GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

RHODE ISLAND STATE EMPLOYEES' AND ELECTING TEACHERS OPEB

ACTUARIAL VALUATION REPORT

JUNE 30, 2009

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February 25, 2011

Mr. Thomas Mullany
State Budget Officer
Department of Administration Building
One Capitol Hill
Providence, Rhode Island 02908

Dear Mr. Mullany:

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 Rhode Island State Employees' and Electing Teachers OPEB. The date of the valuation was June 30, 2009, determining the funded status at that date and the Annual Required Contribution for the fiscal year July 1, 2011 through June 30, 2012. 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. The results of this valuation may not be applicable for other purposes.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. We believe that the assumptions and methods used in this report are reasonable and appropriate for the purpose for which they have been used. However, other assumptions and methods could also be reasonable and could result in materially different results. In addition, because it is not possible or practical to consider every possible contingency, we may use summary information, estimates or simplifications of calculations to facilitate the modeling of future events. We may also exclude factors or data that are deemed to be immaterial.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to: actual plan experience differing from assumed; changes in economic or demographic assumptions; changes in funding policy; changes in plan provisions or applicable law; etc. An analysis of the potential range of such future measurements was beyond the scope of this valuation.

The valuation was based upon information, furnished by the State, 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.

The undersigned actuaries are independent of the plan sponsor, are Members of the American Academy of Actuaries (MAAA) as indicated, and 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, EA, MAAA

Randall J. Dziubek, ASA, EA, MAAA

DTK/RJD:lr
Enclosures

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

INTRODUCTION

This is the June 30, 2009 actuarial valuation of the Rhode Island State Employees' and Electing Teachers OPEB which covers State Employees, State Police, Judges, Legislators, and Teachers. This report describes the current actuarial condition of the Plan, determines the recommended employer contribution rates, and analyzes the changes in principal values.

The contribution rates are determined actuarially based on the plan provisions in effect as of the valuation date, the actuarial assumptions adopted by the OPEB Board, and the methodology set forth in the statutes. The OPEB Board's current policy is that the contribution rates determined by a given actuarial valuation become effective two years after the valuation date. For example, the rates determined by this June 30, 2009 valuation will be applicable for the year beginning July 1, 2011 and ending June 30, 2012.

FINANCING OBJECTIVES

The actuarial cost method and the amortization periods are set by statute. Contribution rates and liabilities are computed using the Entry Age Normal actuarial cost method. The employer contribution rate is the sum of two pieces: the normal cost rate and the amortization rate. The normal cost rate is determined as a percent of pay. The amortization rate is determined as a level percent of pay. It is the amount required to amortize the unfunded actuarial accrued liability over a closed period (30 years as of June 30, 2006, 27 years remaining as of June 30, 2009). Separate employer contribution rates are determined for State Employees, State Police, Judges, Legislators, and Teachers. The amortization period for Teachers has been shortened to provide for adequate funding due to the particular nature of their anticipated cash flows over the next few years.

A summary of principal valuation results is shown on the following page.

EXECUTIVE SUMMARY

(All dollars in Thousands)

	Judges	Legislature	State Employees	Teachers	State Police	Total
Valuation Date:	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2009
ARC for Fiscal Year Ending:	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
Annual Required Contributions (ARC):						
Annual Amount (Total for all groups)	$ 771	$ 853	$ 41,189	$ 2,601	$ 6,333	$ 51,747
Percentage of Covered Payroll	7.19%	46.35%	6.86%	N/A	33.18%	N/A
Membership						
Number of						
Active Members	60	113	11,023	13,689	226	25,111
Retirees and Beneficiaries	62	114	9,661	1,808	379	12,024
Inactive, Nonretired Members	-	53	-	-	-	53
Total	122	280	20,684	15,497	605	37,188
Covered Payroll	$9,395	$ 1,612	$574,569	N/A	$16,725	N/A
Assets						
Market Value	$0	$0	$0	$0	$0	$0
Actuarial Information						
Normal Cost	3.93%	20.58%	2.33%	N/A	19.00%	N/A
Actuarial Accrued Liability (AAL)	$8,665	$11,752	$673,640	$13,529	$67,079	$774,665
Unfunded Actuarial Accrued Liability (UAAL)	8,665	11,752	673,640	13,529	67,079	774,665
Funded Ratio	0%	0%	0%	0%	0%	0%
UAAL as % of Covered Payroll	92.2%	729.0%	117.2%	N/A	401.1%	N/A
Equivalent Single Amortization Period	27 years	27 years	27 years	6 years	27 years	

EXECUTIVE SUMMARY

CONTRIBUTION RATES

The total Annual Required Contribution (ARC) for the fiscal year beginning July 1, 2011 was determined to be $51,746,533 (based on a discount rate of 5.00%). The contribution rates as a percent of payroll changed from 6.74% to 6.86% in the prior fiscal year for State Employees, 25.67% to 33.18% for State Police, 9.86% to 7.19% for Judges, and 95.49% to 46.35% for Legislators.

The expected employer portion of the claims and premium amounts paid is estimated to total $44,986,555 for the fiscal year beginning July 1, 2011.

For additional details, please see Sections A and C of the report.

BENEFIT PROVISIONS

There have been no changes in benefit provisions since the prior valuation.

ACTUARIAL ASSUMPTIONS

There have been changes in actuarial assumptions since the prior valuation. These changes include an increase in the discount rate from 3.566% to 5.00%, a change in the medical trend assumption of 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 8 years, a change in the Medicare election rate for Legislators from 0% electing Medicare to 75% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

An analysis of the impact of assumption changes in employer contribution rates and unfunded actuarial accrued liability appears in Section A.

ACTUARIAL METHODS

There have been changes in actuarial methods since the prior valuation. The change in method is the determination of separate per capita claims costs for each of the five groups in the valuation: State Employees, State Police, Judges, Legislators, and Teachers. In the previous valuation, per capita claims costs were determined in the aggregate. A description of the per capita claims cost development appears in Section D.

The amortization method for Teachers was changed from an open 8-year level percent amortization to a closed 6-year level dollar amortization.

An analysis of the impact of method changes in employer contribution rates and unfunded actuarial accrued liability appears in Sections A.

DATA

The State supplied data for retired, active, and inactive members as of June 30, 2009. We did not audit this data, but we did apply a number of validation tests to the data. There were significant changes in the data compared to the prior valuation. Based on review of the data provided for the current valuation and discussions with staff, we concluded that the current valuation data was acceptable.

SECTION A

VALUATION RESULTS

VALUATION RESULTS
DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTIONS
AS OF JULY 1, 2011

Interest Rate – 5.00%

Contributions for	Development of the Annual Required Contributions for the July 1, 2011 - June 30, 2012 Fiscal Year					
	Judges	**Legislature**	**State Employees**	**Teachers**	**State Police**	**Total**
Employer Normal Cost	$ 421,344	$ 378,615	$ 13,989,897	$ 0	$ 3,626,434	$ 18,416,290
Percentage of Projected Payroll	*3.93%*	*20.58%*	*2.33%*	*N/A*	*19.00%*	*N/A*
Amortization of Unfunded Actuarial Accrued Liabilities	349,512	474,096	27,199,243	2,600,927	2,706,465	33,330,243
Percentage of Projected Payroll	*3.26%*	*25.77%*	*4.53%*	*N/A*	*14.18%*	*N/A*
Amortization Period	27 Years	27 Years	27 Years	6 Years	27 Years	
Annual Required Contribution (ARC)	**$ 770,856**	**$ 852,711**	**$ 41,189,140**	**$ 2,600,927**	**$ 6,332,899**	**$ 51,746,533**
Percentage of Projected Payroll	***7.19%***	***46.35%***	***6.86%***	***N/A***	***33.18%***	***N/A***
Projected Payroll for the Fiscal Year Beginning July 1, 2011	$10,721,221	$1,839,721	$600,424,783	N/A	$19,086,495	N/A

The assumptions used to calculate the results shown above include a 5.00% investment return rate. This rate is intended to be a blend of a short-term and long-term investment return assumption as the trust gets established.

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll for Judges, Legislative, State Employees and State Police and as a level dollar amount for Teachers over the periods shown. The amortization factors used are 24.7835 for the 27-year level percent of pay amortization period and 5.2016 for the 6-year level dollar amortization.

VALUATION RESULTS
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2009

Interest Rate – 5.00%

	Judges	Legislature	State Employees	Teachers	State Police	Total
A. Present Value of Future Benefits						
1. Retirees and Beneficiaries	$ 4,247,738	$5,198,939	$399,067,796	$13,528,982	$32,037,634	$454,081,089
2. Vested Terminated Members	0	2,863,928	0	0	0	2,863,928
3. Active Members	7,113,362	6,000,918	418,937,380	0	69,109,760	501,161,420
Total Present Value of Future Benefits	$11,361,100	$14,063,785	$818,005,176	$13,528,982	$101,147,394	$958,106,437
B. Present Value of Future Employer Normal Costs	2,696,298	2,312,036	144,365,105	0	34,068,244	183,441,683
C. Actuarial Accrued Liability (A.-B.)	$8,664,802	$11,751,749	$673,640,071	$13,528,982	$67,079,150	$774,664,754
D. Actuarial Value of Assets	0	0	0	0	0	0
E. Unfunded Actuarial Accrued Liability (C. -D.)	$8,664,802	$11,751,749	$673,640,071	$13,528,982	$67,079,150	$774,664,754
F. Funded Ratio (D./C.)	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. For additional information on required disclosures see Section G.

VALUATION RESULTS
GAIN/LOSS ANALYSIS
AS OF JUNE 30, 2009

	Judges	Legislature	State Employees	Teachers	State Police	Total
(1) UAAL* at prior valuation date	$ 14,024,170	$ 29,764,103	$ 679,537,879	$ 10,243,081	$ 54,619,585	$ 788,188,818
(2) Normal cost from last valuation for year 1	840,245	1,120,409	23,669,740	-	3,597,559	29,227,953
(3) Qualified contributions for year 1	415,129	485,211	23,262,931	1,471,551	1,897,646	27,532,468
(4) Interest accrual: [(1)+1/2 [(2)-(3)]] x .03566	507,682	1,072,713	24,239,574	339,031	1,978,044	28,137,044
(5) Expected UAAL end of year 1: (1)+(2)-(3)+(4)	$ 14,956,968	$ 31,472,014	$ 704,184,262	$ 9,110,561	$ 58,297,542	$ 818,021,347
(6) Normal cost from last valuation for year 2	878,056	1,170,827	24,734,878	-	3,759,449	30,543,211
(7) Qualified contributions for year 2	524,382	630,229	27,842,194	1,369,694	2,005,096	32,371,594
(8) Interest accrual: [(5)+1/2 [(6)-(7)]] x .03566	539,671	1,131,931	25,055,807	300,461	2,110,170	29,138,040
(9) Expected UAAL end of year 2: (5)+(6)-(7)+(8)	$ 15,850,313	$ 33,144,544	$ 726,132,754	$ 8,041,328	$ 62,162,065	$ 845,331,004
(10) Change in plan provisions	-	-	-	-	-	-
(11) Change in actuarial assumptions	(7,160,012)	(20,979,537)	(109,972,329)	6,076,042	(3,789,553)	(135,825,389)
(12) Change in methods	(125,423)	(204,261)	(7,068,539)	(824,739)	7,943,589	(279,373)
(13) Expected UAAL after changes (9)+(10)+(11)+(12)	8,564,878	11,960,746	609,091,886	13,292,631	66,316,101	709,226,242
(14) Actual UAAL at end of year	$ 8,664,802	$ 11,751,749	$ 673,640,071	$ 13,528,982	$ 67,079,150	$ 774,664,754
(15) Gain/(loss) as of the valuation date (13)-(14)	(99,924)	208,997	(64,548,185)	(236,351)	(763,049)	(65,438,512)
(16) Gain/(loss) as percent of actuarial accrued						-
liabilities at prior valuation date	(0.7)%	0.7 %	(9.5)%	(2.3)%	(1.4)%	(8.3)%

** Unfunded Actuarial Accrued Liabilities*

ALTERNATE RESULTS - I
DEVELOPMENT OF ILLUSTRATIVE CONTRIBUTION RATES
AS OF JULY 1, 2011

Interest Rate – 3.566%

Contributions for	Development of the Illustrative Contribution Rates for the July 1, 2011 - June 30, 2012 Fiscal Year					
	Judges	**Legislature**	**State Employees**	**Teachers**	**State Police**	**Total**
Employer Normal Cost	$ 568,224	$ 529,288	$ 19,874,060	$ 0	$ 4,725,816	$ 25,697,388
Percentage of Projected Payroll	*5.30%*	*28.77%*	*3.31%*	*N/A*	*24.76%*	*1.47%*
Amortization of Unfunded Actuarial Accrued Liabilities	343,079	484,766	26,778,945	2,693,670	2,565,225	32,865,685
Percentage of Projected Payroll	*3.20%*	*26.35%*	*4.46%*	*N/A*	*13.44%*	*N/A*
Amortization Period	27 Years	27 Years	27 Years	6 Years	27 Years	
Illustrative Contributions	**$ 911,303**	**$1,014,054**	**$ 46,653,005**	**$ 2,693,670**	**$ 7,291,041**	**$ 58,563,073**
Percentage of Projected Payroll	***8.50%***	***55.12%***	***7.77%***	***N/A***	***38.20%***	***N/A***
Projected Payroll for the Fiscal Year Beginning July 1, 2011	$10,721,221	$1,839,721	$600,424,783	N/A	$19,086,495	N/A

The results on this page are calculated under the investment return assumption used in the prior valuation of 3.566%. The prior assumption was based on the former employer funding policy to contribute only the pay-as-you-go health care premium/claims contributions and have no plan assets. Therefore, under this former policy the employer assumed an investment return assumption similar to that of the general fund earnings.

ALTERNATE RESULTS - I
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2009

Interest Rate – 3.566%

	Judges	Legislature	State Employees	Teachers	State Police	Total
A. Present Value of Future Benefits						
1. Retirees and Beneficiaries	$ 4,851,889	$ 6,132,320	$ 457,083,076	$14,574,642	$ 35,304,054	$ 517,945,981
2. Vested Terminated Members	0	3,628,757	0	0	0	3,628,757
3. Active Members	9,351,655	8,295,164	578,578,059	0	91,030,388	687,255,266
Total Present Value of Future Benefits	$14,203,544	$18,056,241	$1,035,661,135	$14,574,642	$126,334,442	$1,208,830,004
B. Present Value of Future Employer Normal Costs	3,951,062	3,576,613	235,581,900	0	49,711,103	292,820,678
C. Actuarial Accrued Liability (A.-B.)	$10,252,482	$14,479,628	$ 800,079,235	$14,574,642	$ 76,623,339	$ 916,009,326
D. Actuarial Value of Assets	0	0	0	0	0	0
E. Unfunded Actuarial Accrued Liability (C. -D.)	$10,252,482	$14,479,628	$ 800,079,235	$14,574,642	$ 76,623,339	$ 916,009,326
F. Funded Ratio (D./C.)	0%	0%	0%	0%	0%	0%

ALTERNATE RESULTS - II
DEVELOPMENT OF ILLUSTRATIVE CONTRIBUTION RATES
AS OF JULY 1, 2011

Interest Rate – 7.00%

Contributions for	Development of the Illustrative Contribution Rates for the July 1, 2011 - June 30, 2012 Fiscal Year					
	Judges	**Legislature**	**State Employees**	**Teachers**	**State Police**	**Total**
Employer Normal Cost	$ 280,895	$ 244,499	$ 8,586,075	$ 0	$ 2,507,965	$ 11,619,434
Percentage of Projected Payroll	*2.62%*	*13.29%*	*1.43%*	*N/A*	*13.14%*	*N/A*
Amortization of Unfunded Actuarial Accrued Liabilities	358,089	464,897	30,381,494	2,500,304	2,880,152	36,584,936
Percentage of Projected Payroll	*3.34%*	*25.27%*	*5.06%*	*N/A*	*15.09%*	*N/A*
Amortization Period	27 Years	27 Years	24 Years#	6 Years	27 Years	
Illustrative Contributions	**$ 638,984**	**$ 709,396**	**$ 38,967,569**	**$ 2,500,304**	**$ 5,388,117**	**$ 48,204,370**
Percentage of Projected Payroll	***5.96%***	***38.56%***	***6.49%***	***0.24%***	***28.23%***	***N/A***
Projected Payroll for the Fiscal Year Beginning July 1, 2011	$ 10,721,221	$ 1,839,721	$600,424,783	N/A	$19,086,495	N/A

\# *The amortization period for State Employees in this illustration has been adjusted so that the contribution is expected to be higher than the benefit payments.*

The results on this page are calculated under an alternate investment return assumption of 7.00%. These results are intended to illustrate the effect of an investment policy of trust assets consistent with most funded retiree benefits plans. For additional discussion see Comment A on page A-8.

ALTERNATE RESULTS - II
DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY
AS OF JUNE 30, 2009

Interest Rate – 7.00%

	Judges	Legislature	State Employees	Teachers	State Police	Total
A. Present Value of Future Benefits						
1. Retirees and Beneficiaries	$3,594,348	$ 4,242,747	$338,244,748	$ 12,330,249	$28,252,283	$386,664,375
2. Vested Terminated Members	0	2,137,726	0	0	0	2,137,726
3. Active Members	5,022,831	4,011,038	280,969,535	0	48,407,326	338,410,730
Total Present Value of Future Benefits	$8,617,179	$10,391,511	$619,214,283	$ 12,330,249	$76,659,609	$727,212,831
B. Present Value of Future Employer Normal Costs	1,624,123	1,314,150	75,237,252	0	20,415,848	98,591,373
C. Actuarial Accrued Liability (A.-B.)	$6,993,056	$ 9,077,361	$543,977,031	$ 12,330,249	$56,243,761	$628,621,458
D. Actuarial Value of Assets	0	0	0	0	0	0
E. Unfunded Actuarial Accrued Liability (C. -D.)	$6,993,056	$ 9,077,361	$543,977,031	$ 12,330,249	$56,243,761	$628,621,458
F. Funded Ratio (D./C.)	0%	0%	0%	0%	0%	0%

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. Since the last valuation, the State has created an OPEB Board charged with establishing a qualified OPEB trust. Our understanding of the intent of the trust is to build up assets to pre-fund for OPEB benefits. We have calculated the liability and the resulting ARC using assumed investment return of 5.00%. This report also includes alternate assumptions of 3.566% (consistent with the prior valuation and the former pay-as-you-go funding policy) and 7.00%. Ultimately, the long-term rate of return assumption will be based on the investment policy and objectives as set by the Board. Based on discussions with staff, the rate of return assumption is set at 5% for this valuation. We recommend further review of this assumption and its implications during the initial period of setting up the trust, transitioning toward fully funding the ARC, building an asset base, and setting an investment policy.

COMMENT B: The State anticipates receiving a reimbursement from the Federal Government of approximately $3 million during the fiscal year ending June 30, 2012 in conjunction with its application for the Early Retiree Reinsurance Program. For purposes of this valuation, the liabilities and ARCs have not been adjusted to reflect this cash inflow. Our understanding is that these monies may be used by the State for payment of the ARC once they are received.

COMMENT C: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 6 years for Teachers (as a level dollar amount) and 27 years for all other groups (as a level percentage of payroll). The maximum time period permitted by GASB Statement No. 45 is 30 years. Legislation 2008-H7204 requires a 30-year amortization period beginning June 30, 2006 with 27 years remaining as of June 30, 2009. In an underfunded plan, shorter amortization periods would result in higher ARCs. The shorter amortization period used for Teachers was determined based on the short-term expected cash flow needs for the Teachers which differ materially from the other groups due to the nature of the benefits provided by the Plan.

Given the recent changes to Plan benefits for State Employees in particular, the ARC as a percentage of payroll is expected to be only marginally higher than expected cash flows for the next few years. In the longer term, the ARC is expected to grow with payroll at the assumed 4.5% per year while the benefits are projected to grow less quickly and thus the excess of contributions over benefits is expected to grow. A shorter amortization period would allow for a wider margin between contributions and benefit payments and allow for the trust to build up assets more quickly. For Illustrative purposes, the Annual Required Contributions for all groups (other than Teachers) calculated using a 20 year amortization are as follows:

	Percentage of Payroll			
Group	**ARC (27 year amortization)**	**20 year amortization**	**Impact of Change**	**Projected $ Impact**
Judges	7.19%	8.26%	1.07%	$ 114,717
Legislature	46.35%	54.81%	8.46%	155,640
State Employees	6.86%	8.34%	1.48%	8,886,287
State Police	33.18%	37.83%	4.65%	887,522

COMMENTS

COMMENT D: A summary of changes since the prior valuation is below:

	Annual Required Contribution		
Group	**Prior Assumptions and Methods**	**Current Assumptions and prior Methods**	**ARC**
Judges	12.28%	7.23%	7.19%
Legislature	129.92%	46.69%	46.35%
State Employees	7.01%	6.30%	6.86%
Teachers ($Millions)	$ 1.2	$ 2.2	$ 2.6
State Police	30.11%	28.48%	33.18%

BENEFIT PROVISIONS

There have been no changes in benefit provisions since the prior valuation.

ACTUARIAL ASSUMPTIONS

There have been changes in actuarial assumptions since the prior valuation. These changes include an increase in the discount rate from 3.566% to 5.00%, a change in the medical trend assumption of 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 8 years, a change in the Medicare election rate for Legislators from 0% electing Medicare to 75% electing Medicare, and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

The estimated impact of these changes on the ARC as a percent of payroll is shown above.

An analysis of the changes in unfunded actuarial accrued liability appears in the gain/loss development on page A-3.

ACTUARIAL METHODS

There have been changes in actuarial methods since the prior valuation. The change in method is the determination of separate per capita claims costs for each of the five groups in the valuation: State Employees, State Police, Judges, Legislators, and Teachers. In the previous valuation, per capita claims costs were determined in the aggregate. A description of the per capita claims cost development appears in Section D.

COMMENTS (CONCLUDED)

The estimated impact of these changes on the ARC as a percent of payroll is shown on the prior page.

An analysis of the changes in unfunded actuarial accrued liability appears in the gain/loss development on page A-3.

DATA

The State supplied data for retired, active, and inactive members as of June 30, 2009. We did not audit this data, but we did apply a number of validation tests to the data. There were significant changes in the data compared to the prior valuation. Based on review of the data provided for the current valuation and discussions with staff, we concluded that the current valuation data was acceptable.

SECTION B

SENSITIVITY ANALYSIS

SENSITIVITY ANALYSIS
POSTEMPLOYMENT HEALTH INSURANCE -- SENSITIVITY TESTS

Actuarial valuations deal with the cost of benefits to be paid in the future. The payments considered will range from one month in the future to decades from the valuation date (for a young, newly hired employee who may retire many years from now and live many years after that). In order to establish a present day cost for these future benefit obligations, the actuary bases the valuation on a number of assumptions about future occurrences. The occurrences that must be considered include employee turnover, pay increases, disablement, retirements, deaths and investment income on anticipated plan assets.

When the benefits being valued are health care benefits, a key factor is the future cost of the medical benefits being promised. This is projected using the current cost of the System's health care benefits and assumed future health care cost increases. The final cost of providing retiree health care benefits will depend upon how the charges for health care services actually increase in the future.

In order to demonstrate how the cost of these benefits can vary depending upon future health care cost increases, we have performed additional valuations based upon alternative health care cost increase assumptions. The schedules on pages B-2 and B-3 compare (i) the computed cost of the retiree health care benefits using the valuation assumptions to (ii) results of alternate valuations. One of the alternate valuations is based upon an optimistic health care cost increase assumption. The other is based upon a more pessimistic health care cost increase assumption. The schedule on page F-9 exhibits the health care cost increase assumptions used in the valuation and the sensitivity analysis.

SENSITIVITY ANALYSIS*
FOR THE FISCAL YEAR BEGINNING JULY 1, 2011

The selection of future health care cost increases is one of the key assumptions in determining plan liabilities. If the health care cost trend rates upon which the calculation of the Annual Required Contribution is based were changed to either the pessimistic or optimistic trends noted on page F-9, the annual contribution (illustrated using entry age 6-year, level dollar amortization for Teachers and entry age 27-year, level percent amortization for all other groups) would change as follows.

JUDGES

Fiscal Year Beginning July 1, 2009 Contributions/Payroll for	Intermediate	Pessimistic	Optimistic
Normal cost of benefits	$ 421,344	$ 456,724	$ 378,459
Unfunded actuarial accrued liabilities	$ 349,512	$ 375,243	$ 320,565
Annual Required Contribution (ARC)	**$ 770,856**	**$ 831,967**	**$ 699,024**
ARC as a percentage of projected payroll	**7.19%**	**7.76%**	**6.52%**
Projected Annual Payroll	$ 10,721,221	$ 10,721,221	$ 10,721,221

LEGISLATURE

Fiscal Year Beginning July 1, 2009 Contributions/Payroll for	Intermediate	Pessimistic	Optimistic
Normal cost of benefits	$ 378,615	$ 411,178	$ 337,405
Unfunded actuarial accrued liabilities	$ 474,096	$ 510,339	$ 429,575
Annual Required Contribution (ARC)	**$ 852,711**	**$ 921,517**	**$ 766,980**
ARC as a percentage of projected payroll	**46.35%**	**50.09%**	**41.69%**
Projected Annual Payroll	$1,839,721	$1,839,721	$1,839,721

* *Based on a 5% discount rate.*

SENSITIVITY ANALYSIS*
FOR THE FISCAL YEAR BEGINNING JULY 1, 2011 (CONCLUDED)

STATE EMPLOYEES

Fiscal Year Beginning July 1, 2009 Contributions/Payroll for	Intermediate	Pessimistic	Optimistic
Normal cost of benefits	$ 13,989,897	$ 15,190,747	$ 12,608,921
Unfunded actuarial accrued liabilities	$ 27,199,243	$ 29,120,602	$ 25,037,713
Annual Required Contribution (ARC)	**$ 41,189,140**	**$ 44,311,349**	**$ 37,646,634**
ARC as a percentage of projected payroll	**6.86%**	**7.38%**	**6.27%**
Projected Annual Payroll	$600,424,783	$600,424,783	$600,424,783

TEACHERS

Fiscal Year Beginning July 1, 2009 Contributions/Payroll for	Intermediate	Pessimistic	Optimistic
Normal cost of benefits	$ 0	$ 0	$ 0
Unfunded actuarial accrued liabilities	$ 2,600,927	$ 2,719,486	$ 2,472,211
Annual Required Contribution (ARC)	**$ 2,600,927**	**$ 2,719,486**	**$ 2,472,211**
ARC as a percentage of projected payroll	**N/A**	**N/A**	**N/A**
Projected Annual Payroll	N/A	N/A	N/A

STATE POLICE

Fiscal Year Beginning July 1, 2009 Contributions/Payroll for	Intermediate	Pessimistic	Optimistic
Normal cost of benefits	$ 3,626,434	$ 3,924,183	$ 3,286,694
Unfunded actuarial accrued liabilities	$ 2,706,465	$ 2,895,421	$ 2,496,514
Annual Required Contribution (ARC)	**$ 6,332,899**	**$ 6,819,604**	**$ 5,783,208**
ARC as a percentage of projected payroll	**33.18%**	**35.73%**	**30.30%**
Projected Annual Payroll	$19,086,495	$19,086,495	$19,086,495

* *Based on a 5% discount rate.*

SECTION C

BENEFIT PROJECTIONS

20-YEAR BENEFIT PROJECTIONS
INTERMEDIATE TREND RATES

The columns titled "Net Health Care Benefits" are the amounts of retiree health care expenditures net of retiree and spouse contributions that we estimate will occur in various years. These amounts are highly dependent on the underlying actuarial assumptions in the valuation. Actual experience over time may vary significantly. Additional detail for each of the groups is provided on the following pages.

(Dollar Amounts in Thousands)

Year Ending	Net Health Care Benefits					
June 30,	Judges	Legislature	State Employees	Teachers	State Police	Total
2010	$324	$364	$35,601	$2,535	$3,057	$41,881
2011	382	473	37,666	2,383	3,323	44,227
2012	412	518	38,657	2,069	3,537	45,193
2013	445	565	39,217	1,574	3,761	45,562
2014	476	614	40,142	1,271	3,927	46,430
2015	517	655	41,065	1,060	4,149	47,446
2016	567	695	42,178	827	4,681	48,948
2017	605	744	43,193	674	4,957	50,173
2018	648	795	44,072	522	5,277	51,314
2019	688	843	44,671	475	5,719	52,396
2020	723	886	45,463	449	6,221	53,742
2021	759	927	46,240	409	6,771	55,106
2022	805	965	46,780	381	7,167	56,098
2023	866	1,007	47,534	358	7,667	57,432
2024	908	1,052	48,478	329	7,958	58,725
2025	949	1,086	49,461	317	8,465	60,278
2026	987	1,118	50,317	310	8,786	61,518
2027	1,025	1,155	51,262	291	8,884	62,617
2028	1,081	1,203	52,090	270	8,926	63,570
2029	1,137	1,248	52,824	233	8,939	64,381
2030	1,203	1,275	52,843	217	9,005	64,543

JUDGES
20-YEAR BENEFIT PROJECTIONS
INTERMEDIATE TREND RATES

	I. Retirees and Covered Spouses			II. Deferred			III. Active Members			IV. Total = I. + II. + III.		
	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)
Fiscal Year Ending 6/30	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow
2010	$ 667,331	$ (375,729)	$ 291,602	$ -	$ -	$ -	$ 80,093	$ (47,352)	$ 32,741	$ 747,424	$ (423,081)	$ 324,343
2011	696,789	(388,713)	308,076	-	-	-	184,239	(109,687)	74,552	881,028	(498,400)	382,629
2012	721,310	(398,994)	322,315	-	-	-	223,716	(133,817)	89,899	945,026	(532,811)	412,215
2013	740,203	(406,284)	333,920	-	-	-	276,328	(164,741)	111,587	1,016,531	(571,024)	445,507
2014	752,832	(410,342)	342,491	-	-	-	328,630	(194,653)	133,977	1,081,462	(604,994)	476,467
2015	758,831	(410,993)	347,838	-	-	-	409,695	(240,368)	169,327	1,168,526	(651,361)	517,165
2016	757,848	(408,137)	349,711	-	-	-	521,111	(303,232)	217,879	1,278,959	(711,369)	567,590
2017	749,650	(401,754)	347,896	-	-	-	609,811	(352,490)	257,321	1,359,461	(754,245)	605,216
2018	734,456	(391,911)	342,545	-	-	-	713,718	(408,010)	305,708	1,448,174	(799,922)	648,252
2019	712,517	(378,766)	333,751	-	-	-	814,190	(459,413)	354,778	1,526,708	(838,179)	688,529
2020	684,272	(362,574)	321,698	-	-	-	907,186	(505,066)	402,120	1,591,458	(867,640)	723,817
2021	653,486	(345,339)	308,147	-	-	-	1,005,864	(554,339)	451,524	1,659,350	(899,679)	759,671
2022	620,676	(327,219)	293,457	-	-	-	1,133,692	(621,683)	512,009	1,754,367	(948,902)	805,465
2023	586,285	(308,398)	277,886	-	-	-	1,299,762	(711,384)	588,378	1,886,047	(1,019,782)	866,265
2024	550,667	(289,085)	261,582	-	-	-	1,420,831	(773,555)	647,275	1,971,498	(1,062,640)	908,858
2025	514,196	(269,499)	244,696	-	-	-	1,532,593	(828,052)	704,541	2,046,789	(1,097,552)	949,237
2026	477,421	(249,869)	227,552	-	-	-	1,640,460	(880,376)	760,083	2,117,881	(1,130,245)	987,636
2027	440,804	(230,409)	210,395	-	-	-	1,743,402	(928,757)	814,645	2,184,206	(1,159,166)	1,025,040
2028	404,682	(211,314)	193,368	-	-	-	1,891,664	(1,003,897)	887,766	2,296,346	(1,215,212)	1,081,134
2029	369,372	(192,752)	176,621	-	-	-	2,042,088	(1,080,731)	961,357	2,411,460	(1,273,483)	1,137,977
2030	335,331	(174,869)	160,462	-	-	-	2,217,795	(1,175,003)	1,042,792	2,553,126	(1,349,872)	1,203,254

LEGISLATORS
20-YEAR BENEFIT PROJECTIONS
INTERMEDIATE TREND RATES

	I. Retirees and Covered Spouses			II. Deferred			III. Active Members			IV. Total = I. + II. + III.		
Fiscal Year Ending 6/30	(A) Gross Claims	(B) Retiree Contributions	(C) = (A) + (B) Net Cash Flow	(A) Gross Claims	(B) Retiree Contributions	(C) = (A) + (B) Net Cash Flow	(A) Gross Claims	(B) Retiree Contributions	(C) = (A) + (B) Net Cash Flow	(A) Gross Claims	(B) Retiree Contributions	(C) = (A) + (B) Net Cash Flow
2010	$ 835,889	$ (540,051)	$ 295,838	$ 110,727	$ (62,144)	$ 48,583	$ 47,047	$ (26,917)	$ 20,129	$ 993,662	$ (629,112)	$ 364,550
2011	874,617	(558,488)	316,129	247,072	(140,219)	106,853	118,521	(68,052)	50,470	1,240,210	(766,759)	473,451
2012	880,150	(549,863)	330,287	288,617	(165,839)	122,778	157,699	(91,912)	65,787	1,326,466	(807,614)	518,852
2013	889,003	(544,957)	344,045	327,567	(187,673)	139,894	200,965	(119,235)	81,730	1,417,535	(851,865)	565,670
2014	890,088	(535,530)	354,558	363,023	(204,624)	158,399	251,967	(150,638)	101,330	1,505,077	(890,792)	614,286
2015	858,508	(499,217)	359,291	391,181	(216,952)	174,230	308,662	(186,680)	121,981	1,558,351	(902,849)	655,502
2016	835,214	(472,333)	362,881	415,848	(226,280)	189,567	366,516	(223,015)	143,501	1,617,578	(921,629)	695,949
2017	827,699	(461,860)	365,839	449,441	(240,721)	208,719	431,801	(261,947)	169,853	1,708,940	(964,528)	744,412
2018	814,547	(448,378)	366,169	501,004	(272,496)	228,508	502,143	(301,193)	200,949	1,817,694	(1,022,067)	795,626
2019	800,411	(435,221)	365,190	540,958	(298,359)	242,599	577,340	(342,064)	235,277	1,918,709	(1,075,643)	843,066
2020	773,504	(412,614)	360,891	544,044	(297,671)	246,373	674,674	(395,711)	278,963	1,992,223	(1,105,996)	886,227
2021	737,198	(384,568)	352,630	535,840	(284,593)	251,247	759,888	(436,550)	323,337	2,032,925	(1,105,711)	927,215
2022	699,227	(354,270)	344,957	528,382	(265,547)	262,835	801,052	(442,954)	358,098	2,028,661	(1,062,770)	965,891
2023	674,610	(336,447)	338,162	527,397	(254,215)	273,182	846,923	(450,284)	396,638	2,048,929	(1,040,947)	1,007,982
2024	649,604	(318,761)	330,843	525,949	(250,300)	275,649	937,462	(491,673)	445,789	2,113,015	(1,060,734)	1,052,282
2025	623,204	(300,252)	322,952	526,197	(249,215)	276,982	1,026,685	(539,853)	486,832	2,176,086	(1,089,320)	1,086,767
2026	583,797	(270,371)	313,426	532,465	(249,352)	283,113	1,089,119	(567,632)	521,486	2,205,381	(1,087,355)	1,118,026
2027	557,641	(253,144)	304,496	520,138	(233,186)	286,952	1,148,740	(584,993)	563,748	2,226,519	(1,071,323)	1,155,196
2028	531,567	(236,398)	295,170	512,053	(220,111)	291,942	1,233,333	(617,137)	616,196	2,276,954	(1,073,646)	1,203,307
2029	505,694	(220,188)	285,506	516,840	(218,975)	297,865	1,329,814	(664,902)	664,912	2,352,347	(1,104,065)	1,248,283
2030	480,031	(204,558)	275,472	500,669	(209,543)	291,126	1,428,639	(719,542)	709,097	2,409,338	(1,133,643)	1,275,695

STATE EMPLOYEES
20-YEAR BENEFIT PROJECTIONS
INTERMEDIATE TREND RATES

	I. Retirees and Covered Spouses			II. Deferred			III. Active Members			IV. Total = I. + II. + III.		
	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)
Fiscal Year Ending 6/30	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow
2010	$ 45,740,796	$ (10,756,100)	$ 34,984,697	$ -	$ -	$ -	$ 838,832	$ (221,682)	$ 617,149	$ 46,579,628	$ (10,977,782)	$ 35,601,846
2011	46,695,285	(10,978,666)	35,716,619	-	-	-	2,631,705	(682,183)	1,949,521	49,326,989	(11,660,849)	37,666,140
2012	46,265,749	(11,030,763)	35,234,986	-	-	-	4,618,701	(1,195,810)	3,422,891	50,884,450	(12,226,573)	38,657,877
2013	45,196,980	(11,074,201)	34,122,779	-	-	-	6,897,057	(1,802,446)	5,094,612	52,094,037	(12,876,647)	39,217,390
2014	44,287,945	(11,042,870)	33,245,075	-	-	-	9,393,409	(2,495,749)	6,897,660	53,681,354	(13,538,619)	40,142,735
2015	43,244,327	(10,925,074)	32,319,253	-	-	-	11,993,617	(3,247,340)	8,746,277	55,237,944	(14,172,414)	41,065,530
2016	42,074,414	(10,772,646)	31,301,767	-	-	-	14,960,564	(4,083,993)	10,876,571	57,034,978	(14,856,639)	42,178,338
2017	40,479,343	(10,510,482)	29,968,861	-	-	-	18,216,008	(4,991,829)	13,224,178	58,695,351	(15,502,312)	43,193,039
2018	38,661,405	(10,227,862)	28,433,543	-	-	-	21,605,137	(5,966,589)	15,638,548	60,266,542	(16,194,451)	44,072,091
2019	36,239,743	(9,846,341)	26,393,402	-	-	-	25,333,756	(7,055,803)	18,277,953	61,573,499	(16,902,144)	44,671,355
2020	33,894,953	(9,431,725)	24,463,227	-	-	-	29,212,087	(8,211,894)	21,000,193	63,107,040	(17,643,619)	45,463,421
2021	31,714,516	(9,035,885)	22,678,631	-	-	-	32,885,120	(9,323,170)	23,561,950	64,599,636	(18,359,055)	46,240,581
2022	29,412,259	(8,647,745)	20,764,514	-	-	-	36,430,503	(10,414,907)	26,015,596	65,842,761	(19,062,652)	46,780,110
2023	27,413,111	(8,283,173)	19,129,938	-	-	-	39,935,074	(11,530,975)	28,404,099	67,348,186	(19,814,148)	47,534,038
2024	25,936,968	(7,982,172)	17,954,796	-	-	-	43,153,366	(12,629,399)	30,523,967	69,090,334	(20,611,571)	48,478,763
2025	24,788,471	(7,650,156)	17,138,315	-	-	-	46,012,661	(13,689,101)	32,323,560	70,801,132	(21,339,257)	49,461,875
2026	23,741,736	(7,309,563)	16,432,173	-	-	-	48,575,580	(14,690,669)	33,884,912	72,317,316	(22,000,232)	50,317,085
2027	22,921,138	(6,990,517)	15,930,621	-	-	-	50,963,224	(15,631,829)	35,331,395	73,884,362	(22,622,347)	51,262,015
2028	22,111,993	(6,676,912)	15,435,081	-	-	-	53,191,113	(16,536,146)	36,654,968	75,303,107	(23,213,058)	52,090,049
2029	21,380,817	(6,356,790)	15,024,027	-	-	-	55,162,017	(17,361,900)	37,800,117	76,542,834	(23,718,691)	52,824,144
2030	20,661,809	(6,063,255)	14,598,554	-	-	-	56,210,625	(17,965,560)	38,245,065	76,872,434	(24,028,815)	52,843,619

TEACHERS
20-YEAR BENEFIT PROJECTIONS
INTERMEDIATE TREND RATES

	I. Retirees and Covered Spouses			II. Deferred			III. Active Members			IV. Total = I. + II. + III.		
	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)
Fiscal Year Ending 6/30	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow
2010	$ 5,553,752	$(3,017,760)	$ 2,535,992	$ -	$ -	$ -	$ -	$ -	$ -	$ 5,553,752	$ (3,017,760)	$ 2,535,992
2011	5,384,053	(3,000,359)	2,383,693	-	-	-	-	-	-	5,384,053	(3,000,359)	2,383,693
2012	4,974,420	(2,904,978)	2,069,442	-	-	-	-	-	-	4,974,420	(2,904,978)	2,069,442
2013	4,293,444	(2,718,525)	1,574,918	-	-	-	-	-	-	4,293,444	(2,718,525)	1,574,918
2014	3,892,648	(2,621,297)	1,271,351	-	-	-	-	-	-	3,892,648	(2,621,297)	1,271,351
2015	3,632,702	(2,572,160)	1,060,542	-	-	-	-	-	-	3,632,702	(2,572,160)	1,060,542
2016	3,334,146	(2,506,506)	827,639	-	-	-	-	-	-	3,334,146	(2,506,506)	827,639
2017	3,146,804	(2,472,347)	674,457	-	-	-	-	-	-	3,146,804	(2,472,347)	674,457
2018	2,955,690	(2,432,734)	522,956	-	-	-	-	-	-	2,955,690	(2,432,734)	522,956
2019	2,908,763	(2,433,250)	475,513	-	-	-	-	-	-	2,908,763	(2,433,250)	475,513
2020	2,880,804	(2,431,603)	449,201	-	-	-	-	-	-	2,880,804	(2,431,603)	449,201
2021	2,831,444	(2,421,956)	409,488	-	-	-	-	-	-	2,831,444	(2,421,956)	409,488
2022	2,798,454	(2,417,398)	381,056	-	-	-	-	-	-	2,798,454	(2,417,398)	381,056
2023	2,772,005	(2,413,105)	358,901	-	-	-	-	-	-	2,772,005	(2,413,105)	358,901
2024	2,731,347	(2,401,555)	329,792	-	-	-	-	-	-	2,731,347	(2,401,555)	329,792
2025	2,712,696	(2,394,827)	317,869	-	-	-	-	-	-	2,712,696	(2,394,827)	317,869
2026	2,696,351	(2,385,425)	310,926	-	-	-	-	-	-	2,696,351	(2,385,425)	310,926
2027	2,655,182	(2,363,860)	291,322	-	-	-	-	-	-	2,655,182	(2,363,860)	291,322
2028	2,603,632	(2,333,469)	270,162	-	-	-	-	-	-	2,603,632	(2,333,469)	270,162
2029	2,520,640	(2,287,182)	233,458	-	-	-	-	-	-	2,520,640	(2,287,182)	233,458
2030	2,457,538	(2,240,051)	217,486	-	-	-	-	-	-	2,457,538	(2,240,051)	217,486

STATE POLICE
20-YEAR BENEFIT PROJECTIONS
INTERMEDIATE TREND RATES

	I. Retirees and Covered Spouses			II. Deferred			III. Active Members			IV. Total = I. + II. + III.		
	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)	(A)	(B)	(C) = (A) + (B)
Fiscal Year Ending 6/30	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow	Gross Claims	Retiree Contributions	Net Cash Flow
2010	$ 3,247,017	$ (217,841)	$ 3,029,177	$ -	$ -	$ -	$ 28,167	$ -	$ 28,167	$ 3,275,184	$ (217,841)	$ 3,057,344
2011	3,434,129	(270,330)	3,163,799	-	-	-	159,815	-	159,815	3,593,944	(270,330)	3,323,614
2012	3,515,317	(347,859)	3,167,458	-	-	-	370,141	-	370,141	3,885,458	(347,859)	3,537,598
2013	3,591,502	(428,116)	3,163,386	-	-	-	598,140	-	598,140	4,189,642	(428,116)	3,761,526
2014	3,609,642	(520,207)	3,089,435	-	-	-	838,378	-	838,378	4,448,020	(520,207)	3,927,813
2015	3,613,325	(614,480)	2,998,845	-	-	-	1,150,348	-	1,150,348	4,763,673	(614,480)	4,149,193
2016	3,744,579	(676,109)	3,068,470	-	-	-	1,613,244	-	1,613,244	5,357,823	(676,109)	4,681,714
2017	3,669,978	(778,563)	2,891,415	-	-	-	2,066,495	-	2,066,495	5,736,473	(778,563)	4,957,911
2018	3,537,616	(886,534)	2,651,082	-	-	-	2,626,369	-	2,626,369	6,163,984	(886,534)	5,277,451
2019	3,446,913	(976,208)	2,470,705	-	-	-	3,250,901	(1,921)	3,248,981	6,697,814	(978,129)	5,719,685
2020	3,386,560	(1,050,624)	2,335,936	-	-	-	3,889,138	(3,990)	3,885,149	7,275,698	(1,054,614)	6,221,084
2021	3,337,036	(1,120,312)	2,216,724	-	-	-	4,558,853	(4,094)	4,554,759	7,895,889	(1,124,406)	6,771,483
2022	3,278,410	(1,189,458)	2,088,952	-	-	-	5,087,580	(8,876)	5,078,704	8,365,990	(1,198,334)	7,167,656
2023	3,248,395	(1,249,204)	1,999,191	-	-	-	5,697,658	(29,331)	5,668,327	8,946,053	(1,278,535)	7,667,518
2024	3,044,009	(1,343,051)	1,700,957	-	-	-	6,309,076	(51,364)	6,257,712	9,353,084	(1,394,415)	7,958,669
2025	2,957,131	(1,406,039)	1,551,091	-	-	-	6,988,421	(74,275)	6,914,146	9,945,552	(1,480,314)	8,465,238
2026	2,779,643	(1,484,631)	1,295,012	-	-	-	7,617,116	(125,700)	7,491,416	10,396,759	(1,610,332)	8,786,428
2027	2,661,633	(1,543,924)	1,117,709	-	-	-	7,970,251	(203,573)	7,766,678	10,631,884	(1,747,497)	8,884,387
2028	2,519,303	(1,602,739)	916,564	-	-	-	8,305,866	(295,986)	8,009,880	10,825,169	(1,898,725)	8,926,444
2029	2,292,407	(1,674,451)	617,956	-	-	-	8,715,594	(393,908)	8,321,686	11,008,001	(2,068,359)	8,939,642
2030	2,157,320	(1,717,537)	439,783	-	-	-	9,100,133	(534,560)	8,565,573	11,257,454	(2,252,098)	9,005,356

SECTION D

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Rhode Island has self-insured health plans administered by United Healthcare (UHC) which are offered to pre-65 and post-65 retirees. In addition, a fully-insured AARP Medicare Complete from Secure Horizons 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 (with the exception of retirees who can remain on their active plan, who have both medical and drug coverage after age 65).

For the fully-insured AARP Medicare Complete from Secure Horizons HMO plan, initial premium rates were developed based on the rates as of July 1, 2010. These rates were used without adjustment since they reflect the demographics of the group. Any plan changes made in 2011 will be reflected in the next valuation.

For the self-insured United Healthcare Plan 65 plan, the initial premiums are calculated based on the Rhode Island's own experience. Historical claim experience for the period from August 2007 to July 2010 was projected to the valuation period (i.e., July 1, 2009 to June 30, 2010) 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.

For the self-insured Early Retiree and Value plans, the initial premiums are calculated based on each group's own experience, separately for pre-65 and post-65 retirees. We developed separate rates for each group to reflect the group's mix of early retiree and value plans and the percentage that enroll in Medicare. The Medicare enrollment assumptions vary by group and can be found in the miscellaneous assumptions section. Historical claim experience for the period from August 2007 to July 2010 was projected to the valuation period (i.e., July 1, 2009 to June 30, 2010) 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.

There were some further adjustments made to the rates for certain groups due to concerns about the credibility of the data. For Judges and State Police, the rate used in the valuation for the Early Retiree and Value plans was blended using a 50/50 weighting of the rate developed using the methodology described in the previous paragraph with the expected per capita costs based on the data from the 2007 valuation.

Finally, to develop pre-65 and post-65 initial premium rates used for current retirees, we blended the Early Retiree/Value Plan rates, United Healthcare Plan 65 rates and AARP Medicare Complete rates based on the current plan elections by each group.

RETIREE PREMIUM RATE DEVELOPMENT

For future retirees, we developed rates based on the assumed election percentages found in the miscellaneous assumptions section.

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.

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

Judges Pre-65 Participants			Legislators Pre-65 Participants			State Employees Pre-65 Participants			Teachers Pre-65 Participants			State Police Pre-65 Participants		
Age	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**
45	$287.19	$375.98	45	$344.55	$451.07	45	$410.76	$537.76	45	$422.54	$553.18	45	$445.33	$583.01
50	388.54	440.24	50	466.14	528.16	50	555.72	629.67	50	571.66	647.72	50	602.49	682.65
55	507.81	521.99	55	609.23	626.24	55	726.32	746.59	55	747.15	768.00	55	787.44	809.42
60	637.96	613.22	60	765.37	735.69	60	912.47	877.08	60	938.63	902.23	60	989.25	950.89

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

Judges Medicare-Eligible			Legislators Medicare-Eligible			State Employees Medicare-Eligible			Teachers Medicare-Eligible			State Police Medicare-Eligible		
Age	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**	**Age**	**Male**	**Female**
65	$767.80	$707.04	65	$335.79	$309.22	65	$143.25	$131.91	65	$143.25	$131.91	65	$170.95	$157.43
70	885.65	796.38	70	387.33	348.29	70	165.24	148.58	70	165.24	148.58	70	197.19	177.32
75	983.22	872.59	75	430.00	381.62	75	183.44	162.80	75	183.44	162.80	75	218.92	194.29

RETIREE PREMIUM RATE DEVELOPMENT

The undersigned is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to certify the per capita retiree health care rates shown on the previous page.

John Mallows

John R. Mallows, FSA, MAAA

SECTION E

SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA

This is a brief summary of the Rhode Island State Employees' and Electing Teachers OPEB provisions in effect as of June 30, 2009. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate Plan Sponsor Statute and/or employee contract will prevail.

Summary of Plan Provisions as of June 30, 2009
Retiree Health Care Benefits Plan

Benefits Prior to 2008-H7204 Article 4

PLAN PARTICIPANTS

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, provided the member began receiving a pension upon termination of State employment and meets the benefit eligibility requirements set forth below. In addition, State Judges and Legislators 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 a portion of 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 – SERVICE 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 contributing service. Eligibility conditions for retirement are:

State Police: Members hired before 7/1/07 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.) Members hired after 7/1/07 are eligible to retire after 25 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 contributing service prior to 7/1/05 and eligible to retire as of 9/30/09. If vested (10 years of contributing service as of 7/1/05), but ineligible to retire as of 9/30/09, must be age 62. For those employees with less than 10 years of service prior to 7/1/05, the employee must be age 59 with at least 29 years of service, age 65 with ten years of service, or age 62 with 29 years of service depending on vesting schedule and hire date.

Additional eligibility conditions apply to the following groups:

RN members: Age 50 with 25 years of service if eligible to retire as of 9/30/09
Age 55 with 25 years of service if eligible on or after 10/1/09

Correctional Officers: Age 50 with 20 years of service if eligible to retire as of 9/30/09
Age 55 with 25 years of service if eligible on or after 10/1/09

Legislators: Age 55 with 8 years of service or any age with 20 years of service.

Benefits Prior to 2008-H7204 Article 4

BENEFIT AMOUNT – SERVICE 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%

Benefits Prior to 2008-H7204 Article 4

DEFERRED RETIREMENT

Members who terminate 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.

Effective June 30, 2008, deferred coverage is not available for current and future members who terminate active employment but are not eligible to retire immediately. Employee must immediately retire for eligibility for retiree health care through the State.

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 contributing 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 a Post 65 health plan through the retirement system and pay the entire cost.

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.)

Benefits Prior to 2008-H7204 Article 4

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 a Post 65 health plan 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 Rhode Island State Employees' and Electing Teachers OPEB provisions in effect as of June 30, 2009. 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.

- 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%

- Those retiring with less than 20 years of service have to pay the full price of the plan chosen. Those retiring before age 59 with at least 20 years of service receive the 80% subsidy at age 59.

- As of May 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. This applies to all current retirees and those retiring before October 1, 2008.

- 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 $2,622.48 for Plan 65 and $1,704.00 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. 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 $2,622.48 for Plan 65 and $1,704.00 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 are only eligible to purchase the early retiree plan at its actual cost or a Medicare supplemental plan, both with state cost-sharing if they meet eligibility requirements.
- 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:
    - From ages 60 to 65, 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%

    - Upon turning age 65 on or after October 1, 2008, 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%

    - Those at least aged 65 as of Sept. 30, 2008 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%

- Future retirees and those who have not turned 60 as of September 30, 2008 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

This is a brief summary of the Rhode Island State Employees' and Electing Teachers OPEB provisions in effect as of June 30, 2009. In the event that any description contained herein differs from the actual eligibility or benefit, the appropriate Plan Sponsor Statute and/or employee contract will prevail.

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):		
Specialist	$20 co-pay	20% co-pay
Primary	$10 co-pay	20% co-pay
Emergency Care	$100 co-pay	$100 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	$5/$20/$40	$5/$20/$40
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 for PCP	$10 per visit	20% co-pay
Infertility Services	20% co-pay	20% co-pay
Nutritional Services – 6 visits per year	$20 per visit	20% co-pay
Private Duty Nursing	Covered in Full	Covered in Full
Urgent Care Services	$35 Per visit	20% co-pay

* *Out of Network Services subject to a 20% co-pay: Member is responsible for 80% of eligible expenses, plus any difference between eligible charges and billed charges.*

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

Benefit	Coverage
Individual Deductible	No Annual Deductible
Out-of-Pocket Maximum	None
Preventive Services	Medicare Standard
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	No Annual Deductible
Out-of-Pocket Maximum	$400
Annual Physical	$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 JUDGES MEMBERS AS OF JUNE 30, 2009
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	5	1						6
50-54	2	3		3	1			9
55-59	1	5	1	5	4			16
60-64		3	2	3	3			11
65 & Over	2	4	3	2	3	2	2	18
Totals	**10**	**16**	**6**	**13**	**11**	**2**	**2**	**60**

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

Age:	59.9	years
Service:	13.6	years
Annual Pay:	$156,583	

ACTIVE LEGISLATURE MEMBERS AS OF JUNE 30, 2009
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								
25-29	1	1						2
30-34	3		2					5
35-39	7	1						8
40-44	7	5	1					13
45-49	7		2	8	2			19
50-54	9	2	8	7	2			28
55-59	6	1	5	1			1	14
60-64	2	1	1	4	2			10
65 & Over	4	3	2	5				14
Totals	**46**	**14**	**21**	**25**	**6**		**1**	**113**

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

Age:	51.2	years
Service:	9.2	years
Annual Pay:	$14,267	

ACTIVE STATE EMPLOYEE MEMBERS AS OF JUNE 30, 2009
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								
20-24	130							130
25-29	445	64	1					510
30-34	379	263	47					689
35-39	348	352	207	65	3			975
40-44	336	311	271	391	168	8		1,485
45-49	351	331	221	368	479	195	2	1,947
50-54	306	287	256	378	430	318	87	2,062
55-59	214	252	201	272	328	233	168	1,668
60-64	112	127	140	201	239	131	118	1,068
65 & Over	47	59	44	82	112	84	61	489
Totals	**2,668**	**2,046**	**1,388**	**1,757**	**1,759**	**969**	**436**	**11,023**

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

Age:	48.1	years
Service:	13.6	years
Annual Pay:	$52,125	

ACTIVE TEACHERS MEMBERS AS OF JUNE 30, 2009
BY ATTAINED AGE AND YEARS OF SERVICE

Active Teachers were excluded from the valuation.

ACTIVE STATE POLICE MEMBERS AS OF JUNE 30, 2009
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	12							12
25-29	23							23
30-34	17	5						22
35-39	14	7	14	3				38
40-44	2	6	36	32	1			77
45-49			8	22	11			41
50-54		2	2	5	3			12
Totals	**69**	**20**	**60**	**62**	**15**			**226**

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

Age:	39.0	years
Service:	11.3	years
Annual Pay:	$74,006	

RETIRED AND DEFERRED MEMBERS AS OF JUNE 30, 2009
BY ATTAINED AGE

RETIRED MEMBERS*

Attained Age	Number of Retirees					
	Judges	Legislature	State Employees	Teachers	State Police	Total
Under 50	0	2	125	3	64	194
50-54	1	3	540	13	56	613
55-59	1	7	1,066	91	88	1,253
60-64	1	14	1,613	304	87	2,019
65 & Over	59	88	6,317	1,397	84	7,945
Totals	**62**	**114**	**9,661**	**1,808**	**379**	**12,024**

* *Includes both retirees and beneficiaries 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	0	0	0	0	0
40-44	0	3	0	0	0	3
45-49	0	6	0	0	0	6
50-54	0	10	0	0	0	10
55-59	0	10	0	0	0	10
60 & Over	0	24	0	0	0	24
Totals	**0**	**53**	**0**	**0**	**0**	**53**

SECTION F

ACTUARIAL COST METHOD AND ACTUARIAL ASSUMPTIONS

VALUATION METHOD

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 is being amortized over the remainder of a closed 30-year period (or shorter) from June 30, 2006. The UAAL amortization payment is the amount required to fully amortize the UAAL over a 6-year level dollar amortization period for Teachers and 27-year period as a level percent of payroll for other groups 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.

***Rates of Investment.* 5.00% 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	State Employees and Legislature			Teachers			State Police		
at Beginning of Year	Merit & Longevity	Base (Economic)	Increase Next Year	Merit & Longevity	Base (Economic)	Increase Next Year	Merit & Longevity	Base (Economic)	Increase Next Year
0	4.50 %	4.50 %	9.00 %	8.75 %	4.50 %	13.25 %	4.25 %	4.50 %	8.75 %
1	4.00	4.50	8.50	7.50	4.50	12.00	4.00	4.50	8.50
2	3.50	4.50	8.00	6.25	4.50	10.75	4.00	4.50	8.50
3	3.00	4.50	7.50	5.75	4.50	10.25	8.00	4.50	12.50
4	2.75	4.50	7.25	5.25	4.50	9.75	5.00	4.50	9.50
5	2.50	4.50	7.00	4.50	4.50	9.00	3.25	4.50	7.75
6	2.00	4.50	6.50	4.00	4.50	8.50	1.25	4.50	5.75
7	1.50	4.50	6.00	3.50	4.50	8.00	1.25	4.50	5.75
8	1.25	4.50	5.75	3.00	4.50	7.50	1.00	4.50	5.50
9	1.00	4.50	5.50	2.00	4.50	6.50	1.00	4.50	5.50
10	0.75	4.50	5.25	1.25	4.50	5.75	0.75	4.50	5.25
11	0.50	4.50	5.00	1.00	4.50	5.50	0.75	4.50	5.25
12	0.50	4.50	5.00	0.50	4.50	5.00	0.75	4.50	5.25
13	0.25	4.50	4.75	0.25	4.50	4.75	0.75	4.50	5.25
14	0.25	4.50	4.75	0.00	4.50	4.50	0.75	4.50	5.25
15	0.00	4.50	4.50				0.50	4.50	5.00
16							0.50	4.50	5.00
17							0.50	4.50	5.00
18							0.50	4.50	5.00
19							0.50	4.50	5.00
20							0.25	4.50	4.75
21							0.25	4.50	4.75
22							0.25	4.50	4.75
23							0.25	4.50	4.75
24							0.25	4.50	4.75
25 or more							0.00	4.50	4.50
Ref	252			253			260		

Judges were assumed to have 4.5% salary increases.

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

The payroll growth rate for amortizing the Unfunded Actuarial Accrued Liabilities was assumed to be 4.5% for all members.

For the June 30, 2009 valuation, the projection of payroll for State Employees was assumed to be 0% for two years, 4.5% per year thereafter.

The mortality table used to project the post-termination mortality experience of plan members is 100% of the 1994 Group Annuity Mortality Table set forward one year for males (Non-Teachers), and forward zero years for females (Non-Teachers). Male teacher mortality rates are based on a GRS table illustrating male teacher experience. Female teacher mortality rates are based on 95% of a GRS table illustrating female teacher experience. 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 Females (Non-Teachers)	Healthy Males (Teachers)	Healthy Females (Teachers)	Disabled Males	Disabled Females
25	0.07 %	0.03 %	0.07 %	0.03 %	3.14 %	2.63 %
30	0.08	0.04	0.09	0.04	2.35	2.37
35	0.09	0.05	0.09	0.05	1.81	2.14
40	0.12	0.07	0.12	0.07	1.83	2.09
45	0.17	0.10	0.17	0.10	2.09	2.24
50	0.29	0.14	0.28	0.15	2.49	2.57
55	0.49	0.23	0.48	0.36	3.13	2.95
60	0.90	0.44	0.45	0.45	3.92	3.31
65	1.62	0.86	0.57	0.41	4.41	3.70
70	2.60	1.37	1.50	0.85	4.80	4.11
75	4.09	2.27	2.49	1.35	5.47	4.92
80	6.86	3.94	4.93	3.01	7.33	7.46

Pre-termination mortality was assumed to be 65% of the post-termination rates for non-disabled retirees.

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:

Service at Beginning of Year	State Employees and Legislature		Teachers	
	Male	**Female**	**Male**	**Female**
0	24.00 %	12.00 %	17.00 %	13.00 %
1	8.82	10.00	9.00	7.59 %
2	7.61	7.78	5.62	6.56
3	6.56	6.82	4.55	5.66
4	5.65	5.99	3.64	4.86
5	4.87	5.26	2.89	4.18
6	4.21	4.63	2.29	3.59
7	3.66	4.09	1.81	3.09
8	3.21	3.63	1.45	2.67
9	2.85	3.25	1.20	2.33
10	2.57	2.93	1.04	2.05
11	2.35	2.67	0.95	1.83
12	2.19	2.46	0.94	1.65
13	2.08	2.28	0.94	1.52
14	1.99	2.14	0.94	1.42
15	1.94	2.02	0.94	1.34
16	1.89	1.91	0.94	1.28
17	1.85	1.81	0.94	1.22
18	1.79	1.70	0.94	1.16
19	1.72	1.58	0.94	1.09
20	1.62	1.44	0.94	1.01
21	1.47	1.28	0.94	0.90
22	1.27	1.07	0.94	0.75
23	1.01	0.82	0.94	0.56
24	0.68	0.51	0.94	0.33
25 or more	0.00	0.00	0.00	0.00
Ref	511	512	513	514

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:

Separate male and female rates, based on schedule, age and service. For State employee and Teacher members who reach 28 years of service before age 60, service-based rates are used. For State employee and Teacher members who reach age 60 before reaching 28 years of service, age-based rates are used instead. Legislators have the same rates as state employees shown below except 100% are assumed to retire at age 62 and completion of 10 years of service if still active. The following tables show the probabilities of retirement.

State Employees Excluding Corrections – Schedule A Members							
Males				Females			
Service (00/28)		Age (60/10)		Service (00/28)		Age (60/10)	
Service	Ret. Rate	Age	Ret. Rate	Service	Ret. Rate	Age	Ret. Rate
28	17.50%	60	10.00%	28	20.00%	60	15.00%
29	13.00%	61	5.00%	29	15.00%	61	10.00%
30	13.00%	62	17.50%	30	15.00%	62	20.00%
31	13.00%	63	15.00%	31	15.00%	63	15.00%
32	13.00%	64	15.00%	32	15.00%	64	15.00%
33	17.50%	65	20.00%	33	15.00%	65	20.00%
34	17.50%	66	17.50%	34	15.00%	66	25.00%
35	40.00%	67	17.50%	35	40.00%	67	20.00%
36	35.00%	68	17.50%	36	30.00%	68	20.00%
37	35.00%	69	17.50%	37	30.00%	69	20.00%
38	35.00%	70	17.50%	38	30.00%	70	20.00%
39	35.00%	71	17.50%	39	30.00%	71	20.00%
40	100.00%	72	17.50%	40	100.00%	72	20.00%
		73	17.50%			73	20.00%
		74	17.50%			74	20.00%
		75	100.00%			75	100.00%

Schedule B members: 60% of members are assumed to retire when first eligible, either at age 59 with 29 years of service, or at age 65 with 10 years of service. The rates in the table above are applied after first eligibility.

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

Teachers – Schedule A Members							
Males				Females			
Service (00/28)		Age (60/10)		Service (00/28)		Age (60/10)	
Service	Ret. Rate	Age	Ret. Rate	Service	Ret. Rate	Age	Ret. Rate
28	25.00%	60	20.00%	28	20.00%	60	20.00%
29	15.00%	61	15.00%	29	15.00%	61	15.00%
30	20.00%	62	30.00%	30	20.00%	62	25.00%
31	20.00%	63	25.00%	31	20.00%	63	20.00%
32	30.00%	64	10.00%	32	30.00%	64	20.00%
33	30.00%	65	25.00%	33	30.00%	65	35.00%
34	40.00%	66	25.00%	34	35.00%	66	25.00%
35	55.00%	67	25.00%	35	50.00%	67	25.00%
36	40.00%	68	25.00%	36	40.00%	68	25.00%
37	40.00%	69	25.00%	37	40.00%	69	25.00%
38	40.00%	70	25.00%	38	40.00%	70	25.00%
39	40.00%	71	25.00%	39	40.00%	71	25.00%
40	100.00%	72	25.00%	40	100.00%	72	25.00%
		73	25.00%			73	25.00%
		74	25.00%			74	25.00%
		75	100.00%			75	100.00%

Schedule B members: 75% of members who reach age 59 with 29 years of service before age 65 are assumed to retire when first eligible, at age 59 with 29 years of service. 75% of other members are expected to retire when first eligibility, at age 65 with 10 years of service. The rates in the table above are applied after first eligibility.

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

Correctional Officers - a set of unisex rates, indexed by service, as shown below. All members still active are assumed to retire at age 65 with 10 years of service.

Corrections			
Service	**Ret. Rate**	**Service**	**Ret. Rate**
20-29	5.00%	35	35.00%
30	13.00%	36	25.00%
31	13.00%	37	25.00%
32	13.00%	38	25.00%
33	20.00%	39	25.00%
34	20.00%	40	100.00%

State Police are assumed to retire after completion of 20 years of service, in accordance with the probabilities shown below. 100% are assumed to retire at age 60 and completion of 20 years of service if still active.

State Police			
Hired before July '07		**Hired on/after July '07**	
Service	**Ret. Rate**	**Service**	**Ret. Rate**
20	25.00%	25.00%	25.00%
21	15.00%	15.00%	15.00%
22	10.00%	10.00%	10.00%
23	20.00%	20.00%	20.00%
24	30.00%	30.00%	30.00%
25	100.00%	100.00%	100.00%

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.) 33% of Judges are assumed to retire at age 65 with 10 years of service, or any age with 20 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 Schedule B (state employee and teacher, male and female) members eligible for ERSRI 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
Ref	999

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

Sample Ages	Percent Becoming Disabled Within Next Year									
	Legislature and State Employees				Teachers				Police	
	Male		Female		Male		Female		Male & Female	
	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**
2010	9.00 %	11.00 %	7.00 %
2011	8.50	10.25	6.50
2012	8.00	9.50	6.25
2013	7.50	8.75	6.00
2014	7.00	8.00	5.75
2015	6.50	7.25	5.50
2016	6.00	6.50	5.25
2017	5.50	5.75	5.00
2018	5.00	5.00	4.75
2019	4.50	4.50	4.50
2020 & Later	4.50	4.50	4.50

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: 85% 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 and there will be no children's benefit.

Medicare Coverage: Assumed to be available for all covered employees on attainment of age 65. Judges are assumed not to elect Medicare. 75% of Legislators are assumed to elect Medicare. Retired State Employees, Police and future Teacher retirees were assumed to elect to participate in Medicare. Current Teacher retirees over the age of 65 participating in the Early Retiree plan were assumed not to co-ordinate with Medicare. Police were assumed to elect United 65.

Election Percentage: It was assumed that 90% of State employees, 10% of Teachers, 80% of Judges, 60% of Legislators and 100% of State Police active members will elect to receive retiree health care benefits through the State upon retirement.

Of those assumed to elect coverage, 85% of Police employees, 62.5% of Judges and Legislators, and 25% of State and Teacher 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 under the assumptions above.

Deferred Vested Members: Benefits were assumed to commence at age 60. Deferred vested State employees and Teachers are not included in the valuation.

Dental and Vision: With the exception of State Police retirees, Dental and Visions Benefits were assumed to be fully paid by the retiree.

Census Data: We received data from the State, and United Health Services. The data was merged, and adjusted for duplicates. There were significant changes in retirement membership for State employees. Active teachers were excluded as their future benefits are for disability benefits fully paid by the member.

SECTION G

GOVERNMENTAL ACCOUNTING STANDARDS BOARD DISCLOSURES

This information is presented in draft form for review by the Plan and/or State auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the Plan and/or State financial statements.

GASB STATEMENTS NO. 43 AND NO. 45
REQUIRED SUPPLEMENTARY INFORMATION

Name of Plan	Rhode Island State Employees' and Electing Teachers OPEB
Type of Plan	Agent Multiple-Employer Plan
Valuation Date	June 30, 2009
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Dollar- Teachers Level Percent of Pay – All Others
Remaining Amortization Periods	6 Years Closed - Teachers 27 Years Closed - All Other
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	5.00% Per Year
Projected Salary Increases	4.50%-13.25%
Valuation Health Care Cost Trend Rate	
Intermediate	9% in 2010, grading to 4.50% in 2019

SCHEDULE OF FUNDING PROGRESS

(Dollars in Thousands)

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)
Judges						
6/30/2005	$0	$ 76	$ 76	0.0%	$ 5,685	1.3%
6/30/2007	0	14,024	14,024	0.0%	9,888	141.8%
6/30/2009	0	8,665	8,665	0.0%	9,395	92.2%
Legislators						
6/30/2005	0	3,919	3,919	0.0%	1,509	259.7%
6/30/2007	0	29,764	29,764	0.0%	1,592	1869.6%
6/30/2009	0	11,752	11,752	0.0%	1,612	729.0%
State Employees						
6/30/2005	0	580,041	580,041	0.0%	575,613	100.8%
6/30/2007	0	679,538	679,538	0.0%	626,145	108.5%
6/30/2009	0	673,640	673,640	0.0%	574,569	117.2%
Teacher						
6/30/2005	0	8,477	8,477	0.0%	N/A	N/A
6/30/2007	0	10,243	10,243	0.0%	N/A	N/A
6/30/2009	0	13,529	13,529	0.0%	N/A	N/A
State Police						
6/30/2005	0	51,037	51,037	0.0%	13,821	369.3%
6/30/2007	0	54,620	54,620	0.0%	15,977	341.9%
6/30/2009	0	67,079	67,079	0.0%	16,725	401.1%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Valuation Date	Fiscal Year Ending	Annual Required Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Judges					
6/30/2005	6/30/2008	0.08%	$ 1,382	33.57%	$ 918
6/30/2005	6/30/2009	0.17%	1,109	15.34%	1,853
6/30/2007	6/30/2010	11.64%	1,131	15.33%	2,811
6/30/2007	6/30/2011	9.86%			
6/30/2009	6/30/2012	7.19%			
Legislators					
6/30/2005	6/30/2008	18.63%	285	21.05%	225
6/30/2005	6/30/2009	17.02%	298	48.40%	378
6/30/2007	6/30/2010	116.91%	1,861	7.72%	2,095
6/30/2007	6/30/2011	95.49%			
6/30/2009	6/30/2012	46.35%			
State Employees					
6/30/2005	6/30/2008	6.01%	38,203	65.06%	13,349
6/30/2005	6/30/2009	7.69%	34,683	96.17%	14,677
6/30/2007	6/30/2010	7.91%	45,852	73.07%	27,025
6/30/2007	6/30/2011	6.74%			
6/30/2009	6/30/2012	6.86%			
Teachers					
6/30/2005	6/30/2008	*$ 1,428*	1,428	100.00%	-
6/30/2005	6/30/2009	*2,180*	2,180	100.00%	-
6/30/2007	6/30/2010	*2,345*	2,345	100.00%	-
6/30/2007	6/30/2011	1,338			
6/30/2009	6/30/2012	2,601			
State Police					
6/30/2005	6/30/2008	30.27%	4,827	32.57%	3,255
6/30/2005	6/30/2009	25.78%	4,609	43.55%	5,850
6/30/2007	6/30/2010	29.83%	4,640	48.88%	8,222
6/30/2007	6/30/2011	25.67%			
6/30/2009	6/30/2012	33.18%			

APPENDIX A

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 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 Summary of Benefit Provisions and Valuation Data Section.

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 1957 to 2007 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 F-9 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 sensitivity analysis in Section B shows principal valuation result under intermediate, optimistic, and pessimistic 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.

APPENDIX B

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 known 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.

February 25, 2011

Mr. Thomas Mullany
State Budget Officer
Department of Administration Building
One Capitol Hill
Providence, Rhode Island 02908

Re: Rhode Island State Employees' and Electing Teachers OPEB Valuation

Dear Mr. Mullany:

Enclosed are 40 copies of the actuarial valuation of the Rhode Island State Employees' and Electing Teachers OPEB report.

Respectfully submitted,

David T Kausch

David T. Kausch, FSA, EA, MAAA

DTK:lr
Enclosures