



EMPLOYEES RETIREMENT SYSTEM OF TEXAS

**ACTUARIAL VALUATION OF OTHER POST-EMPLOYMENT
BENEFITS PROVIDED UNDER THE TEXAS EMPLOYEES
GROUP BENEFITS PROGRAM
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 43 FOR THE FISCAL YEAR ENDING AUGUST 31, 2016**

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November 4, 2016

Board of Trustees
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Attached is our Actuarial Valuation of the Other Post-Employment Benefits (OPEB) provided under the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS) for the Fiscal Year ending August 31, 2016 (GBP OPEB). The purpose of this valuation is to provide accounting information that is required by the Governmental Accounting Standards Board Statement No. 43 (GASB No. 43) which sets forth the financial reporting standards for plans of state and local governments that provide post-employment benefits other than pension benefits. Such benefits are referred to collectively as OPEB. The results of this valuation are appropriate only for purposes of GASB No. 43.

The GBP provides OPEB for retired employees of the State of Texas and certain institutions of higher education and other agencies as specified in Chapter 1551 of the Texas Insurance Code. For purposes of this report, the participating employers are referred to collectively as the Employer.

GASB No. 43 and GASB No. 45 operate together to form the basis of financial reporting for OPEB by the plan (GASB No. 43) and by the employer/plan sponsor (GASB No. 45). Depending upon plan structure, GASB presents several alternatives for coordinated plan and employer/sponsor reporting.

The Office of the Comptroller of Public Accounts (CPA) has determined that the GBP is a cost-sharing multiple employer plan that is administered in accordance with paragraph 4 of GASB No. 43 which applies to trusts, or equivalent arrangements, that meet the following criteria:

- a) Employer contributions to the plan are irrevocable,
- b) Plan assets are dedicated to providing benefits to their retirees and their beneficiaries in accordance with the terms of the plan, and
- c) Plan assets are legally protected from creditors of the employer or the plan administrator.

Therefore, based on the determination of the CPA, ERS reports under paragraphs 16 through 40 of GASB No. 43 and references to GASB No. 43 should be interpreted accordingly.

Please refer to the glossary in Section IX of this report for the definitions of certain GASB No. 43 terms which are indicated below in boldface type the first time they appear.

Disclosures Required to be Included with the Plan's Financial Statements

Under GASB No. 43 the plan financial statements must disclose the **Annual Required Contribution (ARC)** which is equal to the plan's **Normal Cost** plus an amount to amortize the **Unfunded Actuarial Accrued Liability** over a period that does not exceed 30 years.

Despite the apparent implications of the term ARC, the Employer is not required to contribute the ARC to the plan each year; instead, if the Employer contributes an amount less than the ARC, this fact is disclosed as Required Supplementary Information, as described below.

The ARC provides a basis for evaluating whether the employer's contributions for OPEB are adequate to fund the benefits during the working lifetime of current employees (i.e., the Normal Cost) and to amortize existing unfunded obligations (i.e., the obligations for current retirees plus that portion of the current employees' obligations that are attributed to past service) in a systematic manner over the amortization period prescribed by GASB. Per GASB No. 43, the following information is to be disclosed as Required Supplementary Information under the "Schedule of Funding Progress" as shown on page V-1 of this report.

The ARC for the fiscal year ending August 31, 2016 is \$2.299 billion. Employer contributions for the period totaled \$666 million. Therefore, Employer contributions were equal to about 29% of the ARC.

Consistency with Assumptions Used for Retirement Plan Valuations

Most of the employees and retirees covered by the GBP are also covered by either the ERS or Teacher Retirement System (TRS) retirement plans that are subject to periodic actuarial valuations. Where appropriate, for purposes of this report, we have utilized assumptions previously adopted by the ERS and TRS Boards for use in performing the retirement plan valuations. However, certain aspects of the OPEB valuation process require the use of assumptions that are unique to OPEB; specifically, the investment return assumption and the health benefit cost trend as discussed below.

Changes in Actuarial Assumptions

Since the last valuation was prepared for this plan, assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution Trends have been updated to reflect recent experience and its effects on our short-term expectations. In addition, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence, the proportion of future retirees covering dependent children and the percentage of future retirees and retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.

For a complete list of assumptions, see Section VII of this report.

Investment Return Assumption (Discount Rate)

In accordance with GASB No. 43, the investment return assumption (discount rate) is the estimated long-term investment yield on investments expected to be used to finance the payment of benefits with consideration given to the nature and mix of current and expected investments. For this purpose, the investments expected to be used to finance the benefits are:

- (i) the plan assets, if the employer's funding policy is to contribute an amount at least equal to the ARC,
- (ii) assets of the employer, for plans that have no plan assets, or
- (iii) a combination of (i) and (ii), for plans being partially funded.

Presently, the amount that the Employer contributes to the plan each year is equal to the expected cost of providing the benefits incurred during that year. This amount is determined on a pay-as-you-go basis (PAYGO) and does not accumulate funds in advance of retirement as ARC-level contributions would. Therefore, the PAYGO amount is significantly less than the ARC. As a result of this funding policy and because the plan has no material level of assets held under a different investment policy that would materially affect the determination of the discount rate, under GASB No. 43 the investment return assumption must be based upon the expected yield of the "assets of the employer," as indicated in Item (ii) above. For the State of Texas, the "assets of the employer" are the assets held in the State Treasury Pool and managed by the Comptroller of Public Accounts.

Based upon the investment policy of the Treasury Pool, the historical returns of the Treasury Pool, and the long-term inflation assumption used in this report, we have utilized an investment return assumption (discount rate) of 5.50%.

If a policy was implemented to consistently fund the ARC or a significant portion thereof, the discount rate discussed above could be higher than the current 5.50% assumption if the underlying investments of the plan assets were expected to yield a return in excess of 5.50%. This higher discount rate would produce a smaller ARC.

Health Benefit Cost Trend

For purposes of this valuation, the health benefit cost trend represents the expected annual rate of increase in health benefit costs, excluding the effects of changes in demographics and changes in plan provisions.

The health benefit cost trend has exceeded the rate of price increases in the general economy, as measured by changes in the Consumer Price Index (CPI), for many decades. Although this pattern is expected to continue for the foreseeable future, many economists anticipate that the degree to which the health benefit cost trend exceeds general inflation will eventually abate. These economists believe that the health benefit cost trend will reach an ultimate level that still exceeds general inflation, but not by as wide a margin as in past decades.

The health benefit cost trend assumption used in this report begins with our short term expectations of expected health benefit cost increases in the next year and gradually declines to a rate that exceeds the assumed rate of general price inflation by 2.0%.

Changes in Plan Provisions

Under Q/A #49 of GASB's Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the benefit changes that became effective September 1, 2016 (except as noted below), since these changes were communicated to plan members in advance of the preparation of this report. The benefit changes for retirees for whom Medicare is not primary include: (a) an increase in the overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2017) and (b) implementation of (i) a program under which HealthSelect participants can consult with a licensed physician from their mobile device and (ii) an online weight loss program available to eligible HealthSelect participants not enrolled in Medicare Part B. These minor benefit changes have been reflected in the FY 2017 Assumed Per Capita Health Benefit Costs. In addition, effective September 1, 2016, retirees for whom Medicare is not primary may elect to participate in Consumer Directed HealthSelect, a high-deductible health plan and a health savings account, in lieu of HealthSelect. Retiree participation in Consumer Directed HealthSelect is expected to be minimal. There are no benefit changes for Medicare Primary retirees. Also, effective September 1, 2016, all employees, retirees and their dependents may elect to participate in the State of Texas Vision plan. This plan is self-funded through contributions made by employees and retirees. The State does not contribute towards vision coverage.

For a complete description of the benefit provisions, see Section VIII of this report.

High-Cost Plan Excise Tax

Consistent with the prior valuation, the effects of the High-Cost Plan Excise Tax imposed by the ACA under Internal Revenue Code Section 4980I (sometimes referred to as the "Cadillac Tax") have been included in this valuation. The Excise Tax becomes effective in 2020, but the plan is not expected to be subject to the tax until 2065 based on current plan provisions, assumptions and participant demographics. The Unfunded Actuarial Accrued Liability is increased by the \$122 million present value of the estimated Excise Taxes in future years, and the associated increase to the ARC is \$5 million.

Medicare Part D

The Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the basic coverage provided under Medicare Part D (the Retiree Drug Subsidy).

For purposes of GASB No. 43, the valuation of future OPEB may not reflect the anticipated receipt of future federal government subsidy payments under the Medicare Part D Prescription Drug Program as required under GASB Technical Bulletin No. 2006-1. The Bulletin requires that Retiree

Drug Subsidy payments to an employer be reported by the employer as revenue, rather than being netted against the employer's OPEB cost for prescription drug coverage.

ERS implemented an Employer Group Waiver Plan plus Commercial Wrap (EGWP plus Wrap) on January 1, 2013 in order to provide the plan with the benefit of increased subsidies and discounts available under such an arrangement. The Retiree Drug Subsidy is being phased out as a result of the implementation of the EGWP plus Wrap. The Retiree Drug Subsidies are excluded from this valuation in accordance with GASB Technical Bulletin No. 2006-1.

The projected cost of the EGWP plus Wrap reflects the subsidies to SilverScript Insurance Company, the administrator of the plan, which are expected to be provided by the Federal government under Medicare Part D and the discounts expected to be provided by drug manufacturers as required under the ACA.

New Governmental Accounting Standard

In June of 2015, the Governmental Accounting Standards Board adopted a new accounting standard that will replace GASB No. 43. GASB No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* will replace GASB No. 43 effective for fiscal years starting after June 15, 2016 (i.e., FY17 for the GBP OPEB), although GASB encourages earlier adoption.

GASB No. 74 will require a number of significant accounting changes. The primary changes are summarized below:

- Investment Return Assumption (Discount Rate): For unfunded plans like the GBP OPEB, the discount rate is based on yields of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Funded plans, however, may continue to use an assumption similar to the current discount rate. Given the current PAYGO funding approach, the expected discount rate in FY17 could be lower than the current discount rate, depending on the assumptions used for the yields of these tax-exempt bonds.
- Notes to Financial Statement and RSI: The Net OPEB Liability will be shown in the Notes to the Financial Statement and the RSI. This liability is equal to difference between the OPEB liability (i.e., the Actuarial Accrued Liability determined using the new discount rate) and the fair value of plan assets. Because GBP OPEB has no plan assets and uses the PAYGO approach, the Net OPEB Liability will be equal to the GBP OPEB Actuarial Accrued Liability.

Additionally, there will be increased note disclosures and supplementary information which include:

Ø a sensitivity analysis of:

- the Net OPEB Liability to $\pm 1\%$ changes in the discount rate, and
- the Net OPEB Liability to $\pm 1\%$ changes in the health benefit cost trend rate

- Ø a 10-year schedule of:
- the Net OPEB Liability reconciliation, and
 - investment returns.

At the request of ERS, we can prepare a study that analyzes the effect of this new accounting standard.

Variability in Future Actuarial Measurement


Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions;
- Changes in economic or demographic assumptions;
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- Changes in plan provisions, applicable law or applicable accounting standards.

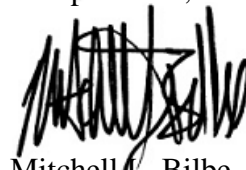
We have not been asked to perform and have not performed any stochastic or deterministic sensitivity analyses of the potential ranges of such future measurements. If you have an interest in the results of any such analysis, please let us know.

Please let us know if you have any questions or need additional information concerning this report.

Respectfully submitted,



Philip S. Dial, F.S.A.



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Christopher S. Johnson, F.S.A.

PSD/MLB/CSJ:ec

Enclosures

**GASB STATEMENT NO. 43
ACTUARIAL VALUATION**

**AS OF AUGUST 31, 2016
FOR THE FISCAL YEAR ENDING AUGUST 31, 2016**

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

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Section I - Certification of GASB No. 43 Actuarial Valuation

At the request of the Employees Retirement System of Texas (ERS), we have performed an actuarial valuation of the Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP) for the twelve-month period ending August 31, 2016 (GBP OPEB). The purpose of this report is to present the results of our valuation and provide the information necessary to determine financial statement entries consistent with the Governmental Accounting Standards Board Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans (GASB No. 43).

Actuarial computations under GASB No. 43 are for purposes of fulfilling governmental plan financial accounting requirements. The calculations reported herein have been made on a basis consistent with our understanding of GASB No. 43 and the GBP. The information presented in this report is solely for purposes of compliance with GASB No. 43. This report does not provide any advice with respect to the manner in which the benefits are funded (i.e., pay-as-you go funding as opposed to prefunding the benefits).

We have based our valuation on employee data as of August 31, 2016 provided by ERS and the Teachers Retirement System (TRS) and plan provisions provided by ERS. We have used the actuarial methods and assumptions described in Section VII of this report. The actuarial valuation has been performed on the basis of the plan benefits described in Section VIII.

To the best of our knowledge, all current active and retired employees eligible to participate in the plan as of the valuation date and all other individuals who have a vested benefit under the plan have been included in the valuation. Furthermore, to the best of our knowledge and belief, all plan benefits have been considered in the development of costs.

ERS and TRS remain solely responsible for the accuracy and comprehensiveness of the respective data provided. However, to the best of our knowledge, no material biases exist with respect to any imperfections in the data provided by these sources. To the extent that any imperfections exist in the data records, we have relied on best estimates provided by ERS and TRS. We have not audited the data provided, but have reviewed it for reasonableness and consistency relative to previously provided information.

To the best of our knowledge, the actuarial information supplied in this report is complete and accurate. In our opinion, each of the assumptions used is reasonably related to the experience of the plan and to reasonable expectations and represents our best estimate of anticipated experience under the plan solely with respect to that individual assumption. All of our work conforms to generally accepted actuarial principles and practices and to the Actuarial Standards of Practice issued by the Actuarial Standards Board.

Rudd and Wisdom, Inc. prepared and presented in Section V of this report the Schedule of Funding Progress and the Schedule of Employer Contributions that are to be included in the Required Supplementary Information.

The undersigned individuals are members of the American Academy of Actuaries who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Mitchell L. Bilbe, F.S.A.
Member of American Academy of Actuaries

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Section II - Summary of Valuation Results

All employer liabilities and costs presented throughout this report are net of any member contributions, member cost sharing and formulary rebates. For convenience, the information presented in Item D on page II-3 combines the information presented in Items A, B and C below.

A. Number of Group Benefits Program Members as of August 31, 2016

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	235,108 ¹	41,564 ²	126,597 ²	403,269 ²
Deferred Vesteds	11,329	0 ²	0 ²	11,329 ²
Retirees and Nominees	113,430 ³	29,153	9,757	152,340
Total	359,867	70,717	136,354	566,938

¹ Includes return-to-work retirees and employees who have not yet satisfied the waiting period.

² Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.

³ Includes 3,968 retirees who receive the Opt-Out Credit in lieu of health benefits.

B. Liabilities as of August 31, 2016

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

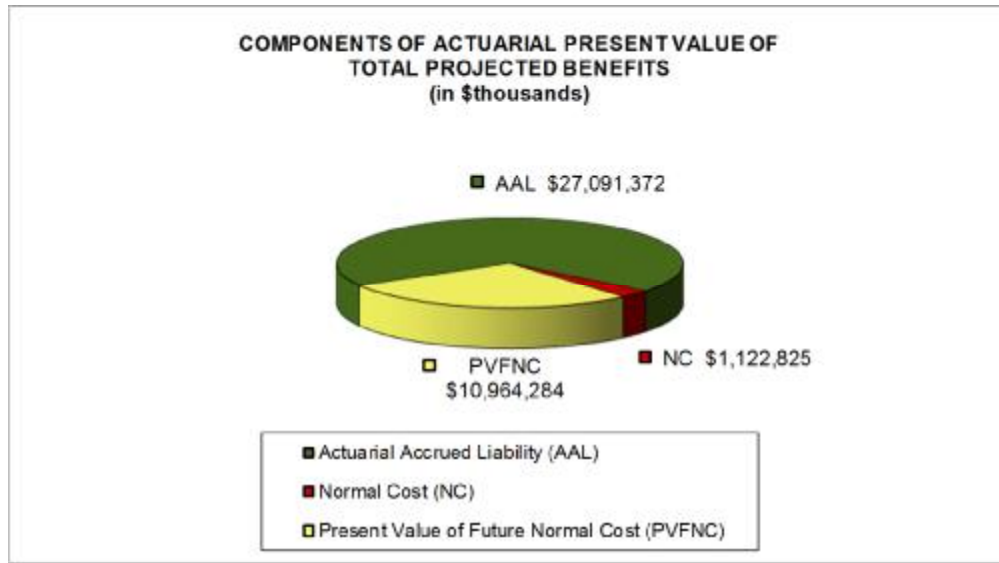
The **Actuarial Accrued Liability** is the portion of the Actuarial Present Value of Total Projected Benefits that is attributed to the plan members' past employment service as of the valuation date.

The **Normal Cost** is the portion of the Actuarial Present Value of Total Projected Benefits that is attributed to the plan members' current year of employment service.

The **Actuarial Present Value of Future Normal Costs** is the portion of the Actuarial Present Value of Total Projected Benefits expected to be attributed to plan members' future years of employment service. (As shown below, it does not include the current year Normal Cost.)

	Actuarial Present Value of Total Projected Benefits (\$ thousands)	Actuarial Accrued Liability (\$ thousands)	Normal Cost (\$ thousands)	Actuarial Present Value of Future Normal Costs (\$ thousands)
Actives	\$ 27,095,499	\$ 15,008,390	\$ 1,122,825	\$ 10,964,284
Deferred Vesteds	1,363,010	1,363,010	0	0
Retirees and Nominees	10,719,971	10,719,971	0	0
Total	\$ 39,178,481^a	\$ 27,091,372^a	\$ 1,122,825	\$ 10,964,284

^a Adjusted due to rounding error caused by rounding individual components.



C. Actuarial Value of Plan Assets, Unfunded Actuarial Accrued Liability and Annual Required Contribution for FY 2016

The **Actuarial Value of Plan Assets** is the fair market value of plan assets available as of the valuation date to pay for plan benefits.

The **Unfunded Actuarial Accrued Liability** is excess of the Actuarial Accrued Liability over the Actuarial Value of Plan Assets.

The **Annual Required Contribution (ARC)** represents the amount of the contribution that would be required to fund the Normal Cost and amortize the Unfunded Actuarial Accrued Liability over a period of 30 years. Details of the development of the ARC may be found in the next section of this report.

Actuarial Valuation Date	Actuarial Value of Plan Assets (\$ thousands)	Unfunded Actuarial Accrued Liability (\$ thousands)	Annual Required Contribution (ARC) (\$ thousands)
August 31, 2016	\$ 0	\$ 27,091,372	\$ 2,298,514 ¹

¹ Comprised of Normal Cost of \$1,122,824,902 and \$1,175,689,003 to amortize the Unfunded Actuarial Accrued Liability over a period of 30 years.



D. Summary of Results for FY 2016

Actuarial Valuation Results as of August 31, 2016		
	(\$ thousands)	As a % of Payroll
1. Number of Members (actual count, not in thousands)		
a. Actives	235,108	
b. Deferred Vesteds	11,329	
c. Retirees and Nominees	<u>113,430</u>	
d. Total Number of Members	359,867	
2. Payroll of Active Members for FY 2016	\$ 11,786,869	
3. Actuarial Present Value of Total Projected Benefits		
a. Actives	\$ 27,095,499	
b. Deferred Vesteds	1,363,010	
c. Retirees and Nominees	<u>10,719,971</u>	
d. Total	\$ 39,178,481 ¹	332.4%
4. Actuarial Accrued Liability		
a. Actives	\$ 15,008,390	
b. Deferred Vesteds	1,363,010	
c. Retirees and Nominees	<u>10,719,971</u>	
d. Total	\$ 27,091,372 ¹	229.8%
5. Actuarial Value of Assets	\$ 0	0.0%
6. Unfunded Actuarial Accrued Liability [4.d. – 5.]	\$ 27,091,372	229.8%
7. Annual Required Contribution for FYE August 31, 2016		
a. Normal Cost	\$ 1,122,825	9.5%
b. Amortization of UAAL	<u>1,175,689</u>	<u>10.0%</u>
c. Total ARC for FYE August 31, 2016	\$ 2,298,514	19.5%

¹ Adjusted due to rounding error caused by rounding individual components.



E. Changes in Liabilities Since the Prior Valuation

The Actuarial Accrued Liability and the Normal Cost have both increased since the prior valuation due to the combined effect of growth due to passage of time, Actuarial Gains, changes to the Actuarial Assumptions, and changes to the plan provisions.

An **Actuarial Gain or Loss** occurs from one valuation to the next if the experience of the plan differs from that anticipated by the actuarial assumptions. The plan experienced gains in the Actuarial Accrued Liability during the fiscal year ending August 31, 2016 as shown in the table on the next page.

The **Actuarial Assumptions** are used to project the demographic events and economic forces that affect the cost of the plan. Since the last valuation was prepared for this plan, the assumptions for Expenses and Per Capita Health Benefit Costs have been updated to reflect recent health plan experience and its effects on our short-term expectations. In addition, the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence, the proportion of future retirees covering dependent children and the percentage of future retirees and retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends.

Since the last valuation was prepared for this plan, benefit changes have been adopted. The benefit changes for retirees for whom Medicare is not primary include: (a) an increase in the overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2017) and (b) implementation of (i) a program under which HealthSelect participants can consult with a licensed physician from their mobile device and (ii) an online weight loss program available to eligible HealthSelect participants not enrolled in Medicare Part B. These minor benefit changes have been reflected in the FY 2017 Assumed Per Capita Health Benefit Costs. In addition, effective September 1, 2016, retirees for whom Medicare is not primary may elect to participate in Consumer Directed HealthSelect, a high-deductible health plan and a health savings account, in lieu of HealthSelect. Retiree participation in Consumer Directed HealthSelect is expected to be minimal. There are no benefit changes for Medicare Primary retirees. Also, effective September 1, 2016, all employees, retirees and their dependents may elect to participate in the State of Texas Vision plan. This plan is self-funded through contributions made by employees and retirees. The State does not contribute towards vision coverage.

The table on the next page summarizes the effects of significant factors affecting the Actuarial Accrued Liability and the Normal Cost. Because 100% of the Normal Cost is attributable to Active plan members while only 55% of the Actuarial Accrued Liability is attributable to Active plan members, these factors affect the total Actuarial Accrued Liability and the Normal Cost differently. Additionally, due to the mechanics of the Entry Age Normal cost method, some factors affect the Active Actuarial Accrued Liability and Normal Cost differently as well.



Changes to Liability Since the Prior Valuation		
Factor	Approximate Increase / (Decrease)	
	Actuarial Accrued Liability (in \$ thousands)	Normal Cost (in \$ thousands)
Growth due to passage of time¹	\$ 1,691,396	\$ 36,536
Actuarial (Gains)/Losses	(310,850)	30,753
Assumption Changes²	(29,872)	11,659
Plan Changes	0	0
Total	\$ 1,350,674	\$ 78,948

¹ Since OPEB is funded on a PAYGO basis, the excess of (a) the Normal Cost plus (b) interest over (c) the PAYGO contribution increases the Actuarial Accrued Liability. Since the Normal Cost is determined as a level percentage of payroll, it will increase due to payroll growth resulting from growth in the number of active employees and inflationary increases in the salaries.

² Includes plan benefit changes as reflected in the FY 2017 Assumed Per Capita Health Benefit Costs.



Section III - Accounting Information

A. Development of the Annual Required Contribution (ARC)

Under GASB No. 43, the ARC¹ is sum of: (1) the value of benefits accrued during the year (the Normal Cost) and (2) the amortization of the Unfunded Actuarial Accrued Liability. We have computed the ARC amortizing the Unfunded Actuarial Accrued Liability over the maximum period of 30 years as a level percentage of projected payroll.

The Employer is not required to contribute the ARC, as the name implies. The ARC represents the amount of the contribution that would be required to fund the Normal Cost and amortize the Unfunded Actuarial Accrued Liability over a period of 30 years.

1. Normal Cost	\$ 1,122,824,902
2. Amortization of Unfunded Actuarial Accrued Liability²	1,175,689,003
3. ARC for Fiscal Year Ending August 31, 2016 [1. + 2.]	\$ 2,298,513,905

B. Contribution Deficiencies/(Excess Contributions)

Contribution Deficiencies/(Excess Contributions) occur when the Employer makes contributions that are less than (that exceed) the ARC. Amortization of a Contribution Deficiency/(Excess Contribution) is delayed until the next actuarial valuation³. Such amortization occurs in the development of the following year's ARC.

1. Annual Required Contribution (ARC)	\$ 2,298,513,905
2. Employer Contributions for Fiscal Year Ending August 31, 2016	666,135,663 ⁴
3. Contribution Deficiency/(Excess Contribution) [1. – 2.]	\$ 1,632,378,242

¹ Defined in Paragraph No. 34.f. of GASB No. 43.

² Amortized over 30 years as a level percentage of projected payroll.

³ Pursuant to Paragraph No. 34.g. of GASB No. 43.

⁴ Includes Medicare Part D Retiree Drug Subsidies.



Section IV - Notes to the Financial Statements

Pursuant to Paragraphs No. 30 of GASB No. 43 the following information should be included in the Notes to the Financial Statements.

A. Plan Description

1. Plan Name

Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP)

2. Plan Type

The GBP is a cost-sharing multiple-employer defined benefit OPEB plan. Employers participating in the GBP include:

- a. the State of Texas which is the employer for all state agency employees and employees of senior colleges and universities,
- b. 50 Texas junior and community colleges,
- c. the Texas Municipal Retirement System, Texas County and District Retirement System and the Texas Turnpike Authority,
- d. Community Supervision and Corrections Departments.

3. Employees Covered

- a. State agency and higher education employees must meet the following classification requirements in order to be eligible for OPEB provided they also meet certain age and service conditions.

- i. State Agency or Higher Education Employee

An individual must be an elected or appointed officer or employee who performs service (other than an independent contractor) for the State of Texas, including an institution of higher education, other than the University of Texas or Texas A&M University Systems, and who:

- a) receives compensation for the service performed pursuant to a payroll certified by a state agency or by an elected or appointed officer, or
 - b) receives compensation for service performed for an institution of higher education pursuant to a payroll certified by an institution of higher education or by an elected or appointed officer of the State.



ii. Employees of Certain Other Entities

- a) Officers or employees of Texas Municipal Retirement System or Texas County and District Retirement System
- b) Certain employees or officers of the Texas Turnpike Authority
- c) Employees of the Community Supervision and Corrections Departments

b. Number of Plan Members as of August 31, 2016

	Members	Covered Spouses	Covered Dependent Children	Total
Actives	235,108 ¹	41,564 ²	126,597 ²	403,269 ²
Deferred Vesteds	11,329	0 ²	0 ²	11,329 ²
Retirees and Nominees	113,430 ³	29,153	9,757	152,340
Total	359,867	70,717	136,354	566,938

- ¹ Includes return-to-work retirees and employees who have not yet satisfied the waiting period.
- ² Rather than use current spouse/dependent child coverage information, actuarial assumptions are used to estimate the future number of spouses and dependent children that will be covered at retirement.
- ³ Includes 3,968 retirees who receive the Opt-Out Credit in lieu of health benefits.

4. Brief Description of Benefit Provisions

- a. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan. An eligible retiree who has retired from full-time employment does not contribute toward the cost of coverage for himself/herself, but he/she pays a portion of the cost if he/she covers an eligible spouse or dependent child*. An eligible retiree who has retired from part-time employment contributes toward the cost of coverage for himself/herself, as well as paying a portion of the cost if he/she covers an eligible spouse or dependent child.
- b. The GBP also provides life insurance benefits to eligible retirees via a minimum premium funding arrangement.

* SB 1459 requires employees who have less than 5 years of eligible service credit on September 1, 2014 to pay a larger portion of the cost of insurance if they retire with less than 20 years of eligible service credit on or after September 1, 2014.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

The GBP financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when related expenses are incurred.



2. Method Used to Value Investments

Investments are reported at fair value.

C. Contributions and Reserves

1. The authority under which the obligations of the plan members and Employer are established and/or may be amended is Chapter 1551, Texas Insurance Code.
2. The Employer and member contribution rates are determined annually by the ERS Board Trustees based on the recommendations of the ERS staff and consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.
3. There are no long-term contracts for contributions to the plan.

D. Funded Status of the Plan as of Current Valuation Date

(Although this information is repeated in the RSI, it is required to be included in the Notes to the Financial Statements.)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}	Funded Ratio {(2)/(3)}	Annual Covered Payroll	Ratio of UAAL to Covered Payroll {(4)/(6)}
August 31, 2016	\$ 0	\$ 27,091,371,728	\$ 27,091,371,728	0.0%	\$ 11,786,869,252	229.8%



E. Statement of Plan Net Assets

Statement of Plan Net Assets as of August 31, 2016	
Investment Category	Fair Value
1. Current Assets	
a. Cash and Cash Equivalents	
i) Cash on Hand	\$ 6,282
ii) Cash in State Treasury	19,082,017
iii) Certificates of Deposit	<u>0</u>
iv) Total Cash and Cash Equivalents	\$ 19,088,299
b. Securities Lending Collateral	\$ 0
c. Short-Term Investments	\$ 543,162,004
d. Receivables	
i) Interest Receivable	\$ 166,142
ii) Contributions/Accounts Receivable	24,735,782
iii) Due from Other Funds	228,862
iv) Federal Receivable	<u>93,363,086</u>
v) Total Receivables	\$ 118,493,872
e. Total Current Assets [1.a.iv.+ 1.b. + 1.c. + 1.d.v.]	\$ 680,744,175
2. Non-Current Assets	
a. Investments	
i) U.S. Government and Agency Obligations	\$ 0
ii) Corporate Obligations	<u>0</u>
iii) Total Investments	\$ 0
b. Capital Assets, Depreciable	
i) Furniture and Equipment	\$ 0
ii) Less: Accumulated Depreciation	<u>0</u>
iii) Net Capital Assets	\$ 0
c. Total Non-Current Assets [2.a.iii. + 2.b.iii.]	\$ 0
3. Liabilities	
a. Claims Payable	\$ 173,550,040
b. Payables Due to Other Funds	506,780,364
c. Unearned Revenue	<u>413,771</u>
d. Total Liabilities [3.a. + 3.b. + 3.c.]	\$ 680,744,175
4. Total Fair Value of Plan Net Assets as of August 31, 2016 [1.e. + 2.c. - 3.d.]	\$ 0



F. Statement of Changes in Plan Net Assets

Statement of Changes in Plan Net Assets for FYE August 31, 2016	
1. Plan Net Assets as of September 1, 2015	\$ 0
2. Additions	
a. Contributions	
i. Employer ¹	\$ 666,135,663
ii. Plan Members	183,284,339
iii. Federal Revenue – Medicare Part D - EGWP	<u>67,036,433</u>
iv. Total Contributions	\$ 916,456,435²
b. Net Investment Income	
i. Net appreciation/(depreciation) in Fair Value of Plan Investments	\$ 0
ii. Interest income, dividend income, and other income	1,136,997
iii. Total Investment Expense	<u>0</u>
iv. Net Investment Income	\$ 1,136,997
c. Other Additions	\$ <u>5,960,826</u>
d. Total Additions [2.a.iv. + 2.b.iv. + 2.c.]	\$ 923,554,258
3. Deductions	
a. Benefits	\$ 912,885,686
b. Refunds to Plan Members	0
c. Total Administrative Expense	<u>10,668,572</u>
d. Total Deductions	\$ 923,554,258³
4. Plan Net Assets as of August 31, 2016 [1. + 2.d. – 3.d.]	\$ 0

¹ Includes Federal Revenues of \$2,149,125 for Medicare Part D Retiree Drug Subsidies.
² Includes changes in receivables and amounts due from other funds.
³ Includes changes in payables and unearned revenue.



G. Disclosure of Information about Actuarial Methods and Assumptions

The following information is required to be disclosed in accordance with Paragraph No. 30.d. of GASB 43.

1. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.
2. The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.
3. GASB No. 43 calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. In addition, the projection of benefits for financial reporting purposes *does not* explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.
4. Actuarial calculations reflect a long-term perspective. In addition, consistent with that perspective, actuarial methods and assumptions used in developing the amounts in this report include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.
5. The information presented in the required supplementary schedules was determined as part of the actuarial valuation using the actuarial methods and assumptions summarized below. (For a complete description of all actuarial methods and assumptions, see Section VII of this report.)

Summary of Actuarial Methods and Assumptions	
Actuarial cost method	Entry Age Normal (Level percent of pay)
Asset valuation method	Market
Actuarial assumptions:	
Annual investment return assumption (discount rate) ¹	5.50%
Projected annual salary increases ¹	3.50% to 11.50%
Weighted-average at valuation date ¹	6.57%
Annual Healthcare Trend Rates ¹	8.50% in FY 2018 declining to 5.50% in FY 2024
Amortization method	Level percent of pay
Amortization period	30 year open period

¹ Includes inflation assumption of 3.50%.



Section V - Required Supplementary Information

Per Paragraph Nos. 17 and 31 of GASB No. 43, the following information should be presented immediately after the notes to the financial statements. GASB No. 43 requires that the notes illustrate the most recent three (3) years of historical data.

A. Schedule of Funding Progress

The Schedule of Funding Progress presents information as of the current valuation date and the two preceding valuation dates.

Schedule of Funding Progress						
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) {(3) - (2)}	Funded Ratio {(2)/(3)}	Annual Covered Payroll	Ratio of UAAL to Covered Payroll {(4)/(6)}
08/31/14	\$ 0	\$ 24,701,903,876	\$ 24,701,903,876	0.0%	\$ 10,963,773,005	225.3%
08/31/15	\$ 0	\$ 25,740,697,653	\$ 25,740,697,653	0.0%	\$ 11,176,584,198	230.3%
08/31/16	\$ 0	\$ 27,091,371,728	\$ 27,091,371,728	0.0%	\$ 11,786,869,252	229.8%

B. Schedule of Employer Contributions

The Schedule of Employer Contributions presents contribution information as of the current valuation date and the two preceding valuation dates.

Schedule of Contributions from the Employer and Other Contributing Entities ¹			
Fiscal Year	Contribution ²	ARC	Percentage of ARC Contributed
09/01/13 to 08/31/14	\$ 620,640,622	\$ 2,056,089,003	30.2%
09/01/14 to 08/31/15	\$ 615,638,063	\$ 2,160,950,964	28.5%
09/01/15 to 08/31/16	\$ 666,135,663	\$ 2,298,513,905	29.0%

¹ Title of table required by Paragraph No. 36 of GASB No. 43.

² Includes Medicare Part D Retiree Drug Subsidies for all years.



C. Notes to the Required Schedules

Per Paragraph No. 37 of GASB No. 43, the employer should disclose factors that significantly affect the identification of trends in the amounts reported above. For example, changes in benefit provisions or changes in actuarial methods and assumptions should be identified.

The following assumptions have been changed since the previous valuation:

- the Assumed Per Capita Health Benefit Costs and Assumed Expenses for retirees and dependents have been updated to reflect recent health plan experience;
- the percentage of future retirees electing to participate in the HealthSelect Medicare Advantage program at the earliest date at which coverage can commence, the proportion of future retirees covering dependent children and the percentage of future retirees and retiree spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends; and
- the Health Benefit Cost and Retiree Contribution Trends have been updated to reflect changes in short-term expectations due to recent health plan experience.

Benefit revisions have been adopted since the prior valuation. The benefit changes for retirees for whom Medicare is not primary include: (a) an increase in the overall annual out-of-pocket maximum in accordance with the requirements of the Affordable Care Act (ACA) (effective January 1, 2017) and (b) implementation of (i) a program under which HealthSelect participants can consult with a licensed physician from their mobile device and (ii) an online weight loss program available to eligible HealthSelect participants not enrolled in Medicare Part B. These changes are incorporated into this valuation in accordance with Question Number 49 of the *Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits*. These minor benefit changes have been reflected in the FY 2017 Assumed Per Capita Health Benefit Costs. In addition, effective September 1, 2016, retirees for whom Medicare is not primary may elect to participate in Consumer Directed HealthSelect, a high-deductible health plan and a health savings account, in lieu of HealthSelect. Retiree participation in Consumer Directed HealthSelect is expected to be minimal. There are no benefit changes for Medicare Primary retirees. Also, effective September 1, 2016, all employees, retirees and their dependents may elect to participate in the State of Texas Vision plan. This plan is self-funded through contributions made by employees and retirees. The State does not contribute towards vision coverage.



Section VI - Detailed Valuation Results

A. Actuarial Valuation Date: August 31, 2016

B. Summary of Results as of August 31, 2016

	Number of Members	Actuarial Present Value of Total Projected Benefits	Actuarial Accrued Liability	Normal Cost	Payroll
Actives	235,108	\$ 27,095,498,933	\$ 15,008,390,128	\$1,122,824,902	\$ 11,786,869,252
Deferred Vesteds	11,329	1,363,010,360	1,363,010,360	-	-
Retirees & Nominees	113,430	10,719,971,240	10,719,971,240	-	-
Total	359,867	\$ 39,178,480,533	\$ 27,091,371,728	\$1,122,824,902	\$ 11,786,869,252

Annual Required Contribution (ARC) for FY 16	Employer Contributions ¹ for FY 16	Percentage of ARC Contributed
\$ 2,298,513,905	\$ 666,135,663	29.0%

¹ Includes Medicare Part D Retiree Drug Subsidies.



C. Summary of Active Member Census

State Agency Employees¹

Age and Service Table for Actives as of August 31, 2016

Current Age	Current Years of Benefit Service									Age Totals	Percent of Total
	t<5	5 <= t < 10	10 <= t < 15	15 <= t < 20	20 <= t < 25	25 <= t < 30	30 <= t < 35	35 <= t < 40	40 <= t		
x < 20	571									571	0.38%
20 <= x < 25	8,139	72								8,211	5.43%
25 <= x < 30	13,409	1,853	61							15,323	10.12%
30 <= x < 35	11,097	5,104	1,428	97						17,726	11.71%
35 <= x < 40	8,246	4,681	3,104	1,405	41					17,477	11.55%
40 <= x < 45	6,866	3,953	2,882	3,202	1,329	48				18,280	12.08%
45 <= x < 50	6,209	3,864	2,867	3,456	3,520	1,419	66			21,401	14.14%
50 <= x < 55	5,108	3,527	2,661	2,997	2,862	2,272	521	24		19,972	13.20%
55 <= x < 60	4,085	3,229	2,518	2,641	2,126	1,234	619	221	6	16,679	11.02%
60 <= x < 65	2,243	2,519	1,801	1,943	1,136	646	338	185	53	10,864	7.18%
65 <= x < 70	652	936	718	513	398	202	95	43	74	3,631	2.40%
x >= 70	228	287	220	193	143	60	34	15	25	1,205	0.80%
<i>Service Totals</i>	66,853	30,025	18,260	16,447	11,555	5,881	1,673	488	158	151,340	100.00%
<i>Percent of Total</i>	44.17%	19.84%	12.07%	10.87%	7.64%	3.89%	1.11%	0.32%	0.10%	100.00%	

1) Excludes 2,560 Return-to-Work Retirees.



Higher Education Employees¹

Age and Service Table for Actives as of August 31, 2016

Current Age	Current Years of Benefit Service									Age Totals	Percent of Total	
	t < 5	5 <= t < 10	10 <= t < 15	15 <= t < 20	20 <= t < 25	25 <= t < 30	30 <= t < 35	35 <= t < 40	40 <= t			
x < 20	10										10	0.01%
20 <= x < 25	1,245	5									1,250	1.67%
25 <= x < 30	4,598	536	9								5,143	6.89%
30 <= x < 35	4,817	2,369	480	17							7,683	10.29%
35 <= x < 40	4,076	2,495	1,580	562	12						8,725	11.68%
40 <= x < 45	3,064	2,125	1,649	1,393	292	12					8,535	11.43%
45 <= x < 50	2,687	2,057	1,648	1,946	771	158	17				9,284	12.43%
50 <= x < 55	2,349	1,868	1,496	2,439	896	187	130	25			9,390	12.57%
55 <= x < 60	2,011	1,755	1,476	2,860	974	135	131	159	2		9,503	12.72%
60 <= x < 65	1,384	1,435	1,298	2,899	755	75	83	136	22		8,087	10.83%
65 <= x < 70	621	778	759	1,582	716	38	47	52	23		4,616	6.18%
x >= 70	262	318	357	317	775	387	12	19	9		2,456	3.29%
<i>Service Totals</i>	27,124	15,741	10,752	14,015	5,191	992	420	391	56		74,682	100.00%
<i>Percent of Total</i>	36.32%	21.08%	14.40%	18.77%	6.95%	1.33%	0.56%	0.52%	0.07%		100.00%	

1) Excludes 99 Return-to-Work Retirees.



Other Employees (i.e., Employees of TMRS, TCDRS, TTA and CSCD)¹

Age and Service Table for Actives as of August 31, 2016

Current Age	Current Years of Benefit Service									Age Totals	Percent of Total	
	t<5	5 <= t < 10	10 <= t < 15	15 <= t < 20	20 <= t < 25	25 <= t < 30	30 <= t < 35	35 <= t < 40	40 <= t			
x < 20	20										20	0.32%
20 <= x < 25	257	2									259	4.05%
25 <= x < 30	534	57	2								593	9.28%
30 <= x < 35	477	211	50	4							741	11.59%
35 <= x < 40	359	210	131	51	1						753	11.78%
40 <= x < 45	296	178	115	125	41	2					756	11.83%
45 <= x < 50	261	188	118	141	123	55	3				889	13.90%
50 <= x < 55	214	162	119	133	127	109	25	4			892	13.95%
55 <= x < 60	177	140	123	122	95	62	34	16	0		768	12.01%
60 <= x < 65	100	111	90	87	50	36	18	11	3		506	7.92%
65 <= x < 70	27	41	35	22	18	10	5	2	4		164	2.57%
x >= 70	9	12	11	8	7	3	1	1	1		53	0.83%
<i>Service Totals</i>	2,731	1,312	793	693	461	277	86	34	9		6,396	100.00%
<i>Percent of Total</i>	42.71%	20.51%	12.40%	10.84%	7.21%	4.32%	1.35%	0.53%	0.14%		100.00%	

1) Excludes 31 Return-to-Work Retirees.



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

Vested Members By Age and Employer as of August 31, 2016

<i>Current Age</i>	<i>Employer</i>			<i>Age Totals</i>	<i>Percent of Total</i>
	<i>State Agency</i>	<i>Higher Education</i>	<i>Other¹</i>		
<i>x < 35</i>	93	40	0	133	1.17%
<i>35 <= x < 40</i>	394	264	0	658	5.81%
<i>40 <= x < 45</i>	893	482	0	1,375	12.14%
<i>45 <= x < 50</i>	1,534	628	0	2,162	19.08%
<i>50 <= x < 55</i>	1,989	795	0	2,784	24.57%
<i>55 <= x < 60</i>	1,798	829	1	2,628	23.20%
<i>60 <= x < 65</i>	601	640	1	1,242	10.96%
<i>x >= 65</i>	109	238	0	347	3.06%
<i>Employer Totals</i>	7,411	3,916	2	11,329	100.00%
<i>Percent of Total</i>	65.42%	34.57%	0.02%	100.00%	

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



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

Retirees and Nominees By Age and Employer as of August 31, 2016¹

<i>Current Age</i>	<i>Employer</i>			<i>Age Totals</i>	<i>Percent of Total</i>
	<i>State Agency</i> ²	<i>Higher Education</i>	<i>Other</i> ³		
<i>x < 40</i>	60	5	0	65	0.06%
<i>40 <= x < 45</i>	70	9	3	82	0.07%
<i>45 <= x < 50</i>	360	21	27	408	0.36%
<i>50 <= x < 55</i>	3,943	143	126	4,212	3.71%
<i>55 <= x < 60</i>	9,241	828	298	10,367	9.14%
<i>60 <= x < 65</i>	15,688	2,367	482	18,537	16.34%
<i>65 <= x < 70</i>	20,235	5,097	551	25,883	22.82%
<i>70 <= x < 75</i>	15,522	5,646	297	21,465	18.92%
<i>75 <= x < 80</i>	9,813	4,586	94	14,493	12.78%
<i>80 <= x < 85</i>	6,447	3,019	27	9,493	8.37%
<i>85 <= x < 90</i>	3,579	1,856	8	5,443	4.80%
<i>90 <= x < 95</i>	1,569	692	3	2,264	2.00%
<i>95 <= x < 100</i>	422	211	1	634	0.56%
<i>x >= 100</i>	67	17	0	84	0.07%
<i>Employer Totals</i>	87,016	24,497	1,917	113,430	100.00%
<i>Percent of Total</i>	76.71%	21.60%	1.69%	100.00%	

1) Comprised of 53,864 retirees and nominees enrolled in HealthSelect Medicare Advantage, 55,598 retirees and nominees enrolled in HealthSelect and 3,968 retirees who receive the Opt-Out Credit in lieu of health benefits.

2) Includes 3,260 State Agency Retirees, 661 Higher Education Retirees and 47 Other Retirees receiving the Opt-Out Annuity.

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



Section VII - Actuarial Methods and Assumptions

A. Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding method is used in determining the contribution requirements for the plan. The actuarial funding method is the procedure by which the actuary determines a series of annual contributions which, along with current assets and future investment earnings, will fund the expected plan benefits. The Entry Age Normal funding method compares the excess of the present value of expected future plan benefits over the current value of plan assets. This difference represents the expected present value of current and future contributions that will be paid into the plan. The contributions are divided into two components: an annual Normal Cost and an amortization charge for the unfunded accrued liability.

The Normal Cost for the plan is the sum of individually determined Normal Costs for each active member. Each active member's Normal Cost is the current annual contribution in a series of annual contributions which, if made throughout the member's total period of employment, would fund his expected benefits from the plan. Each member's Normal Cost is calculated to be a constant percentage of his expected compensation in each year of employment.

The plan's current accrued liability is the excess of the present value of expected future benefits over the present value of all future remaining Normal Cost contributions for all active members. The unfunded accrued liability is the amount by which the accrued liability exceeds the current plan assets. The unfunded accrued liability is recalculated each time a valuation is performed and is amortized as a level percentage of projected payroll in accordance with employer funding goals and GASB guidelines. Experience gains and losses, which represent deviations of the unfunded accrued liability from its expected value based on the prior valuation, are determined at each valuation and are amortized as part of the unfunded accrued liability.

2. Actuarial Value of Assets

The Actuarial Value of Assets is equal to the fair market value of plan assets as determined by the plan administrator, including any receivable contributions made for a prior plan year which were not recognized by the plan administrator as of the asset valuation date.

B. Actuarial Assumptions

The actuarial valuation of the GBP OPEB requires the use of numerous actuarial assumptions many of which are similar to the assumptions used in performing the actuarial valuations of the retirement plans in which the GBP members participate. State agency members participate in the ERS retirement plan while many higher education members participate in the TRS retirement plan. For consistency with those valuations, for purposes of our valuation of the GBP OPEB we have utilized the applicable assumptions previously adopted by the Trustees of



the respective systems at the time our valuation is performed. In other words, we have used applicable ERS retirement plan assumptions for the valuation of OPEB for state agency members and, except as indicated below, we have used TRS retirement plan assumptions for the valuation of OPEB for higher education members. It should be noted that we have applied the TRS assumptions to all higher education members including those who have opted to participate in the optional retirement plan (ORP) instead of TRS. Although it may be preferable to eventually develop a body of data that would enable ORP specific assumptions to be used, such data does not presently exist. In the absence of such data, it is our opinion that the TRS demographic and pay-related assumptions can be reasonably applied to ORP participants.

In addition to the assumptions used in the retirement plan valuations, the OPEB valuation requires certain unique assumptions, specifically, the health benefit cost trend and the discount rate, both of which are described below.

The assumptions used in this report are summarized below.

1. **Demographic Assumptions**

The tables of decrements below contain rates (not probabilities) of decrement.

- a. **Mortality**: The members of the GBP are expected to exhibit mortality in accordance with the following mortality tables:
 - i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)
 - a) Service Retirees, Survivors and other Inactive Members (Regular, Elected, CPO/CO and JRS I and II Employee Classes):
Generational Mortality using 1994 Group Annuity Mortality tables without adjustment for males and set forward 2 years for females and Projection Scale AA from the year 2000
 - b) Disability Retirees (Regular, Elected, CPO/CO and JRS I and II Employee Classes):
RP-2000 Disabled Retiree Mortality set forward 6 years for males and set back one year for females
 - c) Active Members*:
Generational Mortality using 1994 Group Annuity Mortality tables without adjustment for males and set forward 2 years for females and Projection Scale AA from the year 2000

* For Regular Employee Class and CPO/CO Class members, 2.0% of active male deaths and 0.3% of active female deaths are assumed to be occupational.



ii. Higher Education Members¹ (assumptions used in valuing the TRS retirement plan)

a) Service Retirees, Survivors and other Inactive Members:

Tables based on TRS experience with full generational projection using Scale BB from Base Year 2014. Illustrative base rates before applying the projection scale are shown in the table below.

Annual Rates of Inactive Member Mortality per 100 Members		
Age	Male	Female
50	0.4247	0.2791
60	0.5584	0.3882
70	1.5547	0.9613
80	5.3691	3.5591
90	16.2983	13.3727
100	40.7509	28.4047

b) Disability Retirees:

The same mortality as described in B.1.a.ii.a. above but using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members.

c) Active Members:

Sex Distinct RP-2014 Employee Mortality multiplied by 90% with full generational projection using Scale BB.

b. Retirement: A member is assumed to retire in accordance with the following annual rates:

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

a) Active Regular Employee Class Members hired before September 1, 2009:

ERS Decrement Service is used to determine when the rates apply:

- Age 60 with 5 years of service
- Rule of 80 with 5 years of service



Sample rates for eligible members:

Annual Service Retirement Rates Per 100
 Regular Employee Class Members Hired Before September 1, 2009

Age	Males – Years of ERS Decrement Service							Females – Years of ERS Decrement Service						
	5	10	15	20	25	30	35	5	10	15	20	25	30	35
50						35	40						45	40
55					23	25	25					40	25	25
60	10	15	18	38	20	28	28	10	15	15	35	20	20	20
65	20	45	45	35	35	35	35	20	45	45	33	33	33	33
70	20	38	28	33	33	33	33	20	38	28	33	33	33	33
75	100	100	100	100	100	100	100	100	100	100	100	100	100	100

b) Active Regular Employee Class Members hired after August 31, 2009:

ERS Decrement Service is used to determine when the rates apply:

- Age 65 with 10 years of service
- Rule of 80 with 5 years of service

Sample rates for eligible members:

Annual Service Retirement Rates Per 100
 Regular Employee Class Members Hired After August 31, 2009

Age	Males – Years of ERS Decrement Service							Females – Years of ERS Decrement Service						
	5	10	15	20	25	30	35	5	10	15	20	25	30	35
50						15	13						20	15
55					25	8	8					30	10	10
60				25	58	68	68				25	45	45	45
65		85	38	30	45	40	40		85	38	18	35	30	30
70		80	60	90	35	35	35		80	60	90	33	33	33
75	100	100	100	100	100	100	100	100	100	100	100	100	100	100

c) Active Elected Class Members:

ERS Decrement Service is used to determine when the rates apply:

- Age 60 with 8 years of service
- Rule of 50 with 12 years of service

Sample rates for eligible members:

Annual Service Retirement Rates Per 100
 Elected Class Members

Age	Male and Female
50-64	10
65-74	20
75+	100



d) Active CPO/CO Employee Class Members hired before September 1, 2009:
 CPO/CO Decrement Service is used to determine when the rates apply:

- Any age with 20 years CPO/CO service
- Age 55 with 10 years CPO/CO service

Sample rates for eligible members for both males and females:

Annual Service Retirement Rates Per 100 CPO/CO Employee Class Members Hired Before September 1, 2009						
Age	Years of CPO/CO Decrement Service					
	5	10	15	20	25	30
45				5	5	5
50				45	55	55
55		12	12	45	35	35
60		16	16	55	35	35
65		35	35	50	60	60
70		50	50	50	50	50
75	100	100	100	100	100	100

e) Active CPO/CO Employee Class Members hired after August 31, 2009:
 CPO/CO Decrement Service is used to determine when the rates apply:

- Any age with 20 years CPO/CO service
- Age 55 with 10 years CPO/CO service

Sample rates for eligible members for both males and females:

Annual Service Retirement Rates Per 100 CPO/CO Employee Class Members Hired After August 31, 2009						
Age	Years of CPO/CO Decrement Service					
	5	10	15	20	25	30
45				5	5	5
50				5	5	5
55		12	12	83	65	65
60		16	16	55	35	35
65		35	35	50	60	60
70		50	50	50	50	50
75	100	100	100	100	100	100

f) JRS Members:

JRS I and II Decrement Service is used to determine when the rates apply:

- Age 65 with 10 years of service, if member currently holding judicial office.
- Age 65 with 12 years of service.
- 20 years of service.
- Age plus service equal to or greater than 70, if member has at least 12 years of service on an appellate court.



Sample rates for eligible members:

Annual Service Retirement Rates Per 100 Members	
Age	
50-69	20
70-74	25
75+	100

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

Age	Early Retirement Annual Service Retirement Rates Per 100 Members		Age	Normal Retirement Annual Service Retirement Rates Per 100 Members	
	Male	Female		Male	Female
45	1	1	50	13	30
46	1	1	51	13	12
47	1	2	52	13	13
48	2	3	53	13	14
49	3	4	54	14	15
50	1	1	55	15	16
51	1	1	56	16	17
52	1	1	57	17	18
53	1	1	58	18	19
54	1	1	59	18	20
55	1	1	60	22	21
56	1	1	61	20	22
57	1	1	62	24	23
58	1	1	63	20	23
59	1	2	64	20	23
60	2	2	65	22	23
61	2	2	66	22	23
62	5	4	67	22	23
63	5	5	68	22	23
64	6	6	69	22	23
65	5	5	70	22	23
			71	22	23
			72	22	23
			73	22	23
			74	22	23
			75	100	100

For members hired after August 31, 2007 and who are vested as of August 31, 2014, the retirement rates for members once they reach unreduced retirement eligibility at age 60 are increased 10% for each year the member is beyond the Rule of 80 (i.e., if the member reached the Rule of 80 at age 58, then the probability of retirement at age 60 is 120% of the rate shown above).



For members hired after August 31, 2007 and who are not vested as of August 31, 2014, or, for members hired after August 31, 2014, the retirement rates for members once they reach unreduced retirement eligibility at age 62 are increased 10% for each year the member is beyond the Rule of 80 (i.e., if the member reached the Rule of 80 at age 58, then the probability of retirement at age 62 is 140% of the rate shown above).

Non-grandfathered members who receive a reduced benefit upon attaining Rule of 80 but prior to normal retirement age have a 1% probability of retirement.

c. **Disability Retirement:** Active members are expected to become disabled as defined under the plan in accordance with annual rates as illustrated below.

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

ERS Decrement Service is used to determine when the rates apply:

- The rates do not apply before member is eligible for the benefit.
- Service greater than zero is required for occupational disability retirement.
- For Regular, CPO/CO, and JRS I members, 10 years of service is required for non-occupational disability retirement.
- For JRS II members, 7 years of service is required for non-occupational disability retirement.
- For Elected Class members, 8 years of service is required for non-occupational disability retirement.
- Regular Class and JRS II Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 80. Members who suffer a non-occupational disability after satisfying the Rule of 80 are therefore assumed to retire on service retirement.
- JRS I Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 70. Members who suffer a non-occupational disability after satisfying the Rule of 70 are therefore assumed to retire on service retirement.
- Elected Class Members are not eligible for non-occupational disability retirement if they are eligible for service retirement (age 60 with 8 years of service; or age 50 with 12 years of service). Members who suffer a non-occupational disability after becoming eligible for service retirement are therefore assumed to retire on service retirement.
- CPO/CO Members are not eligible for non-occupational disability retirement if they are eligible for service retirement under the Rule of 80, or under the age 55 with at least 10 years of CPO/CO service provisions.



- For a member with 20 years CPO/CO service the combined ERS/LECO service retirement annuity is much greater than the ERS non-occupational disability retirement annuity. Therefore, the rates of non-occupational disability retirement are zero for members with 20 years of CPO/CO service.

Annual Disability Retirement Rates Per 100 Members

Age	Regular Class ¹ , Elected Class, JRS		CPO/CO Class ²
	Male	Females	Males/Females
25	0.0006	0.0006	0.0003
30	0.0366	0.0180	0.0123
35	0.0867	0.0589	0.0418
40	0.0999	0.1195	0.0781
45	0.1369	0.1940	0.1307
50	0.1979	0.2762	0.2365
55	0.3302	0.4651	0.3280
60	0.4986	0.7444	0.4200

- ¹ 99% of all disabilities are assumed to be non-occupational and 1% are assumed to be occupational. No occupational disabilities are assumed for JRS I, JRS II or the Elected classes.
- ² 95% of all disabilities are assumed to be non-occupational, 4% are assumed to be occupational but not total disability, and 1% are assumed to be occupational and total disability.

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

Annual Disability Retirement Rates Per 100 Members

Age	Years of Service < 10		Years of Service >= 10	
	Male	Female	Male	Female
20	0.0037	0.0055	0.0184	0.0276
30	0.0037	0.0055	0.0184	0.0276
40	0.0086	0.0094	0.0430	0.0469
50	0.0399	0.0363	0.1993	0.1817
55	0.0573	0.0493	0.2866	0.2465
60	0.0701	0.0551	0.3505	0.2754
65	0.0740	0.0551	0.3699	0.2754
70	0.0740	0.0551	0.3699	0.2754

d. **Termination:** The active members are assumed to terminate their employment for causes other than death, disability or retirement in accordance with annual rates as illustrated below.

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

- a) Regular Class Members hired before September 1, 2009:
 Graded Tables Based on ERS Experience.



Sample rates for members not eligible for service retirement:

Annual Rates of Termination Per 100 Regular Employee Class Members Hired Before September 1, 2009*

Attained	Male and Females – Years of ERS Decrement Service								
Age	0	1	2	3	4	5	10	15	20+
20	50	40	30	30	30	30			
25	35	30	26	22	20	15	15		
30	28	23	19	15	14	12	6	6	
35	27	21	16	14	11	10	6	3	3
40	25	18	13	11	10	9	6	3	3
45	25	18	13	11	9	8	4	3	1
50	22	17	13	10	9	7	4	2	1
55	21	15	11	9	7	7	4	2	1
60	20	15	10	8	7	6	4	2	1

b) Regular Class Members hired after August 31, 2009:
 Graded Tables Based on ERS Experience.

Sample rates for members not eligible for service retirement:

Annual Rates of Termination Per 100 Regular Employee Class Members Hired After August 31, 2009*

Attained	Male and Females – Years of ERS Decrement Service								
Age	0	1	2	3	4	5	10	15	20+
20	52	42	32	27	27	27			
25	42	32	29	25	22	18	18		
30	32	27	21	18	15	14	6	6	
35	31	25	19	16	12	11	6	4	4
40	30	21	15	13	11	9	6	2	2
45	27	21	13	12	10	8	4	2	1
50	26	19	13	11	10	7	4	2	1
55	25	17	12	10	7	7	4	2	1
60	24	17	11	9	6	6	4	1	1
65	22	16	10	6	6	6	4	1	1

* Rates of termination are zero for members eligible for service retirement.

c) CPO/CO Class Members hired before September 1, 2009:

Annual Rates of Termination Per 100 CPO/CO Employee Class Members Hired Before September 1, 2009*

Attained	Male and Females – Years of ERS Decrement Service								
Age	0	1	2	3	4	5	10	15	
20	23	19	17	17	17	17			
25	20	17	14	14	14	13			
30	16	13	12	11	10	10	8	8	
35	16	11	9	9	8	7	6	4	
40	14	10	8	7	7	7	5	2	
45	13	10	7	6	6	6	3	2	
50	12	9	7	6	6	6	3	2	
55	12	7	5	5	4	4	1	1	
60	13	7	5	5	4	4	1	1	



d) CPO/CO Class Members hired after August 31, 2009:

Annual Rates of Termination Per 100 CPO/CO Employee Class Members Hired
 After August 31, 2009*

Attained Age	Male and Females – Years of ERS Decrement Service							
	0	1	2	3	4	5	10	15
20	24	20	17	17	17	17		
25	22	19	16	16	16	15		
30	17	15	14	12	12	12	8	8
35	18	12	11	11	10	8	6	4
40	15	11	9	8	8	8	5	2
45	14	11	8	7	7	7	3	2
50	13	11	8	7	7	6	3	2
55	13	8	5	5	4	4	1	1
60	15	8	5	5	4	4	1	1
65	15	8	5	5	4	4	1	1

* Rates of termination are zero for members eligible for service retirement.

e) Elected ERS Members:

Four per 100 for members not eligible for service retirement.

f) JRS I and II Members:

Four per 100 for members not eligible for service retirement.

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

a) Select Period:

Rate of Decrement Due to Termination Per 100 Members Based on First 10 Years of Service		
Years of Service	Male	Female
1	14.9027	14.3098
2	11.9756	11.7329
3	9.6637	9.7896
4	7.2275	7.6765
5	6.2453	6.8443
6	5.5556	6.0368
7	4.7176	4.9631
8	4.1464	4.3108
9	3.6978	3.8477
10	3.3777	3.5264



b) Ultimate Rates after the first 10 Years of Service:

Rate of Decrement Due to Termination Per 100 Members Based on
 Years from Normal Retirement

Years from Normal Retirement	Male	Female	Years from Normal Retirement	Male	Female
1	1.2140	0.9500	17	2.4208	2.7793
2	1.4373	1.2353	18	2.4547	2.8402
3	1.5865	1.4405	19	2.4873	2.8990
4	1.7017	1.6064	20	2.5185	2.9559
5	1.7968	1.7481	21	2.5487	3.0110
6	1.8783	1.8731	22	2.5777	3.0646
7	1.9502	1.9858	23	2.6058	3.1166
8	2.0147	2.0888	24	2.6329	3.1673
9	2.0733	2.1842	25	2.6592	3.2166
10	2.1273	2.2731	26	2.6848	3.2648
11	2.1772	2.3567	27	2.7096	3.3118
12	2.2239	2.4357	28	2.7337	3.3578
13	2.2676	2.5107	29	2.7571	3.4027
14	2.3090	2.5822	30	2.7800	3.4467
15	2.3481	2.6506	31	2.8023	3.4898
16	2.3853	2.7162	32	2.8241	3.5320

e. Withdrawal of Contribution:

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

Annual Rates of Withdrawal of Employee Contributions
 Per 100 New Vested Terminations Male and Female

Age	Regular Employee Class ERS Decrement Service				CPO/CO Employee Class ERS Decrement Service				Elected Class Members and JRS*			
	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+	5-10	10-15	15-20	20+
20-24	100	100			100							
25-29	75	65	60		75	60	60					
30-34	65	60	50		75	60	50					
35-39	65	50	50	35	70	60	50					
40-44	65	50	45	35	70	60	50					
45-49	60	45	35	25	60	40	20					
50-54	55	40	30	20	55	40	20					
55+	50	30	25	15	50	30	20					

* Elected Class and JRS Members are assumed not to withdraw employee contributions.

100% of Non-vested terminations are assumed to withdraw their employee contributions.



ii. Higher Education Members

Members eligible to receive a deferred annuity are assumed to withdraw their contributions in accordance with the rates illustrated below.

Annual Rates of Withdrawal
 of Employee Contributions per 100 New
 Vested Terminations Male and Female

Age	Years of Service			
	5-10	10-15	15-20	20+
20-24	100	100		
25-34	80	80	60	
35-44	50	40	30	25
45-54	28	28	25	18
55+	0	0	0	0

f. **Salary Increases:** Increases are assumed to occur at the beginning of the valuation year and vary by employee group. The components of the annual increases are:

i. State Agency Members (assumptions used in valuing the applicable ERS retirement plan)

Employee Group	Inflation	Real Wage Growth (Productivity)	Merit, Promotion and Longevity
Legislators	0%	0%	0%
Elected Class (other than Legislators)	3.5%	0%	0%
Regular Employee Class	3.5%	0%	See sample rates
CPO/CO Class	3.5%	0%	See sample rates
JRS I & II	3.5%	0%	0%

a) Regular Employee Class: Merit, Promotion and Longevity Sample Rates:

Annual Salary Increases for Merit, Promotion and Longevity
 Male and Female Regular Employee Class Members

Age	Years of ERS Decrement Service						
	0	1	2-4	5-9	10-14	15-19	20+
20	6.80%	5.25%	4.75%	4.30%			
25	6.40	5.25	4.75	3.50	2.50%		
30	5.90	5.25	4.75	3.00	2.50	2.00%	
35	5.40	4.75	4.00	3.00	2.50	2.00	1.90%
40	4.90	4.75	4.00	3.00	2.50	1.90	1.80
45	4.40	4.25	3.75	3.00	2.40	1.90	1.70
50	3.90	3.70	3.20	2.70	2.20	1.70	1.60
55	3.40	3.20	2.80	2.40	1.90	1.60	1.50
60	2.90	2.70	2.30	2.00	1.60	1.40	1.30



b) CPO/CO Employee Class: Merit, Promotion and Longevity Sample Rates:

Annual Salary Increases for Merit, Promotion and Longevity
 Male and Female CPO/CO Employee Class Members

Age	Years of ERS Decrement Service						
	0	1	2	3	4	5-9	10+
All	8.0%	5.0%	4.5%	4.0%	3.5%	2.0%	1.5%

ii. Higher Education Members (assumptions used in valuing the TRS retirement plan)

Years of Service	Merit, Promotion, Longevity	General ¹	Total
1	6.0%	4.5%	10.5%
2	2.5	4.5	7.0
3	1.9	4.5	6.4
4	1.7	4.5	6.2
5	1.5	4.5	6.0
6	1.4	4.5	5.9
7	1.2	4.5	5.7
8-12	1.0	4.5	5.5
13	0.8	4.5	5.3
14	0.7	4.5	5.2
15	0.6	4.5	5.1
16-17	0.5	4.5	5.0
18	0.4	4.5	4.9
19-20	0.3	4.5	4.8
21-22	0.2	4.5	4.7
23-24	0.1	4.5	4.6
25 or more	0	4.5	4.5

¹ The inflationary component of this assumption varies from the inflation assumption used in the TRS retirement valuation in order to be consistent with all other inflation-related assumptions that are used in this report.

- g. **Payroll Growth:** For purposes of total member projected payroll, payroll is assumed to increase 3.50% per year.
- h. **Dependency Status:** Marital status and spouse/dependent children coverage elections in accordance with GBP records were used for current retired members.

For future retired members and their spouses:

- i. a) State Agency Members
 For Male members, female spouse is assumed to be 3 years younger. For Female members, male spouse is assumed to be the same age.



b) Higher Education Members

Female spouses are assumed to be 3 years younger than their male counterparts.

- ii. 38% of the male members are assumed to be married and electing coverage for their spouse, and 21% of the female members are assumed to be married and electing coverage for their spouse.
- iii. The proportion of future retirees covering dependent children is based upon the retiree’s age at retirement as follows:

<u>Age at Retirement</u>	<u>Percentage of Retirees Covering Dependent Children</u>
<50	38%
50-54	34%
55-59	18%
60-64	8%
65-69	3%
>70	1%

- iv. Current retirees covering dependent children are assumed to continue such coverage until the child reaches age 23. Future retirees who cover dependent children are expected to cover dependent children for a period of seven years on average.
- v. 40% of current and future retiree spouses are assumed to continue health coverage for their lifetime after the death of the retiree. No dependent children are assumed to continue health coverage after the death of the retiree.

i. **Declinations:**

98% of future Service Retirees are assumed to elect health coverage at retirement and remain covered until death. The remaining 2% of future Service Retirees are expected to demonstrate outside health coverage and receive an Employer contribution towards certain other optional benefits (i.e., Opt-Out Credit).

100% of future retirees who decrement for causes other than Service Retirement (e.g., Disability and Termination–without account balance withdrawal) are assumed to elect health coverage at retirement and remain covered until death.



j. **HealthSelect Medicare Advantage Participation:**

- i. For current retirees and retiree spouses eligible for participation in the HealthSelect Medicare Advantage Plan: based on actual election.
- ii. For current retirees and retiree spouses not yet eligible for HealthSelect Medicare Advantage participation and for future retirees and retiree spouses: 69% are assumed to participate in HealthSelect Medicare Advantage at the earliest date at which coverage can commence under this program.

k. **Tobacco Usage:**

- i. For current retirees and retiree spouses, tobacco usage is based on records of the System.
- ii. 9.0% of future retirees are assumed to use tobacco, and 8.0% of future retiree spouses are assumed to use tobacco.

2. **Economic Assumptions**

- a. **Administrative Expenses:** The expenses to administer the GBP health benefits are (i) \$224.84 (\$213.36 for medical plus \$11.48 for prescription drugs) per year per covered member for external HealthSelect administrative expenses for FY 2017 and (ii) approximately \$54.09 per year per covered member for internal administrative expenses for FY 2017 (including the ACA Patient-Centered Outcomes Research Institute (PCORI) fee). The external and internal administrative expenses per covered member are the same regardless of whether the member covers dependents. In addition, the ACA Transitional Reinsurance Program Fee on each non-Medicare Primary participant (\$27 per year in 2016 (for 4 months) and \$0 thereafter) is included in this valuation.
- b. **Stop-loss Reinsurance:** Stop-loss reinsurance is not purchased for the GBP.
- c. **Discount Rate:** Equal to the assumed return on assets of the Employer of 5.50%.
- d. **Health Benefit Cost Trend:** The assumed Per Capita Health Benefit Cost assumptions shown in items 2.i., 2.j., and 2.k. below are assumed to increase at the rates shown below.

<u>Fiscal Year</u>	<u>Annual Rate of Increase</u>
2018	8.50%
2019	8.50%
2020	7.50%
2021	7.00%
2022	6.50%
2023	6.00%
2024 and beyond	5.50%



- e. **Trend Rate for Retiree Contributions:** The portions of retiree contributions attributable to non-life insurance benefits for both HealthSelect and HealthSelect Medicare Advantage Plan are assumed to increase from their amounts in FY 2017 at the rates shown below.

<u>Fiscal Year</u>	<u>Annual Rate of Increase*</u>
2018	4.40%
2019	4.40%
2020	7.50%
2021	7.00%
2022	6.50%
2023	6.00%
2024 and beyond	5.50%

* The retiree contribution rates are assumed to increase at the same rate as the Health Benefit Cost Trend except for FY18 and FY19 for which the increase is limited in accordance with the increase included in the Legislative Appropriation Request.

- f. **Expense Trend Rate:** Internal and external administrative expenses are assumed to increase 3.50% per annum.
- g. **Trend Rate for the Opt-Out Credit:** The monthly benefit of \$60 in FY 2017 is not assumed to increase in the future.
- h. **Health Coverage by Governmental Plans:** There has been no consideration of anticipated changes in laws concerning health costs covered by governmental programs. However, presently enacted changes in the law that take effect in future periods that will affect future benefit coverages are considered. The proportion of health benefits which are currently covered by governmental programs has been assumed to remain constant in the future.



i. **Assumed HealthSelect Per Capita Health Benefit Cost (Medical and Prescription Drugs) for Fiscal Year 2017 for Covered Retirees and Spouses* (reflects benefits in effect September 1, 2016)**

Age	Assumed Annual Claims Cost per Retiree		Age	Assumed Annual Claims Cost per Retiree		Age	Assumed Annual Claims Cost per Retiree	
	Male	Female		Male	Female		Male	Female
22	\$ 2,315	\$ 5,146	52	\$ 7,704	\$ 8,449	82	\$ 4,778	\$ 4,251
23	2,338	5,198	53	8,060	8,747	83	4,817	4,277
24	2,362	5,251	54	8,416	9,045	84	4,855	4,302
25	2,386	5,304	55	8,772	9,343	85	4,894	4,328
26	2,410	5,358	56	9,129	9,640	86	4,933	4,354
27	2,434	5,412	57	9,485	9,938	87	4,973	4,380
28	2,536	5,456	58	9,986	10,171	88	5,012	4,407
29	2,638	5,501	59	10,488	10,405	89	5,052	4,433
30	2,740	5,546	60	10,989	10,638	90	5,093	4,460
31	2,843	5,590	61	11,491	10,872	91	5,134	4,486
32	2,945	5,635	62	11,992	11,105	92	5,175	4,513
33	3,049	5,704	63	12,472	11,550	93	5,216	4,540
34	3,154	5,773	64	12,971	12,012	94	5,258	4,568
35	3,258	5,841	65	5,267	4,032	95	5,300	4,595
36	3,363	5,910	66	5,320	4,073	96	5,342	4,623
37	3,468	5,979	67	5,374	4,114	97	5,385	4,650
38	3,681	6,078	68	5,267	4,110	98	5,428	4,678
39	3,894	6,178	69	5,160	4,105	99	5,471	4,706
40	4,107	6,277	70	5,053	4,100	100	5,515	4,735
41	4,320	6,376	71	4,946	4,096	101	5,559	4,763
42	4,533	6,475	72	4,840	4,091	102	5,604	4,792
43	4,819	6,748	73	4,733	4,086	103	5,649	4,820
44	5,106	7,020	74	4,626	4,082	104	5,694	4,849
45	5,392	7,292	75	4,519	4,077	105	5,739	4,878
46	5,679	7,565	76	4,555	4,101	106	5,785	4,908
47	5,965	7,837	77	4,592	4,126	107	5,832	4,937
48	6,313	7,959	78	4,628	4,151	108	5,878	4,967
49	6,661	8,082	79	4,665	4,176	109	5,925	4,996
50	7,008	8,204	80	4,703	4,201	110	5,973	5,026
51	7,356	8,327	81	4,740	4,226			

* Spouses' per capita costs are assumed to be 127% of the amounts shown in this table.



j. **Assumed HealthSelect Medicare Advantage Plan Per Capita Health Benefit Cost (Medical and Prescription Drugs) for Fiscal Year 2017 for Covered Retirees and Spouses* (reflects benefits in effect September 1, 2016)**

Age	Assumed Annual Claims Cost per Retiree		Age	Assumed Annual Claims Cost per Retiree	
	Male	Female		Male	Female
65	\$ 3,362	\$ 3,372	88	\$ 3,607	\$ 3,486
66	3,377	3,386	89	3,621	3,496
67	3,392	3,402	90	3,635	3,505
68	3,398	3,397	91	3,649	3,515
69	3,404	3,393	92	3,663	3,525
70	3,410	3,389	93	3,677	3,535
71	3,415	3,384	94	3,691	3,544
72	3,421	3,380	95	3,706	3,554
73	3,427	3,376	96	3,720	3,564
74	3,433	3,371	97	3,735	3,574
75	3,438	3,367	98	3,749	3,584
76	3,451	3,376	99	3,764	3,595
77	3,463	3,385	100	3,779	3,605
78	3,476	3,394	101	3,794	3,615
79	3,488	3,403	102	3,810	3,625
80	3,501	3,412	103	3,825	3,636
81	3,514	3,421	104	3,840	3,646
82	3,527	3,430	105	3,856	3,657
83	3,540	3,439	106	3,872	3,667
84	3,553	3,448	107	3,888	3,678
85	3,567	3,458	108	3,904	3,689
86	3,580	3,467	109	3,920	3,700
87	3,593	3,477	110	3,936	3,710

* The prescription drug components of spouses' per capita costs are assumed to be 127% of the prescription drug amounts included in this table.

k. **Dependent Children: Assumed Per Capita Health Benefit Cost for Fiscal Year 2017 (reflects benefits in effect September 1, 2016):**

\$6,579 annual per capita benefit cost for each retiree covering dependent children irrespective of the number of children covered.

- l. **Dental Benefits:** The present value of future expected dental benefits is assumed to be equal to the present value of future retiree contributions towards dental benefits.
- m. **Vision Benefits:** The present value of future expected vision benefits is assumed to be equal to the present value of future retiree contributions towards vision benefits.



- n. **Cost Sharing Provisions:** Deductibles, copayments and coinsurance levels and retiree contribution levels are assumed to increase at the same rate as the health benefit cost trend, consistent with the expected operation of the substantive plan (i.e., the proportion of non-Medicare expenses covered by the employer/employee is assumed to remain constant).
- o. **General Price Inflation:** Both the health benefit cost trend and the discount rate include the same inflationary element attributable to changes in general price levels, 3.50%.

3. **Other Assumptions**

a. **Valuation Payroll**

Valuation Payroll (earnings applied to the current valuation year) is the payroll for the fiscal year ending on the valuation date. It is based on reported payroll determined from August member contributions.

b. **Missing Data**

i. Service for Non-ERS Members

Service for all employees who are not members of ERS (except as indicated in (ii) below) is determined as follows: (i) for employees hired before September 1, 2003, service is calculated as the elapsed time from original date of hire to the valuation date, and (ii) for employees hired after August 31, 2003, service is calculated as the elapsed time from completion of the waiting period to the valuation date.

ii. Pre-September 1, 1992 Higher Education Hires

Service for pre-September 1, 1992 Higher Education hires, whose date of hire was reported as September 1, 1992, is assumed to have the same service distribution as State Agency employees.

iii. ORP Vested Terminated Employees

Census data for vested terminated higher education employees participating in the ORP was not available at the time of this valuation. As a result, the ORP vested terminated employees liability is assumed to have the same ratio to the ORP retiree liability as the ratio of TRS vested terminated employee liability to the TRS retiree liability. In other words, the ORP retiree liability is multiplied by this TRS ratio to determine the ORP vested terminated liability. The estimated number of ORP vested terminated members is determined in the same manner.



c. **Demographic Assumptions for TMRS, TCDRS, TTA and CSCD**

Employees of Texas Municipal Retirement System, Texas County and District Retirement System, Texas Turnpike Authority and Community Supervision and Corrections Departments are assumed to exhibit the same demographic decrements as Regular Class ERS members.

d. **Eligibility Service Adjustments**

Eligibility Service at Service Retirement and Death-in-Service is assumed to be increased due to purchase of Additional Service Credits and/or Accumulated Sick and Annual Leave by:

- i. 0 years for members retiring from the Elected Class;
- ii. 2.0 years for members retiring from regular employee class service who were hired before September 1, 2009 if age plus service, prior to adjustment, are greater than or equal to 78;
- iii. 1.0 year for members retiring from regular employee class service who were hired before September 1, 2009 if age plus service, prior to adjustment, are less than 78;
- iv. 1.0 year for members retiring from regular employee class service who were hired after August 31, 2009;
- v. 2.0 years for members retiring from CPO/CO class service who were hired before September 1, 2009 if service, prior to adjustment, is at least 18 years;
- vi. 1.0 year for members retiring from CPO/CO class service who were hired before September 1, 2009 if service, prior to adjustment, is less than 18 years; and
- vii. 1.0 year for members retiring from CPO/CO class service who were hired after August 31, 2009.

e. **Graduate Students**

Graduate students are excluded from this valuation because none of the graduate students are assumed to satisfy the eligibility criteria for benefits under this plan during the period of their employment as a graduate student.

4. **Changes in Assumptions**

a. **Demographic Assumptions**

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

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Proportion of future retirees covering dependent children.
- Percentage of future retirees and retiree spouses assumed to use tobacco.



b. **Economic Assumptions**

Assumptions for Administrative Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations.

Minor benefit changes have been reflected in the FY 2017 Assumed Per Capita Health Benefit Costs.

Please see our previous valuation report dated November 3, 2015 for a complete list of our previous economic assumptions.



Section VIII - Outline of Principal Eligibility and Benefit Provisions

A. Plan Identification

1. Plan Name

Other Post-Employment Benefits provided under the Texas Employees Group Benefits Program (GBP)

2. Plan Type

The GBP is a cost-sharing multiple-employer defined benefit OPEB plan. Employers participating in the GBP include:

- a. the State of Texas which is the employer for all state agency employees and employees of senior colleges and universities,
- b. 50 Texas junior and community colleges,
- c. the Texas Municipal Retirement System, Texas County and District Retirement System and the Texas Turnpike Authority,
- d. Community Supervision and Corrections Departments.

3. Contributions and Reserves

- a. The authority under which the obligations of the plan members and Employer are established and or may be amended is Chapter 1551, Texas Insurance Code.
- b. The Employer and member contribution rates are determined annually by the ERS Board Trustees based on the recommendations of the ERS staff and consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.
- c. There are no long-term contracts for contributions to the plan.



B. Employee Classification Requirements for Future Benefit Eligibility

State agency and higher education employees must meet the following classification requirements in order to be eligible for OPEB provided they also meet the age and service conditions described in item C. below.

1. State Agency or Higher Education Employee

An individual must be an elected or appointed officer or employee who performs service (other than an independent contractor) for the State of Texas, including an institution of higher education, other than the University of Texas or Texas A&M University Systems, and who:

- a. receives compensation for the service performed pursuant to a payroll certified by a state agency or by an elected or appointed officer, or
- b. receives compensation for service performed for an institution of higher education pursuant to a payroll certified by an institution of higher education or by an elected or appointed officer of the State.

2. Employees of Certain Other Entities

- a. Officers or employees of Texas Municipal Retirement System or Texas County and District Retirement System
- b. Certain employees or officers of the Texas Turnpike Authority
- c. Employees of the Community Supervision and Corrections Departments



C. Eligibility for OPEB

The employee's eligibility for GBP OPEB is dependent upon the event which initiates the employee's severance from employment.

<u>Event</u>	<u>GBP OPEB Eligibility</u>			<u>Commencement of GBP Benefits</u>
	<u>At Least</u>		<u>Age +</u>	
	<u>Age</u>	<u>Service</u>	<u>Service</u>	<u>Age</u>
1. <u>Service Retirement or Death</u>				
a. ERS - Regular Class	60	10	80	65
	or	10		Immediately upon Retirement
b. ERS - CPO/CO	55	10		Immediately upon Retirement
	or	20		Immediately upon Retirement
	or	10	80	Immediately upon Retirement
c. ERS - Elected Class	60	8		Immediately upon Retirement
	or	12		Immediately upon Retirement
d. TRS (Higher Education)	55	10		65
	or	30		65
	or	10	80	Immediately upon Retirement
e. ORP (Higher Education)		10	80	Immediately upon Retirement
f. JRS I and II	60	10*		Immediately upon Retirement
	or	20		Immediately upon Retirement
	or	12**	70	Immediately upon Retirement

* 10 years required if holding a judicial office at the time of retirement; otherwise 12 years.

** 12 years of service on an appellate court.

<u>Event</u>	<u>GBP OPEB Eligibility</u>			<u>Commencement of GBP Benefits</u>
	<u>At Least</u>		<u>Age +</u>	
	<u>Age</u>	<u>Service</u>	<u>Service</u>	<u>Age</u>
2. <u>Disability</u>				
a. ERS - Regular Class		10*		Immediately upon Disability
b. ERS - CPO/CO		10*		Immediately upon Disability
c. ERS - Elected Class		8*		Immediately upon Disability
d. TRS (Higher Education)		10		Immediately upon Disability
e. ORP (Higher Education)		10		Immediately upon Disability
f. JRS I and II		7		Immediately upon Disability

* Service Requirement is waived if the disability is an occupational disability.



3. Termination

- a. Same Age/Service/Age+Service requirements as Service Retirement in item 2.a. above, provided at the time of termination the employee has at least:
 1. 10 service years for Regular, CPO/CO, TRS and ORP classes
 2. 8 service years for Elected class members
 3. 12 service years for the JRS I and II classes
- b. Only eligible for benefits at commencement age if employee contributions are not withdrawn prior to commencement age.

D. Post-Employment Health Benefits

1. For purposes of the valuation, all retirees, including those presently enrolled in HMOs, are assumed to have GBP health coverage under HealthSelect (unless they elect or are assumed to elect the HealthSelect Medicare Advantage Plan for Medicare-primary years of coverage), a self-funded health plan providing medical and prescription drug coverage. (See chart at end of this section for details.) We have adopted this assumption due to the small number of retirees enrolled in HMOs and the similarity between the cost of HealthSelect and HMO coverage.
2. For benefit years prior to the date on which Medicare becomes primary, HealthSelect (Medical and Prescription Drug) is primary. (See chart at end of this section for details.)
3. For benefit years after the date on which Medicare becomes primary:
 - a. For retirees and spouses participating in HealthSelect:
 - (i) HealthSelect medical coverage is secondary to Medicare (secondary via Coordination of Benefits method) (See chart at end of this section for details.)
 - (ii) HealthSelect prescription drug coverage remains primary.
 - b. For retirees and spouses participating in the HealthSelect Medicare Advantage Plan:
 - (i) HealthSelect Medicare Advantage Plan medical coverage is provided in lieu of Medicare and HealthSelect medical coverage. (See chart at end of this section for details.)
 - (ii) HealthSelect prescription drug coverage remains primary.
4. Covered Retirees are eligible for coverage until death.
5. Retiree Spouses may be covered until death provided the applicable monthly contribution is paid on behalf of the covered spouse.
6. Dependent Children may be covered provided the applicable monthly contribution is paid on behalf of the dependent children.
 - a. Coverage ceases when the child reaches age 26 or when the child marries, if earlier. However, a child who is mentally retarded or physically incapacitated may continue coverage beyond age 26 provided such child remains a dependent of the retired member.
 - b. The term child includes an adopted child, a foster child, a stepchild or other child in a parent-child relationship.



E. Post-Employment Life Insurance Coverage

1. Retirees participating in GBP health coverage are eligible for \$2,500 life insurance coverage funded by the Employer.
2. Retirees who opt-out of health coverage are not eligible for Employer-funded life insurance.
3. Employer-funded life insurance coverage is not available for spouses or other dependent children.

F. Opt-Out Credit

Applicable to certain optional benefits for retirees who opt out of GBP health coverage provided they demonstrate that they have health coverage outside of the GBP.

1. Retirees who opt out of the GBP health benefits are eligible.
2. Opt-Out credit is up to \$60 per month for full-time retirees and \$30 per month for part-time retirees. Retirees may use the credit only to purchase dental coverage.
3. The retiree qualifies for a \$60 credit without regard to whether the retiree has a spouse or dependent children.

G. Other Optional Benefits Available at Cost to Eligible Retirees

1. Dental Options
 - a. State of Texas Dental Choice Plan
 - b. Dental HMO
2. Optional Group Term Life Insurance with a face value of \$10,000 or up to two times salary.
3. Optional Dependent Group Term Life Insurance with a face value of \$2,500.
4. State of Texas Vision Plan



H. Retiree Contributions

1. Health Coverage

a. HealthSelect

Annually, ERS determines the uniform contribution rates for members participating in HealthSelect. The monthly member contribution rates for FY17 are:

	100% State Contributions Current Retirees and Future Retirees with 5+ YOS on September 1, 2014 ¹		Future Retirees with Fewer than 5 YOS on September 1, 2014					
	Full-Time	Part-Time	50% State Contributions Less than 15 YOS at Retirement ²		75% State Contributions At least 15 YOS but less than 20 YOS at Retirement ³		100% State Contributions 20+ YOS at Retirement ⁴	
			Full-Time	Part-Time	Full-Time	Part-Time	Full-Time	Part-Time
Member	\$ 0.00	\$ 307.54	\$ 307.54	\$ 461.31	\$ 153.77	\$ 384.43	\$ 0.00	\$ 307.54
Member plus Spouse	\$ 353.68	\$ 838.06	\$ 838.06	\$ 1,080.25	\$ 595.87	\$ 959.16	\$ 353.68	\$ 838.06
Spouse, if Retiree is deceased	\$ 707.36	\$ 707.36	\$ 707.36	\$ 707.36	\$ 707.36	\$ 707.36	\$ 707.36	\$ 707.36
Member plus Dependent Children	\$ 236.80	\$ 662.74	\$ 662.74	\$ 875.71	\$ 449.77	\$ 769.23	\$ 236.80	\$ 662.74
Dependent Children, if Retiree is deceased	\$ 473.60	\$ 473.60	\$ 473.60	\$ 473.60	\$ 473.60	\$ 473.60	\$ 473.60	\$ 473.60
Member plus Family, if Retiree is alive	\$ 590.48	\$ 1,193.26	\$ 1,193.26	\$ 1,494.65	\$ 891.87	\$ 1,343.96	\$ 590.48	\$ 1,193.26
Spouse plus Children, if Retiree is deceased	\$ 1,180.96	\$ 1,180.96	\$ 1,180.96	\$ 1,180.96	\$ 1,180.96	\$ 1,180.96	\$ 1,180.96	\$ 1,180.96

¹ Actual Retiree Contribution Rates for FY17. Tobacco users pay an additional \$30 per month. These rates will also apply to ERS - Elected Class members, JRS I and II members, and disabled members from any class, irrespective of those members' YOS at September 1, 2014.

² Hypothetical Retiree Contribution Rates for FY17. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-FY17 increases) will not be used until FY19 since that will be the first time an employee with less than 5 YOS on September 1, 2014 could retire with 10 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at September 1, 2014.

³ Hypothetical Retiree Contribution Rates for FY17. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-FY17 increases) will not be used until FY24, since that will be the first time an employee with less than 5 YOS on September 1, 2014 could retire with 15 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at September 1, 2014.

⁴ Hypothetical Retiree Contribution Rates for FY17. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-FY17 increases) will not be used until FY29, since that will be the first time an employee with less than 5 YOS on September 1, 2014 could retire with 20 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at September 1, 2014.



b. HealthSelect Medicare Advantage Plan

Annually, ERS determines the uniform contribution rates for members participating in the HealthSelect Medicare Advantage Plan option. The monthly member contribution rates for calendar year 2017 are:

	100% State Contributions Current Retirees and Future Retirees with 5+ YOS on September 1, 2014 ¹		Future Retirees with Fewer than 5 YOS on September 1, 2014					
	<u>Full-Time</u>	<u>Part-Time</u>	50% State Contributions Less than 15 YOS at Retirement ²		75% State Contributions At least 15 YOS but less than 20 YOS at Retirement ³		100% State Contributions 20+ YOS at Retirement ⁴	
			<u>Full-Time</u>	<u>Part-Time</u>	<u>Full-Time</u>	<u>Part-Time</u>	<u>Full-Time</u>	<u>Part-Time</u>
Member	\$ 0.00	\$ 157.08	\$ 157.08	\$ 235.62	\$ 78.54	\$ 196.35	\$ 0.00	\$ 157.08
Member plus Spouse	\$ 157.08	\$ 392.70	\$ 392.70	\$ 510.51	\$ 274.89	\$ 451.61	\$ 157.08	\$ 392.70
Spouse, if Retiree is deceased	\$ 314.16	\$ 314.16	\$ 314.16	\$ 314.16	\$ 314.16	\$ 314.16	\$ 314.16	\$ 314.16
Member plus Dependent Children	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Dependent Children, if Retiree is deceased	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Member plus Family, if Retiree is alive	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Spouse plus Children, if Retiree is deceased	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

2. Annually, ERS determines the retiree contribution rate for basic life insurance. The monthly member contribution rates for FY17 are:

<u>Basic Life Insurance (\$2,500 of Coverage) for</u>	<u>All Retirees Except Part-time Retirees</u>	<u>Part-time Retirees</u>
Retiree	\$ 0	\$ 1.11

¹ Actual Retiree Contribution Rates for CY17. Tobacco users pay an additional \$30 per month. These rates will also apply to ERS - Elected Class members, JRS I and II members, and disabled members from any class, irrespective of those members' YOS at September 1, 2014.

² Hypothetical Retiree Contribution Rates for CY17. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-CY17 increases) will not be used until FY19 since that will be the first time an employee with less than 5 YOS on September 1, 2014 could retire with 10 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at September 1, 2014.

³ Hypothetical Retiree Contribution Rates for CY17. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-CY17 increases) will not be used until FY24, since that will be the first time an employee with less than 5 YOS on September 1, 2014 could retire with 15 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at September 1, 2014.

⁴ Hypothetical Retiree Contribution Rates for CY17. Tobacco users pay an additional \$30 per month. These rates (adjusted for post-CY17 increases) will not be used until FY29, since that will be the first time an employee with less than 5 YOS on September 1, 2014 could retire with 20 YOS. These rates will not apply to ERS-Elected Class members, JRS I and II members or disabled members from any class, irrespective of those members' YOS at September 1, 2014.



I. Funding Mechanism

1. HealthSelect Medical and Prescription Drug benefits are self-funded. Medical benefits under the HealthSelect Medicare Advantage Plan are fully insured.
2. Basic Life Insurance benefits are fully insured under a minimum premium funding arrangement.
3. Dental
 - a. State of Texas Dental Choice Plan is self-funded through contributions made by employees and retirees.
 - b. Dental HMO is fully insured through contributions made by employees and retirees.
 - c. The State does not contribute toward dental coverage.
4. Optional Group Term Life Insurance and Dependent Group Term Life Insurance are fully insured under a minimum premium funding arrangement. Such coverages are fully funded by employee and retiree contributions. The State does not contribute toward these coverages.
5. Vision
 - a. State of Texas Vision Plan is self-funded through contributions made by employees and retirees.
 - b. The State does not contribute toward vision coverage.



J. Health Benefits Chart Out-of-Pocket Expenses in effect September 1, 2016

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

Benefits	HealthSelect SM of Texas ¹			Consumer Directed HealthSelect SM ¹		HMOs	
	In-Area		Out-of-Area ²	In-Area		Community First, Scott & White	KelseyCare powered by Community Health Choice
	Network	Non-Network		Network	Non-Network		
Calendar year deductible	None	\$500 per person \$1,500 per family	\$200 per person \$800 per family	\$2,100 per person \$4,200 per family	\$4,200 per person \$8,400 per family	None	None
Out-of-pocket coinsurance maximum ³	\$2,000 per person per calendar year	\$7,000 per person per calendar year	\$3,000 per person per calendar year	None	None	\$2,000 per person ²	\$2,000 per person ²
Total out-of-pocket maximum ⁴ (including deductibles, coinsurance and copays) ⁵	**\$6,550 per person \$13,100 per family	None	**\$6,550 per person \$13,100 per family	**\$6,550 per person \$13,100 per family	**\$13,100 per person \$25,200 per family	\$6,550 per person \$13,100 per family ³	\$6,550 per person \$13,100 per family ³
Primary care physician required	Yes	No	No	No	No	Contact your HMO	No
Primary care physicians' office visits	\$25	40%	30%	20%	40%	\$25	\$15
Mental health office visits	\$25	40%	30%	20%	40%	\$25	\$25
Physicals ⁶	No charge	40%	Network provider - No charge; Non-network provider - 30%	No charge	40%	No charge	No charge
Specialty physicians' office visits	\$40	40%	30%	20%	40%	\$40	\$25
Routine eye exam, one per year per participant ⁷	\$40	40%	30%	20%	40%	\$40 ¹⁰	\$25 ³
Routine preventive care ⁸	No charge	40%	Network provider - No charge; Non-network provider - 30%	No charge	40%	No charge	No charge
Diagnostic x-rays, lab tests, and mammography	20%	40%	30%	20%	40%	20%	No charge* (physician office)
Office surgery and diagnostic procedures	20%	40%	30%	20%	40%	20%	\$15 PCP or \$25 Specialist
High-tech radiology (CT scan, MRI, and nuclear medicine) ^{9,11,12}	\$100 copay plus 20%	\$100 copay plus 40%	\$100 copay plus 30%	20%	40%	\$100 copay plus 20% coinsurance	\$150 copay per scan type per day (Outpatient testing only)
Urgent care clinic	\$50 copay plus 20%	\$50 copay plus 40%	30%	20%	40%	\$50 copay plus 20%	\$50 copay plus 20%
Maternity Care doctor charges only ¹³ ; inpatient hospital copays will apply	No charge for routine prenatal appointments \$25 or \$40 for first post-natal visit ⁶	40%	30%	No charge for routine prenatal appointments 20% for first post-natal visit	40%	No charge for routine prenatal appointments \$25 or \$40 for first post-natal visit ⁶	No charge

See footnotes on following page.



Benefits	HealthSelect SM of Texas ¹			Consumer Directed HealthSelect SM		HMOs	
	In-Area		Out-of-Area	In-Area		Community First, Scott & White	KelseyCare powered by Community Health Choice
	Network	Non-Network		Network	Non-Network		
Chiropractic Care							
a. Co-insurance	20% \$40 copay plus 20% with office visit	40%	30%	20%	40%	CFHP: 20%; \$40 copay SWHP: 20%; \$40 copay plus 20% with office visit	\$25 copay
b. Maximum benefit per visit	\$75	\$75	\$75	\$75	\$75	CFHP-\$75/ SWHP - None	-
c. Maximum visits Each participant Per calendar year	30	30	30	30	30	CFHP-30; SWHP-35 (maximum manipulative therapy visits)	30
Inpatient hospital (semi-private room and day's board, and intensive care unit) ²	\$150/day copay plus 20% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per calendar year per person)	\$150/day copay plus 40% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per calendar year per person)	\$150/day copay plus 30% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per calendar year per person)	20%	40%	\$150/day copay plus 20% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per plan year per person ³)	\$150/day copay plus 20% (\$750 copay max-up to 5 days per hospital stay, \$2,250 copay max per plan year per person)
Emergency care	\$150 plus 20% (if admitted copay will apply to hospital copay)	\$150 plus 20% (if admitted copay will apply to hospital copay)	30%	20%	20%	\$150 plus 20% (if admitted copay will apply to hospital copay)	\$150 copay plus 20% (if admitted copay will apply to hospital copay)
Outpatient surgery other than in physician's office	\$100 copay plus 20%	\$100 copay plus 40%	\$100 copay plus 30%	20%	40%	\$100 copay plus 20%	\$150
Bariatric surgery ^{3, 4, 5}	a. Deductible \$5,000 b. Coinsurance 20% c. Lifetime max \$13,000	Not covered	a. Deductible \$5,000 b. Coinsurance 20% c. Lifetime max \$13,000	Not covered	Not covered	Not covered	Not covered
Hearing aids	Plan pays up to \$1,000 per ear every three years (no deductible).			Plan pays up to \$1,000 per ear every three years (after deductible is met).		Plan pays up to \$1,000 per ear every three years (no deductible).	
Durable medical equipment ⁶	20%	40%	30%	20%	40%	20%	20%
Ambulance services (non-emergency) ⁷	20%	20%	30%	20%	20%	20%	20%

¹ Benefits are paid on allowable amounts; using providers who contract with United-Healthcare will protect you from liability for amounts over the allowable amount.
² Out-of-area applies to participants living outside of Texas, retirees 65 and over, and disabled retirees with Medicare.
³ Applies to plan year September 1 - August 31.
⁴ Does not include copays.
⁵ Copay depends on whether treatment is given by PCP or specialist.
⁶ For treatment charges, one visit per plan year.
⁷ Outpatient testing only. Does not apply to inpatient services.
⁸ Active employees only; see health plan for additional requirements/limitations.
⁹ The deductible and coinsurance paid for bariatric surgery does not apply to the total out-of-pocket maximum.
¹⁰ No copay if high-tech radiology is performed during ER visit or inpatient admission.
¹¹ Out-of-pocket maximums are not mutually exclusive from other out-of-pocket limits. This means that a participant's total network out-of-pocket maximum could contain a combination of coinsurance and/or copayments. (For example, a participant could pay up to \$6,550 in copayments alone if there was no coinsurance paid throughout the year. If a participant met the \$2,000 coinsurance out-of-pocket maximum, he/she would pay \$4,550 in copayments, totaling \$6,550 in overall out-of-pocket expense.)
¹² Includes medical and prescription drug copays, coinsurance and deductibles. Excludes non-network and bariatric services.
¹³ Preauthorization required



b. HealthSelect (Medicare primary) and HealthSelect Medicare Advantage Plan (Medicare primary)

Benefit	Original Medicare ⁶ (Medicare rates are subject to change)	HealthSelect Medicare Advantage Plan ^{9H} (No coordination with Medicare is necessary)	Medicare Primary, HealthSelect Secondary (HealthSelect and Medicare coordinate benefits for you)	Medicare Primary, GBP HMO Secondary (GBP/HMO plans coordinate benefits with Medicare for you)		KelseyCare Advantage HMO (No coordination with Medicare is necessary)
				Community First, Scott & White	KelseyCare powered by Community	
Calendar year deductible	\$147	None	\$200 per individual \$600 per family	None	None	None
Office visits in conjunction with an illness or injury	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / \$25 ⁷ copay	\$0 copay / \$15 ⁷ copay	\$0
Specialty physician office visit	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / \$40 ⁷ copay	\$0 copay / \$25 ⁷ copay	\$0
Diagnostic tests and x-rays, including allergy testing	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / 20% ⁷ coinsurance	\$0 copay for diagnostic tests / x-rays. Allergy testing: \$15 PCP ⁷ or \$25 specialist copay ^{7,7}	\$0
Diagnostic mammography	\$0	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / 20% ⁷ coinsurance	\$0 copay ⁷	\$0
Diagnostic lab services	\$0	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / 20% ⁷ coinsurance	\$0 copay ⁷	\$0
Preventive services (such as screening mammogram, physical, well woman exam, prostate cancer screening, etc.)	\$0 ^{1,2} Does not cover lab tests	\$0 ^{1,2} Covers screening lab tests	\$0 ¹	\$0 ¹	\$0 ¹	\$0 ^{1,3} No prostate cancer screening calendar year limits
Office surgery and diagnostic procedures	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 / \$25 or \$40 copay ^{7,7}	\$0 / \$15 PCP or \$25 specialist copay ^{7,7}	\$0
Immunizations ⁴	\$0	\$0	\$0	\$0	\$0	\$0
High-tech radiology (CT scan, MRI, nuclear medicine)	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / \$100 ⁷ copay plus 20%	\$150 ⁷ copay/scan type/day	\$0
Allergy injections and serum	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / 20% ⁷ coinsurance	Allergy Serum: \$0 Without office visit: \$0 With office visit: \$15 PCP or \$25 specialist copay ^{6,7}	\$0
Eye exam	Does not cover	\$0 ¹	30% ¹	\$40 copay ²	\$25 copay ²	\$0 ¹
Vision (Contact lens fitting exams are not covered)	Frames: You pay 100% for non-covered services 20% for one pair of eyeglasses after each cataract surgery with an intraocular lens.	\$0 for one pair of eyeglasses or contact lenses after each cataract surgery that includes insertion of an intraocular lens.	Frames: Does not cover	Community First: You receive a \$125 allowance every 2 years in lieu of contacts ⁸ Scott & White: Does not cover	Does not cover	\$150 plan coverage limit for eyewear, glasses, and/or contact lenses every two years unrelated to post-cataract surgery. ¹⁸ Allowance can only be used on date of service.
	Contacts: You pay 100% for non-covered services 20% for one set of contact lenses after each cataract surgery with an intraocular lens.	\$0 for one pair of eyeglasses or contact lenses after each cataract surgery that includes insertion of an intraocular lens.	Contacts: Does not cover	Community First: You receive a \$125 allowance every 2 years in lieu of glasses ⁹ Scott & White: Does not cover	Does not cover	



Benefit	Original Medicare ¹ (Medicare rates are subject to change)	HealthSelect Medicare Advantage Plan SM (No coordination with Medicare is necessary)	Medicare Primary HealthSelect Secondary (HealthSelect and Medicare coordinate benefits for you)	Medicare Primary GBP HMO Secondary (GBP HMO plans coordinate benefits with Medicare for you)		KelseyCare Advantage HMO (No coordination with Medicare is necessary)
				Community First, Scott & White	KelseyCare powered by Community	
Routine hearing test	Does not cover	Does not cover	30%	Without office visit: 20% coinsurance. With office visit: \$40 copay plus 20% coinsurance	Without office visit: 20% coinsurance. With office visit: \$25 copay plus 20% coinsurance	\$0 copay for up to one supplemental routine hearing exam every year ^{1,2}
Diagnostic speech and hearing testing	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	Without office visit: \$0 copay / 20% ² coinsurance. With office visit: \$0 copay / \$40 copay ² plus 20% coinsurance	Without office visit: \$0 copay / 20% ² coinsurance. With office visit: \$0 copay / \$25 copay ² plus 20% coinsurance	\$0 for Medicare-covered diagnostic hearing exams
Speech and hearing therapy	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	Without office visit: \$0 copay / 20% ² coinsurance. With office visit: \$0 copay / \$40 copay ² plus 20% coinsurance	Without office visit: \$0 copay / 20% ² coinsurance. With office visit: \$0 copay / \$25 copay ² plus 20% coinsurance	\$0
Hearing aids	Does not cover	\$1,000 benefit allowance per ear every 3 years	\$1,000 benefit allowance per ear every 3 years	\$1,000 benefit allowance per ear every 3 years (Repairs not covered)	\$1,000 benefit allowance per ear every 3 years (Repairs not covered)	\$1,500 plan coverage limit for hearing aids every 2 years (Does not include battery replacement). \$0 copayment for up to one hearing aid fitting/evaluation every 2 years ²
Chiropractic care	20% for Medicare-covered chiropractic services	30% for specialist office visit for routine services, up to a maximum of a \$75 benefit per visit. Benefit is limited to 30 visits per plan year.	\$0 ¹ copay / 30% ² coinsurance	Does not cover	Does not cover	\$0 for each Medicare-covered visit
Urgent care clinic	20%	\$0	\$0 ¹ copay / 30% ² coinsurance	\$0 copay / \$50 copay ² + 20% coinsurance	\$0 copay / \$50 copay ² + 20% coinsurance	\$0
Emergency room care	20% Plus emergency room copay (waived if admitted to hospital within 3 days of emergency room visit)	<ul style="list-style-type: none"> In U.S.: \$0 Outside U.S. and Puerto Rico: 20% after \$100 deductible. Limited to \$25,000 per plan year or 60 consecutive days, whichever ever is greater 	\$0 ¹ copay/30% ² coinsurance	\$0 copay / \$150 copay ² plus 20% in area and out-of-area covered at listed copayment	\$0 copay / \$150 copay ² plus 20% in area and out-of-area covered at listed copayment	<ul style="list-style-type: none"> In U.S.: \$0 Outside U.S.: 20% after \$250 deductible
Inpatient hospital (semi-private room and days board, and intensive care unit)	\$0 after the following amounts for each benefit period ¹ : <ul style="list-style-type: none"> \$1,184 deductible for days 1-60; \$296 copay per day (days 61-90); \$592 copay per lifetime reserve day (days 91-150) 	\$0	\$0 ¹ If provider doesn't accept Part A, then coverage is \$150 copay/day up to \$750 per admission and \$2,250 per Calendar Year. 30% after copay	\$0 ¹ If provider doesn't accept Part A, then coverage is \$150 copay/day up to \$750 per admission and \$2,250 per Calendar Year. 20% after copay	\$0 ¹ If provider doesn't accept Part A, then coverage is \$150 copay/day up to \$750 per admission and \$2,250 per Calendar Year. 20% after copay	\$0 <ul style="list-style-type: none"> No limit to the number of days covered by the plan each benefit period¹



Benefit	Original Medicare ⁴ (Medicare rates are subject to change)	HealthSelect Medicare Advantage Plan SM (No coordination with Medicare is necessary)	Medicare Primary, HealthSelect Secondary (HealthSelect and Medicare coordinate benefits for you)	Medicare Primary, GBP HMO Secondary (GBP HMO plans coordinate benefits with Medicare for you)		KelseyCare Advantage HMO (No coordination with Medicare is necessary)
				Community First, Scott & White	KelseyCare powered by Community	
Outpatient surgery	20% Specified copay for outpatient hospital facility charges	\$0	\$0 or \$100 ¹ copay – 30% ² coinsurance	\$0 copay / \$100 copay ³ plus 20%	\$150 copay ³	\$0
Skilled nursing facility	<ul style="list-style-type: none"> Days 1-20: \$0 (3-day hospital stay required); Days 21-100: \$141.50 coinsurance per day Per benefit period⁵ 	<ul style="list-style-type: none"> \$0 up to 100 days per benefit period (no 3-day hospital stay is required) You pay 100% after 100 days 	<ul style="list-style-type: none"> No deductible Plan pays 100% 	<ul style="list-style-type: none"> \$0 copay / 20%⁶ coinsurance 60-day max per plan year You pay 100% after 60 days 	<ul style="list-style-type: none"> \$0 copay / 20%⁶ coinsurance 60-day max per plan year You pay 100% after 60 days 	<ul style="list-style-type: none"> Days 1-100: \$0 copayment per day Plan covers up to 100 days each benefit period⁵ No prior hospital stay is required
Home health care	\$0	\$0	\$0 ¹ copay/30% ⁷ coinsurance for home infusion therapy Plan pays 100% for all other home health care services with a maximum of 100 visits per calendar year	\$0 copay / 20% ⁶ coinsurance	\$0 copay / 20% ⁶ coinsurance	\$0
Hospice	<ul style="list-style-type: none"> 5% of the Medicare-approved amount for inpatient respite care \$5 copay for pain management drugs 	Same benefits as under Original Medicare	\$0 ¹ copay / 30% ⁷ coinsurance	\$0 copay / 20% ⁶ coinsurance	\$0 copay / 20% ⁶ coinsurance	<ul style="list-style-type: none"> Same benefits as under Original Medicare You must receive care from a Medicare-certified hospice
Ambulance	20%	\$0	\$0 ¹ copay/30% ⁷ coinsurance Emergency care only. Not applicable to non-emergent transportation services.	\$0 copay / 20% ⁶ coinsurance	\$0 copay / 20% ⁶ coinsurance	\$0
Private duty nursing	Does not cover	30% Pays a maximum benefit of \$8,000 per calendar year	30% <ul style="list-style-type: none"> Unlimited hours Network only Prerequisite authorization is required 	\$0 copay / 20% ⁶ coinsurance	\$0 copay / 20% ⁶ coinsurance	Does not cover

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

¹ One per calendar year.

² One per plan year.

³ No copayment for a pap smear once every 24 months; once every 12 months for those at high risk.

⁴ After payment of deductible. HealthSelect note: Medicare and HealthSelect deductibles run concurrently. Member may be responsible for some charges when the provider does not accept Medicare assignment.

⁵ A "benefit period" starts the day you go into the hospital. It ends after 60 days in a row without returning to hospital care. If you go into the hospital after one benefit period has ended, a new benefit period will begin. You must pay the inpatient hospital deductible for each benefit period. There is no limit to the number of benefit periods you may have.

⁶ Copayment amount depends on whether treatment is provided by a PCP or specialist.

⁷ Payment amount is dependent upon the coordination of benefits (COB) between your carrier (HealthSelect, Community First, KelseyCare powered by Community Health Choice, Scott & White) and Original Medicare. Sometimes this means your expense is \$0, but charges will vary depending upon COB. Please reference your Summary of Benefits for more information.

⁸ In the event that the provider/facility does not accept Medicare assignment (so the charges are not covered by Medicare and therefore not subject to COB), you may be responsible for copay(s) and/or a coinsurance. Please see your Summary of Benefits for more information.

⁹ ERS cannot and does not guarantee the length of time that a specific type of "Value-Added" product shall be offered. Any questions or concerns about these products should be directed to your carrier.

¹⁰ Does not count toward out-of-pocket maximum.



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

	HealthSelect Medicare Rx SM	HMOs
Deductible	Each participant must pay a \$50 annual deductible before copays apply (for the calendar year, January 1 to December 31).	HMO deductibles are for the plan year, September 1 to August 31.
Participating pharmacies	Copays for up to a 30-day supply of non-maintenance medications are \$10 for Tier 1 drugs, \$35 for Tier 2 drugs, and \$60 for Tier 3 drugs. For up to a 30-day supply of maintenance medication, you will be charged a retail maintenance copay of \$10 for Tier 1 drugs, \$45 for Tier 2 drugs, and \$75 for Tier 3 drugs	
Non-participating pharmacies	For up to a 30-day supply, you will be reimbursed 60% of the lesser of the amount you pay for the prescription, minus your copay OR the average wholesale price of the drug, plus a dispensing fee, minus your copay. The deductible will be subtracted if not met.	HMOs may not provide benefits at non-participating pharmacies.
Extended Days Supply (EDS) network	If you order prescription drugs through an EDS network pharmacy, you pay the following copays for a 90-day supply: \$30 for Tier 1 drugs, \$105 for Tier 2 drugs, and \$180 for Tier 3 drugs.	Does not apply to HMOs.
Mail order	If you order prescription drugs through the mail service program offered by your health plan, you pay the following copays for a 90-day supply: \$30 for Tier 1 drugs, \$105 for Tier 2 drugs, and \$180 for Tier 3 drugs.	



Section IX - Glossary

Actuarial Accrued Liability (Past Service Liability): This is computed differently under different actuarial cost methods. Generally, the actuarial accrued liability represents the portion of the Actuarial Present Value of Total Projected Plan Benefits attributed to periods of service preceding the valuation date.

Actuarial Gain or Loss: From one plan year to the next, if the experience of the plan differs from that anticipated by the actuarial assumptions, an actuarial gain or loss occurs.

Actuarial Present Value of Total Projected Plan Benefits: Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Value of Assets: The value of Plan Assets used by an actuary for an actuarial valuation. *(See the Actuarial Methods and Assumptions section of this report for a description of the methodology used to determine the Actuarial Value of Assets used in this report.)*

Annual Required Contribution (ARC): A cost measurement related to a defined benefit postemployment benefits plan (other than pensions) calculated under the parameters of GASB No. 43 using actuarially determined information and assumptions. Notably, there is no requirement for a plan sponsor to actually contribute an amount equal to the ARC. It serves only as a basis for recognizing cost and recording financial statement entries.

Normal Cost: Computed differently under different actuarial cost methods, the Normal Cost generally represents the portion of the Actuarial Present Value of Total Projected Plan Benefits attributed to the current year of service for active employees.

Plan Assets: Under GASB No. 43, Plan Assets are defined to be resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, and (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan.

Unfunded Actuarial Accrued Liability: This is the excess of the Actuarial Accrued Liability over the Actuarial Value of Plan Assets.