State of Maine
State & Teachers Retiree Healthcare Plan

June 30, 2008 Actuarial Valuation
For Fiscal Year 2008/09 GASB 45 Information

February 2009

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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
- NC – Normal Cost
- 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.

The purpose of GASB 45 is to make OPEB reporting and disclosure consistent with pension reporting and disclosure. This requires public agencies recognize promised benefits as employees render service and adds transparency to underlying benefit promises. The State implemented GASB 45 for the fiscal year beginning July 1, 2007.

The State of Maine provides a Retiree Healthcare Plan for State employees and Teachers ("Plan"). The State contributes a portion of the retiree medical premium for eligible employees. Legislative, Judicial, and State employees hired on or before July 1, 1991 receive 100% of the retiree-only premium. State employees hired after July 1, 1991 with 5 years service receive 50% of the retiree-only premium, grading to 100% after 10 years of service. Teachers receive 45% of the retiree-only premium (50% of 2-party rate for 2-party and family coverage). State 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.

A valuation of the Plan was performed as of June 30, 2007. In that valuation, the implied subsidy for 13 ancillary groups was included with the State's results and 45% of the Teachers' implied subsidy was included with the Teachers' results. The State, in conversations with GASB, has since concluded that no ancillary group implied subsidy should be included with the State's results, and no implied subsidy for Teachers should be included with the Teachers' results. This valuation reflects those changes to the June 30, 2007 results.

Highlights and conclusions of this actuarial valuation are:

- The Present Value of Projected Benefits (PVPB) is the discounted value of State-provided retiree healthcare benefits expected to be paid in the future for current actives and retirees. The PVPB as of June 30, 2008 was $1.47 billion for State employees and $1.29 billion for Teachers.

  The PVPB for State employees decreased from $1.97 billion on June 30, 2007 to $1.47 billion as of June 30, 2008, largely due to healthcare insurance premium costs increasing less than expected, including the change of Medicare plan from Group Companion to a private fee-for-service plan (PFFS) starting January 1, 2009. (State HMO Choice premiums are estimated by the State to increase by 5% for 2009/10, compared to the previous assumption of 8.9%. The premiums for the Medicare PFFS plan are expected to be 25.8% lower than the 2008/09 Group Companion premiums.) We have recently observed a pattern of premium increases less than the increases we had expected based on the State's history. If the pattern continues in future years, we may lower our projections in subsequent studies.

  The PVPB for Teachers increased from $0.82 billion on June 30, 2007 to $1.29 billion as of June 30, 2008, largely due to the change in discount rate for Teachers from a select & ultimate assumption (4.5% grading to 7.5%) to a level 4.5% to reflect that the Teachers' Plan is not expected to be pre-funded into an irrevocable trust. Similarly to the State, Teachers' healthcare insurance premium costs increased less than expected, but the resulting decrease in PVPB was more than offset by the increase due to the change in discount rate. This highlights the importance of pre-funding to lessen the ultimate contributions.

- The Actuarial Accrued Liability (AAL) is the discounted value of benefits allocated to prior service. The AAL as of June 30, 2008 was $1.24 billion for State employees and $1.04 billion for Teachers. The AAL on June 30, 2007 was $1.65 billion for State employees and $0.71 billion for Teachers. Again, the decrease for the State primarily reflects actual premiums for State employees increasing at a lower rate than assumed in the previous study. For Teachers, the increase is due primarily to the change in the discount rate assumption which more than offset the decrease due to lower than expected premiums.

- The Annual Required Contribution (ARC) is the Plan cost allocated to the current fiscal year. The ARC for the 2008/09 fiscal year is $77 million for State employees (13.5% of payroll) and $60 million for Teachers (5.2% of payroll). The 2007/08 ARC was $111 million for State employees (17.4% of payroll) and $46 million for Teachers (3.9% of payroll).

- Because active State employees and non-Medicare eligible State retirees pay the same blended healthcare premiums, GASB 45 requires that an implied subsidy be calculated. The State's results include this implied subsidy. The aging factors used to calculate the State's implied subsidy were revised for this valuation upon review by a qualified healthcare actuary of the claims assumptions and data received from the State's healthcare provider.

- In the State's conversations with GASB it determined that it is not responsible for the Teachers' implied subsidy since payments of General Purpose Aid for Public Education do not directly pay the active teacher premiums. Therefore, the implied subsidy for Teachers is not included in this valuation.

- Section 5 summarizes OPEB for both State employees and Teachers. As the summary indicates, State provided OPEB for State employees are greater than for Teachers. In addition, the State employees' results contain an implied subsidy, while the Teachers' results do not. This is reflected in the relative magnitude of the Benefit Obligations for each group.

- The State contributed $100 million into an irrevocable trust for the State employees' retiree healthcare plan during 2007/08. The State will phase into funding the full ARC over a 10-year period between 2009/10 and 2018/19, each year funding an additional 10% of the ARC in excess of pay-as-you-go costs. The State's results are calculated reflecting this funding policy. The State does not intend to pre-fund the Teachers' retiree healthcare plan and will continue to pay Teacher retiree healthcare benefits when due ("pay-as-you-go").

- Many assumptions factor into the actuarial calculations. Two key assumptions are the expected return on assets and the expected healthcare cost increases:

  Expected Return on Assets
  The expected return on assets (the Discount Rate under GASB 45) is used to calculate the discounted value of future Plan benefits. An expected return of 7.5% was used to discount benefits to the extent they are pre-funded, that is, when the State makes contributions that exceed pay-as-you-go benefit payments. The expected return of 7.5% is the anticipated return on the Plan fund taking into account the expected asset mix and the expected long-term return for each

asset class. An expected return of 4.5% was assumed on benefits not funded. This is the expected return on the State's Cash Pool.

This valuation reflects the State's intention to phase into full funding of the Annual Required Contribution by 2018/2019 for State employees. Advance funding of the Plan allows the use of a higher discount rate which lowers the discounted value of the Benefit Obligations and the Annual Required Contribution. The sooner the State funds the Benefit Obligations, the lower the total amount of funding will be. This is the result of the leveraging power of greater anticipated investment income. The State currently does not plan to pre-fund the Teachers' plan.

Healthcare Cost Increases
Expected healthcare cost increases are the assumed healthcare inflation increases for medical claims and the premiums charged to employees and retirees. If actual medical cost increases are less than expected, then the PVPB and AAL will be adjusted to reflect this experience in future valuations. The better the State is able to manage healthcare cost increases, the lower the overall cost of the Benefit Obligations. This will lower the total amount of funding as it reduces benefit payments.

Actuarial valuations rely on a number of assumptions about future events. As time passes, actual experience may differ from these assumptions. It is therefore important that the State prepare regular actuarial valuations to monitor actual experience and revise the assumptions and the funding policy, if necessary.

The June 30, 2008 benefit obligations and the 2008/09 Plan costs for State and Teachers are as follows (millions of dollars):

	June 30, 2008	
	State	**Teachers**
■ **Present Value of Projected Benefits (PVPB)**	$ 1,465	$ 1,286
The Present Value of Projected Benefits is a measure of the total State obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees. (The June 30, 2007 PVPB was $1.97 billion for the State and $0.82 billion for Teachers.)		
■ **Actuarial Accrued Liability (AAL)**	1,242	1,044
The Actuarial Accrued Liability is a measure of the State obligation for benefits earned or allocated to past service. (The June 30, 2007 AAL was $1.65 billion for the State and $0.71 billion for Teachers.)		
■ **Plan Assets**	98	0
Plan Assets include funds that have been segregated and restricted in a trust so that they can only be used to pay plan benefits. (The June 30, 2007 Plan Assets were $0 for both the State and Teachers.)		

	June 30, 2008	
	State	Teachers
Unfunded Actuarial Accrued Liability (UAAL)	$ 1,144	$ 1,044
Unfunded Actuarial Accrued Liability is the excess of the AAL over Plan Assets. This represents the amount of the Actuarial Accrued Liability at the valuation date that must still be funded. (The June 30, 2007 UAAL was $1.65 billion for the State and $0.71 billion for Teachers.)		
2008/09 Normal Cost (NC)	27	25
The Normal Cost is the value of the State-provided benefits expected to be earned or allocated to the current fiscal year determined as of the end of the fiscal year. (The 2007/08 NC was $41 million for the State and $16 million for Teachers.)		
2008/09 Annual Required Contribution (ARC)	77	60
The Annual Required Contribution is the sum of the Normal Cost plus a level percent of pay amortization of the Unfunded Actuarial Accrued Liability (or less an amortization of excess assets) determined as of the end of the fiscal year. (The 2007/08 ARC was $111 million for the State and $46 million for Teachers.)		
2008/09 Annual OPEB Cost (AOC)	77	60
The Annual OPEB Cost is the expense recognized on the State's income statement for providing post-retirement healthcare benefits. 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. (The 2007/08 AOC was $111 million for the State and $46 million for Teachers.)		
Estimated Net OPEB Obligation (NOO) – BOY	(55)	28
The Net OPEB Obligation is the historical difference between the ARC and actual contributions. (The June 30, 2007 NOO was $0 for both the State and Teachers.)		
2008/09 Expected Benefit Payments	58[1]	20[2]
Benefit Payments, or the Pay-As-You-Go Cost, are the State-paid retiree healthcare benefit payments for the fiscal year. It includes payments for current retirees and active employees expected to retire during the year. (The 2007/08 Expected Benefit Payments were $70 million for the State and $20 million for Teachers.)		

1 Expected State cash subsidy benefit payment ($46 million) plus implied subsidy benefit payment ($12).
2 Expected Teachers cash subsidy benefit payment.

In the prior valuation as of June 30, 2007, the implied subsidy for 13 ancillary groups was included with the State's results. The cash subsidy for 7 ancillary groups was shown separately, and not included with the State's results. The State has since determined that no ancillary group implied subsidy should be included with the State's results. For this valuation, the State requested that results (both cash and implied subsidy) be shown separately for the following four ancillary groups: Governor Baxter School for the Deaf, Maine Community College District (MCCS), MainePERS, and Northern New England Passenger Rail Authority (NNEPRA).

Following are results for the four ancillary groups for which the State requested separate results be calculated (thousands of dollars):

	June 30, 2008			
	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ **PVPB**	$ 5,964	$ 74,141	$ 8,447	$ 414
■ **AAL**	4,207	55,199	5,355	309
■ **Plan Assets**	-	-	-	-
■ **UAAL**	4,207	55,199	5,355	309
■ **2008/09 NC**	202	2,160	280	13
■ **2008/09 ARC**	353	4,060	489	29
■ **2008/09 AOC**	344	4,003	479	29
■ **Estimated NOO - BOY**	358	2,420	456	13
■ **2008/09 Expected Benefit Payments:**				
➢ **Cash Subsidy**	40	1,249	71	11
➢ **Implied Subsidy**	13	343	27	1
➢ **Total**	53	1,592	98	12

Respectfully submitted,

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SECTION 2
ACCOUNTING INFORMATION

The GASB 45 accounting standard was effective for the State for the 2007/08 fiscal year. The 2008/09 ARC, AOC, and the estimated June 30, 2009 NOO are as follows:

Annual Required Contribution (ARC)

The 2008/09 Annual Required Contribution determined by this valuation for State and Teachers includes the Normal Cost plus a 30-year fresh start amortization of the Unfunded AAL. The ARC was first calculated using separate amortization bases with separate amortization periods which resulted in an equivalent single amortization period for the State greater than the maximum 30-year period allowed by GASB 45. Therefore, the entire State UAAL was amortized over a fresh start 30-year period. The Teachers UAAL was also amortized over a fresh start 30-year period, as requested by the State. Following is the 2008/09 ARC for State and Teachers calculated as a level percent of payroll and determined as of the end of the fiscal year (millions of dollars):

	State	Teachers
■ Normal Cost	$ 27	$ 25
■ UAAL Amortization	50	35
■ Total ARC	77	60
■ Payroll	568	1,160
■ ARC as % of Payroll	13.5%	5.2%

The 2008/09 Annual Required Contribution determined for the following four ancillary groups is calculated using separate amortization bases for (i) the remaining initial UAAL as of 6/30/07 (30-year amortization), (ii) actuarial methods and assumption changes (20-year amortization), and (iii) gains & losses (15-year rolling amortization). Following is the 2008/09 ARC for the ancillary groups calculated as a level percent of payroll and determined as of the end of the fiscal year (thousands of dollars):

	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ Normal Cost	$ 202	$ 2,160	$ 280	$ 13
■ UAAL Amortization	151	1,900	209	16
■ Total ARC	353	4,060	489	29
■ Payroll	3,170	38,626	4,681	291
■ ARC as % of Payroll	11.1%	10.5%	10.5%	9.9%

Annual OPEB Cost (AOC)

The AOC is equal to the ARC, except when there is 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. Based on the June 30, 2008 Net OPEB Asset of $55 million for the State and Net OPEB Obligation of $28 million for Teachers (see next page), the 2008/09 AOC for State and Teachers is estimated as follows (millions of dollars):

	State	Teachers
■ ARC	$ 77	$ 60
■ Interest on NOO	(2)	1
■ Amortization of NOO[3]	2	(1)
■ Total AOC	77	60
■ AOC as % of Payroll	13.5%	5.2%

The 2008/09 AOC for the four ancillary groups is estimated as follows (thousands of dollars):

	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ ARC	$ 353	$ 4,060	$ 489	$ 29
■ Interest on NOO	16	109	21	1
■ Amortization of NOO[4]	(25)	(166)	(31)	(1)
■ Total AOC	344	4,003	479	29
■ AOC as % of Payroll	10.9%	10.4%	10.2%	9.9%

3 Amortized as a level percent of payroll over 30 years.
4 Amortized as a level percent of payroll over 15 years.

Projected 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 paid directly by the State 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 revised June 30, 2007 valuation results, the June 30, 2008 NOO for State and Teachers is calculated as (millions of dollars):

	State	Teachers
■ June 30, 2007 NOO	$ 0	$ 0
■ 2007/08 AOC	111	46
■ 2007/08 Contributions	(166)[5]	(18)[6]
■ Estimated June 30, 2008 NOO	(55)	28

Based on the June 30, 2008 NOO and the AOC developed on the previous page, the projected June 30, 2009 NOO is (millions of dollars):

	State	Teachers
■ June 30, 2008 NOO	$ (55)	$ 28
■ 2008/09 AOC	77	60
■ Expected 2008/09 Contributions	(58)[7]	(20)[8]
■ Projected June 30, 2009 NOO	(36)	68

The State's actual June 30, 2009 NOO may differ from the projected amount because actual contributions may differ from those expected.

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5 State contribution into the trust on January 22, 2008 ($100 million), plus 2007/08 retiree benefit payments as provided by the State ($41 million), plus the 2007/08 estimated implied subsidy benefit payments ($25 million).

6 2007/08 Teachers retiree benefit payments as provided by the State.

7 Expected State 2008/09 cash ($46 million) and implied subsidy ($12 million) benefit payments.

8 Expected Teacher 2008/09 cash benefit payments.

The June 30, 2008 NOO for the four ancillary groups is estimated as (thousands of dollars):

	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ June 30, 2007 NOO	$ 0	$ 0	$ 0	$ 0
■ 2007/08 AOC	394	4,246	475	17
■ 2007/08 Contributions[9]	(36)	(1,826)	(19)	(4)
■ June 30, 2008 NOO	358	2,420	456	13

Based on the June 30, 2008 NOO and the AOC developed on page 7, the projected June 30, 2009 NOO is estimated as (thousands of dollars):

	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ June 30, 2008 NOO	358	2,420	456	13
■ 2008/09 AOC	344	4,003	479	29
■ Expected 2008/09 Contributions[10]	(53)	(1,592)	(98)	(12)
■ Projected June 30, 2009 NOO	649	4,831	837	30

The actual June 30, 2009 NOO may differ from the projected amounts because actual contributions and benefit payments may differ from those expected.

9 2007/08 cash benefit payments (provided by the State) plus implied subsidy benefit payments from the June 30, 2007 valuation.

10 Expected 2008/09 cash and implied subsidy benefit payments from the June 30, 2008 valuation.

Estimated 2008/09 State Implied Subsidy Transfer for Medical Coverage

The following illustrates the transfer of the implied subsidy from the State active employees to the State retirees. The amounts below are estimated, and intended to be used for illustrative purposes only (millions of dollars):

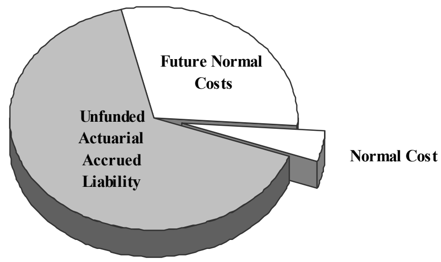
	State Before GASB 45		
	Actives	**Retirees**	**Total**
■ Total Premium	$ 158	$ 52	$ 210
■ Member Contribution	(20)	(6)	(26)
■ State Contribution	138[11]	46	184

	State After GASB 45		
	Actives	**Retirees**	**Total**
■ Total Premium	$ 158	$ 52	$ 210
■ Member Contribution	(20)	(6)	(26)
■ Implied Subsidy Transfer	(12)	12	0
■ State Contribution	126	58	184

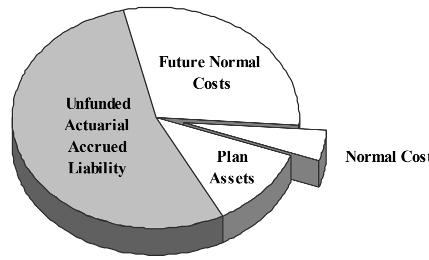
[11] Assumes the State provides 100% of employee premium and 60% of dependent premium (50% of dependent premium for Legislative) for active State employees.

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 a measure of the total State obligation for expected retiree healthcare benefits due to both past and future service for current employees and retirees.
- The **Actuarial Accrued Liability (AAL)** is a measure of the State obligation for benefits earned or allocated to past service.
- **Plan Assets** include funds that have been segregated and restricted in a trust so that they can only be used to pay plan benefits.
- The **Unfunded Actuarial Accrued Liability (UAAL)** is the excess of the AAL over Plan Assets.
- The **Normal Cost** is the value of the State-provided benefits expected to be earned or allocated to the current fiscal year determined as of the end of the fiscal year.
- **Expected Benefit Payments**, or the Pay-As-You-Go Cost, are the State-paid retiree healthcare benefit payments for the current fiscal year. It includes payments for current retirees and active employees expected to retire during the year.
- The **Annual Required Contribution** is the sum of the Normal Cost plus an amortization of the Unfunded Actuarial Accrued Liability (or less an amortization of excess assets) determined as of the end of the fiscal year.
- GASB 45 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. An implied subsidy is calculated and included in the results for the State employees. An implied subsidy is also calculated separately for the four Ancillary Groups. In the State's conversations with GASB, it determined that the State is not responsible for the implied subsidy for the Teachers since it does not directly pay Teacher active premiums. Therefore, the Teachers' results do not include any implied subsidy.

Actuarial Obligations
June 30, 2008
(millions of dollars)

	State	Teachers
■ Present Value of Projected Benefits		
• Actives	$ 744	$ 914
• Retirees	721	372
• Total	1,465	1,286
■ Actuarial Accrued Liability		
• Actives	521	672
• Retirees	721	372
• Total	1,242	1,044
■ Plan Assets	98	-
■ Unfunded AAL	1,144	1,044
■ Expected Benefit Payments	58	20

	Ancillary Groups (thousands of dollars)			
	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ Present Value of Projected Benefits				
• Actives	$ 5,050	$ 50,734	$ 7,064	$ 184
• Retirees	914	23,407	1,383	230
• Total	5,964	74,141	8,447	414
■ Actuarial Accrued Liability				
• Actives	3,292	31,792	3,972	79
• Retirees	915	23,407	1,383	230
• Total	4,207	55,199	5,355	309
■ Plan Assets	-	-	-	-
■ Unfunded AAL	4,207	55,199	5,355	309
■ Expected Benefit Payments	53	1,592	98	12

Cash Subsidy & Implied Subsidy
June 30, 2008
(millions of dollars)

Present Value of Projected Benefits	State	Teachers
■ Cash Subsidy		
• Actives	$ 560	$ 914
• Retirees	524	372
• Total	1,084	1,286
■ Implied Subsidy		
• Actives	184	n/a
• Retirees	197	n/a
• Total	381	n/a
■ Total		
• Actives	744	914
• Retirees	721	372
• Total	1,465	1,286

Actuarial Accrued Liability	State	Teachers
■ Cash Subsidy		
• Actives	$ 376	$ 672
• Retirees	524	372
• Total	900	1,044
■ Implied Subsidy		
• Actives	145	n/a
• Retirees	197	n/a
• Total	342	n/a
■ Total		
• Actives	521	672
• Retirees	721	372
• Total	1,242	1,044

Annual Required Contribution (ARC)
2008/09 Fiscal Year
(millions of dollars)

	State	Teachers
■ ARC - $		
• Normal Cost	$ 27	$ 25
• UAAL Amortization[12]	50	35
• Total (End of Year)	77	60
■ Projected Payroll	568	1,160
■ ARC - % of Payroll		
• Normal Cost	4.8%	2.1%
• UAAL Amortization	8.7%	3.1%
• Total (End of Year)	13.5%	5.2%

	Ancillary Groups (thousands of dollars)			
	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ ARC - $				
• Normal Cost	$ 202	$ 2,160	$ 280	$ 13
• UAAL Amortization:[13]				
➢ Initial 6/30/2007 UAAL	133	1,835	145	5
➢ Methods & Assumptions	26	318	52	3
➢ (Gains)/Losses	(8)	(253)	12	8
➢ Total UAAL Amortization	151	1,900	209	16
• ARC	353	4,060	489	29
■ Projected Payroll	3,170	38,626	4,681	291
■ ARC - % of Payroll				
• Normal Cost	6.4%	5.6%	6.0%	4.5%
• UAAL Amortization	4.7%	4.9%	4.5%	5.4%
• Total (End of Year)	11.1%	10.5%	10.5%	9.9%

12 UAAL amortized as a level percentage of payroll over 30 years. The State's ARC calculated using separate amortization bases with separate amortization periods resulted in an equivalent single amortization period greater than the maximum 30-year period allowed by GASB 45.

13 UAAL amortized 29 years for Initial UAAL, 20 years for Methods & Assumptions, 15 years for (Gains)/Losses.

Asset Reconciliation – State
(thousands of dollars)

	Trust	Other	Total
■ **Assets on 6/30/2007**	$ 0	$ 0	$ 0
■ **Additions**			
• Employer Contributions	100,000	66,000	166,000
• Investment Income:			
➢ Net appreciation (depreciation) in the fair value of plan assets	(1,605)		(1,605)
➢ Interest	12		12
➢ Investment Expense	(17)		(17)
■ **Deductions**			
• Benefit Payments[14]	0	(66,000)	(66,000)
• Administrative Expenses	(28)		(28)
■ **Assets on 6/30/2008**	98,362		98,362

[14] Includes 2007/08 retiree benefit payments as provided by the State ($41 million), plus the 2007/08 estimated implied subsidy benefit payments ($25 million).

Unfunded Actuarial Accrued Liability (UAAL) Reconciliation – State

(millions of dollars)

Following is a reconciliation from June 30, 2007 to June 30, 2008 of the Unfunded Actuarial Accrued Liability of the Retiree Healthcare Plan for State Employees:

	AAL	(Assets)	UAAL
■ **Actual on 6/30/2007 (Based on Roll-forward of June 30, 2006 Valuation)**	$ 1,647	$ 0	$ 1,647
■ **Expected on 6/30/2008**	1,690	(40)	1,650
• Medical premiums lower than expected (including change from Medicare Group Companion plan to Medicare Private Fee-for-Service (PFFS) plan effective 1/1/2009)	(219)	n/a	(219)
• Implied subsidy lower than expected due to:			
➢ No implied subsidy valued for Medicare PFFS plan	(58)	n/a	(58)
➢ Revised implied subsidy aging factors	(176)	n/a	(176)
• Demographic and Other Changes	5	n/a	5
• Contribution (Gain)/Loss	n/a	(62)	(62)
• Investment (Gain)/Loss	n/a	4	4
• Total (Gain)/Loss	(448)	(58)	(506)
■ **Actual on 6/30/2008**	1,242	(98)	1,144

Unfunded Actuarial Accrued Liability (AAL) Reconciliation – Teachers
(millions of dollars)

Following is a reconciliation from June 30, 2007 to June 30, 2008 of the Unfunded Actuarial Accrued Liability of the Retiree Healthcare Plan for Teachers:

	AAL	(Assets)	UAAL
■ **Actual on 6/30/2007 (Based on Roll-forward of June 30, 2006 Valuation)**	$ 710	$ 0	$ 710
■ **Expected on 6/30/2008**	737	(25)	712
• Medical premiums lower than expected	(13)	n/a	(13)
• Change in discount rate (from select & ultimate rates of 4.5% grading to 7.5% over 10 years to 4.5% for all years)	305	n/a	305
• Demographic and Other Changes	15	n/a	15
• Contribution (Gain)/Loss	n/a	25	25
• Investment (Gain)/Loss	n/a	n/a	n/a
• Total (Gain)/Loss	307	25	332
■ **Actual on 6/30/2008**	1,044	0	1,044

Actuarial Accrued Liability (AAL) Reconciliation – Ancillary Groups
(thousands of dollars)

Following is a reconciliation from June 30, 2007 to June 30, 2008 of the Actuarial Accrued Liability of the Retiree Healthcare Plan for four Ancillary Groups:

	Gov. Baxter School for Deaf	MCCS	Maine PERS	NNEPRA
■ **AAL on 6/30/2007 (Based on Roll-forward of June 30, 2006 Valuation)**	$ 3,814	$ 52,552	$ 4,146	$ 130
■ **Expected AAL on 6/30/2008**	4,182	54,982	4,611	142
• Medical premiums lower than expected	(548)	(7,224)	(644)	(25)
• Change to implied subsidy calculations	(651)	(6,985)	(571)	(7)
• Change in discount rate (from select & ultimate rates of 4.5% grading to 7.5% over 10 years to 4.5% for all years)	1,162	13,206	1,581	67
• Demographic and Other Changes	62	1,220	378	132
• Total (Gain)/Loss	25	217	744	167
■ **Actual AAL on 6/30/08**	4,207	55,199	5,355	309
■ **Contribution (Gain)/Loss**	359	2,305	456	12

Amortization Bases on June 30, 2008 – State & Teachers

(millions of dollars)

	State					
	Original			Remaining		Amort.
	Date	Years	Amount	Years	Balance	Amount
■ **Fresh Start UAAL**[15]	6/30/08	30	$ 1,144	30	$ 1,144	$ 50
■ **Total**					1,144	50

	Teachers					
	Original			Remaining		Amort.
	Date	Years	Amount	Years	Balance	Amount
■ **Fresh Start UAAL**[16]	6/30/08	30	$ 1,044	30	$ 1,044	$ 35
■ **Total**					1,044	35

15 UAAL amortized as a level percentage of payroll over 30 years because the State's ARC calculated using separate amortization bases with separate amortization periods resulted in an equivalent single amortization period greater than the maximum 30-year period allowed by GASB 45.

16 UAAL amortized as a fresh start level percentage of payroll over 30 years, as requested by the State.

Amortization Bases on June 30, 2008 – Ancillary Groups

(thousands of dollars)

Governor Baxter School for the Deaf

	Original			Remaining		Amort.
	Date	Years	Amount	Years	Balance	Amount
■ Initial UAAL	6/30/07	30	$ 3,814	29	$ 3,823	$ 133
■ Methods & Assump.	6/30/08	20	511	20	511	26
■ (Gains)/Losses	6/30/08	15	(127)	15	(127)	(8)
■ Total					4,207	151

Maine Community College System

	Original			Remaining		Amort.
	Date	Years	Amount	Years	Balance	Amount
■ Initial UAAL	6/30/07	30	$ 52,552	29	$ 52,677	$ 1,835
■ Methods & Assump.	6/30/08	20	6,221	20	6,221	318
■ (Gains)/Losses	6/30/08	15	(3,699)	15	(3,699)	(253)
■ Total					55,199	1,900

MainePERS

	Original			Remaining		Amort.
	Date	Years	Amount	Years	Balance	Amount
■ Initial UAAL	6/30/07	30	$ 4,146	29	$ 4,155	$ 145
■ Methods & Assump.	6/30/08	20	1,010	20	1,010	51
■ (Gains)/Losses	6/30/08	15	190	15	190	13
■ Total					5,355	209

NNEPRA

	Original			Remaining		Amort.
	Date	Years	Amount	Years	Balance	Amount
■ Initial UAAL	6/30/07	30	$ 130	29	$ 130	$ 5
■ Methods & Assump.	6/30/08	20	60	20	60	3
■ (Gains)/Losses	6/30/08	15	119	15	119	8
■ Total					309	16

Benefit Payment Projection
(millions of dollars)

The following table shows the projected "pay-as-you-go" benefit payments for the next 12 years for State and Teachers.

	State			Teachers		
Year	**Cash Subsidy**	**Implied Subsidy**	**Total Payment**	**Cash Subsidy**	**Implied Subsidy**	**Total Payment**
2008/09	$ 46	$ 12	$ 58	$ 20	$ -	$ 20
2009/10	45	13	58	23	-	23
2010/11	50	15	65	27	-	27
2011/12	54	17	70	31	-	31
2012/13	58	18	76	35	-	35
2013/14	61	20	81	39	-	39
2014/15	65	22	87	43	-	43
2015/16	69	24	93	47	-	47
2016/17	72	25	98	50	-	50
2017/18	75	27	102	54	-	54
2018/19	78	28	106	57	-	57
2019/20	80	29	109	61	-	61

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

Participant Statistics
June 30, 2008

	State	Teachers
■ Actives		
• Count	14,654	27,180
• Average Age	46.8	47.3
• Average Service[17]	12.7	16.5
• Average Pay[18]	$38,774	$42,666
• Total Payroll (000's)	$568,200	$1,159,671
■ Retirees		
• Count	8,772	9,201
• Average Age	70.3	69.6

	Ancillary Groups			
	Governor Baxter School for the Deaf	Maine Community College System[19]	MainePERS	NNEPRA
■ Actives				
• Count	76	815	106	5
• Average Age	48.5	48.6	46.4	47.4
• Average Service	10.8	9.9	11.0	4.9
• Average Pay	$41,713	$47,394	$44,162	$58,181
• Total Payroll (000's)	$3,170	$38,626	$4,681	$291
■ Retirees				
• Count	4	233	12	2
• Average Age	58.9	67.4	69.8	62.2

17 Average service by age group assumed for 900 State employees and 7,770 Teachers with missing hire dates.
18 Average pay by age/service group assumed for 357 State employees and 7,889 Teachers with missing pay.
19 MCCS active data revised from data provided by the State based on information from MCCS.

Active Employee Coverage
June 30, 2008

Group	Medical Plan	Single	2-Party	Family	EE + Child	EE + Children	FLES[20]	Total
State	HMO Choice[21]	6,790	1,935	2,368	939	853	600	13,485
	Group Companion	2	-	-	-	-	-	2
	Waived	n/a	n/a	n/a	n/a	n/a	n/a	1,167
	Total State	6,792	1,935	2,368	939	853	600	14,654
Teachers	HMO Choice	9,502	3,420	5,152	1,369	1,748	n/a	21,191
	Blue Choice	2,991	1,217	1,173	277	319	n/a	5,977
	Group Companion	12	-	-	-	-	n/a	12
	Total Teachers	12,505	4,637	6,325	1,646	2,067	n/a	27,180

Retiree Coverage
June 30, 2008

Group	Medical Plan	Single	2-Party	Family	EE + Child	EE + Children	FLES[20]	Total
State	HMO Choice	3,059	325	49	79	26	14	3,552
	Group Companion	4,213	1,003	-	4	-	-	5,220
	Total State	7,272	1,328	49	83	26	14	8,772
Teachers	HMO Choice	1,436	258	23	10	6	n/a	1,733
	Blue Choice	1,929	248	23	20	3	n/a	2,223
	Group Companion[22]	4,139	1,106	-	-	-	n/a	5,245
	Total Teachers	7,504	1,612	46	30	9	n/a	9,201

20 State employees or retirees married to other State employees or retirees – both valued as single coverage.
21 3 State actives and 152 State retirees in "Comp Care" plan were included with HMO Choice.
22 12 Teacher retirees in "Medigap B" plan were included with Group Companion plan.

Active Employees - State
Age/Service/Pay Distribution[23]
June 30, 2008

Age		Service							
		Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	Count	203	329	7	-	-	-	-	539
	Average Pay	18,663	18,415	20,200	-	-	-	-	18,532
25-29	Count	129	594	170	5	-	-	-	898
	Average Pay	28,437	30,864	33,639	39,158	-	-	-	31,087
30-34	Count	124	406	524	88	2	-	-	1,144
	Average Pay	30,536	33,039	36,982	39,524	45,302	-	-	35,094
35-39	Count	103	405	509	283	136	19	-	1,455
	Average Pay	29,821	33,739	37,063	44,509	39,055	44,736	-	37,360
40-44	Count	98	354	413	341	338	223	8	1,775
	Average Pay	29,608	33,768	39,091	38,764	44,010	42,202	44,730	38,796
45-49	Count	123	386	456	318	369	471	266	2,389
	Average Pay	28,347	34,601	38,594	41,968	43,220	45,109	43,378	40,402
50-54	Count	100	371	428	245	426	415	639	2,624
	Average Pay	33,430	35,312	40,429	44,802	41,720	44,846	46,042	42,122
55-59	Count	65	275	311	192	376	379	666	2,264
	Average Pay	36,568	35,453	40,577	45,508	40,636	45,208	47,505	43,081
60-64	Count	31	160	194	116	243	185	251	1,180
	Average Pay	33,279	36,130	39,442	42,561	37,870	43,207	47,774	41,177
65 & Over	Count	7	48	63	33	91	56	88	386
	Average Pay	30,490	25,801	31,796	43,076	29,876	40,676	44,111	35,634
Total	Count	983	3,328	3,075	1,621	1,981	1,748	1,918	14,654
	Average Pay	28,147	32,046	38,187	42,509	40,989	44,350	46,313	38,774

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

Active Employees – Teachers
Age/Service/Pay Distribution[24]
June 30, 2008

Age		Service: Under 1	1-4	5-9	10-14	15-19	20-24	25 & Over	Total
Under 25	Count	104	549	39	-	-	-	-	692
	Average Pay	13,518	21,072	25,264	-	-	-	-	20,173
25-29	Count	128	1,149	728	29	-	-	-	2,034
	Average Pay	21,334	28,253	31,251	34,915	-	-	-	28,986
30-34	Count	78	341	1,056	556	32	-	-	2,063
	Average Pay	26,749	31,056	35,468	37,547	38,761	-	-	35,020
35-39	Count	63	296	456	1,248	545	4	-	2,612
	Average Pay	26,102	34,029	38,057	41,157	44,428	41,799	-	40,128
40-44	Count	48	274	426	1,211	644	365	9	2,977
	Average Pay	28,783	31,381	35,648	42,187	47,857	49,618	48,775	42,198
45-49	Count	36	242	488	413	1,671	667	445	3,962
	Average Pay	21,642	29,184	34,740	39,705	44,267	50,544	52,719	43,497
50-54	Count	30	183	370	427	529	1,911	1,314	4,764
	Average Pay	24,912	30,603	35,772	40,049	44,289	47,700	54,255	46,717
55-59	Count	27	138	275	341	552	1,853	1,736	4,922
	Average Pay	27,023	34,872	39,300	41,243	46,619	49,479	55,257	49,524
60-64	Count	7	64	116	127	223	1,304	573	2,414
	Average Pay	28,859	33,590	38,543	41,320	43,280	46,622	52,295	46,596
65 & Over	Count	1	7	21	32	25	401	253	740
	Average Pay	30,550	45,856	33,580	30,502	41,938	45,789	45,429	44,508
Total	Count	522	3,243	3,975	4,384	4,221	6,505	4,330	27,180
	Average Pay	22,486	28,751	35,196	40,631	45,038	48,268	53,712	42,666

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

<u>Benefit Summary</u>
June 30, 2008

■ Eligibility	■ 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
■ State Paid Benefit State Employees	Retiree-Only Premium ■ Judicial: 100% ■ Legislative: 100% ■ Other State • DOH < 7/1/91: 100% • DOH > 7/1/91: Years of Medical Participation – Retiree-Only Premium <5 – 0% 5 – 50% 6 – 60% 7 – 70% 8 – 80% 9 – 90% ≥10 – 100%
■ State Paid Benefit Teachers	■ 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
■ Part-Time Employees	■ Eligible for prorated benefits: • 50% full-time gets 100% benefit
■ Surviving Spouse & Dependent Benefits	■ Surviving spouses and dependents pay 100% of the premium
■ Dental, Vision, Life	■ None
■ Participation Benefit	■ Retirees not eligible for a state contribution are allowed to participate and pay retiree premium

State Employees Health Plans
Monthly Premiums

Non Medicare Eligible Retirees[25]

Medical Plan	Year	Single	2-Party	Family	Participant w/Child(ren)
HMO Choice	2008/09	648.10	1,355.00	1,612.10	1,065.84
	2009/10	680.51	1,422.75	1,692.71	1,119.13

Medicare Eligible Retirees[26]

Medical Plan	Year	Single	2-Party	Family	Participant w/Child(ren)
Group Companion	2008/09	$ 320.10	$ 634.70	$ 988.14	$ 673.54
Fee-for-Service Plan	2009	237.42	470.76	732.91	499.57
	2010	244.54	484.88	754.90	514.56

25 Assumes 2009/10 Non Medicare premiums increase by 5% over 2008/09 premiums, as estimated by the State.

26 Assumes State replaces Group Companion Plan with Medicare Private Fee-for-Service Plan effective 1/1/2009. Assumes Medicare Private Fee-for-Service plan 2010 premiums increase by 3% over 2009 premiums, as estimated by the State.

Teachers Health Plans
Monthly Premiums[27]

Non Medicare Eligible Retirees

Medical Plan	Year	Single	2-Party	Family	Participant w/Child(ren)
HMO Choice (MEA Choice Plus)	2008/09	$ 528.40	$ 1,190.91	$ 1,449.51	$ 935.16
	2009/10	575.96	1,298.09	1,579.97	1,019.32
Blue Choice (MEA Standard Plus)	2008/09	570.61	1,286.19	1,565.47	1,009.96
	2009/10	621.96	1,401.95	1,706.36	1,100.86

Medicare Eligible Retirees

Medical Plan	Year	Single	2-Party	Family	Participant w/Child(ren)
Group Companion	2008/09	$ 321.36	$ 674.55	n/a	n/a
	2009/10	350.28	735.26	n/a	n/a

27 Assumes 2009/10 Non Medicare and Medicare premiums increase by 9% over 2008/09 premiums, as estimated by the State.

SECTION 6
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. For the State and Teachers, the unfunded UAAL is amortized as a level percent of payroll over a 30-year period because the ARC calculated using separate amortization bases with separate amortization periods resulted in an equivalent single amortization period greater than the maximum 30-year period allowed by GASB 45.

For the four Ancillary Groups, the initial unfunded AAL on June 30, 2007 is amortized as a level percent of payroll over a closed 30-year period starting with the 2007/08 fiscal year. Plan changes are amortized as a level percent of payroll over a closed 20-year period, and (gains)/losses are amortized over a rolling 15-year period.

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. An "Implied Subsidy" was valued for the Retiree Healthcare Plan for the State employees, but not for the Teachers based on State conversations with GASB.

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

Funding Policy

The State contributed $100 million for 2007/08 into an irrevocable trust for the State Plan (in addition to paying retiree medical benefits outside the trust) and intends to make contributions exceeding benefit payments starting in 2009/10 and phasing into the full ARC by 2018/19. This funding policy is reflected in the select & ultimate discount rate assumption that starts at 4.5% in 2008/09 and phases into 7.5% in 2018/19.

The State does not plan to pre-fund the Teachers' Plan into an irrevocable trust, instead paying retiree medical benefits as they are due (pay-as-you-go). This funding policy is reflected in the discount rate assumption of 4.5%. The four ancillary groups included in this valuation (Governor Baxter School for the Deaf, Maine Community College System, MainePERS, and NNEPRA) also use a 4.5% discount rate based on the assumption that they will not pre-fund into an irrevocable trust.

Actuarial Assumptions

■ Discount Rate

- State - select & ultimate rates based on the State's expected funding policy:

Year	Rate	Year	Rate
2008/09	4.5%	2014/15	6.3%
2009/10	4.8%	2015/16	6.6%
2010/11	5.1%	2016/17	6.9%
2011/12	5.4%	2017/18	7.2%
2012/13	5.7%	2018/19+	7.5%
2013/14	6.0%		

- Teachers and Ancillary Groups - 4.5% for representing the expected long-term rate of return on the State's Cash Pool.

■ Inflation Rate

- 3.75% per annum. (Same as MSRS 6/30/08 valuation assumption)

■ Aggregate Payroll Increases

- 4.75% per annum. (Same as MSRS 6/30/08 valuation across-the-board increase assumption)

■ Salary Merit and Longevity Increases

- Same as MSRS 6/30/08 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 and Judicial

■ Demographic Assumptions (Mortality, Withdrawal, Disability)

- Same as MSRS 6/30/08 valuation assumptions.

■ Retirement Age

- Same as MSRS 6/30/08 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

■ 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%

- Years of medical participation equals service.

■ Medical Plan at Retirement

- Future retirees not eligible for Medicare: Same as current active coverage.
- Future retirees eligible for Medicare: PFFS for State and Group Companion for Teachers.

■ Healthcare Cost Increases

- Increases applied to premiums to calculate cash subsidy and applied to claims to calculate implied subsidy. Estimated 2009 premiums were provided by the State.

	State Health Plans		Teacher Health Plans		
Year	HMO Choice	Group Companion	HMO Choice	Blue Choice	Group Companion
2008	Actual Premiums		Actual Premiums		
2009	Estimated Premiums		Estimated Premiums		
2010	8.4%	8.7%	9.9%	10.3%	10.3%
2011	7.8%	8.1%	9.2%	9.5%	9.5%
2012	7.3%	7.5%	8.5%	8.8%	8.8%
2013	6.7%	6.9%	7.8%	8.0%	8.0%
2014	6.2%	6.3%	7.1%	7.3%	7.3%
2015	5.6%	5.7%	6.4%	6.5%	6.5%
2016	5.1%	5.1%	5.7%	5.8%	5.8%
2017+	4.5%	4.5%	5.0%	5.0%	5.0%

■ Claims Cost

State Monthly Claims Cost at Age 65
HMO Choice

Participant		Spouse	
Male	Female	Male	Female
$ 1,158	$ 983	$ 1,280	$ 1,087

- The assumed monthly claim cost at any age and year is the age 65 monthly claims cost multiplied by the age-related claims cost factor and increased by the healthcare cost increase trend rates.

■ **Age-Related Claims Cost Factors for State Employees HMO Choice**

	Retiree and Spouse	
Age	Male	Female
50-55	51%	71%
55-60	66%	73%
60-65	83%	80%
65-70	100%	100%
70-75	130%	122%
75-80	151%	144%
80-85	160%	160%

■ **State Contribution**

- No future increases.

■ **Spouses**

- Current marital status (based on coverage election).

■ **Spouse Age**

- Males 3 years older than females.

■ **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%

■ **State Part-Time Employees**

- Hired before 3/1/2008 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 – For Valuation Results**

- Closed Group – no future new participants assumed.

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

    Teachers:
    - 7,770 missing hire dates from the State– average service by age group
    - 7,889 missing pay from the State – average pay by age/service group
    - All Teachers with 25 years of service have retired
  - Data from State:
    State:
    - 278 missing hire dates – average service by age group
    - 27 missing salary – average pay by age/service group
    - 33 missing birth dates – average birth date

    Teachers:
    - 9,743 did not match with Anthem file – not included in valuation

Section 7
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 7
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:

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GASB 45 SUMMARY

- 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.

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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 investment 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 8
ACTUARIAL VALUATION CERTIFICATION

This report presents the June 30, 2008 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, 2008, and
- calculate the Annual Required Contribution for the 2008/09 fiscal year.

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, 2008 benefit obligation.
- Section 3 provides the results of the actuarial valuation
- Sections 4, 5, and 6 summarize the census data, Plan provisions, funding method, and actuarial assumptions that form the basis for this valuation.
- Section 7 includes a summary of GASB 45.

The valuation is based on Plan provisions, employee data, claims, and asset information provided by the State and Anthem and summarized in this report. We reviewed the data and claims for reasonableness but did not perform an audit.

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 are members of the American Academy of Actuaries and meet 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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