



nyhart

***State of Indiana  
GASB 45 Financial Report***

***Fiscal Year Ending  
June 30, 2011***

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## Certification

This report summarizes the GASB actuarial valuation for the State of Indiana for the fiscal year ending June 30, 2011. To the best of our knowledge, the report presents a fair position of the funded status of the plan in accordance with GASB Statement No. 45 (Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions). The valuation is also based upon our understanding of the plan provisions as summarized within the report.

The information presented herein is based on the information furnished to us by the Plan Sponsor that has been reconciled and reviewed for reasonableness. We are not aware of any material inadequacy in employee census provided by the Plan Sponsor. We have not audited the information at the source, and therefore do not accept responsibility for the accuracy or the completeness of the data on which the information is based.

The actuarial assumptions were selected by the Plan Sponsor with the concurrence of Nyhart. In our opinion, the actuarial assumptions are individually reasonable and in combination represent our estimate of anticipated experience of the Plan. All computations have been made in accordance with generally accepted actuarial principles and practice.

To our knowledge, there have been no significant events prior to the current year's measurement date or as of the date of this report that could materially affect the results contained herein.

Neither Nyhart nor any of its employees has any relationship with the plan or its sponsor that could impair or appear to impair the objectivity of this report.

### Nyhart



Randy Gomez, FSA, MAAA

December 5, 2011



Thomas Totten, FCA, FSA, EA, MAAA





## Actuary's Notes

### Changes since Last Valuation

The last full GASB valuation was for the fiscal year ending June 30, 2010. For the current year GASB valuation, we have reset the health care trend rates and updated the per capita costs. We expect to update health care trend rates and per capita costs again for the next full GASB valuation, which will be for the fiscal year ending June 30, 2012.

Other assumption changes reflected in this report:

1. All groups:
  - Mortality table for health participants has been updated to IRS 2008 Static Mortality table projected to 2013 using Scale AA. Prior valuations used UP 1994 sex-distinct mortality table.
2. State Personnel:
  - Prior valuation assumed that active employees who currently have no coverage will elect the Traditional PPO plan at retirement. Effective for the FYE 6/30/2011 GASB valuation, active employees who currently have no coverage are assumed to elect the CDHP 1 plan at retirement.
  - Prosecuting attorney's annual withdrawal rates have been increased to 10% to be consistent with the Prosecuting Attorneys' Retirement Fund actuarial valuation as of June 30, 2010. Prior valuations assumed a 4% annual withdrawal rate.
  - State Personnel is in the process of setting up an OPEB Trust Fund for the purpose of funding retiree health benefits. The State's funding policy is to fully fund the ARC contribution on an annual basis. Due to this funding policy change, the discount rate has been increased to 7.0% from 4.5%.
3. Conservation and Excise Police (CEP):
  - The CEP increased the pre-Medicare retirees' contribution rates effective on November 1, 2011. We have reflected the higher contribution rates for pre-Medicare retirees in this report as if it were effective on July 1, 2011.
  - Benefit designs have changed effective on July 1, 2011 for actives and retirees.



## Changes since Last Valuation – Continued

4. Indiana State Police (ISP):
  - One of the retiree health care eligibility requirements have been increased from 20 years of service to 25 years of service.
  - Benefit designs have changed effective on July 1, 2011 for actives and retirees.
  - Retiree contributions for pre-Medicare retirees were increased on July 1, 2011. Post-Medicare retiree contributions have remained the same since January 1, 2006.
  - In prior valuation it was assumed that 20% of active employees will elect the Basic plan at retirement. This assumption has been reduced to 15%.
  - Retirement rates have been changed to reflect updated experience.
  - In prior valuations, retiree contributions were assumed to increase at a lower rate than health care trend rates. ISP has committed to annual increases in the retiree contributions. For this year's valuation, retiree contribution trend rates are set equal to the health care trend rates.
  - Indiana State Police has set up a 401(h) Trust account into which ISP pre-funding contributions for retiree health benefits will be deposited into. The sources of pre-funding are as follows:
    - i. Medicare Part D retiree drug subsidy reimbursements
    - ii. Excess Long-Term Disability (LTD) funding
    - iii. ISP will contribute the value of retiree contributions collected during the year according to the following schedule:
      - Starting January 1, 2012 through June 30, 2014: 0%
      - July 1, 2014 through June 30, 2016: 25%
      - July 1, 2016 through June 30, 2018: 50%
      - July 1, 2018 onwards: 100%
    - iv. State contributions for ISP active employees in accordance with SEA 501Additionally, active employees will contribute \$20 per paycheck into the 401(h) Trust account.
  - Due to the new partial pre-funding policy, the ISP discount rate has been increased from 4.50% to 5.25%.

## Sources of GASB Liabilities and Assets

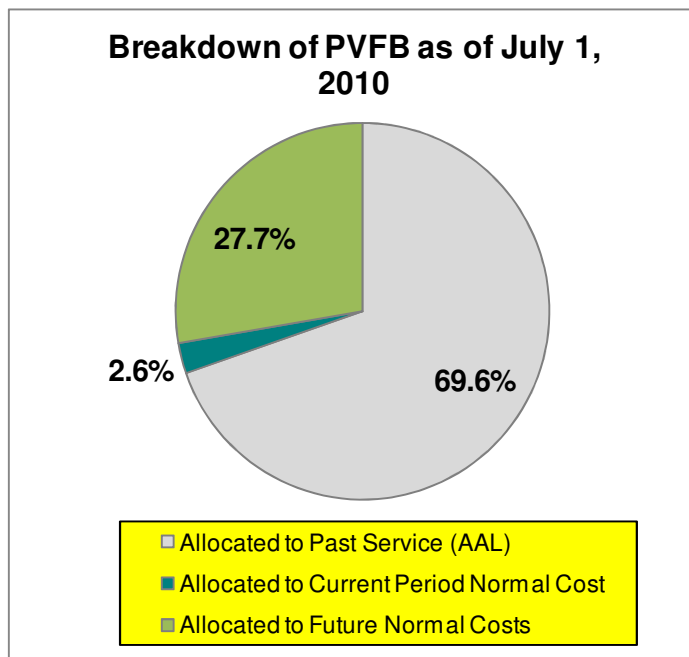
1. The State does not explicitly subsidize retiree health care coverage for State employees. The Indiana State Police and Conservation and Excise Police provide retiree health care coverage at subsidized rates to their retirees. The state legislature provides subsidized retiree health care coverage to a limited group of retirees.
2. Retiree health coverage is implicitly more expensive than active health coverage. This higher cost of coverage creates a GASB 45 liability assigned to the State.
3. The State has historically funded its retiree health benefits on a pay-as-you-go basis and has no cash reserves dedicated to retiree health coverage at this time, except for the Indiana State Police. Indiana State Police has established a 401(h) account for the purpose of paying for retiree health care coverage.



## Summary of Results

Below is the breakdown of Present Value of Future Benefits (PVFB) as of July 1, 2010 allocated for past, current, and future service.

<i>As of July 1, 2010</i>	<i>Present Value of Future Benefits (PVFB)</i> <b>A</b>	<i>Actuarial Accrued Liability (AAL)</i> <i>PVFB allocated to past service</i> <b>B</b>	<i>Normal Cost (NC)</i> <i>PVFB allocated to current period service</i> <b>C</b>	<i>Future Normal Costs</i> <i>PVFB allocated to future service</i> <b>D = A - B - C</b>
State Personnel	\$ 53,503,081	\$ 36,470,615	\$ 1,612,353	\$ 15,420,113
Legislature	\$ 9,089,781	\$ 9,039,293	\$ 5,687	\$ 44,801
Indiana State Police (ISP)	\$ 415,127,459	\$ 287,956,058	\$ 11,253,449	\$ 115,917,952
Conservation and Excise Police (CEP)	\$ 68,875,561	\$ 47,225,959	\$ 1,458,513	\$ 20,191,089
<b>Total</b>	<b>\$ 546,595,882</b>	<b>\$ 380,691,925</b>	<b>\$ 14,330,002</b>	<b>\$ 151,573,955</b>



**PVFB** is the amount needed as of July 1, 2010 to fully fund the State's retiree health care subsidies for existing and future retirees and their dependents assuming all actuarial assumptions are met.

**AAL** is the portion of PVFB considered to be accrued or earned as of July 1, 2010. This amount is a required disclosure in the Required Supplementary Information section.

**NC** is the portion of actuarial present value of retiree health care benefits and expenses which is allocated to 2010/11 by the actuarial cost method (Projected Unit Credit).



**Summary of Results – Continued**

Below is a comparison of the GASB results for the fiscal years ending June 30, 2011 and 2010 based on the Projected Unit Credit cost method.

<i><b>As of July 1, 2010</b></i>	<i><b>Total</b></i>	<i><b>State Personnel</b></i>	<i><b>Legislature</b></i>	<i><b>Indiana State Police (ISP)</b></i>	<i><b>Conservation and Excise Police (CEP)</b></i>
Present Value of Future Benefits	\$ 546,595,882	\$ 53,503,081	\$ 9,089,781	\$ 415,127,459	\$ 68,875,561
Actuarial Accrued Liability	\$ 380,691,925	\$ 36,470,615	\$ 9,039,293	\$ 287,956,058	\$ 47,225,959

<i><b>As of July 1, 2009</b></i>	<i><b>Total</b></i>	<i><b>State Personnel</b></i>	<i><b>Legislature</b></i>	<i><b>Indiana State Police (ISP)</b></i>	<i><b>Conservation and Excise Police (CEP)</b></i>
Present Value of Future Benefits	\$ 790,393,226	\$ 93,683,323	\$ 8,406,409	\$ 603,078,031	\$ 85,225,463
Actuarial Accrued Liability	\$ 491,441,643	\$ 47,752,326	\$ 8,339,154	\$ 381,198,176	\$ 54,151,987





**Income Statement and Balance Sheet Impact**

<i>2010/11 Fiscal Year</i>	<i>Total</i>	<i>State Personnel</i>	<i>Legislature</i>	<i>Indiana State Police (ISP)</i>	<i>Conservation and Excise Police (CEP)</i>
Annual OPEB Cost	\$ 38,221,046	\$ 4,498,949	\$ 550,916	\$ 28,914,625	\$ 4,256,556
Total Employer Contributions <sup>1</sup> (Affects Income Statement)	\$ 32,397,162	\$ 16,922,179	\$ 352,350	\$ 13,786,787	\$ 1,335,846
Net OPEB Obligation at year-end (Affects Balance Sheet Liability)	\$ 118,229,046	\$ 3,191,442	\$ 806,346	\$ 101,130,661	\$ 13,100,597
<i>2009/10 Fiscal Year</i>	<i>Total</i>	<i>State Personnel</i>	<i>Legislature</i>	<i>Indiana State Police (ISP)</i>	<i>Conservation and Excise Police (CEP)</i>
Annual OPEB Cost	\$ 53,111,970	\$ 6,104,909	\$ 512,379	\$ 41,224,004	\$ 5,270,678
Total Employer Contributions (Affects Income Statement)	\$ 12,538,101	\$ 1,913,380	\$ 312,877	\$ 9,008,600	\$ 1,303,244
Net OPEB Obligation at year-end (Affects Balance Sheet Liability)	\$ 112,405,162	\$ 15,614,672	\$ 607,780	\$ 86,002,823	\$ 10,179,887

<sup>1</sup> Total employer contributions shown are based on estimates reflecting current demographic, premium and contribution information. It includes State Personnel and Indiana State Police additional employer contributions for pre-funding for 2010/11 fiscal year.





**For Fiscal Year Ending June 30, 2011**

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. Accordingly, the State has elected to use the actuarial results for the period ending on June 30, 2010 for the period ending June 30, 2011. The date/year references below have been changed to 2010/11 for consistency.

<b>Required Supplementary Information</b>	<b>Total</b>	<b>State Personnel</b>	<b>Legislature</b>	<b>ISP</b>	<b>CEP</b>
<b>Actuarial Accrued Liability</b> as of June 30, 2011	\$ 402,466,500	\$ 37,733,465	\$ 9,091,813	\$ 306,131,521	\$ 49,509,701
<b>Actuarial Value of Assets</b> as of June 30, 2011	(19,287,537)	(14,007,168)	0	(5,280,369)	0
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$ 383,178,963</b>	<b>\$ 23,726,297</b>	<b>\$ 9,091,813</b>	<b>\$ 300,851,152</b>	<b>\$ 49,509,701</b>

<b>Annual Required Contribution</b>	<b>Total</b>	<b>State Personnel</b>	<b>Legislature</b>	<b>ISP</b>	<b>CEP</b>
Normal cost	\$ 13,418,962	\$ 1,612,353	\$ 5,687	\$ 10,342,409 <sup>2</sup>	\$ 1,458,513
Amortization of the UAAL over 30 year period	24,360,194	2,746,762	531,039	18,307,968	2,774,425
Total normal cost and amortization payment	\$ 37,779,156	\$ 4,359,115	\$ 536,726	\$ 28,650,377	\$ 4,232,938
Interest to end of year	2,023,918	305,138	24,153	1,504,145	190,482
<b>Total Annual Required Contribution (ARC)</b>	<b>\$ 39,803,074</b>	<b>\$ 4,664,253</b>	<b>\$ 560,879</b>	<b>\$ 30,154,522</b>	<b>\$ 4,423,420</b>

<b>Annual OPEB Cost and Net OPEB Obligation</b>	<b>Total</b>	<b>State Personnel</b>	<b>Legislature</b>	<b>ISP</b>	<b>CEP</b>
ARC for fiscal year 2010/11	\$ 39,803,074	\$ 4,664,253	\$ 560,879	\$ 30,154,522	\$ 4,423,420
Interest on Net OPEB Obligation (NOO) to end of year	6,093,620	1,093,027	27,350	4,515,148	458,095
Amortization adjustment to the ARC for beginning of year NOO	(7,675,648)	(1,258,331)	(37,313)	(5,755,045)	(624,959)
Annual OPEB cost	\$ 38,221,046	\$ 4,498,949	\$ 550,916	\$ 28,914,625	\$ 4,256,556
Total annual employer contribution for 2010/11	(32,397,162)	(16,922,179)	(352,350)	(13,786,787)	(1,335,846)
Change in NOO for fiscal year 2010/11	\$ 5,823,884	\$ (12,423,230)	\$ 198,566	\$ 15,127,838	\$ 2,920,710
NOO as of July 1, 2010	112,405,162	15,614,672	607,780	86,002,823	10,179,887
<b>NOO as of June 30, 2011</b>	<b>\$ 118,229,046</b>	<b>\$ 3,191,442</b>	<b>\$ 806,346</b>	<b>\$ 101,130,661</b>	<b>\$ 13,100,597</b>

<sup>2</sup> ISP normal cost for FY 2010/11 has been reduced for active employee contributions of \$20 per paycheck for 401(h) Trust.



**For Fiscal Year Ending June 30, 2010**

GASB 45 regulations permit employers to use the most recent available actuarial information up to two years prior to the current period. Accordingly, the State has elected to use the actuarial results for the period ending on June 30, 2009 for the period ending June 30, 2010. The date/year references below have been changed to 2009/10 for consistency.

<b>Required Supplementary Information</b>	<b>Total</b>	<b>State Personnel</b>	<b>Legislature</b>	<b>ISP</b>	<b>CEP</b>
<b>Actuarial Accrued Liability</b> as of June 30, 2010	\$ 524,858,447	\$ 51,305,787	\$ 8,401,694	\$ 407,846,348	\$ 57,304,618
<b>Actuarial Value of Assets</b> as of June 30, 2010	0	0	0	0	0
<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>\$ 524,858,447</b>	<b>\$ 51,305,787</b>	<b>\$ 8,401,694</b>	<b>\$ 407,846,348</b>	<b>\$ 57,304,618</b>

<b>Annual Required Contribution</b>	<b>Total</b>	<b>State Personnel</b>	<b>Legislature</b>	<b>ISP</b>	<b>CEP</b>
Normal cost	\$ 23,080,416	\$ 3,215,851	\$ 6,811	\$ 17,897,911	\$ 1,959,843
Amortization of the UAAL over 30 year period	28,871,159	2,805,348	489,908	22,394,588	3,181,315
Total normal cost and amortization payment	\$ 51,951,575	\$ 6,021,199	\$ 496,719	\$ 40,292,499	\$ 5,141,158
Interest to end of year	2,337,821	270,954	22,352	1,813,163	231,352
<b>Total Annual Required Contribution (ARC)</b>	<b>\$ 54,289,396</b>	<b>\$ 6,292,153</b>	<b>\$ 519,071</b>	<b>\$ 42,105,662</b>	<b>\$ 5,372,510</b>

<b>Annual OPEB Cost and Net OPEB Obligation</b>	<b>Total</b>	<b>State Personnel</b>	<b>Legislature</b>	<b>ISP</b>	<b>CEP</b>
ARC for fiscal year 2009/10	\$ 54,289,396	\$ 6,292,153	\$ 519,071	\$ 42,105,662	\$ 5,372,510
Interest on Net OPEB Obligation (NOO) to end of year	3,232,408	514,041	18,373	2,420,434	279,560
Amortization adjustment to the ARC for beginning of year NOO	(4,409,834)	(701,285)	(25,065)	(3,302,092)	(381,392)
Annual OPEB cost	\$ 53,111,970	\$ 6,104,909	\$ 512,379	\$ 41,224,004	\$ 5,270,678
Total annual employer contribution for 2009/10	(12,538,101)	(1,913,380)	(312,877)	(9,008,600)	(1,303,244)
Change in NOO for fiscal year 2009/10	\$ 40,573,869	\$ 4,191,529	\$ 199,502	\$ 32,215,404	\$ 3,967,434
NOO as of July 1, 2009	71,831,293	11,423,143	408,278	53,787,419	6,212,453
<b>NOO as of June 30, 2010</b>	<b>\$ 112,405,162</b>	<b>\$ 15,614,672</b>	<b>\$ 607,780</b>	<b>\$ 86,002,823</b>	<b>\$ 10,179,887</b>



Schedule of Funding Progress

<i>As of</i>	<i>Actuarial Value of Assets (AVA)</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>Unfunded Actuarial Accrued Liability (UAAL)</i>	<i>AVA as a % of AAL</i>
	<i>A</i>	<i>B</i>	<i>C = B - A</i>	<i>D = A / B</i>
<b>June 30, 2011</b>				
State Personnel	\$ 14,007,168	\$ 37,733,465	\$ 23,726,297	37.1%
Legislature	\$ 0	\$ 9,091,813	\$ 9,091,813	0.0%
ISP	\$ 5,280,369	\$ 306,131,521	\$ 300,851,152	1.7%
CEP	\$ 0	\$ 49,509,701	\$ 49,509,701	0.0%
<b>Total</b>	<b>\$ 19,287,537</b>	<b>\$ 402,466,500</b>	<b>\$ 383,178,963</b>	<b>4.8%</b>
<b>June 30, 2010</b>				
State Personnel	\$ 0	\$ 51,305,787	\$ 51,305,787	0.0%
Legislature	\$ 0	\$ 8,401,694	\$ 8,401,694	0.0%
ISP	\$ 0	\$ 407,846,348	\$ 407,846,348	0.0%
CEP	\$ 0	\$ 57,304,618	\$ 57,304,618	0.0%
<b>Total</b>	<b>\$ 0</b>	<b>\$ 524,858,447</b>	<b>\$ 524,858,447</b>	<b>0.0%</b>
<b>June 30, 2009</b>				
State Personnel	\$ 0	\$ 67,404,678	\$ 67,404,678	0.0%
Legislature	\$ 0	\$ 8,009,091	\$ 8,009,091	0.0%
ISP	\$ 0	\$ 341,922,973	\$ 341,922,973	0.0%
CEP	\$ 0	\$ 45,308,041	\$ 45,308,041	0.0%
<b>Total</b>	<b>\$ 0</b>	<b>\$ 462,644,783</b>	<b>\$ 462,644,783</b>	<b>0.0%</b>



### Schedule of Employer Contributions

<i>FYE</i>	<i>Employer Contributions</i>	<i>Annual Required Contribution (ARC)</i>	<i>% of ARC Contributed</i>
	<i>A</i>	<i>B</i>	<i>C = A / B</i>
<b>June 30, 2011</b>			
State Personnel	\$ 16,922,179	\$ 4,664,253	362.8%
Legislature	\$ 352,350	\$ 560,879	62.8%
ISP	\$ 13,786,787	\$ 30,154,522	45.7%
CEP	\$ 1,335,846	\$ 4,423,420	30.2%
<b>Total</b>	<b>\$ 32,397,162</b>	<b>\$ 39,803,074</b>	<b>81.4%</b>
<b>June 30, 2010</b>			
State Personnel	\$ 1,913,380	\$ 6,292,153	30.4%
Legislature	\$ 312,877	\$ 519,071	60.3%
ISP	\$ 9,008,600	\$ 42,105,662	21.4%
CEP	\$ 1,303,244	\$ 5,372,510	24.3%
<b>Total</b>	<b>\$ 12,538,101</b>	<b>\$ 54,289,396</b>	<b>23.1%</b>
<b>June 30, 2009</b>			
State Personnel	\$ 1,796,334	\$ 7,715,915	23.3%
Legislature	\$ 300,963	\$ 496,863	60.6%
ISP	\$ 7,910,221	\$ 35,270,894	22.4%
CEP	\$ 982,400	\$ 4,178,292	23.5%
<b>Total</b>	<b>\$ 10,989,918</b>	<b>\$ 47,661,964</b>	<b>23.1%</b>



### Annual OPEB Cost

<i>As of</i>	<i>Annual OPEB Cost</i>	<i>% of Annual OPEB Cost Contributed</i>	<i>Net OPEB Obligation</i>
<b>June 30, 2011</b>			
State Personnel	\$ 4,498,949	376.1%	\$ 3,191,442
Legislature	\$ 550,916	64.0%	\$ 806,346
ISP	\$ 28,914,625	47.7%	\$ 101,130,661
CEP	\$ 4,256,556	31.4%	\$ 13,100,597
<b>Total</b>	<b>\$ 38,221,046</b>	<b>84.8%</b>	<b>\$ 118,229,046</b>
<b>June 30, 2010</b>			
State Personnel	\$ 6,104,909	31.3%	\$ 15,614,672
Legislature	\$ 512,379	61.1%	\$ 607,780
ISP	\$ 41,224,004	21.9%	\$ 86,002,823
CEP	\$ 5,270,678	24.7%	\$ 10,179,887
<b>Total</b>	<b>\$ 53,111,970</b>	<b>23.6%</b>	<b>\$ 112,405,162</b>
<b>June 30, 2009</b>			
State Personnel	\$ 7,624,200	23.6%	\$ 11,423,143
Legislature	\$ 493,324	61.0%	\$ 408,278
ISP	\$ 34,830,500	22.7%	\$ 53,787,419
CEP	\$ 4,128,021	23.8%	\$ 6,212,453
<b>Total</b>	<b>\$ 47,076,045</b>	<b>23.3 %</b>	<b>\$ 71,831,293</b>



## Reconciliation of Actuarial Accrued Liability

The Actuarial Accrued Liability (AAL) is expected to change on an annual basis as a result of expected and unexpected events. Under normal circumstances, it is generally expected to have a net increase each year. Below is a list of the most common events affecting the AAL and whether they increase or decrease the liability.

### Expected Events

- Increases in AAL due to additional benefit accruals as employees continue to earn service each year
- Increases in AAL due to interest as the employees and retirees age
- Decreases in AAL due to benefit payments

### Unexpected Events

- Increases in AAL when actual premium rates increase more than expected. A liability decrease occurs when premium rates increase less than expected.
- Increases in AAL when more new retirements occur than expected or fewer terminations occur than anticipated. Liability decreases occur when the opposite outcomes happen.
- Increases or decreases in AAL depending on whether benefit provisions are improved or reduced.

	<i><b>Total</b></i>	<i><b>State Personnel</b></i>	<i><b>Legislature</b></i>	<i><b>ISP</b></i>	<i><b>CEP</b></i>
Actuarial Accrued Liability as of July 1, 2010	\$ 380,691,925	\$ 36,470,615	\$ 9,039,293	\$ 287,956,058	\$ 47,225,959
Normal cost as of July 1, 2010	14,330,002	1,612,353	5,687	11,253,449	1,458,513
Expected benefit payments for 2010/11	(13,167,749)	(2,915,011)	(352,350)	(8,564,542)	(1,335,846)
Interest adjustment to June 30, 2011	20,612,322	2,565,508	399,183	15,486,556	2,161,075
Expected Actuarial Accrued Liability as of June 30, 2011	\$ 402,466,500	\$ 37,733,465	\$ 9,091,813	\$ 306,131,521	\$ 49,509,701

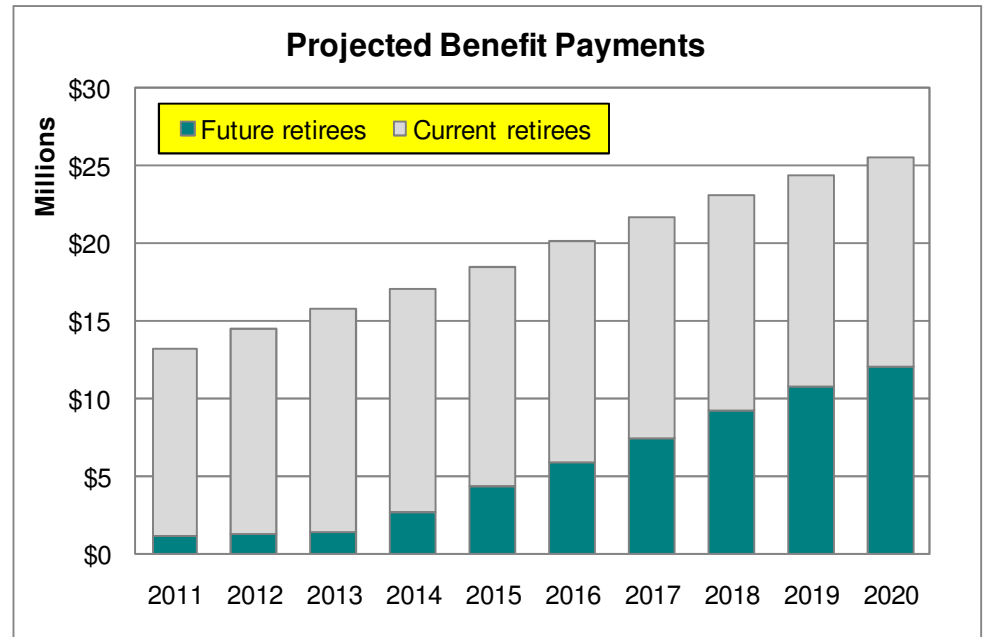




### Pay-as-you-go Cash Flow Projections

The projection below shows the anticipated pay-as-you-go cost for employer subsidized benefits for the next 10 years. The costs reflect the total explicit and implicit employer subsidies.

<i>FYE</i>	<i>Future Retirees</i>	<i>Current Retirees</i>	<i>Total</i>
2011	\$ 1,123,834	\$ 12,043,915	\$ 13,167,749
2012	\$ 1,227,384	\$ 13,170,251	\$ 14,397,635
2013	\$ 1,340,477	\$ 14,402,039	\$ 15,742,516
2014	\$ 2,705,693	\$ 14,311,395	\$ 17,017,088
2015	\$ 4,272,794	\$ 14,173,651	\$ 18,446,445
2016	\$ 5,876,856	\$ 14,248,358	\$ 20,125,214
2017	\$ 7,424,802	\$ 14,191,294	\$ 21,616,096
2018	\$ 9,145,676	\$ 13,909,539	\$ 23,055,215
2019	\$ 10,694,373	\$ 13,620,043	\$ 24,314,416
2020	\$ 12,013,708	\$ 13,519,443	\$ 25,533,151









## Substantive Plan Provisions

### Eligibility

- State Employees* State employees are eligible for retiree health care benefits once they attain age 55 with 15 years of service.
- Judges* Judges are eligible for retiree health care benefits once they attain age 62 with 8 years of service credit as a participant in the Indiana judges' retirement fund.
- Prosecuting Attorneys* Prosecuting attorneys are eligible for retiree health care benefits once they attain age 62 with 10 years of service credit as a participant in the prosecuting attorneys retirement fund.
- All Groups* Retired employee's eligibility to continue retiree health care coverage ends when the retiree becomes eligible for Medicare coverage (typically at age 65).

### Spouse Coverage

Surviving spouse coverage ends at the earlier of Medicare eligibility or 2 years after the death of the retiree.

### State Explicit Subsidy

None

### Retiree Contributions

Retirees pay the full premium rate as determined by the State.

### Medical Benefit

The same benefit options are available to retirees as active employees. All health plans are self-insured. The 2012 monthly premium rates by plan are as shown below:

Plans	Non-Tobacco	
	Single	Family
CDHP 1	\$ 398.71	\$ 1,134.77
CDHP 2	\$ 435.80	\$ 1,307.58
Traditional PPO	\$ 699.44	\$ 1,995.15

### Dental and Vision Benefits

There is no GASB liability and no implicit subsidy is generated for dental and vision benefits as retirees pay the full cost for these benefits.

### Life Insurance

None

### Contribution Funding Policy

Pay-as-you-go cash basis



## Substantive Plan Provisions – Continued

### Senate Enrolled Act 501

*Purpose*

Senate Enrolled Act 501 establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay for participants' medical expenses after retirement.

*Eligibility*

A participant who:

- a. Is eligible for and has applied to receive a normal, unreduced or disability retirement benefit under PERF; or
- b. Has completed at least 10 years of service as an elected or appointed officer; or
- c. Has completed at least 15 years of service with the state for an employee

is entitled to receive a benefit from this account.

*Annual State Contributions*

The bill requires the state to make annual contributions to the account based on the following schedule:

<b>Employee's Age</b>	<b>Annual State Contributions</b>
Less than 30	\$ 500
At least 30 but less than 40	\$ 800
At least 40 but less than 50	\$ 1,100
At least 50	\$ 1,400

*Bonus Contributions*

An additional bonus contribution is to be made upon a participant's retirement with normal unreduced benefits if the retirement occurs between July 1, 2007 and July 1, 2017, and the retiree on the last day of service has completed at least 15 years of service or 10 years of service as an elected or appointed officer.

The additional bonus contribution amount is one thousand dollars (\$1,000) multiplied by the participant's years of service (rounded down to the nearest whole year).

*Surviving Spouse*

Surviving spouse or IRS dependent of a retired participant is allowed to receive the benefit from this account. Amounts credited to a retired participant are forfeited if the participant dies without a surviving spouse or IRS dependent.



## Substantive Plan Provisions – Continued

### Senate Enrolled Act 501

#### *GASB 45 Impact*

The Senate Enrolled Act 501 plan is considered a defined contribution individual account for GASB 43 and 45 purposes and has no unfunded liabilities. The employer subsidy is defined in terms of an annual contribution to an individual account. Plan assets are maintained in a Trust Fund. All benefits and expenses in administering the Plan will be paid from the Fund. Money in the Fund may not be transferred, assigned, or otherwise removed from the Fund by the state board of finance, the Agency or any other state agency, and does not revert to the state general fund at the end of any state fiscal year.

The presence of this individual-account is expected to increase the percentage of future retirees electing to continue health coverage under the State plan. As a result, the health coverage election rate assumption was increased to 40% (from historically lower level) for retirements occurring after employees have met the minimum eligibility to use his/her individual account.

For the fiscal year ending June 30, 2011, the State contributed \$20,275,000 to the Retirement Medical Benefits Account Trust Fund on behalf of eligible active employees. Another \$30,335,000 was contributed on behalf of eligible retired employees. The total contribution for the fiscal year was \$50,610,000. The retiree contribution includes the Bonus Contributions of \$1,000 per year of service to employees retiring after July 1, 2007, who also met certain minimum age and service requirements. As of June 30, 2010, the Plan was 130% funded on an actuarial basis.



## Actuarial Assumptions and Methods

<b>Measurement Date</b>	June 30, 2011; results were rolled back to July 1, 2010 on a “no gain/loss” basis.
<b>Discount Rate</b>	7.0%
<b>Salary Scale</b>	4.0%
<b>Census Data</b>	Census data was provided by the State and it was collected as of June 30, 2011. We have reviewed it for reasonableness and no material modifications were made to the census data.
<b>Data Assumption</b>	The State has separate rates for tobacco and non-tobacco users, however these rates are not enforced for retired users. All retirees contribute the non-tobacco rates.
<b>Cost Method</b>	Projected Unit Credit
<b>Amortization</b>	Level dollar amount over thirty years based on an open group.
<b>Mortality</b>	Pre and post-retirement mortality rates are based on IRS 2008 Static Mortality table projected to 2013 using Scale AA.  Prior valuation used the following assumptions: <ul style="list-style-type: none"> <li>• Post-retirement mortality rates are based on the UP-1994 sex-distinct table.</li> <li>• The pre-retirement mortality rates are based on PERF assumptions. Sample rates for State Personnel’s pre-retirement mortality are as shown below:</li> </ul>

<b>Age</b>	<b>Male</b>	<b>Female</b>
30	0.04%	0.02%
40	0.06%	0.05%
50	0.14%	0.09%
60	0.43%	0.29%



**Actuarial Assumptions and Methods** – Continued

**Retirement Rate**

Annual retirement rates follow the PERF and Judges’ Retirement System rates. Sample rates are as shown below:

Age	State Personnel	Judges & Attorneys
60	13.0%	20.0%
62	28.6%	25.0%
65	42.9%	25.0%
67+	100.0%	100.0%

**Disability**

None expected

**Withdrawal Rate**

Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health care coverage.

Annual withdrawal rates for judges follow the Judges’ Retirement System, which is a constant 4%. Prosecuting attorneys annual withdrawal rates follow Prosecuting Attorneys’ Retirement Fund (PARF), which is a constant 10%.

Annual withdrawal rates for State personnel are based on Public Employees’ Retirement Fund (PERF) select and ultimate rates. Sample rates are as shown below:

Age	Years of Service					
	0	1	2	3	4	5+
20	32%	15%	5%	3%	3%	2%
30	27%	10%	5%	3%	3%	2%
40	22%	7%	5%	3%	3%	2%
50	22%	7%	5%	3%	3%	2%
60	23%	7%	5%	3%	3%	2%
70	0%	0%	0%	0%	0%	2%





## Actuarial Assumptions and Methods – Continued

### Per Capita Costs

Annual per capita costs are based on claims and enrollment information for the period ending June 2010. The per capita costs were adjusted to a retiree-basis using enrollment by plan. The costs are assumed to increase with health care trend rates.

Age	Trad PPO	CDHP 1	CDHP 2
50 – 54	\$ 8,500	\$ 4,400	\$ 5,200
55 – 59	\$ 11,000	\$ 5,700	\$ 6,800
60 – 64	\$ 13,600	\$ 7,100	\$ 8,300

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

These costs are assumed to increase with health care trend rates.

### Health Care Trend Rates

FYE	Medical/Rx Combined	FYE	Medical/Rx Combined
2012	9.2%	2018	6.3%
2013	8.7%	2019	5.9%
2014	8.2%	2020	5.5%
2015	7.7%	2021	5.1%
2016	7.2%	2022	4.7%
2017	6.7%	2023+	4.5%

The initial trend rate was selected based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

### Contribution Trend Rates

Retiree contributions are assumed to increase with Health Care Trend Rates.



## Actuarial Assumptions and Methods – Continued

### Health Care Coverage Election Rate

#### *Active Employees*

#### Actives with Current Health Coverage

15% of employees are assumed to elect coverage at retirement. Once the employees have met the PERF eligibility for normal, unreduced or a disability pension, the election rate increases to 40% due to the presence of the Senate Enrolled Act 501 account balance.

PERF eligibility requirement is the earlier of:

- a. Age 55 with 85 points
- b. Age 60 with 15 years of service
- c. Age 65 with 10 years of service

#### Actives without Current Health Coverage

40% of employees are assumed to elect coverage at retirement after meeting the PERF retirement eligibility.

#### *Inactive Employees*

Based on actual data.

### Spousal Coverage

70% of male and 55% of female employees are assumed to be married upon retirement. Husbands are assumed to be three years older than wives.

Spousal coverage for current retirees is based on actual data.

### Explicit Subsidy

The difference between (a) the premium rate approved by the State and (b) the retiree contribution. Below is an example of the monthly explicit subsidies for a retiree enrolled in CDHP 1 plan with non-tobacco use incentive.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A - B
Single	\$ 398.71	\$ 398.71	\$ 0.00
Family	\$ 1,134.77	\$ 1,134.77	\$ 0.00

The State does not provide any explicit subsidies for retiree health care coverage.



## Actuarial Assumptions and Methods – Continued

### GASB Implicit Age Subsidy

The difference between (a) the per capita cost as determined by Nyhart and (b) the premium rate approved by the State. Below is an example of the monthly implicit subsidies for a retiree age 60 enrolled in CDHP 1 plan with non-tobacco incentive.

	<b>Per Capita Cost</b>	<b>Premium Rate</b>	<b>Implicit Age Subsidy</b>
	<b>A</b>	<b>B</b>	<b>C = A – B</b>
Retiree	\$ 591.67	\$ 398.71	\$ 192.96
Spouse	\$ 591.67	\$ 736.00	\$ 0.00

All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.





## Substantive Plan Provisions

### Eligibility

Legislators are eligible for retiree health care coverage temporary to age 65 once they have 8 years of service (or 4 sessions). Current retired legislators are eligible for retiree health care coverage for lifetime.

### Spouse Coverage

For future retirees, surviving spouse coverage continues after the death of the retiree until the spouse reaches age 65. Surviving spouse coverage continues for life after the death of the retiree for current retirees.

### State Explicit Subsidy

The State contributes various percentages of the premium rates for grandfathered current retirees. There is no State explicit subsidy for future retirees.

### Retiree Contributions

Retirees pay the full cost of the retiree health care coverage. A limited group of grandfathered retirees receive explicitly subsidized health coverage.

### Medical Benefit

The same benefit options are available to retirees as active employees. All health plans are self-insured. The 2012 monthly premium rates by plan are as shown below:

Plans	Non-Tobacco	
	Single	Family
CDHP 1	\$ 398.71	\$ 1,134.77
CDHP 2	\$ 435.80	\$ 1,307.58
Traditional PPO	\$ 699.44	\$ 1,995.15

### Dental and Vision Benefits

There is no GASB liability generated for dental and vision benefits for future retirees as they pay the full cost for these benefits. The same benefit options are available to grandfathered retirees as active employees.

The 2012 monthly premium rates for dental and vision benefits are as shown below:

Plans	Single	Family
Dental	\$ 24.31	\$ 63.96
Vision	\$ 3.55	\$ 9.01

### Contribution Funding Policy

Pay-as-you-go cash basis



## Substantive Plan Provisions – Continued

### Senate Enrolled Act 501

*Purpose*

Senate Enrolled Act 501 establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay for participants' medical expenses after retirement.

*Eligibility*

A participant who:

- a. Is eligible for and has applied to receive a normal, unreduced or disability retirement benefit under PERF; or
- b. Has completed at least 10 years of service as an elected or appointed officer; or
- c. Has completed at least 15 years of service with the state for an employee

is entitled to receive a benefit from this account.

*Annual State Contributions*

The bill requires the state to make annual contributions to the account based on the following schedule:

<b>Employee's Age</b>	<b>Annual State Contributions</b>
Less than 30	\$ 500
At least 30 but less than 40	\$ 800
At least 40 but less than 50	\$ 1,100
At least 50	\$ 1,400

*Bonus Contributions*

An additional bonus contribution is to be made upon a participant's retirement with normal unreduced benefits if the retirement occurs between July 1, 2007 and July 1, 2017, and the retiree on the last day of service has completed at least 15 years of service or 10 years of service as an elected or appointed officer.

The additional bonus contribution amount is one thousand dollars (\$1,000) multiplied by the participant's years of service (rounded down to the nearest whole year).

*Surviving Spouse*

Surviving spouse or IRS dependent of a retired participant is allowed to receive the benefit from this account. Amounts credited to a retired participant are forfeited if the participant dies without a surviving spouse or IRS dependent.



## Substantive Plan Provisions – Continued

### Senate Enrolled Act 501

#### *GASB 45 Impact*

The Senate Enrolled Act 501 plan is considered a defined contribution individual account for GASB 43 and 45 purposes and has no unfunded liabilities. The employer subsidy is defined in terms of an annual contribution to an individual account. Plan assets are maintained in a Trust Fund. All benefits and expenses in administering the Plan will be paid from the Fund. Money in the Fund may not be transferred, assigned, or otherwise removed from the Fund by the state board of finance, the Agency or any other state agency, and does not revert to the state general fund at the end of any state fiscal year.

The presence of this individual-account is expected to increase the percentage of future retirees electing to continue health coverage under the State plan. As a result, the health coverage election rate assumption was increased to 40% (from historically lower level) for retirements occurring after employees have met the minimum eligibility to use his/her individual account.

For the fiscal year ending June 30, 2011, the State contributed \$20,275,000 to the Retirement Medical Benefits Account Trust Fund on behalf of eligible active employees. Another \$30,335,000 was contributed on behalf of eligible retired employees. The total contribution for the fiscal year was \$50,610,000. The retiree contribution includes the Bonus Contributions of \$1,000 per year of service to employees retiring after July 1, 2007, who also met certain minimum age and service requirements. As of June 30, 2010, the Plan was 130% funded on an actuarial basis.



## Actuarial Assumptions and Methods

<b>Measurement Date</b>	June 30, 2011; results were rolled back to July 1, 2010 on a “no gain/loss” basis.
<b>Discount Rate</b>	4.5%
<b>Salary Scale</b>	4.0%
<b>Census Data</b>	Census data was provided by the State and it was collected as of June 30, 2009. We have reviewed it for reasonableness and no material modifications were made to the census data.
<b>Data Assumption</b>	The State has separate rates for tobacco and non-tobacco users, however these rates are not enforced for retired users. All retirees contribute the non-tobacco rates.
<b>Cost Method</b>	Projected Unit Credit
<b>Amortization</b>	Level dollar amount over thirty years based on an open group.
<b>Health Care Coverage Election Rate</b>	
<i>Active Employees</i>	<p><u>Actives with Current Health Coverage</u> 15% of employees are assumed to elect coverage at retirement. Once the employees have met the PERF eligibility for normal, unreduced or a disability pension, the election rate increases to 40% due to the presence of the Senate Enrolled Act 501 account balance.</p> <p>PERF eligibility requirement is the earlier of:</p> <ol style="list-style-type: none"><li>Age 55 with 85 points</li><li>Age 60 with 15 years of service</li><li>Age 65 with 10 years of service</li></ol> <p><u>Actives without Current Health Coverage</u> 40% of employees are assumed to elect coverage at retirement after meeting the PERF retirement eligibility</p>
<i>Inactive Employees</i>	Based on actual data.





## Actuarial Assumptions and Methods – Continued

### Mortality

Pre and post-retirement mortality rates are based on the IRS 2008 Static Mortality table projected to 2013 using scale AA. Prior valuations used UP-1994 sex-distinct table.

### Withdrawal Rate

None

### Disability

None

### Retirement Rate

Annual retirement rates by group are as shown below.

YOS	House	Senate
<6	0%	0%
6	0%	5%
8	10%	5%
12	0%	20%
14	10%	0%
16	20%	20%
20	0%	25%
22	10%	0%
24	20%	10%
28	0%	10%
30	10%	0%
32	100%	100%



## Actuarial Assumptions and Methods – Continued

### Per Capita Costs

Annual per capita costs are based on claims and enrollment information for the period ending June 2010. The per capita costs were adjusted to a retiree-basis using enrollment by plan. The costs are assumed to increase with health care trend rates.

Age	Trad PPO	CDHP 1	CDHP 2
50 – 54	\$ 8,500	\$ 4,400	\$ 5,200
55 – 59	\$ 11,000	\$ 5,700	\$ 6,800
60 – 64	\$ 13,600	\$ 7,100	\$ 8,300
65 – 69	\$ 3,500	\$ 2,700	\$ 2,900
70 – 74	\$ 4,200	\$ 3,200	\$ 3,500
75+	\$ 4,800	\$ 3,700	\$ 4,000

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

These costs are assumed to increase with health care trend rates.

Annual dental and vision per capita costs are assumed to be \$292 and \$43 respectively. These costs are assumed to increase with dental and vision trend rates.

### Health Care Trend Rates

FYE	Med Pre-65	Med Post-65	Dental
2012	9.20%	10.00%	4.50%
2013	8.70%	9.50%	4.50%
2014	8.20%	9.00%	4.25%
2015	7.70%	8.50%	4.25%
2016	7.20%	8.00%	4.00%
2017	6.70%	7.50%	3.75%
2018	6.30%	7.10%	3.50%
2019	5.90%	6.70%	3.50%
2020	5.50%	6.30%	3.50%
2021	5.10%	5.90%	3.50%
2022	4.70%	5.50%	3.50%
2023+	4.50%	5.50%	3.50%

The initial trend rate was selected based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.



## Actuarial Assumptions and Methods – Continued

### Retiree Contributions

Retiree contributions for medical and prescription drugs are assumed to increase with Health Care Trend Rates.

### Spousal Coverage

70% of male and 55% of female employees are assumed to be married upon retirement. Husbands are assumed to be three years older than wives.

Spousal coverage for current retirees is based on actual data.

### Explicit Subsidy

The difference between (a) the premium rate approved by the State and (b) the retiree contribution. Below is an example of the monthly explicit subsidies for a retiree enrolled in CDHP 1 plan with non-tobacco use incentive.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Single	\$ 398.71	\$ 398.71	\$ 0.00
Family	\$ 1,134.77	\$ 1,134.77	\$ 0.00

The State does not provide any explicit subsidies for future retirees.

The State provides explicit subsidies for a closed group of current retirees.

### GASB Implicit Age Subsidy

The difference between (a) the per capita cost as determined by Nyhart and (b) the premium rate approved by the State. Below is an example of the monthly implicit subsidies for a retiree age 60 enrolled in CDHP 1 plan with non-tobacco incentive.

	Per Capita Cost	Premium Rate	Implicit Age Subsidy
	A	B	C = A – B
Retiree	\$ 591.67	\$ 398.71	\$ 192.96
Spouse	\$ 591.67	\$ 736.00	\$ 0.00

All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.





## Substantive Plan Provisions

### Eligibility

Police officers and civilian employees employed by the Indiana State Police are eligible for retiree health care benefits at the earlier of:

- a. 25 years of service (20 years of service requirement in prior valuations)
- b. Age 55 with 85 points
- c. Age 60 with 15 years of service
- d. Age 65 with 10 years of service

### Spouse Coverage

Surviving spouse coverage continues for life after the death of the member (retiree or active employee). The coverage is free for six months and then it reverts to single retiree coverage.

### Medical Benefit

The same benefit options are available to retirees as active employees. All health plans are self-insured. The plan coordinates with Medicare on a carve-out basis. The Indiana State Police plan is primary on prescription drug coverage for Medicare retirees.

The Basic Plan includes medical coverage only. The Optional Plan includes medical, dental, and vision coverage.

The 2011/12 monthly premium rates effective on July 1, 2011 (as determined by the Indiana State Police) for the plans are as shown below:

	<b>Retiree Only</b>	<b>Retiree plus One Dependent</b>
<u>Pre-Medicare</u>		
Basic Plan	\$ 248.58	\$ 319.72
Optional Plan	\$ 290.68	\$ 397.15
<u>Post-Medicare</u>		
Basic Plan	\$ 109.47	\$ 131.79
Optional Plan	\$ 127.57	\$ 168.18



## Substantive Plan Provisions – Continued

### Dental and Vision Benefits

There is no GASB liability generated for dental and vision benefits as retirees pay the full cost for these benefits.

The portion of 2011 monthly premium rates for Optional plan applicable to dental and vision benefits determined by Anthem are as shown below.

	Retiree Only	Retiree plus One Dependent
<u>Pre-Medicare</u>		
Dental	\$ 38.83	\$ 88.85
Vision	\$ 3.93	\$ 11.00
<u>Post-Medicare</u>		
Dental	\$ 16.31	\$ 32.62
Vision	\$ 1.65	\$ 3.30

### State Police Explicit Subsidy

None

### Contribution Funding Policy

The Indiana State Police maintains a separate health plan for its active and retired employees. The plan is self-insured and the State Police maintain stop-loss reinsurance to protect against excessive claims. The annual cost of the plan is financed on a pay-as-you-go basis from State subsidies and active/retiree contributions. The State Police also has the ability to manage plan costs by changing the benefit design to less expensive designs. The State contributes the same employer subsidy per active employee as regular State employees to the State Police health fund. There is no direct State subsidy for retiree health care.

The State Police active employees are younger and healthier, as a group, than regular State employees which results in lower health care costs per employee when comparing the two groups. Because of the lower active health costs, the State subsidy per employee is sufficient to cover the active health costs and create a surplus which is then used to subsidize the current retiree health care costs.



## Substantive Plan Provisions – Continued

### Retiree Contributions

Retirees pay the full cost of the retiree health care coverage as determined by the State Police. The breakdown of retiree contributions by benefit are as shown below.

<b>Optional Plan</b>	<b>Retiree Only</b>	<b>Retiree plus One Dependent</b>	<b>Spouse Increment</b>
<u>Pre-Medicare</u>			
Medical	\$ 247.92	\$ 277.46	\$ 29.54
Dental	\$ 38.83	\$ 108.69	\$ 69.86
Vision	\$ 3.93	\$ 11.00	\$ 7.07
Total	\$ 290.68	\$ 397.15	\$ 106.47
<u>Post-Medicare</u>			
Medical	\$ 109.61	\$ 132.26	\$ 22.65
Dental	\$ 16.31	\$ 32.62	\$ 16.31
Vision	\$ 1.65	\$ 3.30	\$ 1.65
Total	\$ 127.57	\$ 168.18	\$ 40.61
<u>Basic Plan</u>			
Pre-Medicare	\$ 248.58	\$ 319.72	\$ 71.14
Post-Medicare	\$ 109.47	\$ 131.79	\$ 22.32

### Life Insurance

Police officers are eligible for the following life insurance benefits depending on their hire date:

- Hired prior to July 1, 1986: \$10,000
- Hired on/after July 1, 1986: \$14,500

### Disability Benefit

Police officers who become long-term disabled receive free health care coverage during the disability period. When they meet the requirements for retiree health care benefits they will have to make the required retiree contributions.



## Substantive Plan Provisions – Continued

### Funding Policy

Indiana State Police has established a 401(h) account for the purpose of funding retiree medical benefits. Contributions to the 401(h) account will be made from the following sources:

1. Medicare Part D retiree drug subsidy reimbursement
2. Excess Long-Term Disability (LTD) fund
3. A percentage of retiree premiums according to the following schedule:
  - a. Starting January 1, 2012 through June 30, 2014: 0%
  - b. July 1, 2014 through June 30, 2016: 25%
  - c. July 1, 2016 through June 30, 2018: 50%
  - d. July 1, 2018 onwards: 100%
4. State contributions for ISP active employees in accordance with SEA 501

Additionally, active employees will contribute \$20 per paycheck towards the 401(h) Trust account.

At this time, the ISP new funding policy is expected to continue for the foreseeable future.

### Senate Enrolled Act 501

#### *Purpose*

Senate Enrolled Act 501 establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay for participants' medical expenses after retirement.

Effective July 1, 2011 employees of Indiana State Police department who decline coverage under the State's group health plan are not eligible for the Senate Enrolled Act 501 retirement medical benefit account.





## Actuarial Assumptions and Methods

<b>Measurement Date</b>	June 30, 2011; results were rolled back to July 1, 2010 on a “no gain/loss” basis.
<b>Discount Rate</b>	5.25%
<b>Salary Scale</b>	4.00%
<b>Census Data</b>	<p>Census data was provided by the State and it was collected as of June 30, 2011. We have reviewed it for reasonableness and have made the following adjustment to the census data:</p> <ul style="list-style-type: none"><li>• Participants who were found in both State Personnel and ISP census data are included in the ISP census data for valuation purposes. These participants are eligible to receive retiree health care coverage thru ISP once they meet the eligibility requirements.</li></ul>
<b>Data Assumptions</b>	<p>15% of future retirees are assumed to elect the Basic Plan (without dental and vision benefits). Prior valuation assumed 20% of future retirees will elect the Basic Plan.</p> <p>Hire dates for employees hired after June 30, 2011 have been changed to June 30, 2011.</p>
<b>Cost Method</b>	Projected Unit Credit
<b>Amortization</b>	Level dollar amount over thirty years based on an open group.
<b>Mortality</b>	Pre and post-retirement mortality rates are based on the IRS 2008 Static Mortality table projected to 2013 using scale AA. Prior valuations used UP-1994 sex-distinct table.
<b>Withdrawal Rate</b>	<p>Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health care coverage.</p> <p>No withdrawal rates are assumed for police officers in the pre-1987 plan.</p> <p>For police officers in the 1987 pension plan, the annual withdrawal rates are assumed to be 2% prior to age 37. For ages 37 and older the annual withdrawal rates follow the Saranson T-1 table.</p>



**Actuarial Assumptions and Methods** – Continued

**Disability**

Sample rates are as shown below.

Age	Male	Female
45	0.11%	0.90%
50	0.20%	0.16%
55	0.35%	0.28%
60	0.62%	0.49%

**Disability Mortality**

115% of IRS 2008 Static Mortality table projected to 2013 using scale AA. Prior valuations used RP-2000 Combined Mortality Table projected to 2010 using Scale AA with a 10-year set forward.

**Retirement Rate**

Annual retirement rates were based on ISP’s 2011 experience study.

YOS	1987 Plan	Age	Pre-1987 Plan
25	15.0%	45	10.0%
26	12.5%	46 – 54	7.5%
27	10.0%	55	10.0%
28 – 29	7.5%	56	12.5%
30	10.0%	57	15.0%
31	12.5%	58	20.0%
32	15.0%	59 – 64	40.0%
33	40.0%	65+	100.0%
34+	27.5%		

**Health Care Coverage Election Rate**

*Active Employees*

100% of active employees with current coverage are assumed to elect coverage at retirement. Active employees with no current coverage are assumed not to elect coverage at retirement.

*Inactive Employees*

Based on actual data.



## Actuarial Assumptions and Methods – Continued

### Per Capita Costs

Annual per capita costs are based on claims data and fixed costs expenses for the 12-month period ending November 30, 2010 projected to fiscal year 2011/12, actuarially increased to retiree basis using health index factors and current enrollment.

#### Non-Disabled Retirees

Age	Male	Female
50 – 54	\$ 6,700	\$ 8,100
55 – 59	\$ 9,300	\$ 9,100
60 – 64	\$ 12,000	\$ 10,500
65 – 69	\$ 2,500	\$ 2,500
70 – 74	\$ 3,000	\$ 3,000
75+	\$ 3,500	\$ 3,500

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

#### Disabled Retirees

Age	Male	Female
<65	\$ 2,500	\$ 2,500
65 – 69	\$ 2,500	\$ 2,500
70 – 74	\$ 3,000	\$ 3,000
75+	\$ 3,500	\$ 3,500

These costs are assumed to increase with health care trend rates.

Annual administrative per capita cost is assumed to be \$275. It is assumed to increase 3% annually.

### Dental and Vision Benefits

There are no GASB liabilities for dental and vision benefits as retirees pay the full cost of coverage.

### Retiree Contributions

Retiree contributions are assumed to increase with Contribution Trend Rates.



## Actuarial Assumptions and Methods – Continued

### Health Care Trend Rates

FYE	Pre-65	Post-65
2012	9.20%	10.00%
2013	8.70%	9.50%
2014	8.20%	9.00%
2015	7.70%	8.50%
2016	7.20%	8.00%
2017	6.70%	7.50%
2018	6.30%	7.10%
2019	5.90%	6.70%
2020	5.50%	6.30%
2021	5.10%	5.90%
2022	4.70%	5.50%
2023+	4.50%	5.50%

The initial trend rate was selected based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

### Retiree Contributions

Retiree contributions are assumed to increase with health care trend rates.

### Spousal Coverage

80% of male and 40% of female employees are assumed to be married upon retirement. Husbands are assumed to be three years older than wives.

Spousal coverage for current retirees is based on actual data.

### Explicit Subsidy

The difference between (a) the medical portion of the premium rate approved by ISP and (b) the retiree contribution. Below is an example of the monthly explicit subsidy for a retiree under age 65 enrolled in the Optional plan.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A - B
Single	\$ 248.02	\$ 248.02	\$ 0.00
With 1 Dep	\$ 283.80	\$ 283.80	\$ 0.00

ISP does not provide any explicit subsidies for retiree health care coverage.



## Actuarial Assumptions and Methods – Continued

### GASB Implicit Age Subsidy

The difference between (a) the per capita cost as determined by Nyhart and (b) the rate approved by ISP. Below is an example of the monthly implicit subsidies for a male retiree age 60 enrolled in the Optional plan.

	<b>Per Capita Cost</b>	<b>Premium Rate</b>	<b>Implicit Subsidy</b>
	<b>A</b>	<b>B</b>	<b>C = A – B</b>
Retiree	\$ 1,022.92	\$ 248.02	\$ 774.90
Spouse	\$ 897.92	\$ 35.78	\$ 862.14

All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.





## Substantive Plan Provisions

### Eligibility

Conservation and Excise police officers are eligible for retiree health care benefits at the earlier of:

- a. Age 50 with 25 years of service
- b. Age 55 with 85 points

### Spouse Coverage

Surviving spouse coverage continues for life after the death of the member (retiree or active employee eligible to retire). The coverage is free for 24 months and then it reverts to single retiree coverage.

### Medical Benefit

The same benefit options are available to retirees as active employees. All health plans are self-insured. The plan coordinates with Medicare on a COB basis. The Conservation and Excise Police plans are secondary on prescription drug coverage for Medicare retirees.

For retirees, health, dental, and vision coverage are combined.

### Life Insurance

None

### Contribution Funding Policy

The Conservation and Excise Police maintain a separate health plan for its active and retired employees. The plan is self-insured and the Conservation and Excise Police maintain stop-loss reinsurance to protect against excessive claims. The annual cost of the plan is financed on a pay-as-you-go basis from State subsidies and active/retiree contributions. The Conservation and Excise Police also has the ability to manage plan costs by changing the benefit design to less expensive designs. The State contributes the same employer subsidy per active employee as regular State employees to the Conservation and Excise Police health fund. There is no direct State subsidy for retiree health care.

The Conservation and Excise Police active employees are younger and healthier, as a group, than regular State employees which results in lower health care costs per employee when comparing the two groups. Because of the lower active health costs, the State subsidy per employee is sufficient to cover the active health costs and create a surplus which is then used to subsidize the current retiree health care costs.

### CEP Explicit Subsidy

Post-Medicare medical benefits are explicitly subsidized.



## Substantive Plan Provisions – Continued

### Retiree Contributions

2011/12 monthly retiree contributions effective on November 1, 2011 as determined by CEP are split by benefit as shown below. The dental and vision costs below are determined by Anthem as of July 1, 2011. Contributions are allocated to vision benefit first, dental second, and medical last.

	Single	Incremental Spouse Cost	Single + 1
<u>Under age 60</u>			
Medical	\$ 257.64	\$ 87.33	\$ 344.97
Dental	\$ 36.42	\$ 53.91	\$ 90.33
Vision	\$ 5.94	\$ 8.76	\$ 14.70
Total	\$ 300.00	\$ 150.00	\$ 450.00
<u>Age 60 – 64</u>			
Medical	\$ 157.64	\$ 37.33	\$ 194.97
Dental	\$ 36.42	\$ 53.91	\$ 90.33
Vision	\$ 5.94	\$ 8.76	\$ 14.70
Total	\$ 200.00	\$ 100.00	\$ 300.00
<u>Post-Medicare</u>			
Medical	\$ 72.21	\$ 32.21	\$ 104.42
Dental	\$ 15.30	\$ 15.30	\$ 30.60
Vision	\$ 2.49	\$ 2.49	\$ 4.98
Total	\$ 90.00	\$ 50.00	\$ 140.00

### Senate Enrolled Act 501

#### *Purpose*

Senate Enrolled Act 501 establishes a retirement medical benefits account for elected officers, appointed officers, and employees of the executive, legislative, and judicial branches of state government to pay for participants' medical expenses after retirement.

Effective July 1, 2011 conservation officers of the Department of National Resources and employees of the State Excise Police who decline coverage under the State's group health plan are not eligible for the Senate Enrolled Act 501 retirement medical benefits account.





## Actuarial Assumptions and Methods

<b>Measurement Date</b>	June 30, 2011; results were rolled back to July 1, 2010 on a “no gain/loss” basis.										
<b>Discount Rate</b>	4.5%										
<b>Salary Scale</b>	4.0%										
<b>Census Data</b>	Census data was provided by the State and it was collected as of June 30, 2011. We have reviewed it for reasonableness and no material modifications were made to the census data.										
<b>Data Assumptions</b>	<p>All employees are assumed to elect medical, dental, and vision coverage at retirement. Actual coverage level is not available for retirees. Retirees assumed to have family coverage in prior valuation are assumed to have family coverage in this valuation. For new retirees, percentage of retirees electing family coverage is assumed to be the same as active employees.</p> <p>Hire dates for employees hired after June 30, 2011 have been changed to June 30, 2011.</p>										
<b>Cost Method</b>	Projected Unit Credit										
<b>Amortization</b>	Level dollar amount over thirty years based on an open group.										
<b>Mortality</b>	Pre and post-retirement mortality rates are based on the IRS 2008 Static Mortality table projected to 2013 using scale AA. Prior valuations used UP-1994 sex-distinct table.										
<b>Withdrawal Rate</b>	<p>Assumption used to project terminations (voluntary and involuntary) prior to meeting minimum retirement eligibility for retiree health care coverage.</p> <p>Annual withdrawal rates are based on Saranson T-1 table. Sample rates are as shown below.</p> <table border="1" data-bbox="709 1144 1054 1344"> <thead> <tr> <th>Age</th> <th>Male</th> </tr> </thead> <tbody> <tr> <td>25</td> <td>4.9%</td> </tr> <tr> <td>35</td> <td>2.3%</td> </tr> <tr> <td>45</td> <td>2.7%</td> </tr> <tr> <td>50</td> <td>0.0%</td> </tr> </tbody> </table>	Age	Male	25	4.9%	35	2.3%	45	2.7%	50	0.0%
Age	Male										
25	4.9%										
35	2.3%										
45	2.7%										
50	0.0%										
<b>Disability</b>	None										



## Actuarial Assumptions and Methods – Continued

### Retirement Rate

Annual retirement rates are as shown below.

Age	Male
45	3%
46 – 49	2%
50	3%
51 – 52	2%
53	3%
54	4%
55	2%
56	6%
57 – 58	15%
59	5%
60+	100%

### Per Capita Costs

Annual per capita costs are based on claims data and fixed costs expenses for the 12-month period ending November 30, 2010 projected to fiscal year 2011/12, actuarially increased using health index factors and current enrollment. These costs are assumed to increase with health care trend rates.

Age	Male	Female
50 – 54	\$ 6,700	\$ 8,100
55 – 59	\$ 9,300	\$ 9,100
60 – 64	\$ 12,000	\$ 10,500
65 – 69	\$ 2,100	\$ 2,100
70 – 74	\$ 2,400	\$ 2,400
75+	\$ 2,800	\$ 2,800

The per capita costs represent the cost of coverage for a retiree-only population.

Actuarial standards require the recognition of higher inherent costs for a retired population versus an active population.

Annual administrative per capita cost is assumed to be \$300. It is assumed to increase 3% annually.

### Dental and Vision Benefits

There are no GASB liabilities for dental and vision benefits as retirees pay the full cost of coverage.



## Actuarial Assumptions and Methods – Continued

### Retiree Contributions

Retiree contributions are assumed to increase with health care trend rates.

### Health Care Trend Rates

FYE	Pre-65	Post-65
2010	9.20%	10.00%
2011	8.70%	9.50%
2012	8.20%	9.00%
2013	7.70%	8.50%
2014	7.20%	8.00%
2015	6.70%	7.50%
2016	6.30%	7.10%
2017	5.90%	6.70%
2018	5.50%	6.30%
2019	5.10%	5.90%
2020	4.70%	5.50%
2021+	4.50%	5.50%

The initial trend rate was selected based on a combination of employer history, national trend surveys, and professional judgment.

The ultimate trend rate was selected based on historical medical CPI information.

### Health Care Coverage Election Rate

#### *Active Employees*

100% of active employees with current coverage are assumed to elect coverage at retirement. Active employees with no current coverage are assumed not to elect coverage at retirement.

#### *Inactive Employees*

Based on actual data.

### Spousal Coverage

85% of male and 25% of female employees are assumed to be married upon retirement. Husbands are assumed to be three years older than wives.

Spousal coverage for current retirees is based on actual data.



## Actuarial Assumptions and Methods – Continued

### Explicit Subsidy

The difference between (a) the COBRA rates and (b) the retiree contribution approved by CEP. Below is an example of the monthly explicit subsidies for a retiree age 60 with medical, dental, and vision coverage.

	Premium Rate	Retiree Contribution	Explicit Subsidy
	A	B	C = A – B
Single	\$ 602.22	\$ 200.00	\$ 402.22
Family	\$ 1,473.59	\$ 100.00	\$ 1,373.59

### GASB Implicit Subsidy

The difference between (a) the per capita cost and (b) the premium rate. Below is an example of the monthly implicit subsidies for a male retiree age 60 for medical benefits only.

	Per Capita Cost	Premium Rate	Implicit Subsidy
	A	B	C = A – B
Retiree	\$ 1,025.00	\$ 157.64	\$ 867.36
Spouse	\$ 900.00	\$ 37.33	\$ 862.67

All employers that utilize premium rates based on blended active/retiree claims experience will have an implicit subsidy. There is an exception for plans using a true community-rated premium rate.





**Active Participants with Coverage**

<i>Plans</i>	<i>Single</i>	<i>Family</i>	<i>Total</i>	<i>Avg. Age</i>	<i>Avg. Svc</i>	<i>Total Salary (in millions)</i>
<b>State Personnel<sup>3</sup></b>						
Traditional PPO	2,221	1,217	3,438	54.7	15.5	N/A
CDHP 1	5,914	10,636	16,550	45.3	11.7	N/A
CDHP 2	1,619	2,777	4,396	48.1	12.6	N/A
<b>Total with coverage</b>	<b>9,754</b>	<b>14,630</b>	<b>24,384</b>	<b>47.1</b>	<b>12.4</b>	<b>N/A</b>
<b>Legislature</b>						
Traditional PPO	11	16	27	61.6	15.0	N/A
CDHP 1	10	25	35	51.0	7.0	N/A
CDHP 2	2	22	24	56.8	13.5	N/A
<b>Total with coverage</b>	<b>23</b>	<b>63</b>	<b>86</b>	<b>55.9</b>	<b>11.4</b>	<b>N/A</b>
<b>Conservation and Excise Police</b>	<b>67</b>	<b>191</b>	<b>258</b>	<b>40.8</b>	<b>15.2</b>	<b>N/A</b>
<b>Indiana State Police</b>	<b>367</b>	<b>1,385</b>	<b>1,752</b>	<b>42.0</b>	<b>13.8</b>	<b>\$ 86,191,551</b>

**Active Participants without Coverage<sup>4</sup>**

<i>Plans</i>	<i>Total</i>	<i>Avg. Age</i>	<i>Avg. Svc</i>	<i>Total Salary (in millions)</i>
State Personnel	3,943	47.5	10.1	N/A
Legislature	41	56.5	7.4	N/A

<sup>3</sup> Including judges, prosecuting attorneys, civilian employees of Indiana State Police enrolled in the State plans and legislative support staff.

<sup>4</sup> 40% of active employees who currently have no coverage are assumed to elect coverage after meeting PERF eligibility requirement. They have been included in the GASB valuation.



## Retired Participants

<i>Plans</i>	<i>Single</i>	<i>Family</i>	<i>Total</i>	<i>Avg. Age</i>
<b>State Personnel</b>				
Traditional PPO	372	71	443	63.3
CDHP 1	300	90	390	61.5
CDHP 2	152	58	210	62.2
<b>Total with coverage</b>	<b>824</b>	<b>219</b>	<b>1,043</b>	<b>62.4</b>
<b>Legislature</b>				
Traditional PPO	11	28	39	65.1
CDHP 1	1		1	49.0
<b>Total with coverage</b>	<b>12</b>	<b>28</b>	<b>40</b>	<b>64.7</b>
<b>Conservation and Excise Police</b>				
	<b>27</b>	<b>113</b>	<b>140</b>	<b>64.7</b>
<b>Indiana State Police<sup>5</sup></b>				
	<b>350</b>	<b>763</b>	<b>1,113</b>	<b>67.2</b>

<sup>5</sup> Additionally, there are 230 retirees who currently have no health care coverage with ISP but they have life insurance coverage. They have been included in the GASB valuation.



**Age-Service Distributions for State Personnel Active Employees**

Age	Years of Service										Total
	< 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25	211	390	14								615
25 to 29	268	1,627	365	5							2,265
30 to 34	179	1,316	890	246	10						2,641
35 to 39	110	970	790	560	194	5					2,629
40 to 44	98	1,001	798	546	598	206	13				3,260
45 to 49	86	917	767	617	527	542	344	27			3,827
50 to 54	93	810	804	630	601	614	554	487	34		4,627
55 to 59	60	699	695	622	589	575	450	481	333	17	4,521
60 to 64	25	437	555	450	386	368	251	200	297	86	3,055
65 to 69	5	74	142	106	110	72	41	29	36	26	641
70 & up		22	39	45	39	39	17	16	8	21	246
<b>Total</b>	<b>1,135</b>	<b>8,263</b>	<b>5,859</b>	<b>3,827</b>	<b>3,054</b>	<b>2,421</b>	<b>1,670</b>	<b>1,240</b>	<b>708</b>	<b>150</b>	<b>28,327</b>





### Age-Service Distributions for Legislature Active Employees

Age	Years of Service										Total
	< 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25											0
25 to 29											0
30 to 34		1	1								2
35 to 39	4	3		2							9
40 to 44	3	4	5								12
45 to 49	3	6	2	1	1						13
50 to 54	3	2	3	6	2	1					17
55 to 59	2	7	1	3	4	2	2				21
60 to 64	2	5	5	4	4	4		1			25
65 to 69	1	3	2	2	2	4		2			16
70 & up		1	1	2		1	4	2	1		12
<b>Total</b>	<b>18</b>	<b>32</b>	<b>20</b>	<b>20</b>	<b>13</b>	<b>12</b>	<b>6</b>	<b>5</b>	<b>1</b>		<b>127</b>



**Age-Service Distributions for Indiana State Police Active Employees**

Age	Years of Service										Total	
	< 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up		
Under 25	24	13										37
25 to 29	29	174	30									233
30 to 34	4	93	78	40	1							216
35 to 39	6	49	38	166	52							311
40 to 44	4	34	22	73	134	26						293
45 to 49	6	10	10	17	44	108	34	1				230
50 to 54	5	6	9	12	13	59	52	55				211
55 to 59	5	8	14	11	8	13	24	52	9			144
60 to 64	7	3	5	7	4	3	3	11	11	3		57
65 to 69	10			2			1					13
70 & up	5					1				1		7
<b>Total</b>	<b>105</b>	<b>390</b>	<b>206</b>	<b>328</b>	<b>256</b>	<b>210</b>	<b>114</b>	<b>119</b>	<b>20</b>	<b>4</b>		<b>1,752</b>



**Age-Service Distributions for Conservation and Excise Police Active Employees**

Age	Years of Service										Total	
	< 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up		
Under 25		2										2
25 to 29		25	17	1								43
30 to 34		12	24	5								41
35 to 39		3	13	16	6							38
40 to 44		1	4	9	23	7						44
45 to 49			1	2	5	19	8					35
50 to 54		1	1	1		4	14	8				29
55 to 59		1		1		1	4	11	4			22
60 to 64							1	2	1			4
65 to 69												0
70 & up												0
<b>Total</b>	<b>0</b>	<b>45</b>	<b>60</b>	<b>35</b>	<b>34</b>	<b>31</b>	<b>27</b>	<b>21</b>	<b>5</b>	<b>0</b>		<b>258</b>





GASB 45 defines several unique terms not commonly employed in the funding of pension and retiree health plans. The definitions of the terms used in the GASB actuarial valuations are noted below.

1. **Actuarial Accrued Liability** – That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of plan benefits and expenses which is not provided for by the future Normal Costs.
2. **Actuarial Assumptions** – Assumptions as to the occurrence of future events affecting health care costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.
3. **Actuarial Cost Method** – A procedure for determining the Actuarial Present Value of future benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.
4. **Actuarial Present Value** – The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:
  - a) adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.);
  - b) multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned; and
  - c) discounted according to an assumed rate (or rates) of return to reflect the time value of money.
5. **Annual OPEB Cost** – An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.
6. **Annual Required Contribution (ARC)** – The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.
7. **Explicit Subsidy** – The difference between (a) the amounts required to be contributed by the retirees based on the premium rates and (b) actual cash contribution made by the employer.
8. **Funded Ratio** – The actuarial value of assets expressed as a percentage of the actuarial accrued liability.
9. **Healthcare Cost Trend Rate** – The rate of change in the per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.



10. **Implicit Subsidy** – In an experience-rated healthcare plan that includes both active employees and retirees with blended premium rates for all plan members, the difference between (a) the age-adjusted premiums approximating claim costs for retirees in the group (which, because of the effect of age on claim costs, generally will be higher than the blended premium rates for all group members) and (b) the amounts required to be contributed by the retirees.
11. **Net OPEB Obligation** – The cumulative difference since the effective date of this Statement between annual OPEB cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.
12. **Normal Cost** – The portion of the Actuarial Present Value of plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.
13. **Pay-as-you-go** – A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.
14. **Per Capita Costs** – The current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan.
15. **Present Value of Future 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.
16. **Select and Ultimate Rates** – Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8% for year 20W0, then 7.5% for 20W1, and 7% for 20W2 and thereafter, then 8% and 7.5% select rates, and 7% is the ultimate rate.
17. **Substantive Plan** – The terms of an OPEB plan as understood by the employer(s) and plan members.





## Appendix A – Comparison of Participant Demographic Information

	As of June 30, 2011				As of June 30, 2009			
	State Personnel	Legislature	ISP	CEP	State Personnel	Legislature	ISP	CEP
Active Participants <sup>6</sup>	24,384	86	1,752	258	26,092	86	1,810	293
Retired Participants <sup>7</sup>	1,043	40	1,113	140	722	40	1,007	112
Averages for Active								
Age	47.1	55.9	42.0	40.8	46.0	55.9	41.4	40.3
Service	12.4	11.4	13.8	15.2	11.0	11.4	13.4	14.8
Averages for Inactive								
Age	62.4	64.7	67.2	64.7	62.4	64.7	65.4	63.0

<sup>6</sup> Only includes employees who have health coverage, except for State Personnel.

<sup>7</sup> The retired enrollment figures exclude spouses and those who currently have no health care coverage. ISP retired participants enrollment exclude those who have life insurance benefits only and include beneficiaries.





**Appendix A** – Continued

**Data Reconciliation by Group**

	<u>State Personnel</u>	<u>Indiana State Police (ISP)</u>	<u>Conservation and Excise Police (CEP)</u>
<b>Active employees with coverage</b>			
Actives as of June 30, 2009	26,092	1,810	293
Terminated	-2,905	-147	-10
New hires	1,613	210	
Transfer to / from different employee group	23		1
Active employees who retired	-283	-122	-27
Retirees who returned to active employment	3	1	
Other adjustment <sup>8</sup>	-159		
<b>Actives as of June 30, 2011</b>	<b>24,384</b>	<b>1,752</b>	<b>258</b>
<b>Retirees with coverage</b>			
Retirees as of June 30, 2009	722	950	112
Active employees who retired	338	120	27
Retirees who returned to active employment	-3	-1	
Retirees who dropped coverage	-290	-26	-11
Retirees who passed away with beneficiaries		-18	
New retirees <sup>9</sup>	274	25	12
Other adjustment <sup>7</sup>	2		
<b>Retirees as of June 30, 2011</b>	<b>1,043</b>	<b>1,043</b>	<b>140</b>
<b>Beneficiaries with coverage</b>			
Beneficiaries as of June 30, 2009		57	
Retirees who passed away with beneficiaries		18	
Beneficiaries who dropped coverage		-5	
<b>Beneficiaries as of June 30, 2011</b>		<b>70</b>	

<sup>8</sup> This line shows adjustments for participants who have changed health plan enrollment status from June 30, 2009 to June 30, 2011 (i.e. those who did not have coverage before but are currently enrolled, and vice versa).

<sup>9</sup> New retirees who were not found as active employees in June 30, 2007 census data or those who were previously active in a different employee group.

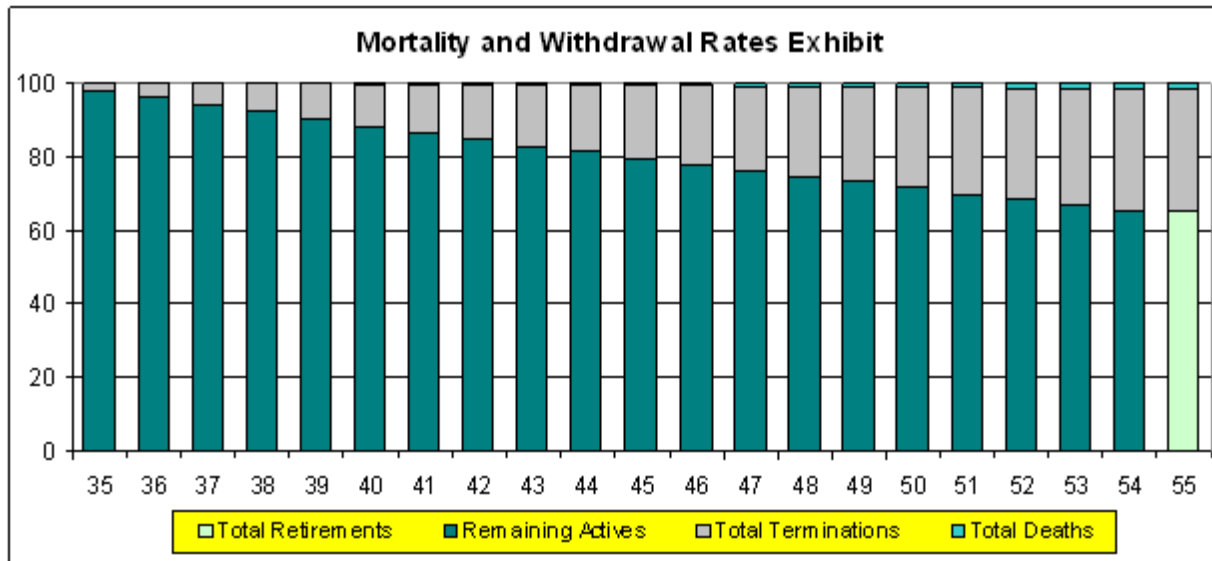


## Appendix B – Withdrawal and Mortality Rates Exhibit

### State Personnel

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. The selected actuarial assumptions show that 65.429 employees are expected to retire and could elect retiree health benefits at age 55. The illustration is based on a sample of 100 active employees all of whom are age 35 with at least five years of service

Age	Remaining Employees	Deaths per year	Terminations per year	Retirements per year	Total Decrements	Age	Remaining Employees	# Deaths per year	Terminations per year	Retirements per year	Total Decrements
35	100.000	0.046	2.000	0.000	2.046	46	79.529	0.051	1.591	0.000	1.664
36	97.954	0.035	1.959	0.000	2.005	47	77.865	0.055	1.557	0.000	1.637
37	95.950	0.034	1.919	0.000	1.965	48	76.228	0.060	1.525	0.000	1.611
38	93.985	0.034	1.880	0.000	1.927	49	74.618	0.065	1.492	0.000	1.586
39	92.058	0.035	1.841	0.000	1.891	50	73.032	0.070	1.461	0.000	1.562
40	90.167	0.036	1.803	0.000	1.855	51	71.470	0.077	1.429	0.000	1.540
41	88.312	0.038	1.766	0.000	1.821	52	69.930	0.084	1.399	0.000	1.519
42	86.490	0.040	1.730	0.000	1.788	53	68.411	0.092	1.368	0.000	1.500
43	84.702	0.043	1.694	0.000	1.756	54	66.911	0.099	1.338	0.000	1.481
44	82.947	0.045	1.659	0.000	1.724	55	65.429	0.000	0.000	65.429	65.429
45	81.223	0.048	1.624	0.000	1.693						



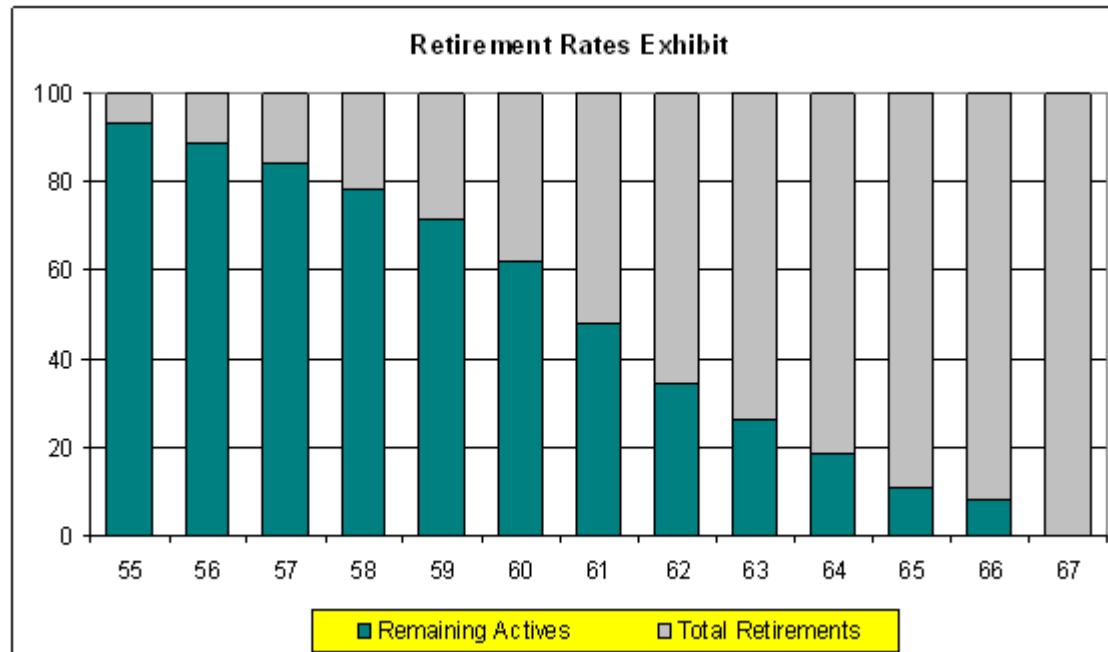


## Appendix C – Retirement Rates Exhibit

### State Personnel

The table below illustrates how actuarial assumptions can affect a long-term projection of future liabilities. The selected retirement rates show the number of employees who are assumed to retire annually based on a sample of 100 active employees age 55 who are eligible for retiree health care coverage. The average age at retirement is 61.2.

Age	Active Employees BOY	Annual Retirement Rates	# Retirements per year	Active Employees EOY	Age	Active Employees BOY	Annual Retirement Rates	# Retirements per year	Active Employees EOY
55	100.000	6.50%	6.500	93.500	62	47.998	28.60%	13.727	34.270
56	93.500	5.20%	4.862	88.638	63	34.270	23.40%	8.019	26.251
57	88.638	5.20%	4.609	84.029	64	26.251	28.60%	7.508	18.743
58	84.029	6.50%	5.462	78.567	65	18.743	42.90%	8.041	10.702
59	78.567	9.10%	7.150	71.417	66	10.702	22.75%	2.435	8.268
60	71.417	13.00%	9.284	62.133	67	8.268	100.00%	8.268	0.000
61	62.133	22.75%	14.135	47.998					





## Appendix D – Illustration of GASB Calculations

The purpose of the illustration is to familiarize non-actuaries with the GASB 45 actuarial calculation process.

### I. Facts

1. The employer provides subsidized retiree health coverage worth \$100,000 to employees retiring at age 55 with 25 years of service. The employer funds for retiree health coverage on a pay-as-you-go basis.
2. Employee X is age 50 and has worked 20 years with the employer.
3. Retiree health subsidies are paid from the general fund assets which are expected to earn 4.5% per year on a long-term basis.
4. Based on Employee X's age and sex he has a 98.0% probability of living to age 55 and a 95.0% probability of continuing to work to age 55.

### II. Calculation of Present Value of Future Benefits

**Present Value of Future Benefits** represents the cost to finance benefits payable in the future to current and future retirees and beneficiaries, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

	Value	Description
A.	\$100,000	Projected benefit at retirement
B.	80.2%	Interest discount for five years = $(1 / 1.045)^5$
C.	98.0%	Probability of living to retirement age
D.	95.0%	Probability of continuing to work to retirement age
E.	\$74,666	Present value of projected retirement benefit measured at employee's current age = $A \times B \times C \times D$

**Appendix D** – Continued**III. Calculation of Actuarial Accrued Liability**

**Actuarial Accrued Liability** represents the portion of the Present Value of Future Benefits which has been accrued recognizing the employee's past service with the employer. The Actuarial Accrued Liability is a required disclosure in the Required Supplementary Information section of the employer's financial statement.

	Value	Description
A.	\$74,666	Present value of projected retirement benefit measured at employee's current age
B.	20	Current years of service with employer
C.	25	Projected years of service with employer at retirement
D.	\$59,733	Actuarial accrued liability measured at employee's current age = $A \times B / C$

**IV. Calculation of Normal Cost**

**Normal Cost** represents the portion of the Present Value of Future Benefits allocated to the current year.

	Value	Description
A.	\$74,666	Present value of projected retirement benefit measured at employee's current age
B.	25	Projected years of service with employer at retirement
C.	\$2,987	Normal cost measured at employee's current age = $A / B$

**V. Calculation of Annual Required Contribution**

**Annual Required Contribution** is the total expense for the current year to be shown in the employer's income statement.

	Value	Description
A.	\$2,987	Normal Cost for the current year
B.	\$3,509	30-year amortization (level dollar method) of Unfunded Actuarial Accrued Liability using a 4.5% interest rate discount factor
C.	\$292	Interest adjustment = $4.5\% \times (A + B)$
D.	\$6,788	Annual Required Contribution = $A + B + C$