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MEMORANDUM

To: Thomas C. Woodruff, Ph.D., Director
 Healthcare Policy & Benefit Services Division, Office of the State Comptroller

From: Daniel J. Rhodes, ASA, MAAA, FCA
 K. Eric Fredén, FSA, MAAA, EA

Date: April 12, 2013

Re: State of Connecticut Other Post-Employment Benefits Program
 GASB 45 Disclosure as of June 30, 2012 - UPDATED

We are pleased to provide the following updated GASB 45 disclosure exhibits you requested for the 2011-2012 fiscal year. The calculations have been updated to reflect the following assumption changes:

1. The **per capita costs** for the self-funded medical and drug plans were recalculated, based on actual paid retiree claims experience furnished by the State for the period July 1, 2010, through June 30, 2012. The resulting costs as of July 1, 2011 are shown in the following table:

Age	Medical				Prescription Drug			
	Retiree		Spouse		Retiree		Spouse	
	Male	Female	Male	Female	Male	Female	Male	Female
50	\$7,094	\$8,080	\$4,955	\$6,488	\$2,276	\$2,593	\$1,590	\$2,082
55	8,425	8,698	6,631	7,510	2,703	2,791	2,128	2,410
60	10,005	9,376	8,877	8,710	3,211	3,008	2,848	2,795
64	11,479	9,946	11,206	9,803	3,683	3,191	3,596	3,146
65	1,830	1,556	1,830	1,556	2,287	1,944	2,287	1,944
70	2,121	1,676	2,121	1,676	2,651	2,095	2,651	2,095
75	2,286	1,804	2,286	1,804	2,856	2,255	2,856	2,255

Medical claims costs for retirees not eligible for Medicare are approximately six times higher than the costs listed at ages 65 and above. Prescription drug costs for retirees who retired before June 1, 2009 are approximately 7% higher than the cost shown above for ages under age 65.



2. The **health care cost trend rates** were reduced, based on recent experience and anticipated future changes. The resulting trends for medical costs, prescription drug costs, and retiree contributions are shown in the following table:

Year Ending June 30,	Rate (%)		
	Medical	Prescription Drug	Retiree Contributions
2011	7.50	6.00	0.00
2012	7.00	5.75	2.00
2013	6.50	5.50	6.25
2014	6.00	5.25	5.75
2015	5.50	5.00	5.25
2016 & later	5.00	5.00	5.00

3. We have reflected anticipated savings due the State's new **prescription drug contract terms**, scheduled to be implemented in June 2013. In addition to the trend assumption described above, we have assumed a reduction in prescription drug costs of 11% in the 2013-2014 fiscal year. We note that this 11% savings estimated was provided by the State; Segal has not verified this estimate, nor reviewed the proposed contract terms to determine if this estimate is reasonable.
4. Early Retiree Premiums were based on an average premium of \$7,788 in the valuation year.

Please see the OPEB valuation report as of June 30, 2011 for the State of Connecticut, dated May 16, 2012, for all other assumptions, methodology and plan provisions.

As a result of these changes, the State's Annual Required Contribution (ARC) for the 2011-2012 fiscal year reduced by 10%, from \$1.355 billion to \$1.222 billion.

The actuarial calculations presented in these charts have been made on a basis consistent with our understanding of GASB Statements Number 43 and 45 for the determination of the liability for postretirement employment benefits other than pensions and were prepared in accordance with generally accepted actuarial principles and practices for the internal use of the State of Connecticut. This report may not otherwise be copied or reproduced in any form without the consent of the State and may only be provided to other parties in its entirety.

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

To the best of our knowledge, this report is complete and accurate and in our opinion presents the information necessary to comply with GASB Statements Number 43 and 45 with respect to the benefit obligations addressed. The signing actuaries are members of the Society of Actuaries,

the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their “General Qualification Standards for Statements of Actuarial Opinion” to render the actuarial opinion contained herein. Further, in our opinion, the assumptions as approved by the State are reasonably related to the experience and expectations of the postemployment benefit programs.

Please let us know if you have any questions.

KEF/DJR/jpb

Attachments

cc: Terry DeMattie w/attachments

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**Valuation Results for the State of Connecticut Other Post-Employment Benefits Program
June 30, 2011 Measurement Under GASB 43 and 45**

CHART 1

Required Supplementary Information – Schedule of Employer Contributions

GASB 43

Fiscal Year Ended June 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2008	\$1,602,739,000	\$463,697,000	28.93%
2009	1,703,712,000	452,029,000	26.53%
2010	2,145,724,000	555,131,000	25.87%
2011	1,276,099,000	544,767,000	42.69%
2012	1,222,383,000	555,762,000	45.47%

Required Supplementary Information – Schedule of Employer Contributions

GASB 45

Fiscal Year Ended June 30	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2008	\$1,602,739,000	\$463,697,000	28.93%
2009	1,669,321,000	452,029,000	27.08%
2010	2,349,663,000	555,131,000	23.63%
2011	1,324,395,000	544,767,000	41.13%
2012	1,272,889,000	555,762,000	43.66%

**Valuation Results for the State of Connecticut Other Post-Employment Benefits Program
June 30, 2011 Measurement Under GASB 43 and 45**

CHART 2

Required Supplementary Information – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
04/01/2006*	\$0	\$21,681,444,000	\$21,681,444,000	0.00%	N/A	N/A
04/01/2008*	0	26,566,940,000	26,566,940,000	0.00%	N/A	N/A
06/30/2011**	49,647,000	17,954,274,000	17,904,627,000	0.28%	3,902,248,000	458.83%
06/30/2011***	49,647,000	16,275,334,000	16,225,687,000	0.31%	3,902,248,000	415.80%

* The April 1, 2006 and April 1, 2008 numbers were taken from the April 1, 2008 valuation report issued by the prior actuary.

** The AAL reported on this line is from the original valuation report as of June 30, 2011.

*** The AAL reported on this line is based on the updates to the June 30, 2011, valuation, as described in this memo.

**Valuation Results for the State of Connecticut Other Post-Employment Benefits Program
June 30, 2011 Measurement Under GASB 43 and 45**

CHART 3

Required Supplementary Information – Net OPEB Obligation (NOO)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)	NOO as of Fiscal Year (g)
04/01/2006	06/30/2008	\$1,602,739,000	\$0	\$0	\$1,602,739,000	\$463,697,000	\$1,139,042,000	\$1,139,042,000
04/01/2006	06/30/2009	1,703,712,000	7,667,000	-42,058,000	1,669,321,000	452,029,000	1,217,292,000	2,356,334,000
04/01/2008	06/30/2010	2,145,724,000	12,719,000	191,220,000	2,349,663,000	555,131,000	1,794,532,000	4,150,866,000
06/30/2011	06/30/2011	1,276,099,000	236,599,000	-188,303,000	1,324,395,000	544,767,000	779,628,000	4,930,494,000
06/30/2011	06/30/2012	1,222,383,000	281,038,000	-230,532,000	1,272,889,000	555,762,000	717,127,000	5,647,621,000

**Valuation Results for the State of Connecticut Other Post-Employment Benefits Program
June 30, 2011 Measurement Under GASB 43 and 45**

EXHIBIT I

Summary of Required Supplementary Information

Valuation date	June 30, 2011
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of growing payroll, closed, 30 years
Remaining amortization period	26 years as of June 30, 2011
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	5.70%
Payroll growth rate	4.00%
Medical cost trend rate	7.50% graded to 5.0% over 5 years
Drug cost trend rate	6.00% graded to 5.0% over 4 years, with a -11.0% adjustment in 2013-2014 for anticipated savings due to new PBM contract terms
Dental and Part B trend rates	5.00%
Plan membership:	
Current retirees, beneficiaries, and dependents	64,860
Current active participants	56,968
Terminated participants entitled but not yet eligible	<u>1,068</u>
Total	122,896
