



Commonwealth of Pennsylvania
Retired Pennsylvania State Police Program
GASB Statement Nos. 74 and 75 Valuation Report

Measurement date of June 30, 2019

Prepared by Deloitte Consulting LLP

September 2019

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Actuarial Valuation Opinion

This report presents results of the actuarial valuation of the Commonwealth of Pennsylvania's Retired Pennsylvania State Police Program ("the Plan" or "RPSPP") measured as of June 30, 2019. In this report, we present disclosure information as of June 30, 2019 as required by Government Accounting Standards Board Statement Nos. 74 and 75 (GASB Nos. 74 and 75). In our opinion, this report is complete and accurate and represents fairly the actuarial position of the Plan for the purposes stated herein.

Actuarial information under GASB Nos. 74 and 75 is for purposes of fulfilling trust and employer financial accounting requirements. The results have been prepared on a basis consistent with our understanding of GASB Nos. 74 and 75 and are based upon assumptions prescribed by the Commonwealth of Pennsylvania. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein.

The Commonwealth of Pennsylvania provided the participant data, financial information and plan descriptions used in this valuation. The actuary has analyzed the data and other information provided for reasonableness but has not independently audited the data or other information provided. The actuary has no reason to believe the data or other information provided is not complete and accurate and knows of no further information that is essential to the preparation of the actuarial valuation.

In our opinion, all costs, liabilities, rates of interest, and other factors underlying these actuarial computations have been determined on the basis of actuarial assumptions and methods that are each reasonable (or consistent with authoritative guidance) for the purposes herein taking into account the experience of the Plan and future expectations.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operations of the methodology used for these measurements (such as the additional cost or contribution requirements based on the Plan's funded status); and changes in program provisions or applicable law. Our scope for this actuarial valuation did not include analyzing the potential range of such future measurements, and we did not perform that analysis.

The undersigned with actuarial credentials collectively meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

This report was prepared solely for the benefit and internal use of the plan sponsor. This report is not intended for the benefit of any other party and may not be relied upon by any third party for any purpose, and Deloitte Consulting accepts no responsibility or liability with respect to any party other than the plan sponsor.

To the best of our knowledge, no employee of the Deloitte U.S. Firms is an officer or director of the employer. In addition, we are not aware of any relationship between the Deloitte U.S. Firms and the employer that may impair or appear to impair the objectivity of the work detailed in this report.

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Executive Summary

Governmental Accounting Requirements and Report Purpose

The Governmental Accounting Standards Board released the Statement of Governmental Accounting Standards Nos. 74 and 75 in June 2015. GASB No. 74 establishes financial reporting requirements for OPEB plans that have assets accumulated in a trust or equivalent arrangement for the purpose of funding OPEB. GASB No. 75 details the reporting and disclosure requirements for employers with payables (OPEB liabilities) to employees of state and local governmental employers through defined benefit OPEB plans that are administered through trusts or equivalent arrangements. The Commonwealth of Pennsylvania adopted GASB No. 74 in the fiscal year ended June 30, 2017 and GASB No. 75 in the fiscal year ended June 30, 2018.

The purpose of this actuarial valuation report is to provide information for the Commonwealth's trust and employer financial reporting. The information provided herein will be used for the fiscal year ended June 30, 2019 GASB No. 74 disclosures and fiscal year ending June 30, 2020 GASB No. 75 disclosures (the Commonwealth has elected to use a measurement date as of the end of the prior fiscal year end for GASB No. 75).

Summary of Results

The key results for the measurement period ended June 30, 2019 are:

- Net OPEB Liability (NOL) is \$5.7 billion, 1391.6% of covered employee payroll.
- Plan Fiduciary Net Position (FNP) as a percentage of Total OPEB Liability (TOL) is 1.7%.
- OPEB Expense is \$0.1 billion.

Significant Changes from the Previous Actuarial Valuation

For the June 30, 2019 measurement, the liabilities were lower than the previous actuarial valuation. In total, there was a decrease in TOL of \$0.2 billion compared to the previous valuation, with the decrease primarily due to the following:

- There was an expected \$0.2 billion increase in TOL due to the passage of time (service cost, interest, benefit payments, retiree contributions);
- There was a \$0.3 billion increase in TOL due to changes in actuarial assumptions, driven primarily by the decrease in discount rate from 3.87% to 3.50%;
- The actual experience over the past year was different than expected, resulting in a \$0.7 billion decrease in TOL. This experience gain was caused primarily by decreases or lower than expected increases in claims costs due to favorable self-insured claims experience.

Background and Comments

Overview of Plans

The Commonwealth sponsors the Retired Pennsylvania State Police Program (RPSPP) for eligible retirees and their dependents to receive subsidized health coverage for the retiree's lifetime.

Funding Policy

The Commonwealth created the OPEB Investment Pool, a Trust Equivalent Arrangement, during the fiscal year ended June 30, 2008. The Commonwealth plans to contribute \$1 million annually until assets cover the present value of future benefits, subject to annual evaluation.

RPSPP employer contribution requirements are established within collective bargaining agreements. During the fiscal year ending June 30, 2019, employing agencies contributed \$1,288 per biweekly pay period for each current RPSPP eligible active employee to the RPSPP Trust. RPSPP plan members are not required to make contributions. Employer contributions made to the RPSPP Trust, a Trust Equivalent Arrangement, are irrevocable. Plan assets are restricted for use for the provision and administration of RPSPP retirees' health benefits. Employers maintain no rights of ownership to the assets and the trust.

Health Care Reform

The Patient Protection and Affordable Care Act ("PPACA") was signed into law on March 23, 2010. The primary objective of the act is to increase the number of Americans with health insurance coverage. There are several provisions within PPACA with potentially significant short- and long-term cost implications for employers. The applicable provisions of PPACA were first accounted for in the July 1, 2010 valuation. On December 18, 2015, the Consolidated Appropriations Act, 2016 became law. This legislation delayed the effective date of the high cost plan excise tax from 2018 to 2020 and made it tax deductible. On January 22, 2018, the Federal Register Printing Savings Act further delayed the effective date from 2020 to 2022. In future years, there may continue to be increased cost impact to the extent the health & welfare program experiences increased utilization due to these changes, all of which are assumed to be in place indefinitely.

The provisions of PPACA considered are as follows:

- Prohibiting lifetime and annual limits on the dollar value of coverage for "essential health benefits"
- Increasing the dependent child age limit to age 26
- Elimination of cost sharing for in-network preventive services
- Reflecting manufacturer discounts available to certain Medicare beneficiaries receiving applicable covered Part D drugs (mostly brand) while in the coverage gap
- Out-of-pocket limit includes both medical and Rx expenses
- Excise tax on "Cadillac Plans" effective in 2022

The impact of applicable provisions except for excise tax, which was valued separately, were incorporated in the per capita claims costs summarized in the Actuarial Assumptions section of this report.

Actuarial Methods and Assumptions

The Commonwealth of Pennsylvania State Employees' Retirement System (SERS) performs experience studies periodically to determine reasonable and appropriate economic and demographic assumptions for purposes of valuing the defined benefit pension plan. The most recent SERS experience study covered the years 2011 through 2015 and was presented to the State Employees' Retirement Board in March 2016. The approved recommendations from that study were used to determine the assumptions for this valuation, where applicable. The inflation assumption was selected by the SERS Board during an April of 2017 meeting based on a review of actual plan experience and the prevalent economic outlook. Consistent with prior valuations, these demographic assumptions assume beginning of year decrements (retirement, withdrawal, death, disability, etc.). In addition, Deloitte periodically reviews actuarial assumptions only applicable to the postemployment medical plan outside of the experience study, such as medical trend rates and age-graded medical rates.

One significant assumption where the recommendation of the experience study is not applicable to this retiree health benefit valuation is the discount rate. Since RPSPP has insufficient assets to meet next year's projected benefit payments, as prescribed by GASB Nos. 74 and 75, the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index. The discount rate is 3.50% as of June 30, 2019 (3.87% as of June 30, 2018).

The treatment of Medicare Part D in this report is consistent with our understanding of the GASB technical bulletin 2006-1 issued in June 2006, which states that Medicare Part D subsidy payments should not be reflected under GASB No. 75.

The actuarial methods and assumptions are described in the Basis of the Valuation section of this report.

Summary of Actuarial Valuation

This section provides a summary of the actuarial valuation results for the plan. All information is provided as of the measurement date except for the census data. The valuation results as of the June 30, 2018 measurement date were based on December 31, 2017 census data, and valuation results as of the June 30, 2019 measurement date were based on December 31, 2018 census data. All liabilities are net of expected retiree contributions.

(All dollar amounts are in thousands)

| Measurement Date | June 30, 2019 | June 30, 2018 |
|---|----------------------|----------------------|
| Total OPEB Liability | \$ 5,787,345 | \$ 5,981,598 |
| Plan Fiduciary Net Position | \$ 100,742 | \$ 96,357 |
| Net OPEB Liability | \$ 5,686,603 | \$ 5,885,241 |
| Plan Fiduciary Net Position As A Percentage Of Total OPEB Liability | 1.7% | 1.6% |
| Net OPEB Liability As A Percentage Of Covered Employee Payroll | 1391.6% | 1519.8% |
| Discount Rate | 3.50% | 3.87% |
| Participant Counts | | |
| Active Participants | 4,326 | 4,304 |
| Retired Participants* | <u>5,211</u> | <u>5,067</u> |
| Total | 9,537 | 9,371 |
| Covered Employee Payroll | \$ 408,648 | \$ 387,245 |

* Retired participants include retirees, disabled participants, and surviving family members.

GASB Nos. 74 and 75 Disclosures

GASB Nos. 74 and 75 requires disclosure of notes to the financial statements and required supplementary information that includes information shown in this section. The valuation results as of the June 30, 2018 measurement date were based on December 31, 2017 census data and employer contributions for the fiscal year ended June 30, 2018. The valuation results as of the June 30, 2019 measurement date were based on December 31, 2018 census data and employer contributions for the fiscal year ended June 30, 2019.

Schedule of Changes in Net OPEB Liability

(All dollar amounts are in thousands)

| | Discount Rate | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
|---|---------------|--------------------------|---------------------------------|----------------------------|
| Measurement Date of June 30, 2018 | 3.87% | \$ 5,981,598 | \$ 96,357 | \$ 5,885,241 |
| Service Cost | | 145,817 | | 145,817 |
| Interest | | 234,405 | | 234,405 |
| Changes In Benefit Terms | | - | | - |
| Changes In Assumptions - Discount Rate | | 318,155 | | 318,155 |
| Changes In Assumptions - Others | | (21,720) | | (21,720) |
| Differences Between Expected And Actual Experience | | (728,659) | | (728,659) |
| Benefit Payments | | | | |
| Insurance Premiums - Employer Paid | \$ (142,251) | | | |
| Insurance Premiums - Retiree Paid | (1,072) | | | |
| Total | | (143,323) | (143,323) | - |
| GASB 75 Defined Employer Contributions | \$ 142,292 | | 142,292 | (142,292) |
| Contributions - Employee | | | 0 | - |
| Contributions - Retiree | | 1,072 | 1,072 | - |
| Administrative Expenses | | | (510) | 510 |
| Net Investment Income | | | | |
| Expected Investment Earnings | \$ 4,806 | | | |
| Differences Between Projected And Actual Investment Earnings | 48 | | | |
| Total | | | 4,854 | (4,854) |
| Net Change | | \$ (194,253) | \$ 4,385 | \$ (198,638) |
| Measurement Date of June 30, 2019 | 3.50% | \$ 5,787,345 | \$ 100,742 | \$ 5,686,603 |
| Measurement Date | | | June 30, 2019 | June 30, 2018 |
| Plan Fiduciary Net Position As A Percentage Of Total OPEB Liability | | | 1.7% | 1.6% |
| Covered Employee Payroll | | | \$ 408,648 | \$ 387,245 |
| Net OPEB Liability As A Percentage Of Covered Employee Payroll | | | 1391.6% | 1519.8% |
| Sensitivity of Liability to Changes in Discount Rate | | | \$ Change | % Change |
| A one percentage point change in discount rate would have the following effect on Total OPEB Liability as of June 30, 2019: | | | | |
| 1 Percentage Increase (4.50%) | | | \$ (807,915) | -14% |
| 1 Percentage Decrease (2.50%) | | | \$ 1,016,261 | 18% |
| Net OPEB Liability at a one percentage point change in discount rate as of June 30, 2019 is as follows: | | | | Net OPEB Liability |
| 1 Percentage Increase (4.50%) | | | | \$ 4,878,688 |
| 1 Percentage Decrease (2.50%) | | | | \$ 6,702,864 |
| Sensitivity of Liability to Changes in Trend Rate | | | \$ Change | % Change |
| A one percentage point change in trend rate would have the following effect on Total OPEB Liability as of June 30, 2019: | | | | |
| 1 Percentage Increase (7.0% / 6.9% grading to 5.1%) | | | \$ 1,007,314 | 17% |
| 1 Percentage Decrease (5.0% / 4.9% grading to 3.1%) | | | \$ (800,332) | -14% |
| Net OPEB Liability at a one percentage point change in trend rate as of June 30, 2019 is as follows: | | | | Net OPEB Liability |
| 1 Percentage Increase (7.0% / 6.9% grading to 5.1%) | | | | \$ 6,693,917 |
| 1 Percentage Decrease (5.0% / 4.9% grading to 3.1%) | | | | \$ 4,886,271 |
| Key Assumptions | | | June 30, 2019 | June 30, 2018 |
| Discount Rate | | | 3.50% | 3.87% |
| Investment Rate of Return | | | 5.00% | 5.00% |
| Inflation | | | 2.60% | 2.60% |
| Initial Medical Trend Rate | 6 | | 6.0% / 5.9% | 6.2% / 5.9% |
| Ultimate Medical Trend Rate | | | 4.1% | 4.1% |
| Year Ultimate Trend Rate Reached | | | 2075 | 2075 |

**Development of OPEB Expense for Fiscal Year Ending June 30, 2020
(Measurement Year June 30, 2019)**

(All dollar amounts are in thousands)

| Components of OPEB Expense | Measurement Year Ended 06/30/2019 | Measurement Year Ended 06/30/2018 |
|---|--|--|
| Service Cost | \$ 145,817 | \$ 161,103 |
| Interest | 234,405 | 225,601 |
| Expected Investment Earnings | (4,806) | (4,535) |
| Contributions - Employee | - | - |
| Administrative Expenses | 510 | 473 |
| Changes In Benefit Terms | - | - |
| Recognition of Current Period Deferred Outflows and (Inflows) | | |
| Changes in assumptions | 49,242 | (46,544) |
| Differences between expected and actual experience | (121,040) | (34,583) |
| Differences between expected and actual investment earnings | (10) | (836) |
| Recognition of Beginning Deferred Outflows | - | - |
| Recognition of Beginning Deferred Inflows | (224,110) | (142,147) |
| OPEB Expense | \$ 80,008 | \$ 158,532 |
| | | |
| Assumptions Used to Determine OPEB Expense | Measurement Year Ended 06/30/2019 | Measurement Year Ended 06/30/2018 |
| Assumptions as of Measurement Date* | 6/30/2018 | 6/30/2017 |
| Discount Rate | 3.87% | 3.58% |
| Investment Rate of Return | 5.00% | 5.00% |
| Inflation | 2.60% | 2.60% |
| Initial Medical Trend Rate | 6.2% / 5.9% | 6.0% |
| Ultimate Medical Trend Rate | 4.1% | 3.9% |
| Year Ultimate Trend Rate Reached | 2075 | 2075 |

* Per Q&A 4.114 and 4.115 of GASB Implementation Guide No. 2017-3, Service Cost and Interest are determined "based on the results of the actuarial valuation that determined the beginning net OPEB liability".

Schedule of Deferred Outflows and Deferred Inflows of Resources

(All dollar amounts are in thousands)

| Measurement Date Established | Initial Amount | Deferred Outflows of Resources as of 06/30/2019 | Deferred (Inflows) of Resources as of 06/30/2019* | Initial Years | Remaining Years | Outflows/(Inflows) Recognized in Measurement Year Ended 06/30/2019 |
|--|----------------|---|---|---------------|--------------------|---|
| Changes In Assumptions | | | | | | |
| 06/30/2017 | \$ (803,662) | \$ - | \$ (381,424) | 5.71 | 2.71 | \$ (140,746) |
| 06/30/2018 | \$ (272,746) | \$ - | \$ (179,658) | 5.86 | 3.86 | \$ (46,544) |
| 06/30/2019 | \$ 296,435 | \$ 247,193 | \$ - | 6.02 | 5.02 | \$ 49,242 |
| Total | | \$ 247,193 | \$ (561,082) | | | \$ (138,048) |
| Differences Between Expected And Actual Plan Experience | | | | | | |
| 06/30/2017 | \$ - | \$ - | \$ - | - | - | \$ - |
| 06/30/2018 | \$ (202,655) | \$ - | \$ (133,489) | 5.86 | 3.86 | \$ (34,583) |
| 06/30/2019 | \$ (728,659) | \$ - | \$ (607,619) | 6.02 | 5.02 | \$ (121,040) |
| Total | | \$ - | \$ (741,108) | | | \$ (155,623) |
| Net Difference Between Projected And Actual Earnings On Investments | | | | | | |
| 06/30/2017 | \$ (7,006) | \$ - | \$ (2,803) | 5.00 | 2.00 | \$ (1,401) |
| 06/30/2018 | \$ (4,179) | \$ - | \$ (2,507) | 5.00 | 3.00 | \$ (836) |
| 06/30/2019 | \$ (48) | \$ - | \$ (38) | 5.00 | 4.00 | \$ (10) |
| Total | | \$ - | \$ (5,348) | | | \$ (2,247) |
| Contributions subsequent to measurement date* | | | | | | |
| To be determined by each participating employer. | | | | | | |
| Balance as of 06/30/2019 Measurement Date | | \$ 247,193 | \$ (1,307,538) | | | \$ (295,918) |
| * Reflects employer contributions made subsequent to 06/30/2019. This will be recognized as a reduction in Net OPEB Liability next year. | | | | | | |
| Deferred Outflows And Deferred (Inflows) Of Resources Will Be Recognized In Expense As Follows: | | | | | | |
| Measurement Year Ending: | | | | | | Outflows/(Inflows) |
| 06/30/2020 | | | | | | \$ (295,918) |
| 06/30/2021 | | | | | | (295,919) |
| 06/30/2022 | | | | | | (253,702) |
| 06/30/2023 | | | | | | (141,572) |
| 06/30/2024 | | | | | | (71,798) |
| Thereafter | | | | | | (1,436) |

* Deferred (Inflows) should be disclosed as positive numbers in the CAFR.

10-Year Schedule of Net OPEB Liability

(All dollar amounts are in thousands)

| Measurement Year Ended | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (c) | Plan Fiduciary Net Position As A Percentage Of Total OPEB Liability (d) | Covered Employee Payroll (e) | Net OPEB Liability As A Percentage Of Covered Employee Payroll (f) |
|------------------------|--------------------------|---------------------------------|------------------------|---|------------------------------|--|
| | | | (a)-(b) | (b)/(a) | | (c)/(e) |
| June 30, 2016 | \$6,746,387 | \$82,532 | \$6,663,855 | 1.2% | N/A | N/A |
| June 30, 2017 | \$6,209,658 | \$93,666 | \$6,115,992 | 1.5% | \$386,602 | 1582.0% |
| June 30, 2018 | \$5,981,598 | \$96,357 | \$5,885,241 | 1.6% | \$387,245 | 1519.8% |
| June 30, 2019 | \$5,787,345 | \$100,742 | \$5,686,603 | 1.7% | \$408,648 | 1391.6% |

Participating Employers Results

The RPSPP is a single-employer defined-benefit OPEB Plan that is established and sponsored by the Commonwealth. There are several employers, all fund types within the primary government, that participate in the RPSPP. The results for each participating employer was provided in a separate excel workbook.

Each fund type and business area's allocated share was determined based on their contractually required contribution towards RPSPP relative to the total population during the period ending on the measurement date. The employer contractually required contribution towards RPSPP is different from the GASB No. 75 defined employer contribution. Each fund type and business area's GASB No. 75 defined employer contribution was determined based on their respective allocated share of the total trust eligible employer contribution during the period ending on the measurement date.

Basis for the Valuation

Plan Participation Summary

The participant data used in the valuation was provided by the Commonwealth as of December 31, 2018. While the participant data was checked for reasonableness, the data was not audited, and the valuation results presented in this report are dependent upon the accuracy of the participant data provided. This section presents a summary of the basic participant information for the active and retired participants covered under the terms of the Plan.

| | | |
|---------------------------|--------------|--------------|
| a. Active Participants | | |
| Total Counts | | 4,326 |
| Average Age | | 38.18 |
| Average Service | | 11.76 |
| b. Retired Participants | | |
| | Employees* | Spouses |
| Counts | | |
| Under Age 65 Non-Medicare | 2,663 | 2,297 |
| Over Age 65 Non-Medicare | 442 | 58 |
| Under Age 65 Medicare | 15 | 82 |
| Over age 65 Medicare | <u>2,091</u> | <u>1,726</u> |
| Total Counts | 5,211 | 4,163 |
| Average Age | 64.75 | |
| c. Total Participants** | | |
| | 9,537 | |

* Employees include retirees and 117 surviving spouses with minimal liability

** Total participant count excludes dependent spouses

Plan Participation Summary (cont.)

Distribution of Service Groups by Age Groups

| Age Group | Retired Participants | Active Participants - Years of Service | | | | | | | Total |
|--------------|----------------------|--|------------|------------|------------|------------|------------|-----------|--------------|
| | | 0 - 4 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30+ | |
| <20 | - | - | - | - | - | - | - | - | - |
| 20-24 | - | 136 | - | - | - | - | - | - | 136 |
| 25-29 | 1 | 639 | 135 | - | - | - | - | - | 774 |
| 30-34 | 1 | 341 | 417 | 137 | - | - | - | - | 895 |
| 35-39 | 1 | 85 | 162 | 396 | 91 | 1 | - | - | 735 |
| 40-44 | 6 | 15 | 47 | 200 | 226 | 66 | 1 | - | 555 |
| 45-49 | 417 | - | 8 | 89 | 196 | 484 | 67 | - | 844 |
| 50-54 | 1,107 | - | - | 24 | 63 | 169 | 71 | 12 | 339 |
| 55-59 | 719 | - | - | - | 7 | 13 | 5 | 22 | 47 |
| 60-64 | 426 | - | - | - | - | - | - | 1 | 1 |
| 65-69 | 307 | - | - | - | - | - | - | - | - |
| 70-74 | 1,063 | - | - | - | - | - | - | - | - |
| 75-79 | 731 | - | - | - | - | - | - | - | - |
| 80-84 | 261 | - | - | - | - | - | - | - | - |
| 85-89 | 116 | - | - | - | - | - | - | - | - |
| 90+ | 55 | - | - | - | - | - | - | - | - |
| Total | 5,211 | 1,216 | 769 | 846 | 583 | 733 | 144 | 35 | 4,326 |

Participant Reconciliation

| | <u>Active</u> | <u>Retirees</u> | <u>Beneficiaries</u> | <u>Total</u> |
|---------------------------------------|---------------|-----------------|----------------------|--------------|
| Beginning of Year (12/31/2017) | 4,304 | 4,952 | 115 | 9,371 |
| New Hire | 284 | 0 | 0 | 284 |
| Opt-In | 0 | 0 | 0 | 0 |
| New Retiree/Beneficiary | (242) | 242 | 14 | 14 |
| Death/Termination/Opt-Out | <u>(20)</u> | <u>(100)</u> | <u>(12)</u> | <u>(132)</u> |
| End of Year (12/31/2018) | 4,326 | 5,094 | 117 | 9,537 |

Program Provisions Summary

This section summarizes overall eligibility provisions for postemployment medical coverage and the various plans offered by the Commonwealth.

Note that in some cases the benefit programs offered to retirees are different based on date of retirement. The provisions shown below summarize the plan designs for the most recent retirees. All older “grandfathered” plan designs are not shown in this document.

Eligibility

Permanent enlisted employees of the Pennsylvania State Police who retire from the state and meet one of the following eligibility criteria are eligible to receive RPSPP benefits

- Superannuation retirement (excluding vestees) – age 50 (age 55 for employees subject to Act 120 of 2010) with three years of service;
- Retirement with at least 25 years of service;
- Retirement with at least 20 but less than 25 years of service, with at least 10 years of enlisted service with State Police (Military time, civilian service and service with another agency are not considered service with the State Police);
- Disability retirement – no service requirement.

Covered Family Members

Spouses and dependents are eligible for postemployment medical coverage while the retiree is alive. The PPACA, signed into law on March 23, 2010, increased the dependent child age limit to age 26 and applied to the Commonwealth effective January 1, 2011.

Retiree Contribution

The Commonwealth pays the full cost of postemployment medical, dental, and Part B coverage while the retiree is alive.

Surviving spouses of deceased retirees may continue to participate in the plan (receive medical, Rx, and Part B coverage, but not dental) if they pay the full cost of the coverage.

Program Provisions Summary (cont.)

Medical Plans

The following tables list the medical plans offered to retirees and provide the basic benefit provisions.

| Medical | Benefit Provisions | Eligibility | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|-------------|----------------------------------|--|------------------|----------------------|---|-----------|-----------------|------------------|------|------------|-----------------------------------|---------------------|---------------------------------------|-------------|-----|-----------|-----|------------------|------|---|----------------------------------|---------------------|------------------|-------------|---|-----------|---|------------------|------|---|
| PPO | <p><u>In Network</u></p> <table border="0"> <tr> <td>Deductible</td> <td>None</td> </tr> <tr> <td>Out-of-Pocket Limit</td> <td>None</td> </tr> <tr> <td>Doctor Office Visits</td> <td>PCP: \$15 co-pay Specialist: \$25 co-pay</td> </tr> <tr> <td>Inpatient</td> <td>Covered in full</td> </tr> <tr> <td>Lifetime Maximum</td> <td>None</td> </tr> </table> <p><u>Out of Network</u></p> <table border="0"> <tr> <td>Deductible</td> <td>\$250 Individual; \$750 Family</td> </tr> <tr> <td>Out-of-Pocket Limit</td> <td>\$1,500 Individual; \$3,000 Family</td> </tr> <tr> <td>Coinsurance</td> <td>20%</td> </tr> <tr> <td>Inpatient</td> <td>20%</td> </tr> <tr> <td>Lifetime Maximum</td> <td>None</td> </tr> </table> | Deductible | None | Out-of-Pocket Limit | None | Doctor Office Visits | PCP: \$15 co-pay Specialist: \$25 co-pay | Inpatient | Covered in full | Lifetime Maximum | None | Deductible | \$250 Individual; \$750 Family | Out-of-Pocket Limit | \$1,500 Individual; \$3,000 Family | Coinsurance | 20% | Inpatient | 20% | Lifetime Maximum | None | <p>Annuitants retired from the State Police and their eligible dependents. Retirees hired on or after April 21, 2005 may only enroll in the PPOBlue plan.</p> | | | | | | | | | | |
| Deductible | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Out-of-Pocket Limit | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Doctor Office Visits | PCP: \$15 co-pay Specialist: \$25 co-pay | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inpatient | Covered in full | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lifetime Maximum | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deductible | \$250 Individual; \$750 Family | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Out-of-Pocket Limit | \$1,500 Individual; \$3,000 Family | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coinsurance | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inpatient | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lifetime Maximum | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Traditional Plan (Major Medical) | <p><u>Retired prior to 7/1/07</u></p> <table border="0"> <tr> <td>Deductible</td> <td>\$100 Individual \$300 Family</td> </tr> <tr> <td>Out-of-Pocket Limit (excluding deductible)</td> <td>\$380 Individual</td> </tr> <tr> <td>Coinsurance</td> <td>20%</td> </tr> <tr> <td>Inpatient</td> <td>20%</td> </tr> <tr> <td>Lifetime Maximum</td> <td>None</td> </tr> </table> <p><u>Retired on or after 7/1/07 and before 1/12/2018</u></p> <table border="0"> <tr> <td>Deductible</td> <td>\$250 Individual \$750 Family</td> </tr> <tr> <td>Out-of-Pocket Limit</td> <td>\$380 Individual</td> </tr> <tr> <td>Coinsurance</td> <td>20%</td> </tr> <tr> <td>Inpatient</td> <td>20%</td> </tr> <tr> <td>Lifetime Maximum</td> <td>None</td> </tr> </table> <p><u>Retired on or after 1/12/2018</u></p> <table border="0"> <tr> <td>Deductible</td> <td>\$250 Individual \$750 Family</td> </tr> <tr> <td>Out-of-Pocket Limit</td> <td>\$380 Individual</td> </tr> <tr> <td>Coinsurance</td> <td>20% (0% after annual Out-of-Pocket Limit reached)</td> </tr> <tr> <td>Inpatient</td> <td>20% (0% after annual Out-of-Pocket Limit reached)</td> </tr> <tr> <td>Lifetime Maximum</td> <td>None</td> </tr> </table> | Deductible | \$100 Individual \$300 Family | Out-of-Pocket Limit (excluding deductible) | \$380 Individual | Coinsurance | 20% | Inpatient | 20% | Lifetime Maximum | None | Deductible | \$250 Individual \$750 Family | Out-of-Pocket Limit | \$380 Individual | Coinsurance | 20% | Inpatient | 20% | Lifetime Maximum | None | Deductible | \$250 Individual \$750 Family | Out-of-Pocket Limit | \$380 Individual | Coinsurance | 20% (0% after annual Out-of-Pocket Limit reached) | Inpatient | 20% (0% after annual Out-of-Pocket Limit reached) | Lifetime Maximum | None | <p>Annuitants retired from the State Police and their eligible dependents</p> |
| Deductible | \$100 Individual \$300 Family | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Out-of-Pocket Limit (excluding deductible) | \$380 Individual | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coinsurance | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inpatient | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lifetime Maximum | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deductible | \$250 Individual \$750 Family | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Out-of-Pocket Limit | \$380 Individual | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coinsurance | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inpatient | 20% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lifetime Maximum | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deductible | \$250 Individual \$750 Family | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Out-of-Pocket Limit | \$380 Individual | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Coinsurance | 20% (0% after annual Out-of-Pocket Limit reached) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Inpatient | 20% (0% after annual Out-of-Pocket Limit reached) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Lifetime Maximum | None | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Program Provisions Summary (cont.)

Medical Plans (cont.)

| | | | |
|--|--|--|---|
| Traditional Plan (Facility Program) | Deductible Out-of-Pocket Limit Doctor Office Visits Inpatient Lifetime Maximum | None N/A Not Covered Covered in full N/A | Non-Medicare eligible annuitants retired from the State Police and their non-Medicare eligible dependents |
| Traditional Plan (Professional Program) | Deductible Out-of-Pocket Limit Doctor Office Visits Inpatient Lifetime Maximum | None N/A 100% (\$25 deductible post-1/12/2018 2018 Retirees) Not Covered N/A | Non-Medicare eligible annuitants retired from the State Police and their non-Medicare eligible dependents |

Prescription Drug

The co-payments for all prescriptions covered by the plan are:

Retail (30-day supply): \$10 Generic / \$20 Preferred* / \$30 Non-Preferred*

Mail Order (90-day supply): \$20 Generic / \$30 Preferred* / \$50 Non-Preferred*

*Plus the cost difference between the brand and the generic, if one exists.

Medicare Part B Reimbursement

For employees hired on or after April 21, 1986, the Commonwealth reimburses the cost of Medicare Part B premium.

Employees hired before April 21, 1986 were not required to enroll in Medicare Part B.

Dental

The basic benefit provisions are:

- Basic diagnostic and preventive work, restorations, endodontics, periodontics, oral surgery and prosthodontics: 100% UCR
- Orthodontics: 70% UCR (dependents under age 19 only)
- Orthodontics lifetime maximum for dependent children: \$1,250

Changes in Program Provisions

None.

Actuarial Methods

Actuarial Cost Method

The Actuarial Cost Method used to determine the Total OPEB Liability is the Entry Age Normal (EAN) method as prescribed by GASB Nos. 74 and 75. This method is in the family of future benefit cost methods, which requires an estimate of the projected benefit payable at retirement to determine costs and liabilities.

The Normal Cost (or Service Cost) is the annual allocation required for each participant from entry date to the assumed retirement date so that the accumulated allocation at retirement is equal to the liability for the projected benefit. The projected benefits are based on estimates of future years of service and projected health benefit costs. The normal cost is developed as a level percent of compensation as prescribed by GASB Nos. 74 and 75.

The Present Value of Future Benefits is equal to the value of the projected benefit payable at retirement discounted back to the participant's current age. Discounts include such items as interest and mortality. The present value of future normal cost allocations is equal to the discounted value of the normal costs allocated from the participant's current age to retirement age.

The difference between the Present Value of Future Benefits and the Present Value of Future Normal Cost allocations represents the Total OPEB Liability at the participant's current age.

The Total OPEB Liability for participants currently receiving payments is calculated as the actuarial present value of future benefits expected to be paid. No normal cost is allocated for these participants.

Financial and Census Data

The Commonwealth of Pennsylvania provided the participant data, financial information and plan descriptions used in this valuation. The actuary has checked the data for reasonableness but has not independently audited the data. The actuary has no reason to believe the data is not complete and accurate and knows of no further information that is essential to the preparation of the actuarial valuation.

Plan Fiduciary Net Position

Market value of assets as of the measurement date.

Census Date

December 31, 2018 for June 30, 2019 measurements.

Measurement Date

June 30, 2019 for fiscal year ended June 30, 2019 trust financial statements (GASB No. 74) and for fiscal year ending June 30, 2020 participating employer financial statements (measurement date as of the end of the prior fiscal year end for GASB No. 75).

Changes in Methods

None.

Actuarial Assumptions

Economic Assumptions

The economic assumptions were selected for consistency with SERS where applicable. The discount rate was selected based on the requirements prescribed in GASB Nos. 74 and 75.

| Discount Rate | <p>3.50% as of June 30, 2019</p> <p>3.87% as of June 30, 2018</p> <p>Since RPSPP has insufficient assets to meet next year's projected benefit payments, as prescribed by GASB Nos. 74 and 75, the discount rate will be based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The Commonwealth elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------------------|--|----------------------------|-----------------|----------------------------|-----------------|---|-------|----|-------|---|------|----|------|---|------|----|------|---|------|----|------|---|------|----|------|---|------|----|------|---|------|----|------|---|------|----|------|---|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|----|------|-----|------|
| Inflation¹ | 2.60% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Payroll Growth¹ | 2.90% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Salary Scale¹ | <p>The career salary scale shown below includes average increases in the employee salary due to promotions and longevity growth. The average career salary growth is 2.65 percent per year. In addition, it is assumed that the salary schedules will increase by 2.90 percent per year. The scale below does not include the assumed 2.90 percent general salary increase.</p> <p><u>Career Salary Scale for Members</u></p> <table border="1"> <thead> <tr> <th>Completed Years of Service</th> <th>Annual Increase</th> <th>Completed Years of Service</th> <th>Annual Increase</th> </tr> </thead> <tbody> <tr><td>1</td><td>6.00%</td><td>16</td><td>2.10%</td></tr> <tr><td>2</td><td>4.50</td><td>17</td><td>2.05</td></tr> <tr><td>3</td><td>4.00</td><td>18</td><td>2.00</td></tr> <tr><td>4</td><td>3.75</td><td>19</td><td>1.95</td></tr> <tr><td>5</td><td>3.50</td><td>20</td><td>1.90</td></tr> <tr><td>6</td><td>3.25</td><td>21</td><td>1.85</td></tr> <tr><td>7</td><td>3.00</td><td>22</td><td>1.75</td></tr> <tr><td>8</td><td>2.90</td><td>23</td><td>1.65</td></tr> <tr><td>9</td><td>2.80</td><td>24</td><td>1.55</td></tr> <tr><td>10</td><td>2.70</td><td>25</td><td>1.45</td></tr> <tr><td>11</td><td>2.60</td><td>26</td><td>1.25</td></tr> <tr><td>12</td><td>2.50</td><td>27</td><td>1.05</td></tr> <tr><td>13</td><td>2.40</td><td>28</td><td>0.90</td></tr> <tr><td>14</td><td>2.30</td><td>29</td><td>0.85</td></tr> <tr><td>15</td><td>2.20</td><td>30+</td><td>0.80</td></tr> </tbody> </table> | Completed Years of Service | Annual Increase | Completed Years of Service | Annual Increase | 1 | 6.00% | 16 | 2.10% | 2 | 4.50 | 17 | 2.05 | 3 | 4.00 | 18 | 2.00 | 4 | 3.75 | 19 | 1.95 | 5 | 3.50 | 20 | 1.90 | 6 | 3.25 | 21 | 1.85 | 7 | 3.00 | 22 | 1.75 | 8 | 2.90 | 23 | 1.65 | 9 | 2.80 | 24 | 1.55 | 10 | 2.70 | 25 | 1.45 | 11 | 2.60 | 26 | 1.25 | 12 | 2.50 | 27 | 1.05 | 13 | 2.40 | 28 | 0.90 | 14 | 2.30 | 29 | 0.85 | 15 | 2.20 | 30+ | 0.80 |
| Completed Years of Service | Annual Increase | Completed Years of Service | Annual Increase | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | 6.00% | 16 | 2.10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | 4.50 | 17 | 2.05 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | 4.00 | 18 | 2.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | 3.75 | 19 | 1.95 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | 3.50 | 20 | 1.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 | 3.25 | 21 | 1.85 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 | 3.00 | 22 | 1.75 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 | 2.90 | 23 | 1.65 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | 2.80 | 24 | 1.55 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10 | 2.70 | 25 | 1.45 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 11 | 2.60 | 26 | 1.25 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 12 | 2.50 | 27 | 1.05 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 13 | 2.40 | 28 | 0.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 14 | 2.30 | 29 | 0.85 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 15 | 2.20 | 30+ | 0.80 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

¹ For consistency with the pension plan of which these participants are members, these assumptions are based on those used for the SERS Actuarial Valuation Report as of December 31, 2018 and experience study presented to the Board in March 2016.

Actuarial Assumptions (cont.)

Demographic Assumptions

The demographic assumptions were selected for consistency with SERS where applicable. The retiree health specific assumptions were selected based on recent experience.

| Mortality¹ | <p>Pre-Retirement Mortality:</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr> <td>20</td> <td>0.04%</td> <td>0.02%</td> </tr> <tr> <td>25</td> <td>0.04</td> <td>0.02</td> </tr> <tr> <td>30</td> <td>0.05</td> <td>0.02</td> </tr> <tr> <td>35</td> <td>0.06</td> <td>0.03</td> </tr> <tr> <td>40</td> <td>0.09</td> <td>0.04</td> </tr> <tr> <td>45</td> <td>0.13</td> <td>0.06</td> </tr> <tr> <td>50</td> <td>0.24</td> <td>0.09</td> </tr> <tr> <td>55</td> <td>0.29</td> <td>0.14</td> </tr> <tr> <td>60</td> <td>0.35</td> <td>0.24</td> </tr> </tbody> </table> <p>Post Retirement Mortality:</p> <p>Healthy Participants: The RP-2000 Male and Female Combined Healthy Mortality Tables projected (using Projection Scale AA) to 2016 for males and to 2020 for females, and then further adjusted to ensure sufficient margin improvement in certain age ranges. Each table includes a margin for future improvement in life expectancy.</p> <p>Disabled Participants: The RP-2000 Male and Female Disabled Retiree Mortality Tables projected (using Projection Scale AA) to 2021 for males and to 2017 for females. Each table includes a margin for future improvement in life expectancy.</p> | Age | Male | Female | 20 | 0.04% | 0.02% | 25 | 0.04 | 0.02 | 30 | 0.05 | 0.02 | 35 | 0.06 | 0.03 | 40 | 0.09 | 0.04 | 45 | 0.13 | 0.06 | 50 | 0.24 | 0.09 | 55 | 0.29 | 0.14 | 60 | 0.35 | 0.24 |
|---|---|------------------|------|--------|------|-------|-------|----|------|------|-----|------|------|----|------|------|-----|------|------|----|------|------|-----|------|------|----|------|------|----|------|------|
| Age | Male | Female | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 20 | 0.04% | 0.02% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 25 | 0.04 | 0.02 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 | 0.05 | 0.02 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 35 | 0.06 | 0.03 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 40 | 0.09 | 0.04 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 45 | 0.13 | 0.06 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 50 | 0.24 | 0.09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 55 | 0.29 | 0.14 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 60 | 0.35 | 0.24 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Disability Incidence¹ | <p>Pre-Retirement Disability:</p> <table border="1"> <thead> <tr> <th>Age</th> <th>Male</th> <th>Female</th> </tr> </thead> <tbody> <tr> <td>25</td> <td>0.02%</td> <td>0.04%</td> </tr> <tr> <td>30</td> <td>0.06</td> <td>0.09</td> </tr> <tr> <td>35</td> <td>0.11</td> <td>0.14</td> </tr> <tr> <td>40</td> <td>0.17</td> <td>0.19</td> </tr> <tr> <td>45</td> <td>0.30</td> <td>0.30</td> </tr> <tr> <td>50</td> <td>0.42</td> <td>0.45</td> </tr> <tr> <td>55</td> <td>0.55</td> <td>0.57</td> </tr> </tbody> </table> | Age | Male | Female | 25 | 0.02% | 0.04% | 30 | 0.06 | 0.09 | 35 | 0.11 | 0.14 | 40 | 0.17 | 0.19 | 45 | 0.30 | 0.30 | 50 | 0.42 | 0.45 | 55 | 0.55 | 0.57 | | | | | | |
| Age | Male | Female | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 25 | 0.02% | 0.04% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 | 0.06 | 0.09 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 35 | 0.11 | 0.14 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 40 | 0.17 | 0.19 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 45 | 0.30 | 0.30 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 50 | 0.42 | 0.45 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 55 | 0.55 | 0.57 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Withdrawal¹ | <table border="1"> <thead> <tr> <th>Years of Service</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>9.0%</td> </tr> <tr> <td>1</td> <td>4.0</td> </tr> <tr> <td>2</td> <td>3.0</td> </tr> <tr> <td>3</td> <td>3.0</td> </tr> <tr> <td>4</td> <td>2.0</td> </tr> <tr> <td>5</td> <td>1.0</td> </tr> <tr> <td>6</td> <td>1.0</td> </tr> <tr> <td>7</td> <td>0.5</td> </tr> <tr> <td>8</td> <td>0.5</td> </tr> <tr> <td>9</td> <td>0.5</td> </tr> <tr> <td>10+</td> <td>0.2</td> </tr> </tbody> </table> | Years of Service | Rate | 0 | 9.0% | 1 | 4.0 | 2 | 3.0 | 3 | 3.0 | 4 | 2.0 | 5 | 1.0 | 6 | 1.0 | 7 | 0.5 | 8 | 0.5 | 9 | 0.5 | 10+ | 0.2 | | | | | | |
| Years of Service | Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 0 | 9.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | 4.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | 3.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | 3.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | 2.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5 | 1.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6 | 1.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7 | 0.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8 | 0.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 9 | 0.5 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 10+ | 0.2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

¹ For consistency with the pension plan of which these participants are members, these assumptions are based on those used for the SERS Actuarial Valuation Report as of December 31, 2018 and experience study presented to the Board in March 2016.

Actuarial Assumptions (cont.)

| <p>Early Retirement¹ (based on early retirement as defined by SERS; retirement prior to OPEB eligibility, as described above in the Program Provisions Summary section, will receive no postemployment health benefit)</p> | <p>1.4% at each age</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|-----|------|---------|-------|---------|------|----|------|---------|------|----|-------|------------------|------|----------|------|-----|------|----|------|-------|------|----|------|-------|------|---------|------|-----|-------|
| <p>Normal Retirement¹ (based on normal retirement as defined by SERS; retirement prior to OPEB eligibility, as described above in the Program Provisions Summary section, will receive no postemployment health benefit)</p> | <p>State Police with less than 19 years of service</p> <table border="1" data-bbox="511 682 958 861"> <thead> <tr> <th>Age</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>50 – 59</td> <td>10.0%</td> </tr> <tr> <td>60 – 64</td> <td>10.0</td> </tr> <tr> <td>65</td> <td>27.0</td> </tr> <tr> <td>66 – 79</td> <td>32.0</td> </tr> <tr> <td>80</td> <td>100.0</td> </tr> </tbody> </table> <p>State Police with at least 19 years of service</p> <table border="1" data-bbox="511 913 950 1207"> <thead> <tr> <th>Years of Service</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>19* – 23</td> <td>1.0%</td> </tr> <tr> <td>24*</td> <td>50.0</td> </tr> <tr> <td>25</td> <td>70.0</td> </tr> <tr> <td>26-29</td> <td>40.0</td> </tr> <tr> <td>30</td> <td>50.0</td> </tr> <tr> <td>31-32</td> <td>40.0</td> </tr> <tr> <td>33 – 39</td> <td>50.0</td> </tr> <tr> <td>40+</td> <td>100.0</td> </tr> </tbody> </table> <p>* State Police with 19 and 24 years of service at the beginning of the year are assumed to retire at the point they reach 20 and 25 years respectively during the year and to receive the Fraternal Order of Police (FOP) award.</p> | Age | Rate | 50 – 59 | 10.0% | 60 – 64 | 10.0 | 65 | 27.0 | 66 – 79 | 32.0 | 80 | 100.0 | Years of Service | Rate | 19* – 23 | 1.0% | 24* | 50.0 | 25 | 70.0 | 26-29 | 40.0 | 30 | 50.0 | 31-32 | 40.0 | 33 – 39 | 50.0 | 40+ | 100.0 |
| Age | Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 50 – 59 | 10.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 60 – 64 | 10.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 65 | 27.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 66 – 79 | 32.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 80 | 100.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Years of Service | Rate | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 19* – 23 | 1.0% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 24* | 50.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 25 | 70.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 26-29 | 40.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 30 | 50.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 31-32 | 40.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 33 – 39 | 50.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 40+ | 100.0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Spouse Age Difference¹</p> | <p>Females are assumed to be 2 years younger than males.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Participation Rate</p> | <p>All eligible employees are required to participate in the active health plan and are assumed to elect coverage at retirement. Retirees who currently elect to waive their coverage are assumed to remain uncovered in the future.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Coverage Level Election Rates</p> | <p>Employees are assumed to maintain their current coverage election when they retire. Current retirees are assumed to continue their current coverage election.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Surviving Spouse Continuing Coverage</p> | <p>45% of spouses are assumed to elect to continue coverage after the retiree's death.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

¹ For consistency with the pension plan of which these participants are members, these assumptions are based on those used for the SERS Actuarial Valuation Report as of December 31, 2018 and experience study presented to the Board in March 2016.

Actuarial Assumptions (cont.)

Benefit Assumptions

Per Capita Claims Costs

The per capita claims costs used in the valuation were developed from self-insured claims experience and projected administrative expenses that represent the expected claims costs and administrative expenses for 2019.

The first-year per capita claims costs below are on a “net basis” – they reflect plan costs after reduction from the total benefit costs of the member cost-sharing (deductibles, coinsurance, co-pays, provider savings, Medicare, etc.). These claims were blended based on the current enrollment mix by plan, separately for the non-Medicare eligible and Medicare eligible population, resulting in an average claims cost per member. Average claims costs were age-graded using the retiree age and gender distribution, separately for the non-Medicare eligible and Medicare eligible population. These age-graded claims are the basis for projecting the gross cost for each individual, before member contributions for coverage. The aging factors are based on the Society of Actuaries age-curve study “Health Care Costs—From Birth to Death.” Future year per capita costs were projected by applying trend assumptions to the first-year costs.

Since the claims costs table below is specific to the experience of the Commonwealth's retirees (i.e., not blended with active employees) separately for non-Medicare and Medicare, there is no implicit subsidy. However, age-graded claims were developed to project the increases in costs related to aging for retirees, spouses, and surviving spouses.

For Non-Medicare eligible retirees hired on or after April 21, 2005, the Non-Medicare medical portion of the curve below is multiplied by a factor of .939 to reflect a difference in participation rates.

2019 Annual Per Capita Claims Costs

| <u>Age</u> | <u>Non-Medicare Eligible</u> | <u>Medicare Part A Eligible</u> | <u>Medicare Part A & B Eligible</u> |
|------------|------------------------------|---------------------------------|---|
| 45 | \$ 9,735 | \$ 19,064 | \$ 9,030 |
| 50 | 11,784 | 19,064 | 9,030 |
| 55 | 14,422 | 19,064 | 9,030 |
| 60 | 17,563 | 19,064 | 9,030 |
| 64 | 20,830 | 19,064 | 9,030 |
| 65 | 21,763 | 19,064 | 9,030 |
| 70 | 26,077 | 20,125 | 9,750 |
| 75 | 30,822 | 21,573 | 10,355 |
| 80 | 35,767 | 22,821 | 10,798 |
| 85 | 40,604 | 23,818 | 10,990 |
| 90 | 44,902 | 24,246 | 10,950 |
| 95 | 47,417 | 23,602 | 10,709 |

The table below illustrates calendar year 2019 dental rate included in the per capita claims costs table shown above.

| <u>Dental</u> | <u>Per Adult Member Per Year</u> |
|---------------|----------------------------------|
| | \$408.24 |

Expenses

Per Capita Claims Costs were developed to include administrative expenses.

Actuarial Assumptions (cont.)

| <p>Trend Rates</p> | <p>The trend rates illustrated below are used to project age-graded claims and flat rates into future years. Trend rates were developed based on the SOA-Getzen trend rate model version 2019_b (previously version 2018_c). 2019 trend assumption is based on preliminary estimates of calendar year 2020 claims experience. The 2020 through 2022 trend assumptions (before noted adjustments) were based on a review of the Commonwealth's historical trend rates from 2015 through 2018 emerging experience, separately for non-Medicare and Medicare benefits. The Commonwealth's experience along with industry surveys were used to predict short-term future per capita cost increases. The most recently published SOA-Getzen model was then used to determine the trend rates beginning in 2023 and thereafter, based on the plan's long-term inflation assumption and reasonable macro-economic assumptions for the growth of health care expenditures during this period relative to the general economy.</p> <table border="1" data-bbox="467 548 1195 1024"> <thead> <tr> <th rowspan="2">Year</th> <th colspan="2">January 1, 2019 Assumption</th> </tr> <tr> <th>Non-Medicare Benefits</th> <th>Medicare Benefits</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>6.0%*</td> <td>5.9%*</td> </tr> <tr> <td>2020</td> <td>5.9%</td> <td>5.8%</td> </tr> <tr> <td>2021</td> <td>5.8%</td> <td>5.7%</td> </tr> <tr> <td>2022</td> <td>5.7%</td> <td>5.6%</td> </tr> <tr> <td>2023</td> <td>5.6%</td> <td>5.6%</td> </tr> <tr> <td>2030</td> <td>5.4%</td> <td>5.4%</td> </tr> <tr> <td>2040</td> <td>5.4%</td> <td>5.4%</td> </tr> <tr> <td>2050</td> <td>5.1%</td> <td>5.1%</td> </tr> <tr> <td>2060</td> <td>4.9%</td> <td>4.9%</td> </tr> <tr> <td>2070</td> <td>4.5%</td> <td>4.5%</td> </tr> <tr> <td>2075+</td> <td>4.1%</td> <td>4.1%</td> </tr> </tbody> </table> <p>* The 2019 trend assumption was adjusted based on preliminary estimates of calendar year 2020 claims experience. The resulting adjusted 2019 trend rates were 1.4% and 3.7% for non-Medicare and Medicare, respectively.</p> | Year | January 1, 2019 Assumption | | Non-Medicare Benefits | Medicare Benefits | 2019 | 6.0%* | 5.9%* | 2020 | 5.9% | 5.8% | 2021 | 5.8% | 5.7% | 2022 | 5.7% | 5.6% | 2023 | 5.6% | 5.6% | 2030 | 5.4% | 5.4% | 2040 | 5.4% | 5.4% | 2050 | 5.1% | 5.1% | 2060 | 4.9% | 4.9% | 2070 | 4.5% | 4.5% | 2075+ | 4.1% | 4.1% |
|------------------------------------|---|-------------------|----------------------------|--|-----------------------|-------------------|------|-------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|------|------|
| Year | January 1, 2019 Assumption | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Non-Medicare Benefits | Medicare Benefits | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2019 | 6.0%* | 5.9%* | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2020 | 5.9% | 5.8% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2021 | 5.8% | 5.7% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2022 | 5.7% | 5.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2023 | 5.6% | 5.6% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2030 | 5.4% | 5.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2040 | 5.4% | 5.4% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2050 | 5.1% | 5.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2060 | 4.9% | 4.9% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2070 | 4.5% | 4.5% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2075+ | 4.1% | 4.1% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Excise Tax</p> | <p>Effective in the 2022 calendar year, an excise tax on "Cadillac Plans" will apply as a result of PPACA. HMOs and other healthcare insurers, who offer plans with a higher cost than the excise tax threshold, will be charged a 40% tax on the costs exceeding the threshold. Due to the expectation that the medical trend rate will significantly exceed inflation over the long-term, most retiree health plans will be affected by the excise tax at some point in the future. After adjusting the thresholds for the age and gender characteristics of the Commonwealth's policy holders, the excise tax is projected to have an impact of approximately 5% on the total OPEB liability. Claim costs are projected to exceed the excise tax threshold in year 2024.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Medicare Eligibility</p> | <p>Current non-Medicare eligible retirees and spouses (if covered) over age 65 are assumed to remain non-Medicare eligible.</p> <p>Current Medicare eligible retirees under age 65 are assumed to remain Medicare eligible.</p> <p>Current Medicare eligible retirees and spouses (if covered) hired before April 21, 1986 are assumed to be eligible for Medicare Part A only.</p> <p>Current non-Medicare eligible retirees and spouses (if covered) under age 65 and hired before April 21, 1986 and all actives hired before April 21, 1986 are assumed to be split with 70% eligible for Medicare Part A only and 30% not eligible for Medicare. This is based on recent experience, which shows that 70% of pre-1986 hires are able to gain Medicare eligibility through a spouse or prior employment.</p> <p>All other retirees and spouses (if covered) are assumed to be non-Medicare eligible prior to age 65 and Medicare eligible at age 65, unless their spouse is over age 65 and non-Medicare eligible.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Actuarial Assumptions (cont.)

| Coverage | <p>Current retirees are assumed to remain in their currently elected plan.</p> <p>Current employees are assumed to enroll at retirement in the same proportion as the current retiree mix. These proportions are established separately for non-Medicare and Medicare coverage.</p> <p>Retirees hired on or after April 21, 2005 may only enroll in the PPOBlue plan.</p> <p>The table below shows the enrollment percentage by plan.</p> <table border="1" data-bbox="477 449 1052 684"> <thead> <tr> <th data-bbox="477 449 808 470">Non-Medicare</th> <th data-bbox="808 449 1052 470">Adult Member Enrollment</th> </tr> </thead> <tbody> <tr> <td data-bbox="477 470 808 491">Traditional</td> <td data-bbox="808 470 1052 491">27.7%</td> </tr> <tr> <td data-bbox="477 491 808 512">PPO</td> <td data-bbox="808 491 1052 512">72.3%</td> </tr> </tbody> </table> <table border="1" data-bbox="477 554 1052 684"> <thead> <tr> <th data-bbox="477 554 808 575">Medicare</th> <th data-bbox="808 554 1052 575">Adult Member Enrollment</th> </tr> </thead> <tbody> <tr> <td data-bbox="477 575 808 596">Traditional with Part A</td> <td data-bbox="808 575 1052 596">42.2%</td> </tr> <tr> <td data-bbox="477 596 808 617">Traditional with Part A&B</td> <td data-bbox="808 596 1052 617">46.6%</td> </tr> <tr> <td data-bbox="477 617 808 638">PPO with Part A</td> <td data-bbox="808 617 1052 638">11.2%</td> </tr> <tr> <td data-bbox="477 638 808 659">PPO with Part A&B</td> <td data-bbox="808 638 1052 659">0.0%</td> </tr> </tbody> </table> | Non-Medicare | Adult Member Enrollment | Traditional | 27.7% | PPO | 72.3% | Medicare | Adult Member Enrollment | Traditional with Part A | 42.2% | Traditional with Part A&B | 46.6% | PPO with Part A | 11.2% | PPO with Part A&B | 0.0% |
|-------------------------------|---|--------------------------------|--------------------------------|-------------|-------|-----|-------|-----------------|--------------------------------|-------------------------|-------|---------------------------|-------|-----------------|-------|-------------------|------|
| | Non-Medicare | Adult Member Enrollment | | | | | | | | | | | | | | | |
| Traditional | 27.7% | | | | | | | | | | | | | | | | |
| PPO | 72.3% | | | | | | | | | | | | | | | | |
| Medicare | Adult Member Enrollment | | | | | | | | | | | | | | | | |
| Traditional with Part A | 42.2% | | | | | | | | | | | | | | | | |
| Traditional with Part A&B | 46.6% | | | | | | | | | | | | | | | | |
| PPO with Part A | 11.2% | | | | | | | | | | | | | | | | |
| PPO with Part A&B | 0.0% | | | | | | | | | | | | | | | | |
| Changes in Assumptions | <ul style="list-style-type: none"> • The discount rate was decreased from 3.87% to 3.50%. • Per capita claims costs were updated based on changes in the underlying claims and benefit provisions. • The trend rates were updated based on the SOA-Getzen trend rate model version 2019_b. The 2019 trend assumption is based on preliminary estimates of calendar year 2020 claims experience. The initial 2020 through 2022 trend assumptions were based on a review of the Commonwealth's historical trend rates during the years 2015 through 2018 and emerging experience, separately for non-Medicare and Medicare benefits. | | | | | | | | | | | | | | | | |

Rationale for Assumptions

| | |
|--|---|
| Discount Rate | GASB 74 and 75 require that the discount rate be based on the yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. This valuation report will serve as the basis for the Commonwealth's trust and employer financial reporting disclosure requirements under GASB Nos. 74 and 75. Accordingly, the discount rate used to determine the June 30, 2019 benefit obligation is based on the 20-year Bond Buyer GO Index. |
| Inflation, Payroll Growth, Salary Scale, Mortality, Disability Incidence, Withdrawal, Early and Normal Retirement | Consistent with the assumptions used for the SERS Actuarial Valuation Report as of December 31, 2018 and experience study presented to the Board in March 2016. The inflation assumption was selected by the SERS Board during an April of 2017 meeting based on a review of actual plan experience and the prevalent economic outlook. |

Glossary

Brief explanations of terms used in this report:

Annual OPEB Expense

The change in Net OPEB Liability less the change in the Deferred Outflows of Resources plus the change in the Deferred Inflows of Resources.

Collective deferred outflows of resources and deferred inflows of resources related to OPEB

Deferred outflows of resources and deferred inflows of resources related to OPEB arising from certain changes in the collective net OPEB liability or collective total OPEB liability.

Covered Employee Payroll

Annual compensation paid (or expected to be paid) to active employees covered by an OPEB plan, in aggregate.

Implicit Rate Subsidy

Many post-employment health plans charge the same premium rates for all participants in a non-Medicare plan regardless of their age. This single premium rate is called a blended premium rate because it blends the expected claims of both active and retired participants. Retirees are generally older than the average participant in a non-Medicare plan, which means they are expected to generate higher claims than the average participant of the plan; therefore, they are receiving a subsidy even if they pay 100% of the blended premium rate because they would be paying less in premiums than their expected claims costs. This subsidy is referred to as the "Implicit Rate Subsidy".

Net OPEB liability (NOL)

The liability of employers and non-employer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is administered through a trust that meets the criteria of the GASB Statements.

Normal Cost or Service Cost

The portion of the Total Present Value of Future Benefits attributed to employee service during the current fiscal year by the actuarial cost method. These terms are used interchangeably.

Other Postemployment Benefits (OPEB)

Retiree health care benefits and post-employment benefits provided separately from a pension plan (excluding termination offers and benefits).

Fiduciary Net Position (FNP)

Set equal to the market value of assets as of the measurement date

Present Value of Future Benefits (PVFB)

The value, as of the valuation date, of the projected benefits payable to all members for their accrued service and their expected future service, discounted to reflect the time value (present value) of money and adjusted for the probabilities of retirement, withdrawal, death and disability.

Total OPEB liability (TOL)

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the GASB Statements. The total OPEB liability is the liability of employers and non-employer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is not administered through a trust that meets the criteria of the GASB Statements.