Gabriel Roeder Smith & Company
Consultants & Actuaries

STATE OF RHODE ISLAND RETIREE HEALTH CARE BENEFITS PLAN

ACTUARIAL VALUATION REPORT

JUNE 30, 2005 RESTATED

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September 5, 2008

Ms. Rosemary Booth-Gallogly
State Budget Officer
Department of Administration Building
One Capitol Hill
Providence, Rhode Island 02908

Dear Ms. Booth-Gallogly:

Submitted in this report are the results of an actuarial valuation of the benefit values associated with the employer financed retiree health care provided by the State of Rhode Island. The date of the valuation was June 30, 2005, effective for the fiscal years July 1, 2007 through June 30, 2008. This report was prepared at the request of the State of Rhode Island.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the State's financial reporting requirements may produce significantly different results. This report may be provided to parties other than the State of Rhode Island only in its entirety and only with the permission of the State of Rhode Island.

The valuation was based upon information, furnished by the Budget Office, concerning retiree health care benefits, individual members, and financial data. Data was checked for internal consistency, but was not otherwise audited.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

Both of the undersigned are members of the American Academy of Actuaries and together meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

David T. Kausch

David T. Kausch, FSA, MAAA | Randall J. Dziubek, ASA, MAAA

DTK/RJD:bd

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Annual Required Contribution

This report presents the annual required contribution calculated in compliance with the accounting requirements of Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. Statement No. 43 applies to the plan itself, and Statement No. 45 applies to the employer sponsoring the plan.

The Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2007 was determined to be $44,999,527 (based on a discount rate of 3.566%). In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual claims and premiums paid on behalf of retirees (including the implicit rate subsidy) may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO). The expected employer portion of the claims and premium amounts paid (net of retiree contributions) is estimated to total $25,331,000 for the fiscal year beginning July 1, 2007.

For additional details including illustrative ARCs at 8.25% and 5.00%, please see Section B of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of GASB Statement No. 45. The Net OPEB Obligation is zero as of the beginning of the fiscal year that GASB Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of GASB Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of GASB Statement No. 45.

EXECUTIVE SUMMARY

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of June 30, 2005 is $922,891,660. The actuarial accrued liability, which is the portion of the above amounts attributable to service accrued by plan members as of June 30, 2005, is $643,550,568. (These results are based on an 3.566% discount rate.) The assets currently set aside for GASB OPEB purposes as of June 30, 2005 are $0. Liabilities at alternate interest rates of 8.25% and 5.00% are provided in Section B for illustrative purposes.

SECTION A

OVERVIEW

GASB BACKGROUND

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees when they terminate employment at a future date.

The rising cost of health care has been a cause of concern to both individuals and employers who sponsor health care plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988, the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension costs. These benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

GASB BACKGROUND (CONCLUDED)

The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 in the spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

Total Annual Revenue in the First Fiscal Year Ending After June 15, 1999	GASB No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After	GASB No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After
Phase 1 Govts. - $100 million or more	December 15, 2005	December 15, 2006
Phase 2 Govts. - $10 million or more, but less than $100 million	December 15, 2006	December 15, 2007
Phase 3 Govts. - Less than $10 million	December 15, 2007	December 15, 2008

GASB STANDARDS

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB Statements No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section D.

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising health care costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Statements No. 43 and No. 45. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date.

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employers' Statement of Net Assets.**

OPEB SPECIFIC ASSUMPTIONS

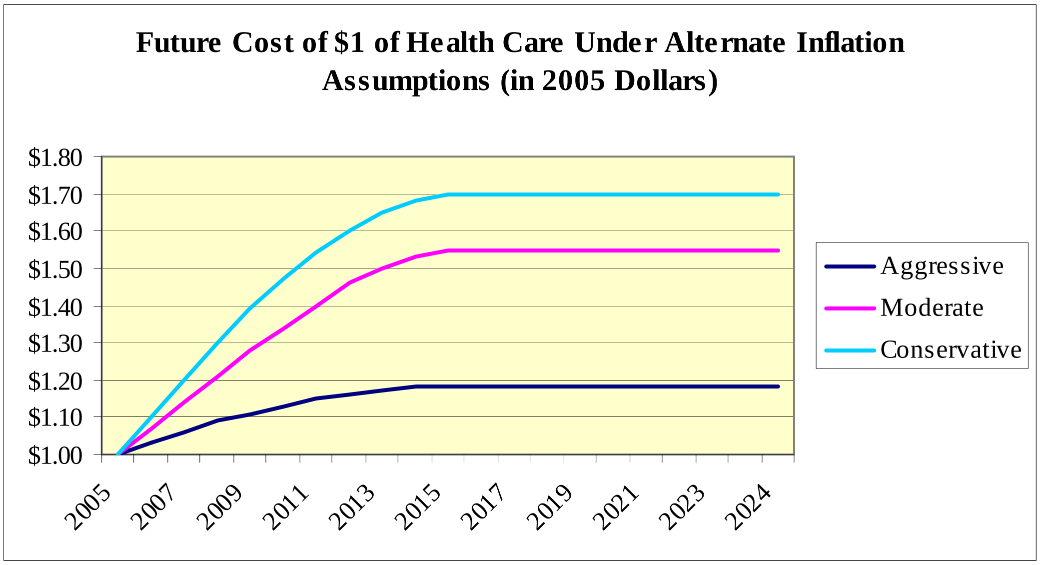
In any long-term actuarial valuation (such as for pensions and OPEB), certain demographic, economic and behavioral assumptions must be made concerning the population, investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The investment return rate assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a health care plan.

The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the period from 1955 to 2005 general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care trend rates used in this valuation lie within a range of reasonable assumptions, and are described on page E-8 of this report. The health care trend rate assumption has a major effect on the calculation of plan liabilities. To illustrate the effect of differing future medical inflation rates, the chart on the next page projects the growth of $1 of health care benefits under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years. The assumption set labeled “Conservative” begins at a rate of 10% in excess of general inflation, the “Moderate” assumption begins at a rate of 7% in excess of general inflation, while the “Aggressive” assumption begins at a rate of 3% in excess of general inflation.

OPEB SPECIFIC ASSUMPTIONS (CONCLUDED)



The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the "Moderate" health care increase assumption set. To put this in perspective, assuming health care increases are brought under control almost immediately, as in the "Aggressive" assumption set, implies future per capita health care costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, costs are expected to rise as the retiree population increases.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an interest rate assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer's general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

ACTUARIAL COST METHOD

GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The Entry Age Normal actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. The amortization of the unfunded accrued liability was calculated as a level percent of payroll within each division. For an open group, if experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis within each division. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PRE-FUNDING

Many employers fund retiree heath care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits for retired employees. This method of funding will result in increasing contributions over time. Per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services increase.

A Retiree Health Care Benefits Plan is similar to a defined benefit pension plan, in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors a common funding objective is to contribute annual amounts to a fund which will i) remain level as a percentage of active member payroll within each division, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the State. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.

SECTION B

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS FOR THE RETIREE HEALTH CARE BENEFITS PLAN AS OF JULY 1, 2007

(ARC – 3.566%)

Contributions for	Development of the Annual Required Contributions for July 1, 2007 - June 30, 2008					
	Judges	Legislature	State Employees	Teachers	State Police	Total
Total Normal Cost	$ 3,459	$ 193,760	$ 20,675,880	$ 80,667	$ 3,288,868	$ 24,242,634
Annual Active Member Contribution	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Employer Normal Cost	$ 3,459	$ 193,760	$ 20,675,880	$ 80,667	$ 3,288,868	$ 24,242,634
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 1,988	$ 127,106	$ 18,786,495	$ 287,701	$ 1,553,603	$ 20,756,893
Annual Required Contribution (ARC)	**$ 5,447**	**$ 320,866**	**$ 39,462,375**	**$ 368,368**	**$ 4,842,471**	**$ 44,999,527**
Projected Payroll for the Fiscal Year Beginning July 1, 2007	$6,627,734	$1,722,298	$656,870,442	$959,004,816	$16,000,031	$1,640,225,321
Annual Required Contribution (ARC) as a Percentage of Projected Payroll	**0.08%**	**18.63%**	**6.01%**	**0.04%**	**30.27%**	**2.74%**

The results on this page are calculated under the assumption that the employer funding policy is to contribute only the pay-as-you-go health care premium/claims contributions and have no plan assets. Therefore, under this policy the employer can assume a general fund earnings investment return assumption similar to that of the general fund earnings. **The assumptions used to calculate the liabilities shown above include a 3.566% investment return rate. This rate is based on the 10-year average of rates of return on assets of the State and is intended to be consistent with the State's intention not to prefund in the fiscal year beginning July 1, 2007.**

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll within each division. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF JUNE 30, 2005

(UAAL – 3.566%)

	Judges	Legislature	State Employees	Teachers	State Police	Total
A. Present Value of Future Benefits						
1. Retirees and Beneficiaries	$ 57,002	$1,206,060	$229,509,350	$8,252,503	$23,201,556	$262,226,471
2. Vested Terminated Members	0	1,195,477	27,788,027	224,961	0	29,208,465
3. Active Members	54,737	3,210,235	560,771,905	1,220,310	66,199,537	631,456,724
Total Present Value of Future Benefits	$111,739	$5,611,772	$818,069,282	$9,697,774	$89,401,093	$922,891,660
B. Present Value of Future Employer Normal Costs	35,666	1,692,733	238,028,193	1,220,310	38,364,190	279,341,092
C. Present Value of Future Contributions from Current Active Members	0	0	0	0	0	0
D. Actuarial Accrued Liability (A.-B.-C.)	$ 76,073	$3,919,039	$580,041,089	$8,477,464	$51,036,903	$643,550,568
E. Actuarial Value of Assets	0	0	0	0	0	0
F. Unfunded Actuarial Accrued Liability (D.-E.)	$ 76,073	$3,919,039	$580,041,089	$8,477,464	$51,036,903	$643,550,568
G. Funded Ratio (E./D.)	0%	0%	0%	0%	0%	0%

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS FOR THE RETIREE HEALTH CARE BENEFITS PLAN AS OF JULY 1, 2007

(ILLUSTRATIVE ARC – 8.25%)

Contributions for	Development of the Annual Required Contributions for July 1, 2007 - June 30, 2008					
	Judges	**Legislature**	**State Employees**	**Teachers**	**State Police**	**Total**
Total Normal Cost	$ 2,298	$ 95,980	$ 6,779,674	$ 59,906	$ 1,359,280	$ 8,297,138
Annual Active Member Contribution	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Employer Normal Cost	$ 2,298	$ 95,980	$ 6,779,674	$ 59,906	$ 1,359,280	$ 8,297,138
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 3,789	$ 155,605	$ 19,462,438	$ 422,221	$ 1,849,843	$ 21,893,896
Annual Required Contribution (ARC)	**$ 6,087**	**$ 251,585**	**$ 26,242,112**	**$ 482,127**	**$ 3,209,123**	**$ 30,191,034**
Projected Payroll for the Fiscal Year Beginning July 1, 2007	$ 6,627,734	$1,722,298	$656,870,442	$ 959,004,816	$16,000,031	$1,640,225,321
Annual Required Contribution (ARC) as a Percentage of Projected Payroll	**0.09%**	**14.61%**	**4.00%**	**0.05%**	**20.06%**	**1.84%**

The results on this page are calculated under the assumption that the employer funding policy is to contribute consistently an amount at least equal to the Annual Required Contribution (ARC). Therefore, under this policy the employer can assume a long-term investment return assumption. **The assumptions used to calculate the liabilities shown above include an 8.25% investment return rate. This rate is intended to be consistent with rates of return available on assets of a diversified trust with an investment time horizon of at least 10 years.**

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll within each division. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF JUNE 30, 2005

(ILLUSTRATIVE UAAL – 8.25%)

	Judges	Legislature	State Employees	Teachers	State Police	Total
A. Present Value of Future Benefits						
1. Retirees and Beneficiaries	$51,244	$ 833,429	$150,194,439	$ 6,832,975	$16,824,747	$174,736,834
2. Vested Terminated Members	0	732,073	12,131,670	134,385	0	12,998,128
3. Active Members	34,437	1,620,956	213,949,384	617,024	27,043,936	243,265,737
Total Present Value of Future Benefits	$85,681	$3,186,458	$376,275,493	$ 7,584,384	$43,868,683	$431,000,699
B. Present Value of Future Employer Normal Costs	18,082	605,206	53,423,863	580,388	11,670,617	66,298,156
C. Present Value of Future Contributions from Current Active Members	0	0	0	0	0	0
D. Actuarial Accrued Liability (A.-B.-C.)	$67,599	$2,581,252	$322,851,630	$ 7,003,996	$32,198,066	$364,702,543
E. Actuarial Value of Assets	0	0	0	0	0	0
F. Unfunded Actuarial Accrued Liability (D.-E.)	$67,599	$2,581,252	$322,851,630	$ 7,003,996	$32,198,066	$364,702,543
G. Funded Ratio (E./D.)	0%	0%	0%	0%	0%	0%

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS FOR THE RETIREE HEALTH CARE BENEFITS PLAN AS OF JULY 1, 2007

(ILLUSTRATIVE ARC – 5.00%)

Contributions for	Development of the Annual Required Contributions for July 1, 2007 - June 30, 2008					
	Judges	**Legislature**	**State Employees**	**Teachers**	**State Police**	**Total**
Total Normal Cost	$ 3,060	$ 156,156	$ 14,514,695	$ 74,079	$ 2,507,164	$ 17,255,154
Annual Active Member Contribution	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Employer Normal Cost	$ 3,060	$ 156,156	$ 14,514,695	$ 74,079	$ 2,507,164	$ 17,255,154
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 2,651	$ 136,923	$ 19,049,243	$ 287,701	$ 1,617,603	$ 21,094,121
Annual Required Contribution (ARC)	**$ 5,711**	**$ 293,079**	**$ 33,563,938**	**$ 361,780**	**$ 4,124,767**	**$ 38,349,275**
Projected Payroll for the Fiscal Year Beginning July 1, 2007	$6,627,734	$1,722,298	$656,870,442	$ 959,004,816	$16,000,031	$1,640,225,321
Annual Required Contribution (ARC) as a Percentage of Projected Payroll	**0.09%**	**17.02%**	**5.11%**	**0.04%**	**25.78%**	**2.34%**

The results on this page are calculated under the assumption that the employer funding policy is to contribute only the pay-as-you-go health care premium/claims contributions and have no plan assets. Therefore, under this policy the employer can assume a general fund earnings investment return assumption similar to that of the general fund earnings. **The assumptions used to calculate the liabilities shown above include a 5.0% investment return rate.**

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll within each division. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY AS OF JUNE 30, 2005

(ILLUSTRATIVE UAAL – 5.00%)

	Judges	Legislature	State Employees	Teachers	State Police	Total
A. Present Value of Future Benefits						
1. Retirees and Beneficiaries	$ 55,116	$1,066,781	$198,539,792	$7,750,490	$20,862,818	$228,274,997
2. Vested Terminated Members	0	1,017,450	20,998,866	189,599	0	22,205,915
3. Active Members	47,249	2,568,476	403,983,009	963,988	49,589,997	457,152,719
Total Present Value of Future Benefits	$102,365	$4,652,707	$623,521,667	$8,904,077	$70,452,815	$707,633,631
B. Present Value of Future Employer Normal Costs	28,888	1,224,617	147,073,202	963,988	26,445,942	175,736,637
C. Present Value of Future Contributions from Current Active Members	0	0	0	0	0	0
D. Actuarial Accrued Liability (A.-B.-C.)	$ 73,477	$3,428,090	$476,448,465	$7,940,089	$44,006,873	$531,896,994
E. Actuarial Value of Assets	0	0	0	0	0	0
F. Unfunded Actuarial Accrued Liability (D.-E.)	$ 73,477	$3,428,090	$476,448,465	$7,940,089	$44,006,873	$531,896,994
G. Funded Ratio (E./D.)	0%	0%	0%	0%	0%	0%

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

COMMENTS

COMMENT A: One of the key assumptions used in any valuation of the cost of postemployment benefits is the long-term rate of investment return on plan assets. Higher assumed investment returns will result in a lower Annual Required Contribution (ARC). Lower returns will result in a higher ARC. As requested by the State, we have calculated the liability and the resulting illustrative ARC using assumed investment returns of 8.25%, 5.0% and 3.566%. For the fiscal year beginning July 1, 2007, the State does not intend to prefund, therefore the ARC for the 2007-08 fiscal year is based on the short term rate of 3.566%. Beginning with the 08-09 fiscal year, the State intends to prefund. Legislation 2008-H7204 Article 4 requires annual valuations beginning with the fiscal year July 1, 2008 to June 30, 2009.

COMMENT B: Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform actuarial valuations at least biennially. Annual valuations will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis.

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the GASB Statement No. 45. A shorter amortization period would result in a higher ARC.

COMMENT D: Actual claims and/or premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the NOO. For the fiscal year ending June 30, 2008, the amount of estimated claims and/or premiums paid by the employer on behalf of retirees (including the effect of the implicit rate subsidy but net of retiree contributions) under GASB is projected to be $25,331,000.

SECTION C

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

The initial premium rates were developed for both pre-65 and post-65 retired participants. A self-insured health plan administered by United Healthcare (UHC) is offered to pre-65 and post-65 retirees. In addition, a fully-insured UHC Medicare HMO plan is also available to post-65 retirees. Pre-65 retirees have both medical and drug benefits. Post-65 retirees receive only medical coverage through the State's health plan.

For the self-insured plan, the initial premiums are calculated based on the group's own experience, separately for pre-65 and post-65 retirees. Historical claim experience for the period from July 2003 to June 2006 were projected to the valuation period (i.e., July 1, 2005 to June 30, 2006) on an incurred claim basis and adjusted for trend, claim fluctuation and loaded for administrative expenses. A per member weighted average cost based on the projected experience was developed to be used as the initial premiums in the valuation. Note that RIPTA claims were excluded from the development since the RIPTA group is not covered under the State's Retiree Health Care Benefits Plan.

For the fully-insured Medicare HMO plan, the premium was used as the basis of the initial rate without adjustments since the premium reflects the expected claims experience of the post-65 retiree group in this plan.

The fully-insured premium rate for the Medicare HMO plan and the premium developed for the self-insured plan for post-65 retirees were blended, using the most recent enrollment by plan, into one composite post-65 retiree premium rate. An inherent assumption in this methodology is that the projected enrollment distribution for future retirees will be similar to the current enrollment distribution between the plans.

Age graded and sex distinct premiums are utilized in this valuation. The premium developed by the preceding process is appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each combination. The age/gender specific premiums more accurately reflect the health care costs and utilization at that age.

RETIREE PREMIUM RATE DEVELOPMENT

The following are monthly one-person premiums for medical and prescription drug benefits at select ages:

Pre-65 Participants

Age	Male	Female
45	$288.18	$377.28
50	389.88	441.76
55	509.57	523.79
60	640.17	615.34

The undersigned is a Member of the American Academy of Actuaries (M.A.A.A.) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown above.

Brian T. Morris

SECTION D

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

SUMMARY OF PLAN PROVISIONS AS OF JUNE 30, 2005
RETIREE HEALTH CARE BENEFITS PLAN

PLAN PARTICIPANTS

All members of the Employees' Retirement System of Rhode Island (ERSRI), including State Employees, Legislators, and Certified Public School Teachers, with the exception of municipal employees are eligible to receive some form of State sponsored retiree health care benefits. In addition State Judges may purchase the active health care benefits at the active rate for their lifetime and State Police Officers receive the active health care benefits at no cost to the retirees up to age 65.

The State provides two types of health care benefits. The Tier I subsidy provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate, and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based upon years of service and ends at age 65. In addition to the Tier I benefits, the state pays a portion of the cost of post-retirement health care above the Tier I costs for the retiree based upon the age and service of the retiree, which is referred to as the Tier II benefits.

BENEFIT ELIGIBILITY – NORMAL RETIREMENT

Members of ERSRI are eligible to receive a portion of their post-retirement health insurance costs paid by the State if they retire with 10 or more years of service. Eligibility conditions for retirement are:

State Police:	Members are eligible for retirement after completion of 20 years of service. (The Superintendent of State Police may retire on or after age 60 if he has credit for 10 years of service.)
Employee Retirement System:	Age 60 with 10 years of service or any age with 28 years of service for those employees with ten or more years of service prior to July 1, 2005. For those employees with less than 10 years of service prior to July 1, 2005, the employee must be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service.

Additional eligibility conditions apply to the following groups:

RN members:	Age 50 with 25 years of service or
Correctional Officers:	Age 50 with 20 years of service
Legislators:	Age 55 with 8 years of service or any age with 20 years of service.

BENEFIT AMOUNT – NORMAL RETIREMENT

The State will pay for a portion of the post-retirement health care as follows:

Judiciary Member: May purchase active employee package for life. Member and spouse pay entire active premium for the plan.

Legislators: May purchase active employee package for life. Member and spouse pay entire active premium for the plan.

Note: Former legislators who retire as state employees are entitled to continue with the active medical plan, dental, and vision riders and they receive the state subsidy on their individual medical insurance (active plan or other retiree plan) for life.

State Police: Member, Spouse, and Dependents are eligible for active package. State pays entire cost for member, spouse, and dependents up to age 65. At age 65, active coverage ceases if member has worked 40 quarters while participating in Medicare. If member is not Medicare eligible, the State pays for member and spousal coverage for active package. Member may purchase Post-65 coverage through the state if member is Medicare eligible. There is no state subsidy if the member is Medicare-eligible.

Teachers: State pays for the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate, which is referred to as the **Tier 1 Benefits**. All Tier 1 benefits end at age 65 provided that the teacher is Medicare Eligible.

Teachers under age 65 – The teacher and spouse may purchase early retiree package (individual or family) at the rate the active employees pay.

Teachers 65 or older and Medicare-eligible – The teacher and spouse may only purchase a Post-65 benefit plan. The teacher and spouse pay the full cost.

Teachers 65 or older and NOT Medicare eligible – The teacher and spouse may continue to purchases the early retiree package for the same rates as under 65.

All Other Members Retiring prior to 7/1/89:	State pays for the portion of the cost of post- retirement health care for the retiree and any dependents above the active group rate (Tier 1 Benefits). All Tier 1 benefits end at age 65. In addition, from January 1, 1986 to July 1, 1989, there were several early retirement incentive windows that granted additional health care benefits to those that retired within these periods.

Medicare eligible State employees, Teachers and State Police are required to transition to Plan 65 at age 65. (See page H-8.) Judges, Legislators, and disabled retirees are not.

BENEFIT AMOUNT – NORMAL RETIREMENT - CONTINUED

All Other Members Retiring after 7/1/89: In addition to the Tier 1 benefits, the state pays a portion of the cost of post-retirement health care above the Tier 1 costs for the retiree based on the age and service of the retiree (see chart below). This additional benefit is referred to as the **Tier 2 Benefit**. Spouses are not eligible for the Tier 2 benefit. All Tier 1 benefits end at age 65, however, Tier 2 benefits continue for retirees only at age 65.

Note: Although Article 7 Chapter 117 of the Public Laws of 2005 amended the retirement system statute to institute a minimum retirement age for all non-vested employees, these changes were not reflected in RIGL Section 36-12-4, which relates to post employment health benefits. Because this is a potential liability, the chart below has not been modified.

Retiree Age Below Age 60	
Service	**Amount of Cost Paid by State**
Under 28	0%
28-34	90%
35+	100%

Retiree Age from Age 60 to Age 65	
Service	**Amount of Cost Paid by State**
0 – 10	0%
10 – 15	50%
16 – 22	70%
23 – 27	80%
28+	100%

Retiree Age Greater than Age 65	
Service	**Amount of Cost Paid by State**
10 – 15	50%
16 – 19	70%
20 – 27	90%
28+	100%

DEFERRED RETIREMENT

Members who quit active employment with the State may be entitled to deferred coverage for post-retirement health care benefits if they have 10 years of service at the time of their termination and they leave their pension contributions on deposit with ERSRI.

The benefit commencement is coincident with the normal retirement eligibility conditions described above. The amount of the benefit is based on age and service as described above.

DISABLED RETIREMENT

All members (other than Teachers and State Police) who retire with a disability benefit are eligible to purchase the individual or family active package (at full active cost) prior to age 60. Upon reaching age 60 (with 10 years of service), they may continue with the active package, and will also get the Tier 2 benefit (subsidy based on age and years of service).

Teachers who retire on a disability pension are not entitled to the active package, dental coverage, or vision coverage. Teachers qualify only for the Early Retiree Plan and are not eligible for Tier 2 benefits.

State Police troopers are eligible for 100% employer paid Active package (health, dental, and vision) until becoming eligible for Medicare. If a trooper never becomes eligible for Medicare then the state must continue to pay 100% of the Active package. Upon being eligible for Medicare, they revert to Plan 65 through the retirement system and receive the Tier 2 benefit.

SURVIVORS BENEFITS

All Members except State Police: Survivors of retirees or active members who die in service are entitled to post-retirement health care benefits if and only if they are entitled to survivor pension benefits from ERSRI. The amount paid by the State is the amount above the group rate for an active member. Pre-65 beneficiaries receive a Tier 1 benefit, while Post-65 beneficiaries pay the entire premium.

State Police: Survivors of retirees or active members continue active coverage. State pays full cost for active health care benefits if survivor is under age 65. For members over age 65 State pays entire active package, unless member was Medicare eligible at time of death. If survivor is Medicare eligible, State pays nothing. (Survivor may purchase Post-65 health care coverage through the State.)

MEDICARE – ELIGIBLE

Disabled: Members may continue with the active package, but the State pays only a certain percentage of the MediGap amount based on years of service and vesting.

Non-Disabled: Tier 1 benefits are not paid by the State. For retired members, other than Teachers and State Police, State pays a percentage of Medicare costs depending on member service. Dependents pay 100% of health care benefits. The State pays the entire cost of benefits to the State Police retired members and spouses if the retiree is not Medicare eligible.

State Police: If the retiree and/or spouse are Medicare eligible, they pay the entire amount of the Post-65 plan. There is no state subsidy for retirees that are Medicare eligible.

If the retiree is not Medicare eligible, the State pays the entire cost of the active plan benefits for the State Police retired members and spouses. (Note: The majority of State Police are Medicare eligible).

This is a brief summary of the State of Rhode Island Retiree Health Care Benefits Plan provisions in effect as of June 30, 2005. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate Plan Sponsor Ordinance and/or employee contract will prevail.

State Employees (2008-H7204 Article 4)

Early Retirees

- The State offers its self-insured health plan administered by United Healthcare to early retirees (under age 65) and their spouses with both medical and drug benefits; *the only difference from the active employee plan is the cost sharing on the drug benefits*.

- For all employees retiring after Sept. 30, 2008, the Tier 1 subsidy ends. All costs and cost sharing is based on the actual cost of the plan, not the lower active employee rate. The State will also offer an alternate plan with reduced benefits at the same rate paid by active employees.

- Employees retiring after Sept. 30, 2008 would have to have at least 20 years of service and be age 59 to be eligible for a State subsidy. All eligible would pay a 20% cost share on the actual cost of the plan.

Creditable Service	Age	State-Paid	Retiree-Paid
< 20 years	any	0%	100%
20+	< 59	0%	100%
20+	59+	80%	20%

- Also, anyone retiring with less than 20 years of service would have to pay the full price of the plan chosen. Those retiring before age 59 would have to wait until they turn 59 to receive the 80% subsidy.

- For all current retirees and those retiring before Oct.1, 2008, Article 4 amends the Tier 2 subsidy table to read "age at retirement" to clarify that the State subsidy for those with 28 to 35 years of service does not increase from 90% to 100% when the retiree turns 60.

- At age 65, State retirees must purchase Medicare Part B (deducted from their Social Security checks) and enroll in a Medicare Supplemental plan. There are 2 choices for State-sponsored plans: a State self-insured plan with no pharmacy benefit or a fully-insured Medicare HMO plan which includes Medicare Part D for pharmacy coverage

- There is no post-65 Tier 1 subsidy. Retiree share is based on actual plan cost. Currently, that is $2,157 for Plan 65 and $1,284 for the HMO choice.

Teachers (2008-H7204 Article 4)

- Most retired teachers receive health benefits from their municipality.

- For those that do not, the State offers its self-insured health plan administered by United Healthcare to early retirees and their spouses with both medical and drug benefits. Post-65 retirees who are eligible for Medicare may select from a State's self-insured plan or a fully-insured Medicare HMO plan. Post-65 retirees receive only medical coverage through the State's health plan, not drug coverage. Teachers not eligible for Medicare continue the same coverage as early retirees.

- For all teachers retiring after Sept. 30, 2008, Tier 1 subsidy ends. All costs will be based on the actual cost of the plan not the lower active employee rate. There is no other cost sharing by the State. The State will also offer an alternate plan with reduced benefits at the same rate paid by active employees.

- There is no post-65 Tier 1 subsidy. Retiree share is based on actual plan cost. Currently, that is $2,157 for Plan 65 and $1,284 for the HMO choice.

Disabled (2008-H7204 Article 4)

- All State employee members who retire with a disability benefit may purchase the active employee plan at the active rate until age 59. From ages 59 to 65 they may only purchase the early retiree plan at its actual cost with State cost sharing, if eligible.

- Current disability retirees not 65 as of September 30, 2008 and future retirees must transition to a State sponsored Medicare supplement plan at age 65 if eligible to do so.

- All cost sharing language for disability retirees now appears separately from the statutes for regular retirees. This includes provisions to "grandfather" certain current retirees into former cost sharing terms.

- Those who retired prior to September 30, 2008 and are at least 60 as of that date are subject to the former cost sharing provisions, which are restated in a new section of law, until they reach age 65. The cost sharing and the plan to which it applies depends on age as follows:
    - <u>From ages 60 to 65,</u> the retiree may get the active plan at the active rate, and State cost sharing on that rate is as follows.

Years of Service	*State's Share*	*Employee's Share*
10-15	50%	50%
16-22	70%	30%
23-27	80%	20%
28+	100%	0%

    - <u>Upon turning age 65</u> the retiree must transition to a State sponsored Medicare supplement plan at age 65 if eligible to do so. Cost sharing on that plan is as follows:

Years of Service	*State's Share*	*Employee's Share*
0-10	0%	100%
10-20	50%	50%
20+	80%	20%

    - <u>Those at least aged 65 as of Sept. 30, 2008</u> are "grandfathered" into the former terms. This means they may keep the active plan at the active rate, but the State cost sharing is based on the cost of the Medicare plan. The employee pays a share of that plan's cost, shown in the table below, and any excess cost if she/he remains on the active employee plan.

Years of Service	*State's Share*	*Employee's Share*
10-15	50%	50%
16-19	70%	30%
20-27	90%	10%
28+	100%	0%

- <u>Future retirees and those who have not turned 60 as of September 30, 2008</u> would be subject to cost sharing and plans more in line with other Article 4 changes. The percentages apply to the early retiree plan at its actual cost for those aged 59-65 and the Medicare Supplemental plans after that.

Years of Service	*State's Share*	*Employee's Share*
0-10	0%	100%
10-20	50%	50%
20+	80%	20%

State Police (2008-H7204 Article 4)

- *No governing statutes – provided through collective bargaining agreement eff.* ***May 2006 through April 2009.***

- Article 4 has no impact other than to require that the benefits be funded on an actuarial basis rather than pay as you go.

Judges (2008-H7204 Article 4)

- *No governing statutes – provided as a matter of past practice.*

- Article 4 has no impact on this population. The retired employees' payments for this coverage and the state's expenses will be handled through the OPEB trust fund.

Legislators (2008-H7204 Article 4)

- Article 4 has no impact on this population. The retired employees' payments for this coverage and the state's expenses will be handled through the OPEB trust fund

SUMMARY OF KEY MEDICAL AND PRESCRIPTION DRUG BENEFITS FOR EARLY RETIREES

Early Retirees: United Health Care PPO

Benefit	In-Network	Out-of-Network
Individual Deductible:	None	None
Out-of-Pocket Maximum:	None	$3,000 per person/year; $9,000 per family/year
Preventive Services:	Covered in Full	20% co-pay
Doctor's Charges (Office): **Non-Routine** **Routine Preventive**	 $10 co-pay Covered in Full	 20% co-pay 20% co-pay
Emergency Care:	$25 co-pay	$25 co-pay
Hospital Services: **Unlimited days at a general hospital; 45 days per calendar year at specialty hospitals or in a general hospital for specialty services**	Covered in Full	20% co-pay
Diagnostic X-Ray and Laboratory:	Covered in Full	20% co-pay
Prescription Drugs:	20% co-pay	20% co-pay
Dental Services – Accident Only	Covered in Full	Covered in full
Durable Medical Equipment Inpatient	Covered in Full	20% co-pay
Durable Medical Equipment Outpatient	20% co-pay	20% co-pay
Hospice Care	Covered in Full	20% co-pay
House Calls	$10 per visit	20% co-pay
Infertility Services	20% co-pay	20% co-pay
Nutritional Services - 6 visits per year	$10 per visit	20% co-pay
Private Duty Nursing	Covered in Full	20% co-pay
Urgent Care Services	$10 Per visit	20% co-pay

SUMMARY OF KEY MEDICAL AND PRESCRIPTION DRUG BENEFITS FOR POST-65 RETIREES OPTION 1

Post-65 Retirees Option #1: United Health Care Plan 65 (Medicare Primary Plan)

Benefit	Coverage
Individual Deductible:	Medicare Part B
Out-of-Pocket Maximum:	None
Preventive Services:	Covered in Full
Doctor's Charges (Office):	Covered in Full
Hospital Services:	Days 1-60: Covered in Full Days 61-90 Covered in Full 60 lifetime reserve days Covered in Full 365 additional days: 10% co-pay after lifetime reserve days exhausted
Skilled Nursing Facility:	Days 1-20: Covered in Full Days 21-100: Covered in Full Days 101 + Retiree pays 100%
Home Health Care:	Covered in Full
Diagnostic X-Ray and Laboratory:	Covered in Full
Ambulance (emergency only) Durable Medical Equipment:	Covered in Full
Prescription Drugs:	No Coverage
Blood	First 3 Pints Covered in Full
Emergency Room Care	Covered in Full
Eye Examinations	No Coverage
Non-routine vision care	Covered in Full
Hospice Care:	Limited co-pay for outpatient drugs and respite care

Chiropractic services – Co-pay is $0 for "manual manipulation of the spine for a subluxation" only. The plan does not cover routine care.

SUMMARY OF KEY MEDICAL AND PRESCRIPTION DRUG BENEFITS FOR POST-65 RETIREES OPTION 2

Post-65 Retirees Option #2: United Health Care Medicare Complete

Benefit	Coverage
Individual Deductible	Medicare Part B
Out-of-Pocket Maximum:	$400
Preventive Services:	$10 Co-pay (1 per year)
Doctor's Charges (Office):	$10 General/ $20 Specialist
Hospital Services:	$100 Co-pay per admission
Skilled Nursing Facility:	Days 1-29 : Covered in Full Days 30-100: Covered in Full Days 101 + Retiree pays 100%
Home Health Care:	Covered in Full
Diagnostic X-Ray and Laboratory:	Covered in Full
Durable Medical Equipment:	Covered in Full
Chiropractic & Podiatry Services:	$20 Co-pay
Ambulance:	$50 Co-pay
Emergency Care/Urgent Care:	$35 Co-pay/$20 Co-pay
Prescription Drugs: Part D Plan **No initial Rx Deductible; Standard Part D Retail**	
Retail: 30-day supply	
Generic Formulary Drugs Tier 1	$ 3 Co-pay
Name-Brand Formulary Drugs Tier 2	$28 Co-pay
Non-Formulary Drugs Tier 3	$58 Co-pay
Specialty Tier	25% Co-pay
90-day Supply	
Tier 1	$6 Co-pay
Tier 2	$56 Co-pay
Tier 3	$116 Co-pay
Specialty Tier	25% Co-pay
Mail Order: Limited to a 90-day supply	
Tier 1	$6 Co-pay
Tier 2	$56 Co-pay
Tier 3	$116 Co-pay
Specialty Tier	25% Co-pay

Out of network copayment: in addition to paying the copayments listed in the chart, the retiree is required to pay the difference between what the insurer would pay for a prescription filled at in-network pharmacy and what the out-of-network pharmacy charges for the prescription.

ACTIVE JUDICIAL MEMBERS AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date 0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	Total No.
20-24								
25-29								
30-34								
35-39								
40-44								
45-49	4		4					8
50-54	5	1	3					9
55-59	2	1	4					7
60-64	4	1	5					10
65 & Over	1	2	7					10
Totals	**16**	**5**	**23**					**44**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	58.3	years
Service:	8.4	years
Annual Pay:	$129,195	

ACTIVE LEGISLATURE MEMBERS AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Total No.
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	
20-24	1							1
25-29	1	2						3
30-34	4							4
35-39	7	4	2					13
40-44	1	2	9	2				14
45-49	6	8	11	3	2			30
50-54	4	4	3	3	1			15
55-59	4	1	4		2	1	2	14
60-64	4	2	6					12
65 & Over	3		2		2			7
Totals	**35**	**23**	**37**	**8**	**7**	**1**	**2**	**113**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	49.2	years
Service:	9.5	years
Annual Pay:	$13,356	

ACTIVE STATE EMPLOYEE MEMBERS AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Total No.
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	
15-19	1							1
20-24	87	1						88
25-29	301	86						387
30-34	848	299	39	2				1,188
35-39	482	370	321	199	1			1,373
40-44	316	298	337	511	207	9		1,678
45-49	305	314	363	512	452	292	25	2,263
50-54	234	279	289	427	304	492	258	2,283
55-59	157	197	249	361	285	345	343	1,937
60-64	61	96	122	232	198	172	137	1,018
65 & Over	15	42	78	137	109	89	100	570
Totals	**2,807**	**1,982**	**1,798**	**2,381**	**1,556**	**1,399**	**863**	**12,786**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	47.8	years
Service:	14.5	years
Annual Pay:	$45,019	

ACTIVE TEACHER MEMBERS AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date								Total No.
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35 Plus	
20-24	61								61
25-29	649	286							935
30-34	1,379	1,043	127						2,549
35-39	607	811	637	163					2,218
40-44	261	459	370	445	45				1,580
45-49	249	484	327	406	221	105			1,792
50-54	157	414	446	524	244	519	263		2,567
55-59	99	219	277	384	203	252	481	106	2,021
60-64	31	71	93	127	76	84	54	51	587
65 & Over	7	16	24	28	21	24	13	26	159
Totals	**3,500**	**3,803**	**2,301**	**2,077**	**810**	**984**	**811**	**183**	**14,469**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	44.1	years
Service:	12.1	years
Annual Pay:	$58,081	

ACTIVE STATE POLICE MEMBERS AS OF JUNE 30, 2005
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Total No.
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	
20-24	6							6
25-29	7	2						9
30-34	15	16	2					33
35-39	5	26	46	1				78
40-44	1	7	32	26				66
45-49		3	7	11	1			22
50-54				1	1			2
55-59								
60-64								
Totals	**34**	**54**	**87**	**39**	**2**			**216**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	38.1	years
Service:	10.3	years
Annual Pay:	$63,988	

RETIRED MEMBERS AS OF JUNE 30, 2005
BY ATTAINED AGE

RETIRED MEMBERS*

Attained Age	Number of Retirees					
	Judges	Legislature	State Employees	Teachers	State Police	Total
Under 50	0	0	91	12	51	154
50-54	0	0	238	25	66	329
55-59	1	1	585	183	75	845
60-64	4	4	876	254	62	1,200
65 & Over	42	133	5,701	1,443	10	7,329
Totals	**47**	**138**	**7,491**	**1,917**	**264**	**9,857**

* *Includes both retiree and beneficiary participating in the retiree health care plan.*

DEFERRED MEMBERS

Attained Age	Number of Retirees					
	Judges	Legislature	State Employees	Teachers	State Police	Total
Under 40	0	1	38	35	0	74
40-44	0	5	62	31	0	98
45-49	0	4	95	25	0	124
50-54	0	9	121	61	0	191
55-59	0	4	144	115	0	263
60 & Over	0	17	84	30	0	131
Totals	**0**	**40**	**544**	**297**	**0**	**881**

SECTION E

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

VALUATION METHODS

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

(i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded Actuarial Accrued Liabilities (UAAL) were amortized by a level (principal and interest combined) percent of payroll contribution within each division. The UAAL were determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL amortization payment is the amount required to fully amortize the UAAL over a 30-year period beginning on the valuation date. This UAAL payment does not reflect any payments expected to be made between the valuation date and the fiscal year for which the contributions in this report have been calculated.

ACTUARIAL ASSUMPTIONS

Rates of Investment Return under a full funding arrangement. **8.25% per year,** compounded annually, net of expenses. This assumption is used to equate the value of payments due at different points in time.

Rates of Investment Return under a partial funding arrangement. **5.00% per year,** compounded annually, net of expenses.

Rates of Investment Return under a pay-as-you-go arrangement. **3.566% per year,** compounded annually, net of expenses.

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which future contributions will be based.

SALARY INCREASE ASSUMPTIONS FOR AN INDIVIDUAL MEMBER

Service at Beginning of Year	State Employees and Legislature			Teachers			State Police		
	Merit & Longevity	Base* (Economic)	Increase Next Year	Merit & Longevity	Base (Economic)	Increase Next Year	Merit & Longevity	Base (Economic)	Increase Next Year
1	3.75 %	4.50 %	8.25 %	12.50 %	4.50 %	17.00 %	10.00 %	5.00 %	15.00 %
2	3.50	4.50	8.00	12.50	4.50	17.00	3.50	5.00	8.50
3	3.25	4.50	7.75	6.75	4.50	11.25	2.00	5.00	7.00
4	3.00	4.50	7.50	5.75	4.50	10.25	1.00	5.00	6.00
5	2.75	4.50	7.25	5.50	4.50	10.00	0.00	5.00	5.00
6	2.50	4.50	7.00	5.00	4.50	9.50	0.00	5.00	5.00
7	1.75	4.50	6.25	4.50	4.50	9.00	0.00	5.00	5.00
8	1.50	4.50	6.00	4.25	4.50	8.75	0.00	5.00	5.00
9	1.25	4.50	5.75	4.00	4.50	8.50	0.00	5.00	5.00
10	1.00	4.50	5.50	3.00	4.50	7.50	0.00	5.00	5.00
11	0.75	4.50	5.25	1.25	4.50	5.75	0.00	5.00	5.00
12	0.75	4.50	5.25	0.00	4.50	4.50	0.00	5.00	5.00
13	0.50	4.50	5.00	0.00	4.50	4.50	0.00	5.00	5.00
14	0.25	4.50	4.75	0.00	4.50	4.50	0.00	5.00	5.00
15 or more	0.25	4.50	4.75	0.00	4.50	4.50	0.00	5.00	5.00
Ref	507			512			82		

* *Judges were assumed to have 5.25% salary increases.*

The number of active members is assumed to remain constant in the future.

The growth rate for amortizing the Unfunded Actuarial Accrued Liabilities was assumed to be 5.0% for police, 5.25% for Judges and 4.5% for all other members.

The mortality table used to project the mortality experience of plan members is 100% of the 1994 Group Annuity Mortality Table set back one year for male Teachers, set forward one year for all other males, and forward zero years for females. The tables are 65% of the PBGC Table Va for disabled males eligible for Social Security benefits and 100% of the PBGC Table VIa for disabled females eligible for Social Security disability benefits.

Sample Attained Ages	Healthy Males (Non-Teachers)	Healthy Males (Teachers)	Healthy Females	Disabled Males	Disabled Females
25	0.07 %	0.06 %	0.03 %	3.14 %	2.63 %
30	0.08	0.08	0.04	2.35	2.37
35	0.09	0.08	0.05	1.81	2.14
40	0.12	0.10	0.07	1.83	2.09
45	0.17	0.15	0.10	2.09	2.24
50	0.29	0.23	0.14	2.49	2.57
55	0.49	0.40	0.23	3.13	2.95
60	0.90	0.71	0.44	3.92	3.31
65	1.62	1.29	0.86	4.41	3.70
70	2.60	2.17	1.37	4.80	4.11
75	4.09	3.41	2.27	5.47	4.92
80	6.86	5.59	3.94	7.33	7.46

Rates of separation from active membership are used to estimate the number of employees at each age that are expected to terminate employment before qualifying for retirement benefits. The withdrawal rates do not apply to members eligible to retire, and do not include separation on account of death or disability. Sample rates of separation from active employment are shown below:

	Active Female Members - State Employees and Legislators										
	Years of Service										
Age	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 +**
20	0.1373	0.1331	0.1271	0.1200	0.1105	0.1000	0.0880	0.0809	0.0778	0.0792	0.0613
25	0.1321	0.1208	0.1107	0.1017	0.0925	0.0837	0.0741	0.0681	0.0649	0.0644	0.0504
30	0.1293	0.1065	0.0894	0.0771	0.0681	0.0613	0.0552	0.0509	0.0474	0.0443	0.0356
35	0.1311	0.0989	0.0759	0.0607	0.0514	0.0459	0.0422	0.0392	0.0358	0.0314	0.0259
40	0.1370	0.0964	0.0681	0.0501	0.0401	0.0353	0.0332	0.0313	0.0283	0.0234	0.0198
45	0.1470	0.0993	0.0665	0.0457	0.0346	0.0299	0.0286	0.0276	0.0252	0.0207	0.0172
50	0.1609	0.1079	0.0713	0.0478	0.0351	0.0297	0.0286	0.0281	0.0267	0.0236	0.0180
55	0.1784	0.1221	0.0827	0.0565	0.0418	0.0351	0.0332	0.0330	0.0330	0.0325	0.0223
60	0.1960	0.1392	0.0985	0.0702	0.0534	0.0447	0.0414	0.0414	0.0431	0.0463	0.0000
65	0.2484	0.1870	0.1412	0.1066	0.0843	0.0710	0.0644	0.0642	0.0689	0.0797	0.0000

	Active Female Members - State Employees and Legislators										
	Years of Service										
Age	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 +**
20	0.1355	0.1232	0.1163	0.1131	0.1100	0.1061	0.1012	0.0933	0.0860	0.0784	0.0755
25	0.1230	0.1091	0.1003	0.0955	0.0919	0.0884	0.0845	0.0784	0.0725	0.0658	0.0617
30	0.1079	0.0910	0.0793	0.0719	0.0673	0.0643	0.0616	0.0579	0.0537	0.0484	0.0426
35	0.0982	0.0791	0.0653	0.0562	0.0509	0.0480	0.0459	0.0435	0.0404	0.0360	0.0295
40	0.0923	0.0717	0.0563	0.0460	0.0401	0.0370	0.0350	0.0332	0.0306	0.0268	0.0205
45	0.0900	0.0687	0.0527	0.0418	0.0353	0.0316	0.0292	0.0272	0.0246	0.0211	0.0156
50	0.0908	0.0701	0.0545	0.0436	0.0365	0.0320	0.0287	0.0258	0.0225	0.0187	0.0147
55	0.0945	0.0757	0.0615	0.0514	0.0438	0.0382	0.0334	0.0289	0.0243	0.0197	0.0176
60	0.0993	0.0838	0.0722	0.0636	0.0558	0.0488	0.0423	0.0358	0.0293	0.0232	0.0000
65	0.1220	0.1107	0.1029	0.0963	0.0873	0.0773	0.0670	0.0563	0.0454	0.0354	0.0000

Rates of Separation from active membership (Concluded)

Age	**Active Male Members - Teachers**										
	Years of Service										
	0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 +**
20	0.1294	0.0739	0.0439	0.0281	0.0178	0.0131	0.0118	0.0122	0.0183	0.0385	0.0675
25	0.1115	0.0669	0.0408	0.0259	0.0162	0.0115	0.0100	0.0102	0.0149	0.0300	0.0528
30	0.0915	0.0606	0.0391	0.0247	0.0155	0.0106	0.0086	0.0082	0.0107	0.0187	0.0328
35	0.0850	0.0609	0.0414	0.0269	0.0175	0.0120	0.0093	0.0084	0.0092	0.0124	0.0200
40	0.0892	0.0670	0.0473	0.0321	0.0218	0.0154	0.0119	0.0102	0.0096	0.0096	0.0123
45	0.1040	0.0791	0.0573	0.0403	0.0286	0.0209	0.0163	0.0138	0.0122	0.0105	0.0098
50	0.1290	0.0974	0.0715	0.0517	0.0378	0.0285	0.0224	0.0190	0.0168	0.0152	0.0127
55	0.1641	0.1220	0.0901	0.0664	0.0495	0.0381	0.0302	0.0259	0.0234	0.0238	0.0209
60	0.2046	0.1497	0.1106	0.0825	0.0622	0.0485	0.0388	0.0335	0.0313	0.0352	0.0333
65	0.2973	0.2135	0.1576	0.1186	0.0901	0.0711	0.0570	0.0498	0.0485	0.0600	0.0614

Age	**Active Female Members - Teachers**										
	Years of Service										
	0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 +**
20	0.0774	0.0813	0.0751	0.0689	0.0672	0.0692	0.0745	0.0785	0.0719	0.0680	0.0569
25	0.0744	0.0715	0.0641	0.0583	0.0567	0.0584	0.0625	0.0653	0.0602	0.0563	0.0473
30	0.0738	0.0607	0.0505	0.0445	0.0425	0.0435	0.0458	0.0469	0.0437	0.0401	0.0339
35	0.0776	0.0570	0.0435	0.0360	0.0329	0.0329	0.0338	0.0338	0.0319	0.0286	0.0243
40	0.0858	0.0589	0.0415	0.0314	0.0266	0.0251	0.0247	0.0241	0.0231	0.0203	0.0172
45	0.0989	0.0667	0.0447	0.0311	0.0237	0.0204	0.0189	0.0180	0.0174	0.0153	0.0129
50	0.1174	0.0804	0.0534	0.0353	0.0246	0.0190	0.0163	0.0151	0.0147	0.0138	0.0114
55	0.1415	0.1003	0.0678	0.0442	0.0293	0.0208	0.0167	0.0153	0.0150	0.0157	0.0131
60	0.1676	0.1234	0.0857	0.0563	0.0369	0.0252	0.0197	0.0182	0.0177	0.0206	0.0000
65	0.2307	0.1780	0.1280	0.0860	0.0571	0.0389	0.0306	0.0286	0.0279	0.0349	0.0000

State Police employees were assumed not to separate from employment for causes other than retirement, death, or disability.

Judicial employees were assumed not to separate from employment for causes other than retirement or death.

The rates of retirement used to measure the probability of eligible members retiring during the next year, were as follows:

	Retirement Age	Percent of Eligible Active Members Retiring within Next Year			
		Legislature & State Employees		Teachers	
		Male	Female	Male	Female
1	45	12 %	13 %	10 %	5 %
2	46	12	13	10	6
3	47	12	13	10	7
4	48	12	13	10	8
5	49	12	13	10	10
1	50	12	13	16	12
2	51	12	13	18	14
3	52	12	13	20	16
4	53	12	13	22	18
5	54	12	13	24	20
6	55	12	16	26	22
7	56	15	16	28	24
8	57	16	16	30	26
9	58	17	16	33	28
10	59	18	16	36	30
11	60	15	14	25	30
12	61	10	15	20	15
13	62	25	20	25	25
14	63	20	20	20	20
10	64	15	20	15	25
11	65	20	25	25	35
12	66	20	20	20	25
13	67	15	20	20	25
14	68	15	20	20	25
15	69	15	20	20	25
16	70 and above	100	100	100	100
	Ref	940	941	942	943

Correctional Officers and Legislators have the same rates as shown above except 100% are assumed to retire at age 62 and completion of 10 years of service if still alive.

State Police are assumed to retire after completion of 25 years of service, or if earlier, after reaching age 50 and completing 21 years of service.

Judges are assumed to retire when eligible for an unreduced retirement benefit (age 65 with 20 years of service, or age 70 with 15 years of service.) Judges who have not reached eligibility for an unreduced retirement benefit by age 75 are assumed to terminate at age 75.

Retirement rates were also set for all members eligible for reduced retirement, whether state employees or teachers, whether males or females, as follows:

Retirement Age	State Employees, Teachers and Nurses
55-58	0 %
59	1
60	2
61	2
62	2
63	3
64	4

Rates of disability among active members are used to estimate the incidence of member disability in future years.

	Percent Becoming Disabled Within Next Year									
	Legislature and State Employees				Teachers				Police	
Sample	Male		Female		Male		Female		Male & Female	
Ages	Ordinary	Accidental	Ordinary	Accidental	Ordinary	Accidental	Ordinary	Accidental	Ordinary	Accidental
20	0.02 %	0.01 %	0.03 %	0.01 %	0.01 %	0.01 %	0.01 %	0.00 %	0.03 %	0.09 %
25	0.03	0.02	0.04	0.01	0.01	0.01	0.02	0.00	0.04	0.13
30	0.04	0.02	0.05	0.01	0.02	0.01	0.02	0.00	0.05	0.16
35	0.05	0.03	0.08	0.02	0.02	0.01	0.03	0.01	0.07	0.22
40	0.08	0.05	0.11	0.02	0.04	0.02	0.04	0.01	0.11	0.33
45	0.13	0.08	0.18	0.04	0.06	0.03	0.07	0.01	0.18	0.54
50	0.21	0.14	0.30	0.06	0.10	0.05	0.11	0.02	0.30	0.91
55	0.35	0.23	0.50	0.10	0.16	0.09	0.18	0.04	0.30	0.91
60	0.49	0.32	0.71	0.14	0.23	0.12	0.26	0.06	0.30	0.91
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.30	0.91
Ref	#800x0.35	#800x0.225	#800x0.5	#800x0.1	#800x0.163	#800x0.088	#800x0.183	#800x0.04	#291x0.25	#291x0.75

Judges are not assumed to become disabled.

Health care trend rates used in the valuation were as shown below.

	Medical and Prescription Drug Trend Rate Increases from Prior Year		
Year	**Intermediate**	**Pessimistic**	**Optimistic**
2006	12.0 %	15.0 %	9.0 %
2007	11.0	14.0	8.0
2008	10.0	13.0	7.0
2009	9.0	12.0	6.5
2010	8.0	11.0	6.0
2011	7.0	9.5	5.5
2012	6.0	8.0	5.0
2013	5.5	6.5	5.0
2014	5.0	5.0	4.5
2015	4.5	4.5	4.5
2016 & Later	4.5	4.5	4.5

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Decrement Timing: Decrements of all types are assumed to occur mid-year.

Eligibility Testing: Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Incidence of Contributions: Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.

Marriage Assumption: 100% members are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

State Police and Judges: 85% of members are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses for active member valuation purposes.

No surviving spouse is assumed to re-marry.

Medicare Coverage: Assumed to be available for all covered employees on attainment of age 65.

Election Percentage: It was assumed that 75% of State employees, 10% of Teachers, and 100% of all other active and deferred members will elect to receive retiree health care benefits through the State upon retirement. Of those assumed to elect coverage, 85% of Police employees and 25% of all other employees were assumed to elect two-person coverage, if eligible. For those that elect two-person coverage, it was assumed that coverage would continue to the spouse upon death of the retiree, if eligible.

For active employees who have opted out of the State's active health care plan, it was assumed they would elect retiree health care coverage upon retiring.

Deferred Vested Members: Benefits were assumed to commence at age 60.

APPENDIX

GLOSSARY

Accrued Service - The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability - The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."

Actuarial Assumptions - Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method - A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent - A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value - The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization - Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Annual Required Contribution (ARC) - The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

Governmental Accounting Standards Board (GASB) - GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy – It is a common practice for employers to allow retirees to continue in the employers group health insurance plan (which also covers active employees), often charging the retiree some portion of the premium charged for active employees. Under the theory that retirees have higher utilization of services, the difference between the true cost of providing retiree coverage and what the retiree is being charged is know as the implicit rate subsidy.

Medical Trend Rate (Health Care Inflation) - The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Normal Cost - The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Employee Benefits (OPEB) - OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other health care benefits.

Reserve Account - An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability - The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

Valuation Assets - The value of current plan assets recognized for valuation purposes.

September 5, 2008

Ms. Rosemary Booth-Gallogly
State Budget Officer
Department of Administration Building
One Capitol Hill
Providence, Rhode Island 02908

Re: State of Rhode Island Retiree Health Care Benefits Plan Valuation

Dear Ms. Booth-Gallogly:

Enclosed are 40 copies of the actuarial valuation of the State of Rhode Island Retiree Health Care Benefits Plan report.

Respectfully submitted,

David T Kausch

David Kausch, FSA, MAAA

DTK:bd
Enclosures