

New Mexico Retiree Health Care Authority

**Actuarial Valuation and Review of Other
Postemployment Benefits (OPEB) as of
June 30, 2016 In accordance with GASB
Statement No. 43**



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October 25, 2016

*Board of Directors
New Mexico Retiree Health Care Authority
4308 Carlisle Blvd NE, Suite 104
Albuquerque, NM 87107*

Dear Board members:

We are pleased to submit this Actuarial Valuation and Review of Other Postemployment Benefits (OPEB) as of June 30, 2016 under Governmental Accounting Standards Board Statement 43. The report summarizes the actuarial data used in the valuation establishes the Annual Required Contribution (ARC) for the coming year, and analyzes the preceding years' experience. This report was based on the census and financial data provided by NMRHCA the terms of the Plan. The actuarial calculations were completed under the supervision of Dave Bergerson, FCA, ASA, MAAA, and Thomas Bergman, ASA, MAAA.

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

Sincerely,

Segal Consulting, a Member of The Segal Group, Inc.

By: 

*Gary L. Petersen, FCA, ASA, MAAA
Vice President & Consulting Actuary*

JAC/bqb

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IMPORTANT INFORMATION ABOUT ACTUARIAL VALUATIONS

An actuarial valuation is a budgeting tool with respect to the financing of future projected obligations of a pension plan. It is an estimated forecast – the actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

In order to prepare an actuarial valuation, Segal Consulting (“Segal”) relies on a number of input items. These include:

- **Plan of benefits** Plan provisions define the rules that will be used to determine benefit payments, and those rules, or the interpretation of them, may change over time. It is important to keep Segal informed with respect to plan provisions and administrative procedures, and to review the plan description in this report to confirm that Segal has correctly interpreted the plan of benefits.
- **Participant data** An actuarial valuation for a plan is based on data provided to the actuary by the NMRHCA. Segal does not audit such data for completeness or accuracy, other than reviewing it for obvious inconsistencies compared to prior data and other information that appears unreasonable. It is important for Segal to receive the best possible data and to be informed about any known incomplete or inaccurate data.
- **Assets** This valuation is based on the market value of assets as of the valuation date, as provided by the NMRHCA.
- **Actuarial assumptions** In preparing an actuarial valuation, Segal projects the benefits to be paid to existing plan participants for the rest of their lives and the lives of their beneficiaries. This projection requires actuarial assumptions as to the probability of death, disability, withdrawal, and retirement of each participant for each year. In addition, the benefits projected to be paid for each of those events in each future year reflect actuarial assumptions as to health care trend increases. The projected benefits are then discounted to a present value, based on the assumed rate of return that is expected to be achieved on the plan’s assets. There is a reasonable range for each assumption used in the projection and the results may vary materially based on which assumptions are selected. It is important for any user of an actuarial valuation to understand this concept. Actuarial assumptions are periodically reviewed to ensure that future valuations reflect emerging plan experience. While future changes in actuarial assumptions may have a significant impact on the reported results, that does not mean that the previous assumptions were unreasonable.

The user of Segal’s actuarial valuation (or other actuarial calculations) should keep the following in mind:

- The valuation is prepared at the request of the NMRHCA. Segal is not responsible for the use or misuse of its report, particularly by any other party.
- An actuarial valuation is a measurement of the plan’s assets and liabilities at a specific date. Accordingly, except where otherwise noted, Segal did not perform an analysis of the potential range of future financial measures. The actual long-term cost of the plan will be determined by the actual benefits and expenses paid and the actual investment experience of the plan.

SECTION 1: Executive Summary for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43 and 45

- If the NMRHCA is aware of any event or trend that was not considered in this valuation that may materially change the results of the valuation, Segal should be advised, so that we can evaluate it.
- Segal does not provide investment, legal, accounting, or tax advice. Segal's valuation is based on our understanding of applicable guidance in these areas and of the plan's provisions, but they may be subject to alternative interpretations. The NMRHCA should look to their other advisors for expertise in these areas.

As Segal Consulting has no discretionary authority with respect to the management or assets of the NMRHCA, it is not a fiduciary in its capacity as actuaries and consultants with respect to the NMRHCA.

SECTION 1: Executive Summary for New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

PURPOSE

This report presents the results of our actuarial valuation of the New Mexico Retiree Health Care Authority OPEB plan as of June 30, 2016. The results are in accordance with the Governmental Accounting Standards, which prescribe an accrual methodology for accumulating the value of other postemployment benefits (OPEB) over participants' active working lifetimes.

HIGHLIGHTS OF THE VALUATION

- The **unfunded actuarial accrued liability (UAAL)** as of June 30, 2016 is \$3.805 billion, an increase of \$442 million, from the prior valuation UAAL of \$3.363 billion. Chart 2 shows a reconciliation of the UAAL from June 30, 2014 to June 30, 2016. The Chart shows the significant changes over the past 2 years including the introduction of the new "Value" plan.
- As of June 30, 2016, the ratio of assets to the AAL (the funded ratio) is 11.0%.
- The **Annual Required Contribution (ARC)** increased to \$318 million for the year ending June 30, 2017. The ARC was \$293 million for the year ending June 30, 2015. Exhibit D shows an estimated reconciliation of the ARC from the 2014/2015 fiscal year to the 2016/2017 fiscal year.
- The actuarial assumptions were updated to reflect the assumptions used in the June 30, 2015 PERA valuation and the June 30, 2015 ERB valuation.
- The Governmental Accounting Standards Board (GASB) approved a new Statements affecting the reporting of OPEB liabilities for accounting purposes.

Statement 74 replaces Statement 43 and is for plan reporting. It is important to note that the new GASB rules only redefine OPEB expense for financial reporting purposes, and do not apply to contribution amounts for actual OPEB funding purposes. Employers and plans can still develop and adopt funding policies under current practices. Because this new Statements is not effective until the fiscal year ending June 30, 2017 for Plan reporting, the financial reporting information in this report continues to be in accordance with Statement 43.

- Based on previous directions provided by the NMRHCA, we have not included in the report the projected excise tax that may be imposed by the Affordable Care Act (ACA) and related statutes. We have limited the benefits payable from the plan to be limited to the excise tax threshold. It is our understanding the recently Statements 74 would require the inclusion of the excise tax liability for financial reporting purposes if any benefit were expected to exceed this threshold.

SECTION 1: Executive Summary for New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

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

SUMMARY OF VALUATION RESULTS

	June 30, 2016	June 30, 2014
Actuarial Accrued Liability (AAL)	\$4,277,042,499	\$3,740,367,299
Actuarial Value of Assets	471,978,347	377,087,017
Unfunded Actuarial Accrued Liability	3,805,064,152	3,363,280,282
Funded Ratio	11.04%	10.08%
Market Value of Assets	\$471,978,347	\$377,087,017
Annual Required Contribution (ARC) for Fiscal Year Ending:	June 30, 2017	June 30, 2015
Normal cost (beginning of year)	\$147,369,983	\$146,064,293
Amortization of the unfunded actuarial accrued liability	155,055,675	132,656,436
Adjustment to the end of the year	15,121,283	<u>13,936,036</u>
Total Annual Required Contribution, including adjustment to the end of the year	\$317,546,941	\$292,656,765
Covered payroll	\$4,271,183,612	\$3,941,587,760
ARC as a percentage of pay	7.43%	7.42%
Total Participants	159,642	155,098

October 25, 2016

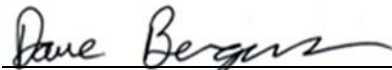
ACTUARIAL CERTIFICATION

This is to certify that Segal Consulting, a Member of The Segal Group, Inc. has conducted an actuarial valuation of certain benefit obligations of New Mexico Retiree Health Care Authority's other postemployment benefit programs as of June 30, 2014, in accordance with generally accepted actuarial principles and practices. The actuarial calculations presented in this report have been made on a basis consistent with our understanding of GASB Statement 43 for the determination of the liability for postemployment benefits other than pensions.

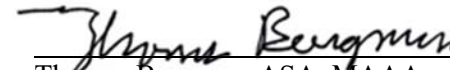
The actuarial valuation is based on the plan of benefits verified by the Employer and reliance on participant, premium, claims and expense data provided by the Employer or from vendors employed by the Employer. Segal Consulting does not audit the data provided. The accuracy and comprehensiveness of the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

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

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statement 43 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Statements of Actuarial Opinions" to render the actuarial opinion contained herein.



Dave Bergerson, FCA, ASA, MAAA
Vice President and Actuary



Thomas Bergman, ASA, MAAA
Associate Actuary

SECTION 2: Valuation Results for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

The actuarial present value of total projected benefits uses the actuarial assumptions disclosed in Section 4 to calculate the value today of all benefits expected to be paid to current actives and retired plan members. The actuarial balance sheet shows the expected breakdown of how these benefits will be financed.

CHART 1

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

	Actuarial Present Value of Total Projected Benefits (APB)	
	June 30, 2016	June 30, 2014
Participant Category		
Current retirees, beneficiaries, and dependents	\$1,760,572,142	\$1,535,134,991
Current active members	\$3,727,164,947	3,493,805,665
Terminated members entitled but not yet eligible	<u>61,280,789</u>	<u>60,442,985</u>
Total as of June 30	\$5,549,017,878	\$5,089,383,641
	June 30, 2016	June 30, 2014
Actuarial Balance Sheet		
The actuarial balance sheet as of the valuation date is as follows:		
Assets		
1. Actuarial value of assets	\$471,978,347	\$377,087,017
2. Present value of future normal costs	1,271,975,379	1,349,016,342
3. Unfunded actuarial accrued liability	<u>3,805,064,152</u>	<u>3,363,280,282</u>
4. Present value of current and future assets	\$5,549,017,878	\$5,089,383,641
Liabilities		
5. Actuarial Present Value of total Projected Benefits	\$5,549,017,878	\$5,089,383,641

SECTION 2: Valuation Results for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

The actuarial accrued liability shows that portion of the APB (Chart 1) allocated to periods prior to the valuation date by the actuarial cost method. The chart below shows the portion covered by retiree contributions, the portion

covered by accumulated plan assets, and reconciles the unfunded actuarial liability from last year to this year.

CHART 2

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

	June 30, 2016	June 30, 2014
Participant Category		
Current retirees, beneficiaries, and dependents	\$1,760,572,142	\$1,535,134,991
Current active members	2,455,189,568	2,144,789,323
Terminated members entitled but not yet eligible	<u>61,280,789</u>	<u>60,442,985</u>
Total	\$4,277,042,499	\$3,740,367,299
Effect of Retiree Contributions		
Actuarial accrued liability before reduction for retiree contributions	\$10,268,181,690	\$8,738,566,414
Less projected retiree contributions	<u>\$5,991,139,191</u>	<u>4,998,199,115</u>
Net employer actuarial accrued liability	\$4,277,042,499	3,740,367,299
Actuarial value of assets	<u>471,978,347</u>	<u>377,087,017</u>
Unfunded actuarial accrued liability	\$3,805,064,152	\$3,363,280,282
Development of Unfunded Actuarial Accrued Liability for Year Ending		
	June 30, 2016	June 30, 2015
1. Unfunded actuarial accrued liability (UAAL) as of beginning of year	\$3,528,141,551	\$3,363,280,281
2. Total normal cost as of beginning of year	151,541,703	146,064,292
3. Total contributions	159,862,801	156,670,251
4. Interest on 1, 2, and 3	<u>183,984,163</u>	<u>175,467,229</u>
5. Expected unfunded actuarial accrued liability (1+2-3+4)	\$3,703,804,616	\$3,528,141,551
6. Actuarial experience (gain)/loss	-28,633,822	
7. Change due to updated decrement assumptions	54,411,536	
8. Change due to plan amendment	-1,207,618	
9. Change due to updated trend, per capita costs and retiree contributions	<u>76,689,440</u>	
10. Unfunded actuarial accrued liability at end of year	\$3,805,064,152	

SECTION 2: Valuation Results for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

The unfunded actuarial accrued liability may be amortized over periods of up to 30 years. Amortization payments may be calculated as level dollar amounts or as amounts designed to remain level as a percent of a growing payroll base. New Mexico Retiree Health Care Authority has elected to amortize unfunded actuarial accrued liability using the following rules:

- Open (non-decreasing) 30-year period
- Level percent of projected payroll

CHART 3

Table of Amortization Bases

Type	Date Established	Annual Payment*	Years Remaining	Outstanding Balance
Total Unfunded Accrued Liability	6/30/2016	\$155,055,675	30	\$3,805,064,152

* *Level percentage of pay*

SECTION 2: Valuation Results for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

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

The amortization payment is based on a 30-year amortization of the Unfunded Actuarial Accrued Liability on a level percent of payroll basis.

CHART 4

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

Cost Element	Fiscal Year Beginning July 1, 2016 and Ending June 30, 2017		Fiscal Year Beginning July 1, 2014 and Ending June 30, 2015	
	Amount	Percentage of Compensation	Amount	Percentage of Compensation
1. Normal cost	\$147,369,983	3.45%	\$146,064,293	3.71%
2. Amortization of the unfunded actuarial accrued liability (30 years)	155,055,675	3.63%	132,656,436	3.36%
3. Adjustment for timing	<u>15,121,283</u>	<u>0.35%</u>	<u>13,936,036</u>	<u>0.35%</u>
4. Total Annual Required Contribution (ARC)	<u>\$317,546,941</u>	<u>7.43%</u>	<u>\$292,656,765</u>	<u>7.42%</u>
5. Total Compensation	\$4,271,183,612		\$3,941,587,760	

SECTION 2: Valuation Results for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

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

CHART 5

**Required Supplementary Information – Schedule of Employer Contributions
GASB 43**

Fiscal Year Ended June 30	Annual Required Contributions *	Actual Contributions *	Percentage Contributed
2010	\$297,999,753	\$114,847,107	38.54%
2011	326,994,988	120,873,224	36.96%
2012	340,074,787	142,053,551	41.77%
2013	353,657,828	135,388,449	38.28%
2014	367,804,141	149,277,185	40.59%
2015	292,656,765	156,670,251	53.53%
2016	303,631,394	159,862,801	52.65%
2017	317,546,941	Not made yet	N/A

** Includes an interest adjustment to the end of the year.*

SECTION 2: Valuation Results for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

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

CHART 6

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) – (a) / (c)]
06/30/2006	\$154,538,668	\$4,264,180,967	\$4,109,642,299	3.62%	\$4,073,731,873	100.88%
06/30/2008	170,626,271	3,116,915,900	2,946,289,629	5.47%	4,020,508,902	73.28%
06/30/2010	176,922,935	3,523,664,871	3,346,741,936	5.02%	4,001,802,240	83.63%
06/30/2012	227,487,895	3,915,114,104	3,687,626,209	5.81%	3,876,220,608	95.13%
06/30/2014	377,087,017	3,740,367,299	3,363,280,282	10.08%	3,941,587,760	85.33%
06/30/2016	471,978,347	4,277,042,499	3,805,064,152	11.04%	4,271,183,612	89.09%

**SECTION 3: Supplemental Valuation Details for the New Mexico Retiree Health Care Authority June 30, 2016
Measurement Under GASB 43**

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

**EXHIBIT A
Summary of Participant Data**

	June 30, 2016	June 30, 2014
Retirees		
Number of retirees	35,762	33,849
Average age of retirees	69.5	69.1
Number of spouses	11,526	11,298
Average age of spouses	68.4	67.8
Surviving Spouses		
Number	2,262	2,172
Average age	77.6	77.5
Inactive Vesteds		
Number of inactive vested	11,515	11,710
Average age of inactive vested	52.2	52.0
Active Participants		
Number	98,577	96,069
Average age	45.4	45.5
Average years of service	9.8	9.7
Average expected retirement age	59.9	59.0

**SECTION 3: Supplemental Valuation Details for the New Mexico Retiree Health Care Authority June 30, 2016
Measurement Under GASB 43**

**SECTION 3: Supplemental Valuation Details for the New Mexico Retiree Health Care Authority June 30, 2016
Measurement Under GASB 43**

**EXHIBIT B
Cash Flow Projections**

The ARC generally exceeds the current pay-as-you-go (“paygo”) cost of an OPEB plan. Over time the paygo cost will tend to grow and may even eventually exceed the ARC in a well funded plan. The following table projects the paygo cost as the projected net fund payment over the next ten years.

Year Ending June 30	Projected Number of Retirees*			Projected Benefit Payments			Projected Retiree Contributions	Projected Net Fund Payment**	Contribution Ratio
	Current	Future	Total	Current	Future	Total			
2015	49,550	4,822	54,372	\$240,680,839	\$31,977,873	\$272,658,712	\$138,598,643	\$134,060,069	50.83%
2016	48,347	8,250	56,597	243,362,902	58,592,562	301,955,464	157,194,957	144,760,507	52.06%
2017	47,110	11,709	58,819	245,618,047	87,693,908	333,311,955	176,781,187	156,530,768	53.04%
2018	45,834	15,231	61,065	247,963,061	118,637,134	366,600,195	198,475,625	168,124,570	54.14%
2019	44,522	18,667	63,189	250,006,847	150,946,999	400,953,846	222,385,194	178,568,652	55.46%
2020	43,175	21,554	64,729	252,261,858	179,293,727	431,555,585	243,153,854	188,401,731	56.34%
2021	41,797	24,416	66,213	253,287,580	207,920,420	461,208,000	263,263,807	197,944,193	57.08%
2022	40,388	27,208	67,596	253,910,369	237,453,416	491,363,785	283,287,185	208,076,600	57.65%
2023	38,953	29,970	68,923	253,441,075	267,834,836	521,275,911	303,187,543	218,088,368	58.16%
2024	37,488	32,642	70,130	252,542,989	299,675,107	552,218,096	323,267,369	228,950,727	58.54%

* Includes spouses of retirees.

** Total projected benefit payments less projected retiree contributions.

**SECTION 3: Supplemental Valuation Details for the New Mexico Retiree Health Care Authority June 30, 2016
Measurement Under GASB 43**

**EXHIBIT C
Financial Information**

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

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

New Mexico Retiree Health Care Authority has an arrangement that meets those requirements.

Statement of Plan Net Assets

	Year Ended June 30, 2016	Year Ended June 30, 2014
Assets		
Cash equivalents	\$10,817,867	\$11,034,642
Accounts receivable:	\$22,286,716	\$13,625,481
Investments:		
Fixed Income	464,550,502	122,137,462
Equities	0	259,309,998
Capital Assets	<u>1,124,899</u>	<u>173,660</u>
Total investments at market value	\$465,675,401	\$381,621,120
Total assets	\$498,779,984	\$406,281,243
Liabilities		
Less accounts payable:	<u>-26,801,637</u>	<u>-29,194,226</u>
Net assets held in trust for other postemployment benefits	\$471,978,347	\$377,087,017

**SECTION 3: Supplemental Valuation Details for the New Mexico Retiree Health Care Authority June 30, 2016
Measurement Under GASB 43**

EXHIBIT D

Estimated Reconciliation of the Annual Required Contribution (ARC)

If all actuarial assumptions had been exactly realized the ARC would have been expected to be \$315.0 million this year. The actual ARC for this year is \$317.5 million, an increase of \$24.9 million. The following chart identified the sources of this difference.

Estimated Reconciliation of the Annual Required Contribution

Item	Amount
ARC for 2014/2015 Fiscal Year, payable at end of year	\$292,656,765
Expected increase due to payroll growth assumption	22,360,806
Increase due to contributions less than ARC	12,572,574
Decrease due to actuarial experience gain	-1,256,309
Increase due to change in composition of active population	11,537,728
Increase due to updated per capita costs and retiree contributions	5,337,851
Decrease due to plan amendment	-2,497,833
Decrease due to updated decrement assumptions	-13,852,828
Decrease due to resetting amortization period to 30 years	<u>-9,311,813</u>
Total Change in ARC	<u>24,890,176</u>
Actual ARC for 2016/2017 Fiscal Year, payable at end of year	<u>\$317,546,941</u>

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT I

Summary of Required Supplementary Information

Valuation date	June 30, 2016
Actuarial cost method	Entry Age, level percent of pay, calculated on individual employee basis
Amortization method	30-Year Amortization Open, level percent of payroll
Remaining amortization period	30
Asset valuation method	Market Value

Actuarial assumptions:

Investment rate of return	5.00%
Projected payroll increase	3.50%
Medical cost trend rates	See Exhibit II

Plan membership:	June 30, 2016	June 30, 2014
Current retirees, beneficiaries, and dependents	49,550	47,319
Current active participants	98,577	96,069
Terminated participants entitled but not yet eligible	<u>11,515</u>	<u>11,710</u>
Total	159,642	155,098

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method

Data:	Detailed census data and financial data for postemployment benefits were provided by New Mexico Retiree Health Care Authority.
Actuarial Cost Method:	Entry age, level percent of pay, calculated on individual basis.
Measurement Date:	June 30, 2016
Census Date:	January 1, 2016
Discount Rate:	5.00%

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for PERA members

PERA Post-Retirement Mortality Rates:

After Service Retirement: RP-2000 Combined Healthy Mortality projected with Scale AA to 2018.

After Disability Retirement: RP-2000 Disabled Mortality projected with Scale AA to 2018 before attainment of normal retirement age and after normal retirement age RP-2000 Combined Healthy Mortality Projected with Scale AA to 2018.

The tables shown above were determined so as to reasonably reflect future mortality improvement, based on the June 30, 2015 PERA pension valuation.

PERA Termination Rates before Retirement:

Pre-Retirement Mortality: RP-2000 Employee Mortality Table projected with Scale AA to 2018.

Assumptions used for PERA members

State General Males					
Rates of Active Members Terminating During Year					
Sample Ages	Sample Service (Yr.):				
	2	4	6	8	10+
20	18.76%	10.86%	8.21%	7.78%	5.11%
25	17.72	11.06	8.10	7.07	4.65
30	16.45	11.27	7.97	6.18	4.13
35	15.31	10.81	7.59	5.58	3.89
40	14.30	9.97	7.08	5.40	3.86
45	13.55	9.06	6.63	5.40	3.86
50	13.26	8.45	6.49	5.40	3.86
55	13.26	8.37	6.49	5.40	3.86
60	13.26	8.37	6.49	5.40	3.86

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

State General Females					
Rates of Active Members Terminating During Year					
Sample Ages	Sample Service (Yr.):				
	2	4	6	8	10+
20	18.13%	11.95%	8.22%	6.05%	4.83%
25	17.76	11.95	8.02	5.81	4.25
30	17.28	11.89	7.81	5.54	3.55
35	16.34	11.23	7.45	5.28	3.46
40	15.22	10.24	6.99	5.06	3.46
45	14.19	9.20	6.58	4.95	3.46
50	13.52	8.55	6.45	4.80	3.46
55	13.37	8.50	6.45	4.70	3.46
60	13.37	8.50	6.45	4.70	3.46

Assumptions used for PERA members

Municipal General Males					
Rates of Active Members Terminating During Year					
Sample Ages	Sample Service (Yr.):				
	2	4	6	8	10+
20	21.70%	14.59%	11.29%	8.93%	8.54%
25	20.00	13.52	10.26	8.05	7.32
30	17.73	12.04	8.96	6.94	5.69
35	15.77	10.65	8.01	6.20	4.61
40	14.06	9.37	7.29	5.73	3.92
45	12.80	8.39	6.87	5.58	3.65
50	12.20	8.01	6.79	5.58	3.65
55	12.18	8.01	6.79	5.58	3.65
60	12.18	8.01	6.79	5.58	3.65

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Municipal General Females					
Rates of Active Members Terminating During Year					
Sample Ages	Sample Service (Yr.):				
	2	4	6	8	10+
20	24.40%	17.77%	14.41%	11.94%	7.51%
25	21.96	16.06	12.80	10.32	6.38
30	18.85	13.77	10.63	8.16	4.94
35	16.69	11.96	9.08	6.70	4.09
40	15.16	10.49	7.84	5.74	3.67
45	14.28	9.49	6.50	5.31	3.62
50	14.01	9.14	6.50	5.30	3.62
55	14.01	9.14	6.50	5.30	3.62
60	14.01	9.14	6.50	5.30	3.62

Assumptions used for PERA members

Service Based Rates of Active Members Terminating During Year					
All Ages	Sample Service (Yr.):				
	1	3	5	7	10+
State Police & Corrections	20.00	16.00	9.00	8.00	6.00
Municipal Detention	22.00	16.00	10.00	10.00	6.00
Municipal Police	14.00	9.50	6.80	5.15	3.80
Municipal Fire	10.00	7.50	5.00	3.30	3.00

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for PERA members

Age	Rates (%) – Disability Incidence						
	State General		State Police and Corrections*	Municipal General		Municipal Police	Municipal Fire
	Male	Female		Male	Female		
25	0.02	0.02	0.14	0.05	0.04	0.07	0.02
30	0.04	0.03	0.16	0.08	0.04	0.08	0.02
35	0.08	0.06	0.21	0.12	0.04	0.12	0.02
40	0.13	0.12	0.27	0.17	0.06	0.17	0.08
45	0.24	0.20	0.46	0.25	0.14	0.26	0.08
50	0.41	0.39	0.90	0.40	0.25	0.42	0.33
55	0.57	0.61	1.40	0.65	0.39	0.73	0.33
60	0.74	0.73	1.88	0.80	0.51	1.22	1.17
65	0.75	0.73	1.88	0.82	0.59	1.22	1.17

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for PERA members

PERA Retirement Rates:

These rates are applicable when employee becomes eligible for retirement based on age/service combination.

Retirement Ages	Retirement Rates (%)						
	State General		State Police and Corrections*	Municipal General		Municipal Police	Municipal Fire
	Male	Female		Male	Female		
40	40	35	50	35	35	30	40
45	40	35	50	35	35	30	35
50	40	35	50	40	40	30	30
55	40	35	50	30	25	30	30
60	30	40	50	30	30	30	20
65	30	35	40	35	35	50	50
70	25	30	100	25	25	100	100
75	25	25		25	25		
80	100	100		100	100		

* Police and Corrections were not identified separately in the census data. We have used the Corrections assumption because the subgroup comprises about 75% of the combined group total.

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for ERB members

ERB Post-Retirement Mortality Rates:

After Retirement:

Males: RP-2000 Combined Healthy Mortality Table with White Collar Adjustment generationally projected with Scale BB.

Females: GRS Southwest Region Teacher Mortality Table, set back one year, generationally projected with Scale BB.

After Disability Retirement: RP-2000 Disabled Mortality Table, set back three years for males and no set back for females, projected with Scale BB to 2016.

The tables shown above were determined so as to reasonably reflect future mortality improvement, based on the June 30, 2015 ERB pension valuation.

ERB Assumptions used for ERB members

Pre-Retirement Mortality RP-2000 Employee Mortality Table, set back two years and scaled 80% for males and set back five years and scaled 70% for females, projected with Scale BB to 2016.

ERB Termination Rates before Retirement:

Age	Disability Incidence – Rates(%)	
	Males	Females
25	0.007	0.010
30	0.007	0.020
35	0.042	0.050
40	0.091	0.080
45	0.133	0.120
50	0.168	0.168
55	0.182	0.168

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for ERB members

ERB Termination Rates before Retirement (continued):

Active Members Terminating During year – Rates (%)

Completed Service	Males	Females
0	43.4	31.4
1	28.1	23.8
2	19.6	17.2
3	14.3	13.5
4	11.9	10.6
5	10.0	9.8
6	9.1	8.6
7	7.3	7.2
8	6.1	6.3
9	5.7	5.5
10	5.2	5.0
11	4.2	4.7
12	4.0	4.2
13	3.4	3.6
14	3.4	3.5
15	3.1	3.3
16	2.2	2.3
17	2.3	2.7
18	2.3	2.1
19 and over	0.0	0.0

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for ERB members

ERB Retirement Rates:

Members Hired before July 1, 2010 and Normal Retirement for Members Hired on or After July 1, 2010

Retirement – Rates(%)

<u>Males</u>						
<u>Age</u>	<u>Years of Service</u>					
	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>
45	0	0	0	0	0	15
50	0	0	0	0	0	18
55	0	0	0	0	5	20
60	0	0	0	15	20	25
62	0	0	30	30	30	30
65	0	40	35	30	30	30
67	0	25	25	25	30	30
70	100	100	100	100	100	100
<u>Females</u>						
<u>Age</u>	<u>Years of Service</u>					
	<u>0-4</u>	<u>5-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-24</u>	<u>25+</u>
45	0	0	0	0	0	15
50	0	0	0	0	0	18
55	0	0	0	0	6	23
60	0	0	0	20	15	25
62	0	0	40	30	30	35
65	0	35	40	40	40	40
67	0	25	25	25	30	30
70	100	100	100	100	100	100

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Assumptions used for ERB members

ERB Retirement Rates:

Members Hired on or after July 1, 2010

Retirement – Rates(%)

Males
Years of Service

<u>Age</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>
55	0	0	5
60	0	20	20
62	30	30	30
65	30	30	30

Females
Years of Service

<u>Age</u>	<u>15-19</u>	<u>20-24</u>	<u>25-29</u>
55	0	0	6
60	0	15	15
62	30	30	30
65	40	40	40

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Administrative Expenses: Non-Medicare: \$357/year
 Medicare Supplement: \$429/year
 Medicare Advantage: \$55/year

Per Capita Cost Development: The assumed costs on a composite basis (and other demographic factors such as sex and family status) are the future costs of providing postretirement health care benefits at each age. To determine the assumed costs on a composite basis, historical claims costs are reviewed, and adjusted for increases in the cost of health care services.

Per Capita Costs: Annual medical and drug claims costs for the 2016/2017 plan year, excluding assumed expenses were developed actuarially for retirees and spouses at select ages and are shown in the table below. These costs are net of deductibles and other benefit plan cost sharing provisions.

Age	Value/Premier Non-Medicare				United Healthcare Plan I or II				Non-Medicare Drug Rebates			
	Retiree		Spouse		Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
50	\$6,981	\$7,952	\$4,876	\$6,385	\$1,661	\$1,412	\$1,661	\$1,412	-\$332	-\$378	-\$232	-\$304
55	8,291	8,560	6,525	7,390	1,925	1,522	1,925	1,522	-394	-407	-310	-352
60	9,846	9,226	8,735	8,571	2,075	1,638	2,075	1,638	-468	-439	-415	-408
64	11,296	9,788	11,027	9,647	2,234	1,766	2,234	1,766	-537	-466	-525	-459
Age	BCBS Supplemental				Presbyterian Senior Plan I or II				BCBS (Medicare Advantage)			
	Retiree		Retiree		Retiree		Spouse		Retiree		Spouse	
	Male	Male	Male	Male	Male	Female	Male	Female	Male	Female	Male	Female
65	\$4,721	\$1,806	\$1,806	\$1,535	\$1,806	\$1,535	\$1,806	\$1,535	\$1,023	\$869	\$1,023	\$869
70	5,471	2,093	2,093	1,654	2,093	1,654	2,093	1,654	1,185	937	1,185	937
75	5,896	2,255	2,255	1,780	2,255	1,780	2,255	1,780	1,277	1,008	1,277	1,008
80	6,349	2,429	2,429	1,919	2,429	1,919	2,429	1,919	1,375	1,087	1,375	1,087

EXHIBIT II

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

Actuarial Assumptions and Actuarial Cost Method (continued)

Age	Medicare Drug Rebates				Medicare Drug Subsidy			
	Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female
65	-\$1,430	-\$1,216	-\$1,430	-\$1,216	-\$226	-\$192	-\$226	-\$192
70	-1,658	-1,310	-1,658	-1,310	-262	-207	-262	-207
75	-1,786	-1,410	-1,786	-1,410	-282	-223	-282	-223
80	-1,924	-1,520	-1,924	-1,520	-304	-240	-304	-240

Drug Rebate Assumption

The 2016/2017 annual drug rebate for non-Medicare retirees was assumed to have no projected future increases.

The 2016/2017 annual drug rebate for Medicare retirees with BCBS Medicare Supplement plan was assumed to have no projected future increases.

Medicare Part D

Subsidy Assumption:

These calculations include an offset for retiree prescription drug plan federal subsidies that the Plan is eligible to receive because the Plan has been determined to be a Medicare PDP. The subsidy shown above per eligible retiree or spouse for 2016/2017, was assumed to increase by 5% for 6 years, and 4% thereafter.

Unknown Data for Members:

Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male. For active participants with unknown dates of birth, we assumed their age at entry was that of the average for actives with date of birth.

Spouse Coverage:

55% male, 30% female.

Age of Spouse:

Wives are 3 years younger than their husbands.

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Future Benefit Accruals: 1.0 year of service per year.

Participation and Election: 75% of the active participants are assumed to continue coverage at retirement. 25% of employees terminating prior to retiring, and eligible, are assumed to elect NMRHCA benefits at retirement.

Future retirees are assumed to elect medical carriers in the same proportion as current retirees:

<u>Non-Medicare Plan</u>	<u>Medical Election %</u>
Premier	89%
Value Plan	11%

<u>Medicare Plan</u>	<u>Medical Election %</u>
BCBS Medicare Supplement	67%
BCBS Senior Plan I or II	11%
Presbyterian Senior Plan I or II	15%
United Healthcare Plan I or II	7%

Former Vested Retirement Age: Former vested members are assumed to begin receiving retiree health benefits at age 60.

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

PERA Salary Increases: Salary increases occur in recognition of (i) individual merit and longevity, (ii) inflation-related depreciation of the purchasing power of salaries, and (iii) other factors such as productivity gains and competition from other employers for personnel. A schedule of long-term rates of increase is used to project salaries from valuation salaries to final average salaries upon which pensions are based. Sample rates follow:

Attributable to:	Annual Rates (%) of Salary Increase for Sample Years of Service				
	1	5	10	15	20
General Increase in Wage Level Due to:					
Inflation	3.0	3.0	3.0	3.0	3.0
Other factors	0.5	0.5	0.5	0.5	0.5
Increase Due to Merit/Longevity:					
State General	7.75	1.75	0.50	0.50	0.50
State Police and Corrections	9.75	2.75	1.75	1.75	1.75
Municipal General	2.25	1.75	0.50	0.50	0.50
Municipal Police	8.25	3.25	2.00	1.25	1.25
Municipal Fire	8.25	3.25	2.00	2.00	2.00

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

ERB Salary Increases:

General Increase in Wage Level Due to:

Inflation:	3.00%
Other Factors:	0.75%

Salary increases occur in recognition of (i) individual merit and longevity, (ii) plus step-rate/promotional as shown:

<u>Years of Service</u>	<u>Annual Step-Rate (%) / Promotional Component Rates of Increase</u>	<u>Total Annual Rate (%) of Increase</u>
0	8.75	12.50
1	3.00	6.75
2	2.00	5.75
3	1.50	5.25
4	1.25	5.00
5	1.00	4.75
6	0.75	4.50
7	0.50	4.25
8	0.50	4.25
9	0.50	4.25
10 or more	0.00	3.75

Actuarial Value of Assets*:

The actuarial value of assets is equal to the market value of assets.

Actuarial Cost Method:

Entry Age Actuarial Cost Method. Entry Age is the age at the member's hire date. Actuarial Accrued Liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation.

* The assets as of June 30, 2016 were estimates provided by NMRHCA and have not been independently audited.

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

**EXHIBIT II
Actuarial Assumptions and Actuarial Cost Method (continued)**

**Health Care Cost Subsidy
Trend Rates:**

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. Trend rates are used to increase the stated subsidies into the future. For example, the projected per capita cost for a male retiree age 64 covered under the Premier Plan in the year July 1, 2017 through June 30, 2018 would be determined with the following formula: $[\$11,296 \times (1 + 8.0\%)] = \$12,200$.

Rates (%)

Plan Year Ended June 30,	All Non-Medicare Plans	All Medicare Plans
2018	8.00	8.00
2019	7.75	7.75
2020	7.25	7.25
2021	6.75	6.75
2022	6.25	6.25
2023	5.75	5.75
2024	5.25	5.25
2025 & Later	5.00	5.00

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT II

Actuarial Assumptions and Actuarial Cost Method (continued)

Funding Policy:	Retiree benefits are funded from a combination of employer contributions as a percentage (2.50% for Public Safety, and 2.00% for Other Occupations) of compensation and member contributions as a percentage (1.25% for Public Safety and 1.00% for Other Occupation) of compensation to fund the cost of the subsidy, with the remaining cost funded by retiree contributions, RHCA Statutory Distribution, investment income and the Retiree Drug Subsidy from CMS.
Plan Design:	Development of plan liabilities was based on the substantive plan of benefits in effect as described in Exhibit III.
Changes in Assumptions:	<p>The PERA mortality turnover, retirement and disability incidence were updated to reflect assumptions used in the PERA June 30, 2015 pension valuation.</p> <p>The ERB salary scale, mortality and retirement assumptions were updated to reflect changes used in the ERB June 30, 2015 pension valuation.</p> <p>Per capita costs were updated.</p>

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT III

Summary of Plan

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

Eligibility:	<p>A retiree who was an employee of either the New Mexico PERA group or participating ERB employer, eligible to receive a pension, is eligible for retiree health benefits.</p> <p>For employers who “buy-in” to the plan, retirees are eligible for benefits six months after the effective date of employer participation.</p> <p>Retirees not in a PERA enhanced (Fire, Police, Corrections) pension plan who commence benefits on or after January 1, 2020 will not receive any subsidy from NMRHCA before age 55.</p>
Benefit Types:	<p>Retirees and spouses are eligible for medical and prescription drug benefits. In addition, there is a \$6,000 life insurance benefit for retirees that is being phased out by 2016. Dental and vision benefits are also available, but were not included in this valuation, since they are 100% retiree-paid. A description of these benefits may be found at www.nmrhca.state.nm.us by clicking on Enrolled Participants.</p>
Duration of Coverage:	<p>Employees and dependents are valued for life.</p>

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT III

Summary of Plan (continued)

Retiree Contributions:

The retiree contribution is derived on a service based schedule implemented effective 7/1/2001 and updated annually. The table below shows the anticipated employee paid portion of claims.

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020 And Later</u>
Non-Medicare Retiree	31.7%	33.0%	34.3%	36.0%
Non-Medicare Spouse	54.7%	57.6%	60.5%	64.0%
Medicare Retiree	54.6%	52.7%	50.9%	50.0%
Medicare Spouse	81.8%	79.1%	76.4%	75.0%

Retired Before 2020 or in Public Safety Pension Plan

<u>Years of Service</u>	<u>Percent of full subsidy based on service</u>	<u>Years of Service</u>	<u>Percent of full subsidy based on service</u>
5	6.25%	13	56.25%
6	12.50%	14	62.50%
7	18.75%	15	68.75%
8	25.00%	16	75.00%
9	31.25%	17	81.25%
10	37.50%	18	87.50%
11	43.75%	19	93.75%
12	50.00%	20+	100.00%

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT III

Summary of Plan (continued)

Retired After 2019 and Not in Public Safety Pension Plan

<u>Years of Service</u>	<u>Percent of full subsidy based on service</u>	<u>Years of Service</u>	<u>Percent of full subsidy based on service</u>
5	4.76%	16	57.14%
6	9.52%	17	61.90%
7	14.29%	18	66.67%
8	19.05%	19	71.43%
9	23.81%	20	76.19%
10	28.57%	21	80.95%
11	33.33%	22	85.71%
12	38.10%	23	90.48%
13	42.86%	24	95.24%
14	47.62%	25+	100.00%
15	52.38%		

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2016 Measurement Under GASB 43

EXHIBIT III

Summary of Plan (continued)

Dental

Eligibility

This benefit was not included in the valuation, because retirees pay 100% of the cost.

Vision

Eligibility

This benefit was not included in the valuation, because retirees pay 100% of the cost.

Life

Eligibility

Retirees who commence benefits after December 31, 2012 must pay 100% of their life insurance costs. Retirees who commence benefits before January 1, 2013 will receive a NMRHCA-paid \$6000 death benefit through 2015. After that, the benefit will decrease by \$1,200 each year until the retiree pays 100% of the cost in 2020.

SECTION 4: Supporting Information for the New Mexico Retiree Health Care Authority June 30, 2014 Measurement Under GASB 43 and 45

**EXHIBIT IV
Definitions of Terms**

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

Assumptions or Actuarial Assumptions:

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

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Actuarial Present Value of Total Projected Benefits (APB):

Present value of all future benefit payments for current retirees and active employees taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

Normal Cost:

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

Actuarial Accrued Liability For Actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Retirees:

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

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

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EXHIBIT V
Accounting Requirements

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

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

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

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

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

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

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

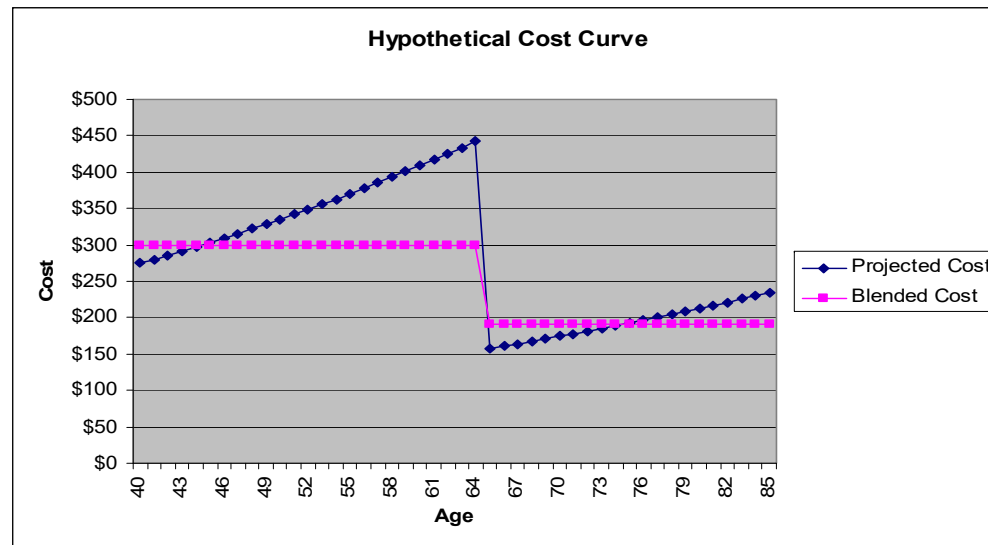
Actuarial calculations reflect a long-term perspective, and the methods and assumptions use techniques designed to reduce short term volatility in accrued liabilities and the actuarial value of assets, if any.

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

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The following graph illustrates why a significant accounting obligation may exist even though the retiree contributes most or all of the blended premium cost of the plan. The average cost for retirees is likely to exceed the average cost for the whole group, leading to an implicit

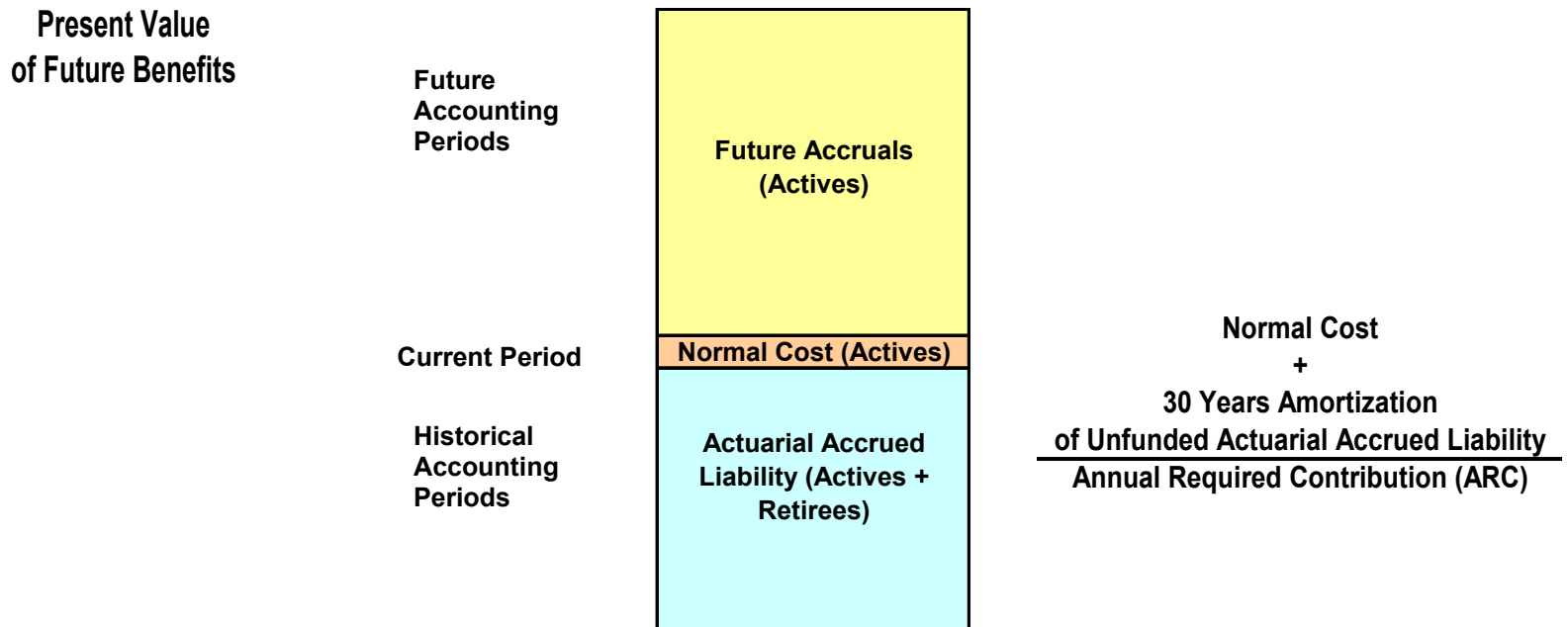
subsidy for these retirees. The accounting standard requires the employer to identify and account for this implicit subsidy as well as any explicit subsidies the employer may provide.



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

GASB 43/45 Measurement Elements Using Actuarial Cost Methods



$$\text{Net OPEB Obligation} = \text{ARC}_1 + \text{ARC}_2 + \text{ARC}_3 + \dots - \text{Contribution}_1 - \text{Contribution}_2 - \text{Contribution}_3 - \dots$$