period” starts the day you go into the hospital or skilled nursing facility. It ends when you go for 60 days in a row without hospital or skilled nursing care. If you go into the hospital after one benefit period has ended, a new benefit period begins. You must pay the inpatient hospital deductible for each benefit period. There is no limit to the number of benefit periods you have.



| | Health and Wellness Programs | These Services are not offered by Original Medicare | You Pay Nothing for these Programs |
|-----------------------|-------------------------------------|--|---|
| Extra Benefits | SilverSneakers® | This benefit is not offered | Available to all members except for those who live in Alaska, Connecticut or Massachusetts |
| | Humana Active Outlook SM | This benefit is not offered | Health and wellness education available to all Humana Medicare Advantage members |
| | HumanaFirst® | This benefit is not offered | A toll-free 24-hour, 7-day-a-week medical information service with specially trained registered nurses to answer questions on symptom-related health conditions |
| | Well Dine Inpatient Meal Program | This benefit is not offered | After your overnight stay in a hospital or nursing facility, you are eligible for ten nutritious, precooked frozen meals delivered to your door at no cost to you |
| | QuitNet® | This benefit is not offered | Smoking cessation service available to all Humana Medicare Advantage members through QuitNet® |



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

| Deductible | \$50 per person per plan year | | |
|---------------------|-------------------------------|---|---------------------------------|
| | Retail Pharmacy | Retail Pharmacy in the Extended Days Supply (EDS) Network | Mail Service (Home Delivery) |
| Tier 1 | \$10 for non-maintenance | \$20 for 31-60 day supply | \$20 for 31-60 day supply |
| | \$10 for maintenance | \$30 for 61-90 day supply | \$30 for 61-90 day supply |
| Tier 2 | \$35 for non-maintenance* | \$70 for 31-60 day supply* | \$70 for 31-60 day supply * |
| | \$45 for maintenance* | \$105 for 61-90 day supply* | \$105 for 61-90 day supply* |
| Tier 3 | \$60 for non-maintenance* | \$120 for 31-60 day supply* | \$120 for 31-60 day supply* |
| | \$75 for maintenance* | \$180 for 61-90 day supply* | \$180 for 61-90 day supply* |
| Day Supply Limit | 30-day supply | 31-90 day supply | Up to a 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.