State of Maine

Retiree Healthcare Plan
Actuarial Valuation
June 30, 2006

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Actuarial and accounting terminology used in this report

- AAL – Actuarial Accrued Liability
- AOC – Annual OPEB Cost
- ARC – Annual Required Contribution
- EAN – Entry Age Normal Cost Method
- GASB 45 – Governmental Accounting Standards Board Statement No. 45
- NOO – Net OPEB Obligation
- OPEB – Other (than pensions) Post Employment Benefits
- PVPB – Present Value of Projected Benefits
- UAAL – Unfunded Actuarial Accrued Liability

SECTION 1
EXECUTIVE SUMMARY

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), Accounting Standards for Other (than Pensions) Post Employment Benefits (OPEB). The information presented in this report is based on the financial reporting standards established under GASB 45.

GASB 45 is phased in similar to GASB 34. For Phase 1 governments, GASB 45 is effective for fiscal years beginning after December 15, 2006. GASB 45 is therefore first effective for the State of Maine ("State") for the fiscal year beginning on July 1, 2007.

The State of Maine maintains a Retiree Healthcare Plan for State employees and Teachers. The State contributes a portion of the retiree medical premium for eligible employees. Legislative, Judicial, and State employees hired on or before 7/1/1991 receive 100% of the retiree-only premium. State employees hired after 7/1/1991 with 5 years service receive 50% of the retiree-only premium, grading to 100% after 10 years of service. Teachers directly receive 45% of the retiree-only premium.

Retirees pay the remaining portion of the retiree-only premium and the full additional premium for spouse and family coverage. Eligible surviving spouses and dependents pay the full premium. Some participating State Ancillary Groups contribute the same portion of the premium for their retirees as the State.

Highlights and conclusions of this actuarial valuation are:

- The State currently funds retiree healthcare benefits on a pay-as-you-go basis. Benefit payments in 2006/07 are expected to be 6.7% of payroll. With an aging population, stable work force, and medical inflation, cash outflows are expected to significantly increase in future years. For example, benefit payments are expected to be 6.7% of payroll for 2006/07 and are expected to grow to 11.2% of payroll in 2015/16.

- The State had an Unfunded Actuarial Accrued Liability (for State and Teachers) of $4,756 million for healthcare benefits assuming a 4.5% expected long-term rate of return on the State's Cash Pool. That is, if the State set aside $4,756 million on June 30, 2006 in a 4.5% interest bearing account, the principal plus interest is projected to pay for the promised healthcare benefits for current retirees plus the portion of benefits earned by active employees.

- Total Present Value of all expected Projected Benefits (PVPB) is a measure of the total liability or obligation for benefits due to past and future service for current employees and retirees. The June 30, 2006 Present Value of Projected Benefits for current employees is $5,932 million.

- If the State established and fully funded an irrevocable trust for healthcare benefits and invested the funds similarly to State pension plan assets (expecting to earn 7.5% annually), the Unfunded Actuarial Accrued Liability would be $3,234 million as of June 30, 2006 (as compared to the $4,756 million using a discount rate of 4.5%).

- Without an effective pre-funding plan, cash outflows for retiree healthcare benefits will rise rapidly and become a potential financial burden for the State, as well as an intergenerational transfer payment. We have presented funding alternatives in Section 4 to initiate a discussion at the State to develop a long-term funding plan. Each of the alternatives requires the State to significantly increase funding in the coming years. Funding in excess of immediate benefit payments can be placed in an irrevocable trust earning long-term rates of return similar to the pension program. Investment returns higher than the Cash Pool returns will reduce future State funding as more of the promised benefits are paid from increased investment income rather than State funding. It will also lower the Unfunded Actuarial Accrued Liability and may help the State lessen borrowing costs.

- In the course of our valuation we became aware the State may have an unintended and indirect subsidy to retired teachers. The State pays 45% of each school district's budget. This means the State pays 45% of current school district active employee's healthcare costs. School district retirees and actives pay the same (blended) healthcare premiums. Typically actives cost less than retirees. This means the school district active employees' healthcare cost includes an implicit subsidy of the retiree cost. The State is currently paying 45% of this implied subsidy. The subsidy is $14 million in 2006/07 and will increase to $41 million in 2015/16. However, for this valuation we are showing the full (100%) Teachers' implied subsidy.

The June 30, 2006 benefit obligations and the 2006/07 Plan cost from the June 30, 2006 actuarial valuation are as follows (millions of dollars):

	State	Teachers	Total
Present Value of Projected Benefits (PVPB) Total present value of all expected future benefits calculated using selected actuarial assumptions. The PVPB is a measure of the total liability or obligation for benefits due to past and future service for current employees and retirees.	$2,940	$2,992	$5,932
Actuarial Accrued Liability (AAL) Liability or obligation for benefits earned or allocated to past service at the valuation date.	2,297	2,459	4,756
Plan Assets Assets that have been segregated and restricted in a trust so that they can only be used to pay Plan benefits.	0	0	0
Unfunded Actuarial Accrued Liability (UAAL) The excess of the AAL over the Plan Assets. This represents the amount of the liability earned at the valuation date that must still be funded. If Plan Assets exceed the AAL, there will be a Plan Surplus.	2,297	2,459	4,756
Normal Cost (NC) The value of employer promised benefits expected to be earned or allocated to the current fiscal year.	62	56	118
Annual Required Contribution (ARC) NC plus a 20-year level percent of pay amortization of the UAAL (or less an amortization of excess assets). A 30-year amortization of the UAAL reduces the State ARC to $138 million and the Teachers' ARC to $137 million.	177	179	356

SECTION 1
EXECUTIVE SUMMARY

	State	Teachers	Total
■ **Annual OPEB Cost (AOC)** The first year that the State complies with GASB 45, the AOC will equal the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and actual contributions.	177	179	356
■ **Net OPEB Obligation (NOO)** The NOO is the historical difference between the ARC and actual Plan contributions.	0	0	0
■ **Expected Benefit Payments** Cash flow expected for the current year for State promised retiree healthcare benefits. It includes payments for current retirees and active employees expected to retire during the year.	67	49	116

SECTION 2
ACCOUNTING INFORMATION

The GASB 45 accounting standard is effective for the State for the 2007/08 fiscal year. The 2006/07 ARC, AOC, and the June 30, 2006 NOO are as follows, determined as if the State adopts the GASB 45 accounting standard for the 2006/07 fiscal year.

Annual Required Contribution (ARC)
GASB 45 does not require an agency to make up any shortfall (unfunded liability) immediately nor does it allow an immediate credit for any excess assets. Instead, the difference is amortized over time. Simply put, the ARC is the value of benefits earned during the year plus an amount to put the Plan on track for funding. For the State's valuation, we calculated the ARC as the Normal Cost (NC) plus a 20-year amortization (as a level percent of pay) of the UAAL payable in the middle of the fiscal year (millions of dollars):

	State	Teachers	Total
■ Normal Cost	$ 62	$ 56	$ 118
■ UAAL Amortization	115	123	238
■ Total ARC	177	179	356
■ ARC as % of Payroll	29.1%	15.8%	20.5%

The following table shows the ARC as the Normal Cost (NC) plus a 30-year amortization (as a level percent of pay) of the UAAL payable in the middle of the fiscal year (millions of dollars):

	State	Teachers	Total
■ Normal Cost	$ 62	$ 56	$118
■ UAAL Amortization	76	81	157
■ Total ARC	138	137	275
■ ARC as % of Payroll	22.6%	12.1%	15.8%

The State ARC is higher than the Teacher's ARC as a percent of payroll because benefits paid for State retirees by the State are higher than paid for Teacher's by the State.

Annual OPEB Cost (AOC)
The AOC is equal to the ARC, except when the State has a NOO at the beginning of the year. When that happens, the AOC will equal the ARC adjusted for expected interest on the NOO and reduced by an amortization of the NOO. The AOC is determined as follows as of the middle of the fiscal year with, for illustrative purposes, a 20-year UAAL amortization (millions of dollars):

	State	Teachers	Total
■ ARC	$177	$179	$356
■ Interest on NOO	0	0	0
■ Amortization of NOO	0	0	0
■ Total AOC	177	179	356
■ AOC as % of Payroll	29.1%	15.8%	20.5%

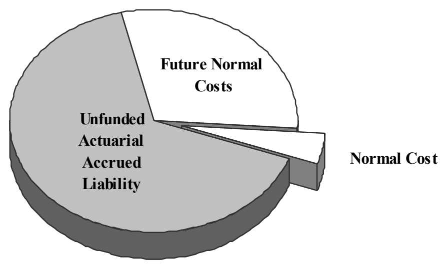
Net OPEB Obligation (NOO)
The NOO is the historical difference between the ARC and actual contributions. If the State always contributes the ARC, then the NOO will equal zero. Benefit payments are considered contributions. Contributions in excess of benefit payments must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for purposes of GASB 45.

Based on the AOC developed above, the projected June 30, 2007 NOO is (millions of dollars):

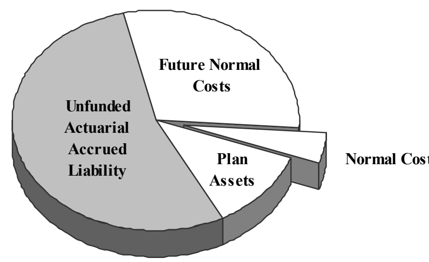
	State	Teachers	Total
■ June 30, 2006 NOO[1]	$ 0	$ 0	$ 0
■ AOC (End of Year)[2]	181	183	364
■ Expected Contributions (Benefit Payments)[3]	(67)	(49)	(116)
■ Expected June 30, 2007 NOO	114	134	248

1 Assumes the June 30, 2006 Net OPEB Obligation is zero.
2 Includes interest to the end of the fiscal year.
3 The actual NOO development will use the actual rather than expected 2006/07 benefit payments.

Actuarial Obligations
The valuation develops the Actuarial Accrued Liability and the Normal Cost using the Entry Age Normal actuarial cost method. This method is designed to produce a Normal Cost which, if all assumptions are met, will be a level percent of payroll. The following chart illustrates the Present Value of Projected Benefits, with the shaded area representing the Unfunded Actuarial Accrued Liability.



Present Value of Projected Benefits (Without Plan Assets)



Present Value of Projected Benefits (With Plan Assets)

- The **Present Value of Projected Benefits (PVPB)** is the value of all expected future benefits for current employees and retirees as of the valuation date calculated using the selected actuarial assumptions.
- The **Actuarial Accrued Liability (AAL)** is the liability for benefits earned through the valuation date calculated using the selected actuarial methods and assumptions.
- **Plan Assets** must be segregated in a trust for the sole purpose of paying Plan benefits in order to be considered Plan Assets for GASB 45.
- The **Unfunded Actuarial Accrued Liability (UAAL)** is the difference between the AAL and the Plan Assets.
- The **Normal Cost** is the value of benefits expected to be earned during or allocated to the current fiscal year.
- **Expected Benefit Payments** is the cash flow expected for the current year for State promised retiree healthcare benefits. It includes payments for current retirees and active employees expected to retire during the year.
- The **Annual Required Contribution** is the employer NC plus the amortized UAAL (or less the amortized excess assets.) For the State's valuation, the UAAL is amortized over 20 and 30 years as a level percent of pay.
- GASB45 requires that the **Implied Subsidy** for retirees be included in the AAL and the ARC for plans that are not community rated. An Implied Subsidy exists when the premium for a group of employees is determined by aggregating the experience of the group. For example, assume the premium for actives and non-Medicare eligible retirees is $600 per month. The underlying medical cost varies by age and gender and might actually be $300 per month for a 40 year-old active employee and $900 per month for a 60 year-old retiree. In this case, the younger employee is subsidizing $300 of the older employee's cost

Actuarial Obligations

4.5% Discount Rate
(millions of dollars)

	State	Teachers	Total
■ Present Value of Projected Benefits			
• Actives	$1,860	$2,305	$4,165
• Retirees	1,080	687	1,767
• Total	2,940	2,992	5,932
■ Actuarial Accrued Liability			
• Actives	1,217	1,772	2,989
• Retirees	1,080	687	1,767
• Total	2,297	2,459	4,756
■ Plan Assets	0	0	0
■ Unfunded AAL	2,297	2,459	4,756
■ Expected Benefit Payments	67	49	116

Ancillary Groups[4] (thousands of dollars)	**PVPB**	**AAL**
Governor Baxter School for the Deaf	$5,988	$3,524
Maine Community College System	66,293	46,832
Maine Maritime Academy	12,634	8,023
Maine State Retirement System	8,482	4,406
Maine Turnpike Authority	33,858	23,126
MSEA	2,055	1,404
Northern New England Passenger Rail Authority	276	143
Total	129,586	87,458

4 7 Ancillary Groups provide retiree healthcare contributions.

Cash Subsidy & Implied Subsidy

4.5% Discount Rate
(millions of dollars)

Present Value of Projected Benefits	State[5]	Teachers[6]	Total
■ Cash Subsidy			
• Actives	$1,156	$1,014	$2,170
• Retirees	737	341	1,078
• Total	1,893	1,355	3,248
■ Implied Subsidy			
• Actives	704	1,291	1,995
• Retirees	343	346	689
• Total	1,047	1,637	2,684
■ Total			
• Actives	1,860	2,305	4,165
• Retirees	1,080	687	1,767
• Total	2,940	2,992	5,932

Actuarial Accrued Liability	State	Teachers	Total
■ Cash Subsidy			
• Actives	$736	$754	$1,490
• Retirees	737	341	1,078
• Total	1,473	1,095	2,568
■ Implied Subsidy			
• Actives	481	1,018	1,499
• Retirees	343	346	689
• Total	824	1,364	2,188
■ Total			
• Actives	1,217	1,772	2,989
• Retirees	1,080	687	1,767
• Total	2,297	2,459	4,756

5 Implied subsidy for 13 participating Ancillary Groups included with State implied subsidy.
6 This valuation report includes 100% of the Teachers implied subsidy.

Annual Required Contribution (ARC)

4.5% Discount Rate
(millions of dollars)

	State	Teachers	Total
■ Annual Required Contribution - $			
• Normal Cost	$ 62	$ 56	$118
• UAAL Amortization[7]	115	123	238
• Total (Middle of Year)	177	179	356
■ ARC - % of Payroll			
• Normal Cost	10.2%	4.9%	6.8%
• UAAL Amortization[8]	18.9%	10.9%	13.7%
• Total (Middle of Year)	29.1%	15.8%	20.5%
■ Total Payroll	609	1,127	1,736

Ancillary Groups[9] (thousands of dollars)	ARC $	ARC %
Governor Baxter School for the Deaf	$419	13.2%
Maine Community College System	4,358	14.1%
Maine Maritime Academy	866	10.7%
Maine State Retirement System	562	11.6%
Maine Turnpike Authority	2,340	14.1%
MSEA	139	10.8%
Northern New England Passenger Rail Authority	21	8.0%
Total	8,705	13.3%

7 UAAL amortized as a level percentage of payroll over 20 years. If a 30-year amortization period is used the ARC decreases to $138 million for the State, $137 for teachers and $275 million in total.

8 UAAL amortized as a level percentage of payroll over 20 years. If a 30-year amortization period is used the ARC decreases to 22.6% of payroll for the State, 12.1% for teachers and 15.8% in total.

9 7 Ancillary Groups provide retiree healthcare contributions.

Cash Flow Projection
(millions of dollars)

The following table shows the projected "pay-as-you-go" benefit payments for the next 10 years. The projection assumes the number of State employees and Teachers remains constant.

	State			Teachers[10]			
Year	**Cash Subsidy**	**Implied Subsidy**	**Total Payment**	**Cash Subsidy**	**Implied Subsidy**	**Total Payment**	**Grand Total**
2006/07	$ 43	$ 24	$ 67	$ 17	$ 32	$ 49	$ 116
2007/08	48	27	75	21	38	59	134
2008/09	53	31	84	24	46	70	154
2009/10	58	36	94	29	53	82	176
2010/11	64	41	105	33	61	94	199
2011/12	70	45	115	38	68	106	221
2012/13	75	49	124	42	75	117	241
2013/14	81	53	134	47	80	127	261
2014/15	87	56	143	51	86	137	280
2015/16	92	59	151	55	90	145	296

The implied subsidy benefit payment is the estimated portion of the retiree payment that is subsidized by active employee premiums.

10 Results for Teachers includes 100% of the implied subsidy.

Sensitivity Analysis
(millions of dollars)

Results in this report are based on a 4.5% discount rate. This rate was selected based on the expected long-term rate of return on State funds. If the State prefunds the Plan in a segregated trust, the expected long-term rate of return will be based on the trust's target asset allocation and may be greater than 4.5%. For example, the following compares the results using a 4.5% and 7.5% discount rate under both a 20-year and a 30-year amortization period.

■ Discount Rate	**4.5%**		**7.5%**	
■ Amortization Period	**20-Year**	**30-Year**	**20-Year**	**30-Year**
■ Present Value of Projected Benefits	$5,932	$5,932	$3,673	$3,673
■ Funded Status				
• Actuarial Accrued Liability	4,756	4,756	3,234	3,234
• Assets	0	0	0	0
• Unfunded AAL	4,756	4,756	3,234	3,234
■ ARC (Middle of Year)				
• Normal Cost	118	118	55	55
• UAAL Amortization	238	157	212	159
• Total	356	275	267	214
• ARC as % of Payroll	20.5%	15.8%	15.4%	12.3%

Several funding alternatives were developed from the June 30, 2006 actuarial valuation for pre-funding discussions at the State. The following tables show the projected cash contributions and Annual OPEB Cost assuming a constant number of employees over the projection period.

No Pre-Funding – State and Teachers - Benefits are paid from the State's Participating Fund which is assumed to earn a 4.5% long-term rate of return. Contributions equal benefit payments.

No Funding – State & Teachers
4.5% Discount Rate
(millions of dollars)

Year	NOO (BOY)	Benefit Payments	Contrib	AOC	Payroll	Contrib %Pay
2006/07	$ 0	$ 116	$ 116	$ 364	$ 1,736	6.7%
2007/08	248	134	134	381	1,818	7.4%
2008/09	495	154	154	399	1,904	8.1%
2009/10	740	176	176	418	1,995	8.8%
2010/11	981	199	199	438	2,090	9.5%
2011/12	1,221	221	221	458	2,189	10.1%
2012/13	1,458	241	241	480	2,293	10.5%
2013/14	1,697	261	261	503	2,402	10.9%
2014/15	1,939	280	280	527	2,516	11.1%
2015/16	2,186	296	296	552	2,635	11.2%

Full Pre-funding – State and Teachers - Contributions are made to a diversified trust assumed to earn a 7.5% long-term rate of return. Contributions equal the Annual Required Contribution.

Diversified Funding – State & Teachers
7.5% Discount Rate
(millions of dollars)

Year	NOO (BOY)	Benefit Payments	Contrib (EOY)	AOC	Payroll	Contrib %Pay
2006/07	$0	$116	$277	$277	$1,736	15.9%
2007/08	0	134	290	290	1,818	15.9%
2008/09	0	154	304	304	1,904	15.9%
2009/10	0	176	318	318	1,995	15.9%
2010/11	0	199	333	333	2,090	15.9%
2011/12	0	221	349	349	2,189	15.9%
2012/13	0	241	366	366	2,293	15.9%
2013/14	0	261	383	383	2,402	15.9%
2014/15	0	280	401	401	2,516	15.9%
2015/16	0	296	420	420	2,635	15.9%

Pre-Funding Phase-In Alternative 1 - State Only (excluding Teachers) – One Time $73 Million Contribution - The 2006/07 contribution is $73 million plus benefit payments. The contribution then phases into the Annual Required Contribution over 10 years. For example, the 2008/09 contribution is the expected benefit payments plus 20% of the excess of the ARC over the expected benefit payments [84 + 20% x (153 – 84) = 98].

STATE ALTERNATIVE 1
Phase Into ARC Funding Over 10 Years - State
First Year Contribution = $73 million + Benefit Payments
7.5% Discount Rate
(millions of dollars)

Year	NOO (BOY)	Benefit Payments	ARC	Contrib (EOY)	AOC	Payroll	Contrib %Pay
2006/07	$0	$67	$140	$140	$140	$609	23.0%
2007/08	0	75	147	83	147	638	13.0%
2008/09	64	84	153	98	154	668	14.7%
2009/10	120	94	160	114	161	700	16.3%
2010/11	167	105	167	130	169	733	17.7%
2011/12	206	115	175	145	177	768	18.9%
2012/13	237	124	183	160	185	805	19.9%
2013/14	262	134	192	175	194	843	20.8%
2014/15	282	143	201	189	203	883	21.4%
2015/16	295	151	210	205	213	925	22.2%
2016/17	303	158	220	220	223	969	22.7%

Note that since the cash contribution phases into full ARC funding, the actual discount rate will be lower in the initial years and phase into 7.5% over the 10-year period. In addition, contributions less than the ARC will result in larger ARCs in following years. These were not reflected in the projection for simplicity.

Pre-Funding Phase In Alternative 2 - State Only (excluding Teachers) – The 2006/07 contribution is equal to the benefit payments. The contribution then phases into the Annual Required Contribution over 10 years. For example, the 2008/09 contribution is the expected benefit payments plus 20% of the excess of the ARC over the expected benefit payments. [84 + 20% x (153 – 84) = 98].

STATE ALTERNATIVE 2
Phase Into ARC Funding Over 10 Years - State
First Year Contribution = Benefit Payments
7.5% Discount Rate
(millions of dollars)

Year	NOO (BOY)	Benefit Payments	ARC	Contrib (EOY)	AOC	Payroll	Contrib %Pay
2006/07	$0	$67	$140	$67	$140	$609	11.0%
2007/08	73	75	146	82	147	638	12.9%
2008/09	137	84	153	98	154	668	14.7%
2009/10	193	94	160	114	161	700	16.3%
2010/11	240	105	167	129	169	733	17.6%
2011/12	279	115	175	145	177	768	18.9%
2012/13	311	124	183	159	185	805	19.8%
2013/14	337	134	191	174	194	843	20.6%
2014/15	356	143	200	189	203	883	21.4%
2015/16	370	151	210	204	213	925	22.1%
2016/17	379	158	220	220	223	969	22.7%

Note that since the cash contribution phases into full ARC funding, the actual discount rate will be lower in the initial years and phase into 7.5% over the 10-year period. In addition, contributions less than the ARC will result in larger ARCs in following years. These were not reflected in the projection for simplicity.

Pre-Funding Phase-In Alternative 1 - Teachers - Additional Annual $15 Million Contribution – The 2006/07 contribution is $15 million plus benefit payments. The contribution then phases into the Annual Required Contribution over 10 years. For example, the 2008/09 contribution is the expected benefit payments plus $15 million plus 20% of the excess of the ARC over expected benefit payments plus $15 million [70 + 15 + 20% x (149 - 70 - 15) = 98].

TEACHERS ALTERNATIVE 1
Phase Into ARC Funding Over 10 Years - Teachers
First Year Contribution = $15 million + Benefit Payments
7.5% Discount Rate
(millions of dollars)

Year	NOO (BOY)	Benefit Payments	ARC	Contrib (EOY)	AOC	Payroll	Contrib %Pay
2006/07	$0	$49	$137	$64	$137	$1,126	5.7%
2007/08	73	59	143	80	143	1,180	6.8%
2008/09	136	70	149	98	150	1,236	7.9%
2009/10	188	82	156	114	157	1,295	8.8%
2010/11	231	94	163	131	165	1,356	9.7%
2011/12	265	106	171	146	172	1,421	10.3%
2012/13	291	117	179	160	181	1,488	10.8%
2013/14	312	127	187	174	189	1,559	11.2%
2014/15	328	137	196	187	198	1,633	11.5%
2015/16	339	145	205	201	208	1,710	11.8%
2016/17	346	153	215	215	218	1,792	12.0%

Note that since the cash contribution phases into full ARC funding, the actual discount rate will be lower in the initial years and phase into 7.5% over the 10-year period. In addition, contributions less than the ARC will result in larger ARCs in following years. These were not reflected in the projection for simplicity.

Pre-Funding Phase-In Alternative 2 - Teachers – The 2006/07 contribution is equal to benefit payments. The contribution then phases into the Annual Required Contribution over 10 years. For example, the 2008/09 contribution is the expected benefit payments plus 20% of the excess of the ARC over the expected benefit payments [70 + 20% x (149 – 70) = 86].

TEACHERS ALTERNATIVE 2
Phase Into ARC Funding Over 10 Years - Teachers
First Year Contribution = Benefit Payments
7.5% Discount Rate
(millions of dollars)

Year	NOO (BOY)	Benefit Payments	ARC	Contrib (EOY)	AOC	Payroll	Contrib %Pay
2006/07	$0	$49	$137	$49	$137	$1,126	4.4%
2007/08	88	59	143	67	143	1,180	5.7%
2008/09	164	70	149	86	150	1,236	7.0%
2009/10	229	82	156	104	157	1,295	8.0%
2010/11	282	94	163	121	165	1,356	8.9%
2011/12	325	106	170	138	172	1,421	9.7%
2012/13	359	117	178	154	181	1,488	10.3%
2013/14	386	127	187	169	189	1,559	10.8%
2014/15	407	137	195	184	198	1,633	11.3%
2015/16	422	145	205	199	208	1,710	11.6%
2016/17	430	153	215	215	218	1,792	12.0%

Note that since the cash contribution phases into full ARC funding, the actual discount rate will be lower in the initial years and phase into 7.5% over the 10-year period. In addition, contributions less than the ARC will result in larger ARCs in following years. These were not reflected in the projection for simplicity.

Participant Statistics

	State	Teachers	Total
■ Actives			
• Count	16,095	27,491	43,586
• Average Age	46.5	47.4	47.1
• Average Service[11]	13.0	16.4	15.1
• Average Pay[12]	$37,842	$40,976	$39,819
• Total Payroll (000's)12	609,066	1,126,482	1,735,548
■ Retirees			
• Count	9,101	8,311	17,412
• Average Age	70.1	70.2	70.2

11 Average service by age group assumed for 217 State employees and 7,597 Teachers with missing hire dates.

12 Average pay by age/service group assumed for 453 State employees and 7,602 Teachers with missing pay.

Active Employee Coverage

Group	Medical Plan	Single	2-Party	Family	EE + Child	EE + Children	FLES[13]	Total
State	HMO Choice[14]	8,524	2,309	2,785	1,056	802	619	16,095
Teachers	HMO Choice	8,793	3,226	5,078	1,258	1,616	n/a	19,971
	Blue Choice	3,641	1,481	1,616	379	403	n/a	7,520
	Total Teachers	12,434	4,707	6,694	1,637	2,019	n/a	27,491

Retiree Coverage

Group	Medical Plan	Single	2-Party	Family	EE + Child	EE + Children	FLES[13]	Total
State	HMO Choice	3,076	432	63	77	22	21	3,691
	Group Companion	4,306	1,103	0	1	0	0	5,410
	Total State	7,382	1,535	63	78	22	21	9,101
Teachers	HMO Choice	991	241	19	15	12	n/a	1,278
	Blue Choice	1,892	317	31	21	1	n/a	2,262
	Group Companion[15]	3,705	1,066	0	0	0	n/a	4,771
	Total Teachers	6,588	1,624	50	36	13	n/a	8,311

13 State employees or retirees married to other State employees or retirees – both valued as single coverage.
14 4 State actives and 148 State retirees in "Comp Care" plan were included with HMO Choice.
15 22 Teacher retirees in "Medigap B" plan were included with Group Companion plan.

Active Employees - State
Age/Service/Pay Distribution[16]

Age		Service							
		Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	Total
Under 25	Count	112	187	21	-	-	-	-	320
	Average Pay	25,351	25,924	26,955	-	-	-	-	25,791
25-29	Count	120	537	207	6	-	-	-	870
	Average Pay	29,425	30,739	32,893	32,524	-	-	-	31,083
30-34	Count	99	411	473	104	10	-	-	1,097
	Average Pay	32,461	32,424	36,857	40,593	35,376	-	-	35,140
35-39	Count	590	410	500	262	281	28	-	2,071
	Average Pay	21,573	33,222	36,964	42,892	40,200	38,270	-	33,045
40-44	Count	102	789	627	257	466	304	25	2,570
	Average Pay	30,635	25,161	32,841	43,383	41,582	41,929	37,987	34,160
45-49	Count	100	408	445	299	533	453	478	2,716
	Average Pay	34,193	35,112	37,877	39,356	40,838	42,785	41,556	39,536
50-54	Count	73	341	427	229	466	424	845	2,805
	Average Pay	36,383	35,861	40,275	42,867	44,687	44,329	44,071	42,338
55-59	Count	55	292	297	234	402	314	811	2,405
	Average Pay	32,651	35,270	40,173	44,414	42,247	44,818	46,316	42,843
60-64	Count	18	121	145	96	198	127	237	942
	Average Pay	35,957	30,782	40,380	39,203	42,023	44,907	47,020	41,569
65 & Over	Count	3	35	40	33	64	40	84	299
	Average Pay	29,957	19,454	34,084	41,643	36,990	34,888	40,367	35,659
Total	Count	1,272	3,531	3,182	1,520	2,420	1,690	2,480	16,095
	Average Pay	26,765	30,986	36,796	42,052	41,855	43,294	44,415	37,842

16 Average pay and/or service assumed for those with missing pay or hire date.

Active Employees – Teachers
Age/Service/Pay Distribution[17]

Age		Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	Total
Under 25	Count	101	410	37	-	-	-	-	548
	Average Pay	17,570	21,934	24,634	-	-	-	-	21,312
25-29	Count	116	1,082	708	24	-	-	-	1,930
	Average Pay	18,610	26,849	29,871	33,019	-	-	-	27,539
30-34	Count	78	414	1,017	571	-	-	-	2,080
	Average Pay	23,573	29,654	33,336	36,359	-	-	-	33,067
35-39	Count	73	375	454	1,460	288	5	-	2,655
	Average Pay	25,650	31,616	35,098	40,080	42,466	46,623	-	37,907
40-44	Count	64	310	441	1,284	566	423	7	3,095
	Average Pay	23,822	28,760	33,437	40,095	45,297	46,246	47,273	39,483
45-49	Count	53	272	483	488	1,717	722	442	4,177
	Average Pay	20,334	29,227	32,073	38,076	45,015	48,576	49,366	42,443
50-54	Count	42	238	382	556	575	1,893	1,549	5,235
	Average Pay	29,774	32,626	33,318	37,729	44,205	48,007	51,894	45,731
55-59	Count	32	183	257	351	571	1,881	1,769	5,044
	Average Pay	29,287	34,934	36,162	39,443	44,620	46,934	52,009	46,835
60-64	Count	4	53	91	82	162	1,169	458	2,019
	Average Pay	29,338	31,050	34,442	39,241	43,702	44,057	50,410	44,470
65 & Over	Count	2	8	26	22	34	518	98	708
	Average Pay	28,859	18,951	36,172	31,449	42,264	38,005	44,546	38,603
Total	Count	565	3,345	3,896	4,838	3,913	6,611	4,323	27,491
	Average Pay	22,318	28,400	32,913	39,038	44,613	46,168	51,352	40,976

(Service columns: Under 1 through Total are under the spanning header "Service".)

17 Average pay and/or service assumed for those with missing pay or hire date.

Active Employees – Total
Age/Service/Pay Distribution[18]

Age		Service							
		Under 1	1-4	5-9	10-14	15-19	20-24	25& Over	Total
Under 25	Count	213	597	58	-	-	-	-	868
	Average Pay	21,661	23,184	25,474	-	-	-	-	22,963
25-29	Count	236	1,619	915	30	-	-	-	2,800
	Average Pay	24,109	28,139	30,554	32,920	-	-	-	28,640
30-34	Count	177	825	1,490	675	10	-	-	3,177
	Average Pay	28,544	31,034	34,454	37,011	35,376	-	-	33,783
35-39	Count	663	785	954	1,722	569	33	-	4,726
	Average Pay	22,022	32,454	36,076	40,508	41,347	39,535	-	35,776
40-44	Count	166	1,099	1,068	1,541	1,032	727	32	5,665
	Average Pay	28,008	26,177	33,087	40,643	43,619	44,441	40,018	37,068
45-49	Count	153	680	928	787	2,250	1,175	920	6,893
	Average Pay	29,393	32,758	34,856	38,563	44,026	46,343	45,308	41,297
50-54	Count	115	579	809	785	1,041	2,317	2,394	8,040
	Average Pay	33,969	34,531	36,990	39,228	44,421	47,334	49,133	44,547
55-59	Count	87	475	554	585	973	2,195	2,580	7,449
	Average Pay	31,414	35,140	38,312	41,431	43,640	46,631	50,220	45,546
60-64	Count	22	174	236	178	360	1,296	695	2,961
	Average Pay	34,754	30,864	38,091	39,220	42,779	44,140	49,254	43,547
65 & Over	Count	5	43	66	55	98	558	182	1,007
	Average Pay	29,518	19,361	34,906	37,565	38,819	37,782	42,617	37,729
Total	Count	1,837	6,876	7,078	6,358	6,333	8,301	6,803	43,586
	Average Pay	25,397	29,728	34,659	39,758	43,559	45,583	48,823	39,819

18 Average pay and/or service assumed for those with missing pay or hire date.

SECTION 6
PLAN PROVISIONS

Benefit Summary

<table>
<tr><td>■ Eligibility</td><td>■ Earlier of:
Age 62 with 10 years of service (Tier 2)
Age 60 if 10 years of service on 7/1/93 (Tier 1)
25 years of service, if earlier than above
■ Disability (collect LTD)
■ Former Employees: 25 years of service & normal retirement age</td></tr>
<tr><td>■ State Paid Benefit
State Employees</td><td><table><tr><td></td><td>Retiree-Only Premium</td></tr><tr><td>■ Judicial</td><td>100%</td></tr><tr><td>■ Legislative</td><td>100%</td></tr><tr><td>■ Other State</td><td></td></tr><tr><td>• DOH < 7/1/91:</td><td>100%</td></tr><tr><td>• DOH > 7/1/91:</td><td></td></tr></table><table><tr><th>Years of Medical Participation</th><th>Retiree-Only Premium</th></tr><tr><td><5</td><td>0%</td></tr><tr><td>5</td><td>50%</td></tr><tr><td>6</td><td>60%</td></tr><tr><td>7</td><td>70%</td></tr><tr><td>8</td><td>80%</td></tr><tr><td>9</td><td>90%</td></tr><tr><td>≥10</td><td>100%</td></tr></table></td></tr>
<tr><td>■ State Paid Benefit
Teachers</td><td>■ 45% of retiree-only premium (effective 1/1/06)
■ Based on:
Single rate for single and employee+children coverage
50% of 2-party rate for 2-party and family coverage</td></tr>
<tr><td>■ Part-Time
Employees</td><td>■ Eligible for prorated benefits:
50% full-time gets 100% benefit</td></tr>
<tr><td>■ Surviving Spouse &
Dependent Benefits</td><td>■ Surviving spouses and dependents pay 100% of the premium</td></tr>
<tr><td>■ Dental, Vision, Life</td><td>■ None</td></tr>
<tr><td>■ Participation Benefit</td><td>■ Retirees not eligible for a state contribution are allowed to participate and pay retiree premium</td></tr>
</table>

State Ancillary Groups

The following Ancillary Groups participate in the State Retiree Healthcare Plan:

Ancillary Group	Ancillary Group Contribution
Governor Baxter School for the Deaf	Yes
Maine Community College System	Yes
Maine Dairy & Nutrition Council	No
Maine Developmental Disabilities Council	No
Maine Maritime Academy	Yes
Maine Potato Board	No
Maine Sardine Council	No
Maine State Retirement System	Yes
Maine Turnpike Authority	Yes
MSEA	Yes
Northern New England Passenger Rail Authority	Yes
Participating Local Districts (PLD)	No
Wild Blueberry Commission	No

Seven of the 13 participating Ancillary Groups provide a retiree contribution. The Ancillary Groups are responsible for the retiree contribution.

State Employees Health Plans
2006/07 Monthly Premiums

Medical Plan	Actives and Non Medicare Eligible Retirees			
	Single	2-Party	Family	Participant w/Child(ren)
HMO Choice	$596.80	$1,247.20	$1,483.78	$981.16

Medical Plan	Medicare Eligible Retirees			
	Single	2-Party	Family	Participant w/Child(ren)
Group Companion	$294.98	$584.46	$909.68	$620.20

Teachers Health Plans
2006/07 Monthly Premiums

Medical Plan	Actives and Non Medicare Eligible Retirees			
	Single	2-Party	Family	Participant w/Child(ren)
HMO Choice (MEA Choice Plus)	$467.59	$1,053.85	$1,282.68	$827.53
Blue Choice (MEA Standard Plan)	504.93	1,138.16	1,385.29	893.72

Medical Plan	Medicare Eligible Retirees			
	Single	2-Party	Family	Participant w/Child(ren)
Group Companion	$310.21	$651.15	n/a	n/a

State Employees
3-Year Average Monthly Claims

	Non Medicare Eligible Retirees	
Medical Plan	**Single**	**2-Party**
HMO Choice	$971	$2,085

	Medicare Eligible Retirees	
Medical Plan	**Single**	**2-Party**
Group Companion	$329	$656

Teachers
3-Year Average Monthly Claims

	Non Medicare Eligible Retirees	
Medical Plan	**Single**	**2-Party**
HMO Choice (MEA Choice Plus)	$1,006	$2,123
Blue Choice (MEA Standard Plan)	1,078	2,280

	Medicare Eligible Retirees	
Medical Plan	**Single**	**2-Party**
Group Companion	$318	$614

SECTION 7
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) cost method. Under the EAN cost method, the Normal Cost for each participant is determined as a level percent of payroll throughout the participant's working lifetime.

The Actuarial Accrued Liability (AAL) is the cumulative value, on the valuation date, of prior Normal Costs. For retirees, the AAL is the present value of all projected benefits. The unfunded AAL is amortized over 20 years as a level percent of payroll.

An "Implied Subsidy" was valued for the Retiree Healthcare Plan. This valuation report includes 100% of both the State and Teacher implied subsidy. Because underlying medical costs generally increase with age, allowing retirees to participate in the active healthcare plan results in the premiums charged to younger employees (actives) subsidizing the premiums charged to older employees (retirees). GASB 45 requires that the implied subsidy for retirees be included in the Actuarial Accrued Liability and the Annual Required Contribution for healthcare plans that are not community rated.

The Plan is assumed to be ongoing for cost purposes. This does not imply that an obligation to continue the Plan exists.

Actuarial Assumptions

- **Discount Rate**
  - 4.5%, representing the expected long-term rate of return on the State's Cash Pool.
  - GASB 45 requires the discount rate to represent the underlying expected return for the source of funds used to pay benefits. Unless the State sets up a segregated Plan trust, that source is State funds.

- **Inflation Rate**
  - 3.75% per annum. (Same as MSRS 6/30/06 valuation assumption)

- **Aggregate Payroll Increases**
  - 4.75% per annum. (Same as MSRS 6/30/06 valuation across-the-board increase assumption)

- **Salary Merit and Longevity Increases**
  - Same as MSRS 6/30/06 valuation assumption.

Service	Increase
0	5.25%
5	2.75%
10	1.32%
15	0.53%
20	0.15%
25+	0.00%

  - 0% for Legislative

- No Judicial actives in data

■ **Demographic Assumptions (Mortality, Withdrawal, Disability)**

- Same as MSRS 6/30/06 valuation assumptions.

■ **Retirement Age**

- Same as MSRS 6/30/06 valuation assumptions.
- Average expected retirement ages:

Retirement Group	Hire Age	Expected Retirement Age
State Tier 1	24	57.1
State Tier 2	36	63.8
Teachers Tier 1	30	59.9
Teachers Tier 2	32	62.0

■ **Healthcare Cost Increases**

	State Health Plans		Teachers Health Plans			
			HMO		PPO	
Year	Before Medicare Eligible	After Medicare Eligible	Before Medicare Eligible	After Medicare Eligible	Before Medicare Eligible	After Medicare Eligible
2007	10.0%	10.5%	12.0%	12.5%	12.5%	13.0%
2008	9.5%	9.9%	11.3%	11.8%	11.8%	12.2%
2009	8.9%	9.3%	10.6%	11.0%	11.0%	11.4%
2010	8.4%	8.7%	9.9%	10.3%	10.3%	10.6%
2011	7.8%	8.1%	9.2%	9.5%	9.5%	9.8%
2012	7.3%	7.5%	8.5%	8.8%	8.8%	9.0%
2013	6.7%	6.9%	7.8%	8.0%	8.0%	8.2%
2014	6.2%	6.3%	7.1%	7.3%	7.3%	7.4%
2015	5.6%	5.7%	6.4%	6.5%	6.5%	6.6%
2016	5.1%	5.1%	5.7%	5.8%	5.8%	5.8%
2017+	4.5%	4.5%	5.0%	5.0%	5.0%	5.0%

■ **Participation at Retirement**

Yrs of Medical Participation	State	Teacher
< 5	25%	25%
6	75%	25%
7	80%	25%
8	85%	25%
9	90%	25%
10+	95%	75%

- **State Contribution**
  - No future increases.
- **Spouses**
  - Current marital status (based on coverage election)
- **Spouse Age**

  Males 3 years older than females.
- **Medical Plan at Retirement**
  - Future retirees not eligible for Medicare: Same as current active coverage.
  - Future retirees eligible for Medicare: Group Companion.
- **Medicare Eligible**
  - Future retirees:
    - Hired before 4/1/1986 – 75%
    - Hired on or after 4/1/1986 – 100%
  - Current retirees under age 65 – 87.5%
  - Current retirees age 65 and over – 75% (based on actual data)
- **State Part-Time Employees**
  - Hired before 3/1/2006 and not participating assumed part-time.
  - 25% of part-time employees assumed eligible for 100% State contribution at retirement.
- **Ineligible Teachers**
  - 33⅓% of ineligible Teachers assumed to receive State contribution at retirement.
  - Ineligible Teachers assumed equal to 10% of all Teachers.
- **Future New Participants**
  - Closed Group – no future new participants assumed.

- **Data Assumptions**
  - Data from Anthem:
    State:
    - 217 missing hire dates – average service by age group
    - 453 missing pay – average pay by age/service group
    - Ineligible elected officials – assume none in data

    Teachers:
    - 7,597 missing hire dates – average service by age group
    - 7,602 missing pays – average pay by age/service group
    - All Teachers with 25 years of service have retired
  - Data from State:
    State:
    - 316 missing hire dates with $0 pay – assume terminated
    - 824 hired before 3/1/2006 – assume part-time and 25% will be eligible at retirement
    - 417 hired on or after 3/1/2006 – assume new hires with average age, plan, service

    Teachers:
    - 10,856 did not match with Anthem file – not included in valuation

SECTION 8
GASB 45 SUMMARY

On June 21, 2004, the Governmental Accounting Standards Board approved Statement No. 45 (GASB 45), accounting standards for *other* (than pensions) *postemployment benefits* (OPEB). Accounting for these benefits – primarily postretirement medical – can have significant impact on state and local government financial statements. This section summarizes GASB 45.

Background

Historically, most public sector entities have accounted for OPEB using a "pay-as-you-go" approach; very few have prefunded or even accrued for these benefits. This means OPEB costs are ignored while an employee renders service and recognized only after an employee retires. GASB argues this delayed recognition shifts "costs" from one taxpaying generation to another. The GASB position is that OPEB, like pension benefits, are a form of deferred compensation. Accordingly, GASB 45 requires recognizing OPEB (in the financial statement) *as employees render service* (and consequently earn the benefit), rather than when paid.

Effective Dates

GASB 45 effective dates are phased in similar to GASB Statement No. 34:

- Fiscal years beginning after December 15, 2006 for GASB 34 phase 1 governments (total annual revenue of $100 million or more)
- Fiscal years beginning after December 15, 2007 for GASB 34 phase 2 governments (total annual revenue of $10 million to $100 million)
- Fiscal years beginning after December 15, 2008 for GASB 34 phase 3 governments (total annual revenue less than $10 million).

What Benefits are OPEB?

OPEB includes most postemployment benefits, other than pensions, that employees are entitled to after leaving employment:

- Retiree medical
- Dental
- Prescription drug
- Vision
- Life insurance
- Outside group legal
- Long-term care
- Disability benefits outside a pension plan

OPEB does not include vacation, sick leave, COBRA, or ad hoc early retirement incentives, which fall under other GASB accounting statements.

SECTION 8
GASB 45 SUMMARY

Accounting Standards

Under GASB 45, pay-as-you-go accounting is replaced with accrual accounting. This is virtually identical to GASB's approach under Statement No. 27, with the key financial statement components being an Annual Required Contribution, an Annual OPEB Cost, and a Net OPEB Obligation.

- **Annual Required Contribution (ARC)**: GASB 45 doesn't require an agency to make up any shortfall (unfunded Actuarial Liability) immediately, nor does it allow an immediate credit for any excess Plan Assets. Instead, the difference is amortized over time. An agency's ARC is nothing more than the employer current Normal Cost (value of benefits being "earned" during a year), plus the amortized unfunded Actuarial Liability (or less the amortized excess Plan Assets). Simply put, ARC is the value of benefits earned during the year plus (or minus) something to move the plan toward being on track for funding. GASB 45 allows actuaries to amortize the unfunded Actuarial Liability (or excess Plan Assets) on a level dollar or level percent of payroll basis. We believe most agencies will want to use a level percent of payroll amortization because it's more consistent with the budget process and how pension contributions are usually calculated. ARC must be based on the underlying OPEB promise (as understood by the plan sponsor and employees).

- **Annual OPEB Cost (AOC)**: The first year an agency complies with the new standards, the AOC equals the ARC. In subsequent years, the AOC will equal the ARC, adjusted for prior differences between the ARC and AOC.

- **Net OPEB Obligation (NOO)**: An agency's NOO is the historical difference between actual contributions made and the ARC. If an agency has always contributed the ARC, the NOO equals zero. However, an agency has not "made" the contribution unless it has been set aside *and* cannot legally be used for any other purpose.

Implementation Process

The implementation process will be relatively straightforward: An agency will hire an actuary to calculate the ARC. The first time an agency does this, their AOC equals their ARC. The agency then decides whether to contribute all, none, or part of the ARC into a Trust that cannot legally be used for any purpose other than paying OPEB.

If an agency always contributes the ARC, then each subsequent year's AOC equals their ARC – and the NOO is zero. The first year an agency does *not* contribute the ARC, they must establish an NOO equal to the difference between their actual contribution and the ARC. The subsequent year's AOC equals the ARC, adjusted for interest and amortization of the NOO.

Disclosure Requirements

This may be the most important aspect of GASB 45. When disclosed, some agencies will show large OPEB unfunded liabilities, while others will show small or no unfunded liabilities. These differences *may* require an adjustment in an agency's bond rating. Plan sponsors must disclose in their financial statement footnotes:

- Basic plan information
  - Plan type
  - Benefits provided
  - Authority under which benefits were established
- Plan funding/contribution policy information:
  - Required contribution rates for active members and employers shown in dollars or as a percent of payroll
- Plan Funded Status information:
  - AOC and the dollar contributions actually made
  - If the employer has a NOO, also
    - Components of the AOC
    - NOO increase or decrease during the year
    - End of year NOO
  - 3-year history of
    - AOC
    - Percent of AOC contributed during the year
    - End of year NOO
  - Most recent year's plan Funded Status
  - Actuarial methods and assumptions used to determine the ARC, AOC, and Funded Status.

In addition, plan sponsors must provide 3 years of historical required supplementary information:

- Valuation dates
- Actuarial asset values
- Actuarial Liability
- Unfunded Actuarial Liability (excess Plan Assets)
- Plan funded ratio
- Annual covered payroll
- Ratio of unfunded Actuarial Liability (excess Plan Assets) to annual covered payroll
- Factors that significantly affect comparing the above information across the years.

Defining the Plan

GASB 45 refers to the *substantive plan* as the basis for accounting. It may differ from the *written plan* in that it reflects the employer's cost sharing policy based on:

- Past practice or communication of intended changes to a plan's cost sharing provisions, or
- Past practice of cost increases in monetary benefits.

The substantive plan is the basis for allowing recognition of potential future plan changes. This approach requires entities to acknowledge the underlying promise, not just the written plan.

What if retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience? (This was a contentious issue during the statement drafting, with one of the seven board members dissenting from Board adoption of the final statement.) In general, GASB 45 requires recognition of the implied subsidy. However, if benefits are provided through a community rated plan (premium rates based on experience of multiple employers rather than a single employer), and the same premium is charged for active and retired participants, it is appropriate to value unadjusted premiums.

Actuarial Assumptions and Discount Rate Requirements

Under GASB 45, the actuary must follow current actuarial standards of practice, which generally call for explicit assumptions – meaning each individual assumption represents the actuary's best estimate.

GASB 45 also requires basing the discount rate on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on Plan Assets for funded plans. Since the source of funds for unfunded plans is usually an agency's general fund, unfunded plans will need to use a low (for example, 4% to 5%) discount rate. If an agency sets up a Trust and diversifies Trust Plan Assets, however, the discount rate might be much higher (such as 7%) depending on the Trust fund's expected long-term investment return.

Transition Issues

Typically, new accounting standards allow transition from old to new requirements. Because historical ARC calculations will rarely be available, GASB 45 takes a prospective transition approach: there is no requirement for an initial transition obligation. But if AOCs, before transition, were calculated consistently with the standard, a NOO at transition can be established at an agency's discretion.

Valuation Frequency Requirements and Small Plans

GASB 45 requires an actuarial valuation at least every two years for plans with more than 200 (active, inactive, and retired) members. Plans with fewer than 200 members will need a valuation every 3 years. In a significant departure from prior standards, though, GASB 45 allows plans with fewer than 100 members to elect a simplified measurement method not requiring an actuarial certification.

SECTION 9
ACTUARIAL VALUATION CERTIFICATION

This report presents the June 30, 2006 actuarial valuation for the State of Maine Retiree Healthcare Plan ("Plan"). The purpose of this valuation is to:

- determine the Plan benefit obligations as of June 30, 2006 pursuant to Governmental Accounting Standards Board Statement No. 45 (GASB 45),
- calculate the State's 2006/07 fiscal year Annual Required Contribution for the Plan assuming GASB 45 is adopted for the 2006/07 fiscal year, and
- review several funding options for the Plan.

This report includes the following sections:

- Section 1 presents an executive summary of the GASB 45 valuation results.
- Section 2 provides financial accounting information, including the Annual Required Contribution and the June 30, 2006 benefit obligation.
- Section 3 provides the results of the actuarial valuation.
- Section 4 presents several funding options.
- Sections 5, 6, and 7 summarize the census data, Plan provisions, funding method, and actuarial assumptions that form the basis for this valuation.
- Section 8 includes a summary of GASB 45.

This report presents our best estimate of the State of Maine Retiree Healthcare Plan liabilities and costs in accordance with accepted actuarial principles and our understanding of GASB 45.

The undersigned is a member of the American Academy of Actuaries and meets the Academy Qualification Standards to render the actuarial results and opinions in this report. The healthcare claims analysis for this valuation was performed by a collaborating qualified healthcare actuary.

Respectfully submitted,

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January 10, 2007