

**ILLINOIS STATE EMPLOYEES GROUP INSURANCE
PROGRAM**

**GASB NO. 45 ACTUARIAL VALUATION REPORT
AS OF JUNE 30, 2011**



December 22, 2011

Department of Healthcare and Family Services
201 S. Grand Ave. East
Springfield, IL 62763

Subject: GASB No. 45 Actuarial Valuation as of June 30, 2011, for Illinois SEGIP

Submitted in this report are the results of the actuarial valuation of the liabilities associated with the employer financed postemployment benefits provided through the Illinois State Employees Group Insurance Program (SEGIP). This program provides group insurance benefits to eligible active state employees, and postemployment benefits to eligible retired members receiving pension benefits under the:

- State Employees' Retirement System of Illinois (SERS),
- State Universities Retirement System of Illinois (SURS) but not receiving retiree healthcare benefits through the College Insurance Program (CIP),
- Teachers' Retirement System of Illinois (TRS) but not receiving retiree healthcare benefits through the Teachers' Retirement Insurance Program (TRIP),
- Judges' Retirement System of Illinois (JRS), and
- General Assembly Retirement System (GARS).

This report was prepared at the request of the Department of Healthcare and Family Services (DHFS) and is intended for use by DHFS and those designated or approved by DHFS. This report may be provided to other parties only in its entirety and only with the permission of DHFS.

The actuarial valuation as of June 30, 2011, was prepared for purposes of complying with the requirements of Statement No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the State's financial reporting requirements of SEGIP may produce significantly different results. The valuation was based upon:

- Census information as of June 30, 2011, provided by SERS, SURS, TRS, JRS, and GARS
- Healthcare data provided by the Department of Health and Family Services (DHFS)
- Substantive plan information provided by each respective retirement system – SERS, SURS, TRS, JRS, and GARS – and DHFS
- Demographic assumptions consistent with the actuarial valuation as of June 30, 2011, for each respective retirement system
- Economic assumptions approved by the State, including a discount rate of 4.5 percent and an ultimate trend rate assumption of 5.6 percent, which includes the impact of the excise tax under healthcare reform.
- Healthcare-related assumptions recommended by Gabriel, Roeder, Smith & Company and approved by the State

We checked for internal and year-to-year consistency, but did not otherwise audit the data. We are not responsible for the accuracy or completeness of the information provided by the retirement systems or DHFS. Authorization of the assumptions and methods applicable to this valuation was granted by the State, and they are disclosed in the assumptions and methods section of this report.

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; and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

The signing actuaries are independent of the plan sponsor.

To the best of our knowledge the information contained in this report is accurate and fairly presents the actuarial position of SEGIP as of the valuation date. All calculations have been made in conformity with generally accepted actuarial principles and practices, with the Actuarial Standards of Practice issued by the Actuarial Standards Board and with applicable statutes. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,



Alex Rivera, FSA, MAAA
Senior Consultant



Amy Williams, ASA, MAAA
Consultant

Table of Contents

	<u>Page</u>
Section A Executive Summary.....	1
Section B Overview	5
Section C Valuation Results	
Exhibit 1, Valuation Results.....	6
Exhibit 2, Development of Annual Required Contribution.....	7
Section D GASB Disclosure	
Exhibit 3, GASB No. 45 Disclosures, Schedule of Funding Progress	8
Exhibit 4, GASB No. 45 Disclosures, Development of Net OPEB Obligation	9
Section E Additional Valuation Exhibits	
Exhibit 5, 40-Year Projection of Expected Employer Claims.....	10
Exhibit 6, Summary of Participant Demographic Information	11
Section F Summary of Actuarial Assumptions and Methods.....	13
Section G Summary of Principal Plan Provisions.....	33
Section H Glossary.....	46

SECTION A

EXECUTIVE SUMMARY

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
EXECUTIVE SUMMARY

Introduction

The State of Illinois provides postemployment benefits other than pensions (OPEB) through SEGIP to certain eligible members participating in SERS, SURS, TRS, JRS, and GARS. The Governmental Accounting Standards Board Statement No. 45 (GASB No. 45), requires that the State recognize a balance sheet liability and disclose certain information on its financial statement beginning with the fiscal year ending June 30, 2008. SEGIP OPEB primarily include medical, prescription drug, dental, vision, and life insurance benefits. Any other OPEB offered to State of Illinois employees are outside the scope of this report.

The purpose of this report is to provide: (a) results of the actuarial calculations necessary for financial reporting pursuant to GASB No. 45, and (b) various other actuarial, statistical, and benefit information which may be useful to management when reviewing the operation of SEGIP.

Funded and Unfunded Plans

Currently, OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retired members. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis and no separate trust has been established for the funding of OPEB. The State recognizes SEGIP OPEB benefits as a single employer defined benefit plan with a special funding situation for employees of the State's component unit universities as defined in GASB No. 45.

According to GASB No. 45, the interest discount rate used to calculate the present values and costs of the OPEB obligation must be consistent with the assets supporting liabilities. Because the State finances OPEB on a pay-as-you-go basis, the discount rate is based on the long-range expected return on short-term fixed income instruments. The State has selected an interest discount rate of 4.5 percent for this purpose.

There is no current requirement by State or Federal Statute or regulation to pre-fund the OPEB obligations with real cash in a trust. GASB No. 45, applicable to the plan sponsor's accounting, only requires the measurement of the obligation, recognition of annual expenses, and the disclosure of unfunded liabilities in the financial statements, as applicable.

Results of the Study

The following table presents the key valuation results for GASB No. 45 financial reporting of SEGIP for fiscal year beginning July 1, 2011, under the assumption that SEGIP is a single employer plan with a special funding situation. The State is required to recognize a Net OPEB Obligation, equal to the cumulative difference between the Annual OPEB Cost and employer contributions, and disclose Required Supplementary Information, including the historical unfunded actuarial liability and the relationship of employer cash contributions to the Annual OPEB Cost. The Annual OPEB Cost represents the normal cost plus a 30-year open amortization of the Unfunded Actuarial

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 EXECUTIVE SUMMARY

Accrued Liability with an adjustment for the value of the Net OPEB Obligation at the beginning of the fiscal year.

(\$ in millions)

	2009	2011
Funded Status as of June 30,		
Actuarial Accrued Liability	\$ 27,124.06	\$ 33,295.35
Actuarial Value of Assets	-	-
Unfunded Actuarial Accrued Liability	\$ 27,124.06	\$ 33,295.35
Net Employer Normal Cost	\$ 1,003.29	\$ 1,286.89
Amortization of Unfunded Liability	904.14	1,109.85
ARC for Following Fiscal Year	\$ 1,907.42	\$ 2,396.73
Estimated Employer Contributions for Following Fiscal Year		
Total	\$ 757.16	\$ 889.25

Liabilities increased more than expected based on the results from the previous valuation due to the following reasons:

- Fresh starting assumed trend rates at 9.0%.
- Increasing ultimate trend to 5.6% to reflect the impact of the excise tax under healthcare reform.

The increase in liabilities was partially offset by the following factors:

- Favorable claims experience compared with assumed trend rates from the previous valuation

Actuarial Assumptions

In any long-term actuarial valuation (such as for Pensions and OPEBs), certain demographic, economic and behavioral assumptions are made concerning the population, the investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, the future benefits provided, and the future contributions collected. The interest discount rate assumption is used to discount projected net OPEB benefits to a present value. This and other related present values are used to calculate the Annual OPEB Cost, Annual Required Contribution and the Unfunded Actuarial Accrued Liability that will be disclosed in the State's financial statements.

This actuarial valuation of SEGIP is similar to the actuarial valuation performed for the pension plan systems sponsored by the State. The demographic assumptions (rates of retirement, termination, and disability) used in this OPEB valuation were identical to those used in the latest valuation for SERS, SURS, TRS, JRS, and GARS.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
EXECUTIVE SUMMARY

Certain economic and behavioral assumptions are unique to healthcare benefits. These assumptions include the healthcare trend, per capita claim costs, and the likelihood that a member selects healthcare coverage. Section F of this Report titled, “Actuarial Assumptions and Methods” contains a detailed discussion and disclosure of all the relevant actuarial assumptions and methods used in this valuation.

The following assumption and method changes were made since the previous valuation as of June 30, 2009:

- Changes in demographic assumptions for:
 - SURS that were implemented in the pension valuation as of June 30, 2011:
 - Updated mortality rates to account for assumed increases in life expectancies
 - Updates in retirement, termination and disability rates to reflect past and future expected experience
 - SERS that were implemented in the pension valuation as of June 30, 2011:
 - Updated mortality rates to account for assumed increases in life expectancies
 - Updates in retirement, termination and disability rates to reflect past and future expected experience
 - GARS that were implemented in the pension valuation as of June 30, 2011:
 - Updated mortality rates to account for assumed increases in life expectancies
 - Updates in retirement, termination and disability rates to reflect past and future expected experience
 - JRS that were implemented in the pension valuation as of June 30, 2011:
 - Updated mortality rates to account for assumed increases in life expectancies
 - Updates in retirement, termination and disability rates to reflect past and future expected experience
 - TRS that were implemented in the pension valuation as of June 30, 2011:
 - Projection of mortality rates to account for assumed increases in life expectancies
 - Changes in healthcare-related assumptions including:
 - Fresh starting assumed healthcare trend at 9.0% beginning in fiscal year 2012
 - Increased ultimate healthcare trend of 5.6% beginning in fiscal year 2019 to account for the excise tax under healthcare reform

Adjustments to the Estimate Impact of Excise Tax under Healthcare Reform

Beginning in 2018, the Patient Protection and Affordable Care Act (PPACA) imposes a 40 percent excise tax on healthcare plan costs over certain statutory limits. The annual statutory limits for 2018 depend on the age and coverage tier as shown on the following page:

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 EXECUTIVE SUMMARY

	Age less than 55 or greater than 64	Age greater than 54 or less than 65
Single person coverage	\$10,200	\$11,850
All other coverage types	\$27,500	\$30,950

In 2019 and 2020, the statutory limits are increased by the rate for the Consumer Price Index for all Urban Consumers (CPI-U) plus one percentage point, and after 2020 the statutory limits are increased by the CPI-U rate. The statutory limits don't recognize differences due to region, health status of the group, or plan design. Healthcare plan costs may be blended among active members, pre-Medicare retirees, and Medicare retirees if members are covered by the same plan, and similar benefits are provided. Healthcare plan costs subject to the excise tax include: medical, prescription, and employer Health Savings Accounts and Health Reimbursement Accounts.

For the valuation as of June 30, 2011, the impact of the excise tax was estimated by:

- 1) Aggregating average costs by the PPO plans and the HMO plans,
- 2) Projecting average plan costs based on the assumed valuation trend rate,
- 3) Projecting the statutory limits assuming a CPI-U rate of 3.0 percent,
- 4) Estimating the projected excise tax based on the projected average costs and statutory limits,
- 5) Assuming the plan sponsor would subsidize the excise tax and no additional costs would be passed to plan members, and
- 6) Developing an adjusted trend rate, applied to the explicit costs, to approximate the impact of the additional excise tax costs.

Based on the preceding method, the ultimate trend rate of 5.00 percent was increased by an additional 0.60 of a percentage point to 5.60 percent on and after 2019.

Actuarial Cost Methods

GASB No. 45 provides flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. The State has selected the projected unit credit cost method for this valuation which is an acceptable method. The amortization of the Unfunded Actuarial Accrued Liabilities was calculated using a level percent of pay over a 30-year open period.

The remainder of the report is an integral component of the valuation and includes:

- An overview of the GASB Statement No. 45 requirements
- Valuation results, including financial disclosure
- Summary of assumptions and methods and plan provisions

SECTION B

OVERVIEW

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
OVERVIEW

The following section presents the results of the valuation as of June 30, 2011, of the SEGIP OPEB obligations.

The current funding policy includes revenues from three sources: current retirees, the State and Medicare Part D subsidies from the federal government. In general, members retiring before January 1, 1998, make no contributions. Members retiring after December 31, 1997, and their eligible survivors, make contributions equal to 5.0 percent of the premium for each year of service less than 20 years. Dependents of retirees make contributions as determined by DHFS. All liability and expense numbers throughout the report are net of retiree premiums.

Because plan benefits are funded under a pay-as-you-go policy, a discount rate of 4.5 percent was used to develop the Actuarial Accrued Liabilities, and Normal Costs. The valuation is based on select-and-ultimate healthcare trend rates of 9.0 percent for fiscal year end 2012 grading down to the ultimate of 5.6 percent in fiscal year end 2019. The valuation results are based on the projected unit credit cost method which allocates costs in proportion to the member's accrued service as of the valuation date.

The Unfunded Actuarial Accrued Liabilities (UAAL) were amortized as a level percent of active member payroll over a 30-year open period. A 30-year amortization period for Unfunded Actuarial Accrued Liabilities is the maximum period that complies with the GASB No. 45 requirements. Unlike a level-dollar amortization which pays principal and interest each year, a level percent-of-pay (or increasing-payment) amortization will typically not finance principal for an extended period.

The UAAL represents the portion of the total actuarial present value of all future employer-provided benefits which is attributable to prior years, minus any valuation assets. It represents a measure of the unfunded liability allocable to past service. The cost and liabilities shown in the following pages are employer costs and liabilities, net of any co-pays, deductibles, retiree coinsurance, or retiree contributions.

SECTION C
VALUATION RESULTS

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 VALUATION RESULTS

Exhibit 1

Summary of Actuarial Valuation Results as of June 30, 2011

Discount Rate 4.50%
Ultimate Trend 5.60%

A) Actuarial Accrued Liability (AAL)	SERS	SURS	TRS	GARS	JRS	Total
i) Actives ^a	\$ 9,473,732,100	\$ 5,396,294,400	\$ 193,653,800	\$ 23,165,800	\$ 134,647,100	\$ 15,221,493,200
ii) Retirees and their covered dependents ^b	9,096,196,100	6,414,970,200	235,341,800	47,297,100	176,833,600	15,970,638,800
iii) Deferred vesteds ^b	864,543,900	1,048,337,600	11,539,600	13,704,200	2,547,200	1,940,672,500
iv) Deferred vesteds under TRS ^c	-	-	162,549,000	-	-	162,549,000
v) Total	\$ 19,434,472,100	\$ 12,859,602,200	\$ 603,084,200	\$ 84,167,100	\$ 314,027,900	\$ 33,295,353,500
B) Market Value of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
C) Unfunded Actuarial Accrued Liability (UAAL)	\$ 19,434,472,100	\$ 12,859,602,200	\$ 603,084,200	\$ 84,167,100	\$ 314,027,900	\$ 33,295,353,500
D) Funded Ratio: [B / A]	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
E) UAAL as a percentage of covered payroll	462.0%	458.0%	334.8%	593.7%	188.4%	451.4%
F) Net Normal Cost	\$ 697,803,700	\$ 553,206,900	\$ 17,060,400	\$ 2,961,100	\$ 15,857,700	\$ 1,286,889,800
G) Participant Information						
i) Number of Covered Participants						
a) Active employees ^a	66,202	48,937	3,589	176	945	119,849
b) Current retirees with coverage or stipend ^d	42,834	26,627	963	235	705	71,364
c) Waived retirees ^e	2,351	2,218	342	9	12	4,932
d) Survivors	7,635	3,796	157	88	312	11,988
e) Dependents ^f	20,152	11,975	476	171	653	33,427
f) Deferred vesteds	3,933	8,150	63	39	7	12,192
ii) Covered Payroll	\$ 4,206,754,300	\$ 2,807,791,000	\$ 180,140,300	\$ 14,177,800	\$ 166,696,000	\$ 7,375,559,400
iii) Expected first year benefit payments	\$ 516,851,100	\$ 345,881,100	\$ 13,088,300	\$ 2,868,900	\$ 10,557,700	\$ 889,247,100

^a Active TRS counts and liability includes 2,796 members that are active in TRS and categorized as a dependent in SEGIP.

^b Valuation assumes a percentage of waived retirees and deferred vested members will elect retiree healthcare coverage in the future.

^c Deferred vested under Teachers Retirement System with between 5 and 7 years of service. They are currently ineligible for TRIP healthcare benefits, but may be eligible for either TRIP or SEGIP benefits depending on reciprocal service or future TRS service. 50% of the liability for these members is allocated to TRIP and 50% is allocated to SEGIP.

^d Stipend of \$150 per month under "Opt-Out" program, available to SERS retirees.

^e Excludes waived retirees over age 75. No liability is assumed for these members.

^f Dependent SERS counts include 1,770 dependent members receiving pension benefits through TRS.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 VALUATION RESULTS

Exhibit 2

Development of Annual Required Contribution and Annual OPEB Cost

Fiscal Year Ending	June 30, 2011 ¹	June 30, 2012
A) Annual Required Contribution (ARC)		
i) Net Normal Cost	\$ 1,231,473,500	\$ 1,286,889,800
ii) Amortization of UAAL	1,062,052,700	1,109,845,100
iii) Total	\$ 2,293,526,200	\$ 2,396,734,900
 B) Net Pension Obligation (NPO) beginning of Fiscal Year	 \$ 3,878,792,100	 \$ 5,716,357,200
 C) Annual OPEB Cost (AOC)		
i) ARC	\$ 2,293,526,200	\$ 2,396,734,900
ii) Interest on NPO	174,545,600	257,236,100
ii) Adjustment to ARC	(129,293,100)	(190,545,200)
iv) Total	\$ 2,338,778,700	\$ 2,463,425,800
 D) Employer Contributions		
i) Current Fiscal Year Contribution	\$ 501,213,600	\$ 889,247,100 ²

¹ ARC is based on FY 2012 ARC adjusted for wage inflation.

² Estimated.

SECTION D
GASB DISCLOSURES

This information is presented in draft form for review by the State's auditor. Please let us know if there are any changes so that we may maintain consistency with the State's financial statements.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 VALUATION RESULTS

Exhibit 3
GASB No. 45 Disclosures
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2007 ^a	\$ -	\$ 23,890,383,000	\$ 23,890,383,000	0.00%	\$6,872,739,900	347.61%
6/30/2009	-	27,124,060,700	27,124,060,700	0.00%	7,091,656,400	382.48%
6/30/2010 [*]	-	28,596,241,800	28,596,241,800	0.00%	7,410,780,900	385.87%
6/30/2011	-	33,295,353,500	33,295,353,500	0.00%	7,375,559,400	451.43%

^a As developed by prior actuary.

^{*} Estimated

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 VALUATION RESULTS

Exhibit 4
GASB No. 45 Disclosures
Development of Net OPEB Obligation (NOO) and Annual OPEB Cost

Year Ended	Annual Required Contribution (a)	Interest on NOO (b)	Adjustment to ARC	Annual OPEB Expense	Employer Contribution	Change in NOO	NOO Balance
6/30/2008 ^a	\$ 1,775,990,700	\$ -	\$ -	\$ 1,775,990,700	\$ 537,860,300	\$ 1,238,130,400	\$ 1,238,130,400
6/30/2009	1,825,283,200 ^b	55,715,900	(41,271,000)	1,839,728,100	603,604,500 ^c	1,236,123,600	2,474,254,000
6/30/2010	1,907,421,000	111,341,400	(82,475,100)	1,936,287,300	531,749,200	1,404,538,100	3,878,792,100
6/30/2011	2,293,526,200 ^d	174,545,600	(129,293,100)	2,338,778,700	501,213,600	1,837,565,100	5,716,357,200
6/30/2012	2,396,734,900	257,236,100	(190,545,200)	2,463,425,800	TBD	TBD	TBD

^a As developed by prior actuary.

^b Based on FY 2010 ARC adjusted for wage inflation.

^c Reflects an adjustment to the implicit subsidy for fiscal year end June 30, 2008.

^d Based on FY2012 ARC adjusted for wage inflation.

SECTION E

ADDITIONAL VALUATION EXHIBITS

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 ADDITIONAL VALUATION EXHIBITS

Exhibit 5

40-Year Projection of Expected Employer Claims ^a

<u>Year Beginning July 1</u>	<u>Expected Employer Claims</u>	<u>Year Beginning July 1</u>	<u>Expected Employer Claims</u>
2011	\$ 889,247,100	2031	\$ 2,887,747,700
2012	970,274,900	2032	2,995,642,100
2013	1,055,726,800	2033	3,093,854,100
2014	1,144,026,900	2034	3,184,451,200
2015	1,235,616,800	2035	3,269,985,500
2016	1,326,357,200	2036	3,350,151,400
2017	1,416,523,900	2037	3,425,585,300
2018	1,508,992,000	2038	3,495,505,400
2019	1,601,651,000	2039	3,560,802,000
2020	1,697,010,000	2040	3,613,909,000
2021	1,796,269,600	2041	3,650,248,300
2022	1,897,521,900	2042	3,669,258,000
2023	2,001,942,200	2043	3,672,805,300
2024	2,110,866,100	2044	3,657,681,900
2025	2,218,180,600	2045	3,628,700,300
2026	2,325,651,100	2046	3,587,026,500
2027	2,433,626,900	2047	3,536,035,100
2028	2,540,483,800	2048	3,480,417,200
2029	2,647,714,900	2049	3,419,231,300
2030	2,766,569,900	2050	3,355,596,100

^a *Expected claims net of retiree contributions for current participants.*

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 ADDITIONAL VALUATION EXHIBITS

Exhibit 6 - Part I
Summary of Demographic Information

	<u>SERS</u>	<u>SURS</u>	<u>TRS</u>	<u>GARS</u>	<u>JRS</u>	<u>Combined</u>
A) Active Participants						
i) Counts	66,202	48,937	3,589	176	945	119,849
ii) Average Age	47.5	46.8	46.2	53.2	57.1	47.4
iii) Average Service	14.5	10.3	11.6	9.4	10.6	12.7
B) Deferred vested participants						
i) Counts	3,933	8,150	63	39	7	12,192
ii) Average Age	51.2	49.4	54.0	51.4	54.6	50.0
C) Retirees with SEGIP Healthcare Coverage						
i) Counts	42,602	26,627	963	235	705	71,132
ii) Average Age	69.8	70.9	70.5	72.4	71.3	70.2
D) Survivors with SEGIP Healthcare Coverage Over Age 26						
i) Counts	7,489	3,772	157	88	301	11,807
ii) Average Age	77.2	78.6	82.0	80.7	79.5	77.8
E) Dependents with SEGIP Healthcare Coverage Over Age 26						
i) Counts	16,595	10,175	417	136	512	27,835
ii) Average Age	65.7	68.0	68.8	69.3	66.3	66.6

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 ADDITIONAL VALUATION EXHIBITS

Exhibit 6 - Part II
Summary of Demographic Information

	<u>SERS</u>	<u>SURS</u>	<u>TRS</u>	<u>GARS</u>	<u>JRS</u>	<u>Combined</u>
F) Retirees Waiving Coverage (Excluding Those Over Age 75)						
i) Counts	2,351	2,218	342	9	12	4,932
ii) Average Age	65.0	64.2	62.3	64.1	64.8	64.4
G) Retirees Receiving a Monthly Stipend						
i) Counts	232	-	-	-	-	232
ii) Average Age	62.0	N/A	N/A	N/A	N/A	62.0
H) Survivors with SEGIP Healthcare Coverage Age 26 and Under						
i) Counts	146	24	-	-	11	181
ii) Average Age	18.5	18.9	-	-	17.2	18.5
I) Dependents with SEGIP Healthcare Coverage Age 26 and Under						
i) Counts	3,557	1,800	59	35	141	5,592
ii) Average Age	19.0	19.6	20.1	19.8	20.7	19.3

SECTION F

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Development of Per Capita Claim Costs

The per capita claims used in the valuation were based on average per member costs by plan type for the period July 1, 2011, through June 30, 2012, as provided by the Department of Health and Family Services (DHFS). The average per member costs were adjusted at each respective retirement age by the morbidity factors disclosed in the assumption section of the report.

Cost Method and Expense Calculations for Retiree Healthcare Benefits

The retiree healthcare valuation was based on the projected unit credit cost method. Under this method, the normal cost and actuarial accrued liability are directly proportional to the employee's service. That is, the normal cost equals the present value of future benefits divided by projected service at retirement, and the actuarial accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirement.

Under GASB Statement Nos. 43 and 45, the projected unit credit method is an acceptable cost method. The Annual Required Contribution (ARC) equals the normal cost plus the amortization of the unfunded actuarial accrued liability. The amortization period cannot exceed 30 years. Our calculations assume a level-percentage-of-pay 30-year open-period amortization.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

The actuarial assumptions used in our valuation are outlined on the following pages.

Measurement Date	June 30, 2011
Discount Rate	4.5%
Inflation¹	3.0%
Wage Inflation²	4.5%

OPEB Assumptions

<u>Applied at July 1,</u>	Healthcare Trend		
	<u>Medical/Rx</u>	<u>Dental</u>	<u>Vision</u>
2012	9.00%	8.00%	6.00%
2013	8.50%	7.50%	3.00%
2014	8.00%	7.00%	3.00%
2015	7.50%	6.50%	3.00%
2016	7.00%	6.00%	3.00%
2017	6.50%	5.50%	3.00%
2018	6.00%	5.00%	3.00%
2019	5.60%	5.00%	3.00%
2020+	5.60%	5.00%	3.00%

¹ Inflation assumption used to estimate the impact of the Excise Tax under Healthcare Reform.

² Wage inflation used to project to payroll.

³ Higher trend rate in 2019 to account for the Excise Tax under Healthcare Reform.

<u>Age</u>	<u>Morbidity Factor</u>	
	<u>Male</u>	<u>Female</u>
50	5.87%	3.40%
55	4.96%	3.45%
60	4.17%	3.03%
65	3.23%	2.62%
70	2.41%	2.08%
75	1.67%	1.50%
80	1.02%	0.92%
85	0.47%	0.39%
90	0.00%	0.00%

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Annual Per Capita Claims Costs for Pre 65, Not Medicare Eligible Members								
QCHP			OAP			HMO		
Medical and Rx			Medical and Rx			Medical and Rx		
Age	Male	Female	Age	Male	Female	Age	Male	Female
20	\$2,435	\$4,499	20	\$2,638	\$4,874	20	\$2,133	\$3,940
25	2,538	5,127	25	2,750	5,555	25	2,223	4,490
30	2,634	5,391	30	2,854	5,841	30	2,307	4,722
35	3,039	5,654	35	3,293	6,126	35	2,662	4,952
40	3,922	6,144	40	4,249	6,657	40	3,435	5,381
45	5,328	6,976	45	5,773	7,558	45	4,667	6,109
50	7,209	8,168	50	7,810	8,849	50	6,314	7,154
51	7,632	8,446	51	8,268	9,150	51	6,684	7,397
52	8,068	8,736	52	8,741	9,464	52	7,066	7,651
53	8,510	9,042	53	9,220	9,796	53	7,453	7,919
54	8,961	9,358	54	9,709	10,139	54	7,849	8,196
55	9,422	9,685	55	10,208	10,492	55	8,252	8,482
56	9,889	10,019	56	10,714	10,855	56	8,661	8,775
57	10,361	10,361	57	11,225	11,225	57	9,074	9,074
58	10,850	10,696	58	11,755	11,588	58	9,503	9,367
59	11,343	11,035	59	12,289	11,955	59	9,934	9,664
60	11,836	11,377	60	12,824	12,326	60	10,366	9,964
61	12,330	11,722	61	13,358	12,700	61	10,798	10,266
62	12,821	12,067	62	13,891	13,074	62	11,229	10,569
63	13,302	12,419	63	14,411	13,455	63	11,650	10,877
64	13,777	12,770	64	14,926	13,835	64	12,066	11,184

Annual Dental Cost: \$391

Annual Vision Cost: \$30

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Annual Per Capita Claims Costs for Medicare Eligible Members

Age	QCHP		Age	OAP		Age	HMO	
	Male	Female		Male	Female		Male	Female
65	\$4,282	\$3,943	65	\$5,046	\$4,646	65	\$4,066	\$3,744
66	4,420	4,046	66	5,209	4,768	66	4,197	3,843
67	4,555	4,148	67	5,368	4,888	67	4,326	3,939
68	4,687	4,248	68	5,523	5,006	68	4,451	4,034
69	4,815	4,346	69	5,674	5,121	69	4,573	4,127
70	4,939	4,441	70	5,820	5,233	70	4,690	4,217
71	5,058	4,533	71	5,961	5,342	71	4,803	4,305
72	5,172	4,622	72	6,095	5,447	72	4,912	4,389
73	5,281	4,707	73	6,224	5,547	73	5,016	4,470
74	5,385	4,789	74	6,346	5,643	74	5,114	4,548
75	5,483	4,866	75	6,461	5,734	75	5,207	4,621
76	5,575	4,939	76	6,569	5,820	76	5,294	4,690
77	5,660	5,007	77	6,670	5,900	77	5,375	4,755
78	5,740	5,070	78	6,764	5,975	78	5,451	4,815
79	5,812	5,129	79	6,850	6,044	79	5,520	4,871
80	5,879	5,182	80	6,928	6,107	80	5,583	4,921
81	5,939	5,230	81	6,998	6,163	81	5,640	4,967
82	5,992	5,272	82	7,061	6,213	82	5,690	5,007
83	6,039	5,310	83	7,116	6,257	83	5,735	5,042
84	6,079	5,341	84	7,164	6,294	84	5,773	5,072
85	6,114	5,368	85	7,205	6,325	85	5,806	5,097
86	6,142	5,389	86	7,239	6,350	86	5,833	5,117
87 +	6,170	5,399	87+	7,271	6,362	87+	5,860	5,127

Annual Dental Cost: \$391

Annual Vision Cost: \$30

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Annual Per Capita Claims Costs for Post 65, Not Medicare Eligible Members

QCHP			OAP			HMO		
Medical and Rx			Medical and Rx			Medical and Rx		
Age	Male	Female	Age	Male	Female	Age	Male	Female
65	\$ 14,245	\$ 13,118	65	\$ 15,434	\$ 14,212	65	\$ 12,476	\$ 11,489
66	14,705	13,462	66	15,932	14,585	66	12,879	11,790
67	15,155	13,801	67	16,419	14,952	67	13,273	12,087
68	15,594	14,134	68	16,895	15,313	68	13,657	12,379
69	16,020	14,459	69	17,356	15,665	69	14,030	12,663
70	16,432	14,775	70	17,802	16,008	70	14,391	12,941
71	16,828	15,082	71	18,232	16,340	71	14,739	13,209
72	17,209	15,378	72	18,644	16,661	72	15,072	13,468
73	17,572	15,661	73	19,038	16,968	73	15,390	13,717
74	17,916	15,932	74	19,411	17,261	74	15,692	13,954
75	18,242	16,189	75	19,764	17,540	75	15,977	14,179
76	18,547	16,432	76	20,095	17,802	76	16,244	14,391
77	18,832	16,659	77	20,403	18,048	77	16,494	14,590
78	19,096	16,869	78	20,689	18,277	78	16,725	14,775
79	19,338	17,064	79	20,952	18,487	79	16,937	14,945
80	19,559	17,241	80	21,191	18,679	80	17,130	15,100
81	19,758	17,400	81	21,406	18,852	81	17,304	15,239
82	19,935	17,542	82	21,599	19,005	82	17,460	15,363
83	20,091	17,665	83	21,767	19,139	83	17,596	15,472
84	20,226	17,771	84	21,914	19,253	84	17,715	15,564
85	20,341	17,858	85	22,038	19,348	85	17,815	15,641
86	20,436	17,928	86	22,141	19,424	86	17,899	15,702
87 +	20,529	17,963	87+	22,242	19,461	87+	17,980	15,732

Annual Dental Cost: \$391

Annual Vision Cost: \$30

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Participation

Current active and deferred vested members participating in SERS, SURS, or TRS are assumed to participate in SEGIP at retirement as follows:

Service at Retirement	Waive Coverage	1 person	2 person	Total
over 20	0%	60%	40%	100%
15 to 20	5%	55%	40%	100%
10 to 15	15%	50%	35%	100%
less than 10	30%	40%	30%	100%

Fifty percent of future waived retirees eligible for SERS pensions are assumed to participate in the Opt-Out – Financial Incentive Programs which provides a financial incentive of \$150 per month to enroll in another healthcare program prior to becoming eligible for Medicare. Members in the Opt-Out program are assumed to elect SEGIP Medicare coverage after age 65.

Ten percent of members in the SURS SMP program are assumed to annuitize their account balance upon retirement and elect healthcare coverage under SEGIP.

Current SERS, SURS and TRS retired members that have waived SEGIP coverage, are assumed to participate in SEGIP in the future as follows:

- a) For those under age 62, 50% elect coverage at 62, multiplied by the preceding service based participation table.
- b) For those age 62 to 75, 50% elect coverage as of the valuation date, multiplied by the preceding service based participation table.
- c) For those over age 75, 0% elect coverage.

Current active and deferred vested members participating in JRS and GARS are assumed to participate in SEGIP at 100% with 25% electing single coverage and 75% electing 2-person coverage. Current JRS and GARS retirees that have waived SEGIP coverage are assumed to participate at the same rates as outlined above excluding the service based assumption.

Children of retired members are valued explicitly assuming coverage ends at age 23. Disabled children are assumed to receive benefits during their lifetime.

One hundred percent of covered spouses are assumed to continue coverage after the death of the retiree.

Costs for future retirees are based on blended plan costs with the following assumed coverage:

	QCHP	OAP	HMO	Total
SERS/SURS/TRS	45%	10%	45%	100%
JRS/GARS	75%	5%	20%	100%

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Pension-related assumptions

The pension-related assumptions were based on those used for the most recent valuation of each respective retirement system.

The rates used for the pension valuations of SERS, SURS, TRS, and JRS, were applied to the SEGIP OPEB valuation.

Deferred vested members are assumed to commence benefits at earliest eligibility.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SERS PENSION RELATED ASSUMPTIONS

Mortality:

The mortality assumption for retirees, beneficiaries and disabilities is based on the RP2000 Combined Healthy Mortality Table, sex distinct, with rates projected to 2015 with scale AA. Assumed mortality rates for active members are 85 percent of the post-retirement mortality for males and 70 percent for females.

Termination:

Illustrative rates are as follows:

Service Based Withdrawal				
Service (Beginning of Year)	General Formula Employees		Alternate Formula Employees	
	Males	Females	Males	Females
0	0.1800	0.1700	0.0400	0.0775
1	0.1200	0.1100	0.0250	0.0475
2	0.0600	0.0850	0.0250	0.0450
3	0.0550	0.0700	0.0250	0.0300
4	0.0500	0.0550	0.0250	0.0300
5	0.0450	0.0500	0.0250	0.0300
6	0.0350	0.0400	0.0150	0.0300
7	0.0300	0.0350	0.0150	0.0300
8	0.0300	0.0250	0.0150	0.0300
9	0.0250	0.0250	0.0150	0.0200
10	0.0200	0.0250	0.0150	0.0200
11	0.0200	0.0200	0.0100	0.0175
12	0.0200	0.0200	0.0100	0.0175
13	0.0200	0.0200	0.0100	0.0175
14	0.0150	0.0150	0.0100	0.0175
15	0.0150	0.0150	0.0100	0.0100
16	0.0150	0.0150	0.0075	0.0100
17	0.0125	0.0150	0.0075	0.0100
18	0.0125	0.0150	0.0075	0.0100
19	0.0125	0.0100	0.0075	0.0100
20	0.0100	0.0100	0.0075	0.0100
21	0.0100	0.0075	0.0050	0.0100
22	0.0100	0.0075	0.0050	0.0100
23	0.0100	0.0075	0.0050	0.0100
24	0.0100	0.0075	0.0050	0.0100
25	0.0100	0.0075	0.0050	0.0100
26	0.0100	0.0075	0.0050	0.0100
27	0.0100	0.0075	0.0050	0.0100
28	0.0100	0.0075	0.0050	0.0100
29	0.0100	0.0075	0.0050	0.0100
30+	0.0100	0.0075	0.0050	0.0100

It is assumed that terminated employees will not be rehired. The rates apply only to employees who have not fulfilled the service requirement necessary for retirement at any given age.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SERS PENSION RELATED ASSUMPTIONS

Salary Increases:

Illustrative rates are as follows:

Age	Annual Increase
25	8.87%
30	7.25%
35	6.47%
40	5.87%
45	5.41%
50	5.02%
55	4.72%
60	4.44%
65	4.23%
70	4.00%

Disability:

Under the pension valuation, disability is valued as a term cost only. No rates were applied.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SERS PENSION RELATED ASSUMPTIONS

Retirement:

Rates only apply to employees who have fulfilled the service requirement necessary for retirement at any given age.

Retirement Rates for General Formula Employees		
	Males	Females
50	5.00%	5.00%
51	5.00%	5.00%
52	15.00%	15.00%
53	12.00%	15.00%
54	15.00%	15.00%
55	12.00%	13.00%
56	10.00%	13.00%
57	10.00%	13.00%
58	10.00%	13.00%
59	10.00%	13.00%
60	10.00%	13.00%
61	10.00%	10.00%
62	15.00%	17.50%
63	12.50%	15.00%
64	12.50%	15.00%
65	20.00%	25.00%
66	20.00%	20.00%
67	12.50%	20.00%
68	12.50%	15.00%
69	12.50%	15.00%
70	100.00%	100.00%

Early Retirement Rates for General Formula Employees		
Age	Males	Females
55	5.50%	6.00%
56	6.00%	6.00%
57	7.50%	8.00%
58	9.00%	8.00%
59	12.00%	18.00%

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SERS PENSION RELATED ASSUMPTIONS

Retirement Rates for Alternate Formula Employees		
Age	Males	Females
50	50.00%	50.00%
51	35.00%	25.00%
52	35.00%	40.00%
53	35.00%	40.00%
54	35.00%	30.00%
55	35.00%	30.00%
56	20.00%	25.00%
57	20.00%	25.00%
58	20.00%	25.00%
59	20.00%	20.00%
60	30.00%	20.00%
61	30.00%	30.00%
62	45.00%	40.00%
63	30.00%	25.00%
64	30.00%	25.00%
65	50.00%	40.00%
66	20.00%	40.00%
67	30.00%	40.00%
68	50.00%	40.00%
69	50.00%	40.00%
70	100.00%	100.00%

Spouse and Marriage Assumptions:

85.0 percent of active male participants and 65.0 percent of active female participants are assumed to be married. If no data is available, the female spouse is assumed to be three years younger than the male spouse.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SERS PENSION RELATED ASSUMPTIONS

Assumptions as a result of Public Act 96-0889 (Adopted by the Board on July 12, 2010)

Retirement rates for members hired after December 31, 2010 who are eligible for regular formula benefits to account for the change in retirement age, as follows:

Age	Members Eligible For Normal Retirement	Age	Members Eligible For Early Retirement
67	50.0%	62	30.0%
68	75.0	63	34.0
69	90.0	64	38.0
70	100.0	65	42.0
		66	46.0

Members hired after December 31, 2010, eligible for the alternate formula benefits will retire according to the age-based retirement rates used in the most recent valuation as follows:

Age	Male Members Eligible For Normal Retirement	Female Members Eligible For Normal Retirement
60	35.0%	20.0%
61	37.0	15.0
62	38.0	25.0
63	40.0	40.0
64	41.0	40.0
65	80.0	55.0
66	40.0	55.0
67	55.0	45.0
68	55.0	45.0
69	40.0	45.0
70	100.0	100.0

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SURS PENSION RELATED ASSUMPTIONS

Mortality:

The mortality assumption for retirees, beneficiaries and disabilities is based on the RP2000 Combined Mortality table, projected with Scale AA to 2017, sex-distinct, with rates multiplied by 0.80 for males and 0.85 for females. Assumed mortality rates for active members are 85 percent of the postretirement assumption for males and 60 percent for females.

Termination:

Illustrative rates are as follows:

Withdrawal of SURS Employees	
Service	Rate
0	0.2200
1	0.2200
2	0.1600
3	0.1400
4	0.1200
5	0.1050
6	0.0900
7	0.0750
8	0.0650
9	0.0600
10	0.0550
15	0.0300
20	0.0170
25	0.0150
30	0.0000

Salary Increases:

Rates are as follows:

Service	Annual Increase
0	12.00%
1	10.00%
2	8.50%
3	7.25%
4	6.50%
5	6.25%
6	6.00%
7	5.75%
8	5.50%
9-13	5.00%
14-19	4.75%
19-33	4.25%
34+	3.75%

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SURS PENSION RELATED ASSUMPTIONS

Disability:
Illustrative rates are as follows:

Disablement of SURS Employees	
Age	Rate
20	0.050%
25	0.062%
30	0.075%
35	0.095%
40	0.145%
45	0.195%
50	0.270%
55	0.345%
60	0.420%
65	0.495%
70	0.570%

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – SURS PENSION RELATED ASSUMPTIONS

Retirement:

Rates only apply to employees who have fulfilled the service requirement necessary for retirement at any given age.

Age	Members Hired Before January 1,		Members Hired on or after January 1,	
	Normal Retirement	Early Retirement	Normal Retirement	Early Retirement
Under 50	40.0%	-	-	-
51	38.0	-	-	-
52	38.0	-	-	-
53	38.0	-	-	-
54	34.0	-	-	-
55	32.0	7.0%	-	-
56	26.0	5.0	-	-
57	26.0	4.5	-	-
58	26.0	5.5	-	-
59	26.0	6.0	-	-
60	11.0	-	-	-
61	11.0	-	-	-
62	13.0	-	-	35.0%
63	13.0	-	-	15.0
64	13.0	-	-	15.0
65	17.0	-	-	15.0
66	15.0	-	-	15.0
67	15.0	-	50.0%	-
68	15.0	-	35.0	-
69	15.0	-	30.0	-
70-79	30.0	-	30.0	-
80+	100.0	-	100.0	-

Spouse and Marriage Assumptions:

Members are assumed to be married in the proportions shown in the following table. If no data is available, the female spouse is assumed to be three years younger than the male spouse.

SURS Percent Assumed Married		
	Males	Females
20	25.00%	40.00%
30	70.00%	75.00%
40	80.00%	80.00%
50	85.00%	80.00%
60	85.00%	70.00%

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – TRS PENSION RELATED ASSUMPTIONS

Mortality:

Demographic Assumptions

Mortality

Age	Healthy - Retiree		Disabled - Retiree		Healthy Active	
	Male	Female	Male	Female	Male	Female
20	0.0460%	0.0178%	4.8500%	2.7230%	0.0460%	0.0134%
25	0.0569%	0.0166%	4.8500%	2.7230%	0.0569%	0.0124%
30	0.0583%	0.0227%	4.8500%	2.7230%	0.0583%	0.0170%
35	0.0662%	0.0412%	4.8500%	2.7230%	0.0662%	0.0309%
40	0.0815%	0.0537%	4.8500%	2.7230%	0.0815%	0.0403%
45	0.1066%	0.0832%	4.8500%	2.7230%	0.1066%	0.0624%
50	0.1493%	0.1311%	4.8500%	2.7230%	0.1493%	0.0983%
55	0.2357%	0.2023%	4.8500%	2.7230%	0.2357%	0.1517%
60	0.4657%	0.3109%	4.8500%	2.7230%	0.4657%	0.2332%
65	0.9375%	0.6450%	4.8500%	2.7230%	0.9375%	0.4838%
70	1.6507%	1.3549%	7.4650%	4.0870%	1.6507%	1.0162%
75	2.8411%	2.2433%	11.2820%	6.3140%	2.8411%	1.6825%
80	5.1365%	3.6582%	16.8210%	9.6220%	5.1365%	2.7437%

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – TRS PENSION RELATED ASSUMPTIONS

Termination:

Illustrative rates are as follows:

Select Withdrawal Rates for Members with Less Than 5 Years of Service		
Age	Males	Females
25	0.0700	0.0810
30	0.0650	0.0900
35	0.0750	0.0880
40	0.0800	0.0660
45	0.0940	0.0620
50	0.0940	0.0620
55	0.1200	0.0870
60	0.1260	0.1110
65	0.1260	0.1110

Ultimate Withdrawal Rates for Members with More Than 5 Years of Service		
Age	Males	Females
25	0.0600	0.0900
30	0.0370	0.0800
35	0.0220	0.0510
40	0.0160	0.0240
45	0.0130	0.0150
50	0.0110	0.0130
55	0.0140	0.0170
60	0.0260	0.0290
65	0.0310	0.0300

Salary Increases:

Illustrative rates are as follows:

Age	Annual Increase
20	11.10%
25	10.20%
30	8.40%
35	7.70%
40	7.20%
45	6.70%
50	6.00%

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – TRS PENSION RELATED ASSUMPTIONS

Disability:

Illustrative rates are as follows:

Disablement of TRS Employees		
Age	Males	Females
25	0.034%	0.045%
30	0.030%	0.100%
35	0.039%	0.110%
40	0.060%	0.110%
45	0.064%	0.130%
50	0.110%	0.190%
55	0.130%	0.200%
60	0.200%	0.350%
65	0.600%	1.500%

Retirement:

Rates only apply to employees who have fulfilled the service requirement necessary for retirement at any given age.

Sample Normal Retirement Rates					
% Separating Within Next Year (Age-Based)					
Age	Service				
	5 - 18	19 - 30	31	32 - 33	34 +
60 and younger	0.00%	0.00%	0.00%	0.00%	0.00%
61	13.00%	15.00%	20.00%	25.00%	25.00%
62	8.00%	10.00%	15.00%	20.00%	20.00%
63	8.00%	10.00%	15.00%	20.00%	20.00%
64	8.00%	10.00%	15.00%	20.00%	20.00%
65	20.00%	10.00%	15.00%	20.00%	20.00%
66	20.00%	40.00%	70.00%	70.00%	70.00%
67	20.00%	40.00%	40.00%	40.00%	40.00%
68	20.00%	40.00%	40.00%	40.00%	40.00%
69	20.00%	40.00%	40.00%	40.00%	40.00%
70	100.00%	100.00%	100.00%	100.00%	100.00%

Spouse and Marriage Assumptions:

80.0 percent of active male participants and 70.0 percent of active female participants are assumed to be married. If no data is available, the female spouse is assumed to be three years younger than the male spouse.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – JRS/GARS PENSION RELATED
 ASSUMPTIONS

Mortality:

JRS: UP-1994 Mortality Table with a three-year setback for males and a two-year setback for females.

GARS: UP-1994 Mortality Table with a four-year setback for males and a one-year setback for females.

Termination:

Illustrative rates are as follows:

Sample Withdrawal Rates		
Age	GARS	JRS
25	0.0400	0.0000
30	0.0400	0.0128
35	0.0400	0.0110
40	0.0400	0.0094
45	0.0400	0.0076
50	0.0400	0.0058
55	0.0400	0.0042
60	0.0400	0.0024

Salary Increases:

Salary is assumed to increase at a rate of 5.0 percent per year.

Disability:

Illustrative rates are as follows:

Disablement of JRS/GARS Employees	
Age	Rate
20	0.0006
30	0.0006
40	0.0008
50	0.0017

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS – JRS/GARS PENSION RELATED
 ASSUMPTIONS

Retirement:

Rates only apply to employees who have fulfilled the service requirement necessary for retirement at any given age.

Sample Retirement Rates :				
	Members Hired Before January 1, 2011		Members Hired on or after January 1, 2011	
	JRS	GARS	JRS	GARS
55	8.00%	10.00%	0.00%	0.00%
60	22.00%	8.50%	0.00%	0.00%
65	11.00%	8.50%	16.00%	25.00%
70	11.00%	8.50%	11.00%	5.00%
75	20.00%	8.50%	20.00%	5.00%
80	100.00%	100.00%	100.00%	100.00%

Spouse and Marriage Assumptions:

75.0 percent of active participants are assumed to be married. If no data is available, the female spouse is assumed to be four years younger than the male spouse.

SECTION G

SUMMARY OF PRINCIPAL PLAN PROVISIONS

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

PLAN MEMBERS

Members receiving monthly benefits from the State Employees' Retirement System of Illinois (SERS), State Universities Retirement System of Illinois (SURS), Teachers' Retirement System of Illinois (TRS), General Assembly Retirement System (GARS), or the Judges' Retirement System of Illinois (JRS) are eligible to enroll in SEGIP. Certain members covered under TRS for pension purposes are eligible for retiree healthcare benefits under the Teachers' Retirement Insurance Program (TRIP). Other TRS members eligible for coverage under SEGIP include: certified teachers working for certain State agencies, executives working for the Board of Education, regional superintendents, regional assistant superintendents, TRS fund staff, and certain members with certain reciprocal service.

PENSION ELIGIBILITY PROVISIONS

STATE EMPLOYEES RETIREMENT SYSTEM

Normal Retirement

General formula members are eligible to retire with unreduced benefits after completing one of the following: i) age 60 with 8 years of service, ii) 35 years of service, or iii) age plus service is at least 85. Alternate formula members are eligible to retire with unreduced after completing one of the following: i) age 50 with 25 years of service, or ii) age 55 with 20 years of service.

Early Retirement

General formula members are eligible to retire with reduced benefits after attaining age 55 and earning at least 25 years of service.

Disability Retirement

There is no specific age or service requirement for receipt of occupational disability benefits. Receipt of non-occupational disability benefits has an eligibility requirement of one and one-half years of service.

Vested Termination

Members who terminate are eligible to receive pension benefits after attaining age 60 with at least 8 years of service or at any age with at least 35 years of service.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

Provisions Applicable to Members Hired after December 31, 2010, as a result of Public Act 96-0889

Retirement Eligibility – All Members Except State policemen, fire fighters in the fire protection service of a department, or security employees of the Department of Corrections or the Department of Juvenile Justice

Normal retirement – 67 years old with 10 years of service.

Early Retirement – 62 years old with 10 years of service with a 6.0 percent per year reduction in benefit for each year age is under 67.

Retirement Eligibility – State policemen, fire fighters in the fire protection service of a department, or security employees of the Department of Corrections or the Department of Juvenile Justice

Normal retirement – 60 years old with 20 years of service.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

STATE UNIVERSITIES RETIREMENT SYSTEM

Normal Retirement

Police officers and firefighters are eligible to retire with unreduced benefits after completing one of the following: i) age 55 with 20 years of service, or ii) age 50 with 25 years of service. Other members hired before January 1, 2011 are eligible to retire with unreduced benefits after completing one of the following: i) age 62 with 5 years of service, ii) age 60 with 8 years of service, or iii) 30 years of service.

For members hired on or after January 1, 2011, separation from service on or after attainment age 67 with 10 years of service.

Early Retirement

Members hired before January 1, 2011, other than police and fire employees, are eligible to retire with reduced benefits after attaining age 55 and earning at least 8 years of service. For members hired on or after January 1, 2011, separation from service on or after attainment of age 62 with 10 years of service

Disability Retirement

There is no specific age or service eligibility requirement for receipt of accidental disability benefits. Receipt of non-accidental disability benefits has an eligibility requirement of 2 years of service.

Vested Termination

Members hired before January 1, 2011, who terminate with at least 5 years of service are eligible to receive pension benefits under either the normal or early retirement provisions. Members hired on or after January 1, 2011 are vested after 10 years of service.

TEACHERS' RETIREMENT SYSTEM

Normal Retirement

Members hired before January 1, 2011, are eligible to retire with unreduced benefits after completing one of the following: i) age 60 with 10 years of service, ii) age 62 with 5 years of service, or iii) age 55 with 35 years of service.
Age 67 with 10 years of service for members hired on or after January 1, 2011.

Early Retirement

Members hired before January 1, 2011, are eligible to retire with reduced benefits after attaining age 55 and earning at least 20 years of service.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

Age 62 with 10 years of service for members hired on or after January 1, 2011.

Disability Retirement

There is no specific age or service requirement for receipt of occupational disability benefits. Receipt of non-occupational disability benefits requires termination of temporary disability benefits and member remains disabled.

Vested Termination

Members who terminate with more than 5 years of service are eligible to receiving retirement pension benefits at age 62 if service is less than 10 and at age 60 if service is at least 10. Members hired on or after January 1, 2011 are vested after 10 years of service.

GENERAL ASSEMBLY RETIREMENT SYSTEM

Normal Retirement

Members hired before January 1, 2011 are eligible to retire with full benefits after completing one of the following: i) age 55 with 8 years of service, or ii) age 62 with 4 years of service. Age 67 with 8 years of service for members hired on or after January 1, 2011.

Early Retirement

Members hired on or after January 1, 2011 are eligible to retire with reduced benefits after attaining age 62 and earning at least 8 years of service.

Disability Retirement

Members are eligible for disability benefits after completing 8 years of service.

Vested Termination

Members hired before January 1, 2011 who terminate with at least 4 years of service are eligible to receive pension benefits under the normal retirement provisions. Members hired on or after January 1, 2011 are vested after 8 years of service.

JUDGES' RETIREMENT SYSTEM

Normal Retirement

Members hired before January 1, 2011 are eligible to retire with unreduced benefits after completing one of the following: i) age 55 with 26 years of service, ii) age 60 with 10 years of service, or iii) age 62 with 6 years of service.

Age 67 with 8 years of service for members hired on or after January 1, 2011.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

Early Retirement

Members hired before January 1, 2011 are eligible to retire with reduced benefits after completing age 55 with 10 years of service. Age 62 with 8 years of service for members hired on or after January 1, 2011.

Disability Retirement

Members are eligible for disability benefits after completing 10 years of service.

Vested Termination

Members hired before January 1, 2011 who terminate with at least 6 years of service are eligible to receive pension benefits under either the normal or early retirement provisions.

Members hired on or after January 1, 2011 are vested after 8 years of service.

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

DEPENDENTS ELIGIBLE FOR COVERAGE

If a plan member enrolls in SEGIP, they may enroll the following dependents: spouses; unmarried children under age 19; unmarried children under the age of 26 that are full-time students, financially dependent for at least one-half of their support, and eligible to be claimed on income tax return; disabled children that have been continuously disabled from causes originating prior to age 19 or 26 if a full-time student, financially dependent for at least one-half of their support, and eligible to be claimed on income tax return; and parents if they are financially dependent for at least one-half of their support and eligible to be claimed on income tax return.

ENROLLMENT TIMING

Members who have not previously enrolled in SEGIP are eligible to enroll when they begin receiving pension benefits through one of the State sponsored pension programs, during any annual open enrollment period, when turning 65 or becoming Medicare eligible, or after losing coverage by a former plan. Members and beneficiaries who previously were enrolled in SEGIP, and subsequently waive coverage, are only eligible to reenroll due to the loss of prior coverage by a former plan or at the attainment of age 65 or when Medicare eligible.

SURVIVING SPOUSE COVERAGE

Spouses of employees/retirees who die are eligible to maintain health insurance coverage until the surviving spouse's death. If the surviving spouse elects a monthly benefit, he or she becomes the member with the same SEGIP rights.

MEDICARE

Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. SEGIP benefits are coordinated with Medicare as follows -

- i) After Medicare Part A pays, QCHP pays all but \$50 of the Medicare Part A deductible, and hospital and skill extended care facility stay beyond the maximum days allowed under Medicare.
- ii) After Medicare Part B pays, QCHP pays all Medicare Part B deductibles and Medicare Part B coinsurance.

Prescription drug coverage provided by the plan is at least as valuable as benefits provided through Medicare Part D.

DENTAL , VISION AND LIFE INSURANCE BENEFITS

The State provides postemployment dental, vision, and life insurance benefits. Members eligible for SEGIP healthcare benefits are also eligible for dental and vision benefits. The State provides a fully subsidized life insurance benefits to retired and disabled members and their spouses equal to one

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
SUMMARY OF PRINCIPAL PLAN PROVISIONS

times pay before retirement if death occurs before age 60, and \$5,000 if death occurs after age 60. Dependent children are eligible for life insurance benefit of \$10,000.

The State offers optional life insurance benefits to retired and disabled members and their spouses. The member is required to pay the full age-based premium.

FUNDING POLICY

OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retired members. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis and no separate trust has been established for the funding of OPEB. The State recognizes SEGIP OPEB benefits as a single employer defined benefit plan with a special funding situation for employees of the State's component unit universities as defined in GASB No. 45.

OPEB PROGRAMS

Members may elect healthcare coverage in the QHCP, a managed care HMO plan, or the Healthlink Open Access Plan (OAP). The QHCP is a traditional medical indemnity plan. There are seven HMOs offering coverage that varies by location throughout the state. The OAP is a managed care plan that offers three benefit levels based on the provider used. A summary of the healthcare benefits provided under the three plans is shown on pages 36 through 38. The State also provides postemployment dental, vision, and life insurance benefits which are summarized on pages 39 and 40.

Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members retiring before January 1, 1998, are eligible for single coverage at no cost to the member. Members retiring after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5 percent for each of service under 20 years. Eligible dependents receive coverage provided they pay 100 percent of the required dependent premium. The following tables show the premium amounts for healthcare plans for the fiscal year ending June 30, 2012.

Member monthly premium for single coverage (shared between State and member depending on date of retirement and service at retirement):

FYE 6/30/2012	Pre-Medicare	Medicare
Quality Care Health Plan	\$891.42	\$373.62
HMO/POS Plans	\$628.20	\$329.06

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF PRINCIPAL PLAN PROVISIONS

Dependent monthly premiums (paid fully by dependent):

FYE 6/30/2012	One Dependent	Two or More Dependents	One Medicare Dependent	Two or More Medicare Dependents
Quality Care Health Plan	\$196	\$226	\$142	\$203
Health Alliance HMO	\$94	\$133	\$89	\$133
Health Alliance Illinois	\$103	\$145	\$100	\$145
HMO Illinois	\$83	\$116	\$79	\$116
Personal Care HMO	\$92	\$130	\$88	\$130
Personal Care OAP	\$92	\$130	\$88	\$130
Blue Advantage HMO	\$80	\$110	\$75	\$110
HealthLink OAP	\$105	\$149	\$102	\$149

Certain members receiving SERS pensions are eligible to participate in the Opt-Out – Financial Incentive Programs which provides a financial incentive of \$150 per month to enroll in another healthcare program prior to becoming eligible for Medicare. After age 65, members in the Opt-Out program are required to demonstrate that they are not eligible for Medicare and are participating in another eligible healthcare program.

Effective October 1, 2009, retirees and survivors are required to pay a monthly premium for dental equal to \$11 for member only coverage, \$17 for member plus one dependent coverage, and \$19.50 for member plus two dependents coverage.

No premiums are required for vision coverage or the basic non-voluntary life insurance benefit.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF PRINCIPAL PLAN PROVISIONS

Quality Care Health Plan (QCHP)

<i>Plan Feature</i>	<i>In Network</i>	<i>Out of Network ¹</i>
Annual Deductible	\$300 per individual, with \$750 family cap	\$300 per individual, with \$750 family cap
Annual Out of Pocket Limit	\$1,200 per enrollee, with \$3,000 per family	\$4,400 per enrollee, with \$8,800 per family
<u>Covered Services</u>	<u>Coinsurance</u>	<u>Coinsurance</u>
-Office Visits	90% after deductible	70% after deductible
-Emergency Room	\$400 copay, then 90% after deductible	\$400 copay, then 70% after deductible
-Inpatient Services	\$50 copay, then 90% after deductible	\$300 copay, 70% after deductible
-Outpatient Services		
-Lab/X-ray	90% after deductible	70% after deductible
-Other	90% after deductible	70% after deductible
Prescription Drug Copays	After annual prescription deductible of \$75	
	<u>Retail at 30 day supply</u>	
	Generic	\$11
	Preferred Formulary Brand	\$26
	Non-Preferred Brand	\$52
	<u>Maintenance Network or Mail Order Pharmacy at 90-day supply</u>	
	Copay at 2 times retail	
Maximum Lifetime Benefit	Unlimited	

¹ Out of network claims covered only up to usual and customary amount.

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF PRINCIPAL PLAN PROVISIONS

HMO Plans

<i>Plan Feature</i>							
Annual Deductible	\$0						
Out of Pocket Maximum	\$1,500						
<u>Covered Services</u>	<u>Coinsurance</u>						
-Physicians Visits	\$15 Copay, then 100%						
-Emergency Care	\$200 Copay, then 100%						
-Inpatient Services	\$275 Copay, then 100%						
-Outpatient Services	\$175 Copay, then 100%						
Prescription Drug Copays	<p style="text-align: center;">After annual prescription deductible of \$50</p> <p style="text-align: center;"><u>Retail at 30-day supply</u></p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding-right: 20px;">Generic</td> <td style="text-align: right;">\$10</td> </tr> <tr> <td>Preferred formulary Brand</td> <td style="text-align: right;">\$24</td> </tr> <tr> <td>Non-Preferred Brand</td> <td style="text-align: right;">\$48</td> </tr> </table> <p style="text-align: center;"><u>Maintenance Network or Mail Order Pharmacy at 90-day supply</u></p> <p style="text-align: center;">Copay at 2 times retail</p>	Generic	\$10	Preferred formulary Brand	\$24	Non-Preferred Brand	\$48
Generic	\$10						
Preferred formulary Brand	\$24						
Non-Preferred Brand	\$48						
Maximum Lifetime Benefit	Unlimited						

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF PRINCIPAL PLAN PROVISIONS

Open Access Plan (OAP)

<i>Plan Feature</i>	<i>Tier I</i>	<i>Tier II</i>	<i>Tier III</i>
Annual Deductible	\$0	\$200 per enrollee	\$300 per enrollee
Annual Out of Pocket Limit	NA	\$600 per enrollee, with \$1,200 per family	\$1,500 per enrollee, with \$3,500 per family
<u>Covered Services</u>	<u>Coinsurance/Copay</u> ¹	<u>Coinsurance/Copay</u> ¹	<u>Coinsurance/Copay</u> ²
-Office Visits	\$15 copay	90% of network charge	80% of U&C
-Emergency Room	\$200 copay	\$200 copay, then 100%	\$200 copay, then 100%
-Inpatient Services	\$275 copay	\$325 copay, then 90%	\$425 copay, then 80%
-Outpatient Services	\$175 copay	\$175 copay, then 90%	\$175 copay, then 80%
-Lab/X-ray	100%	90% of network charge	80% of U&C
-Other	100%	90%	80%
Prescription Drug Copays	After annual prescription deductible of \$50 <u>Retail at 30-day supply</u> Generic \$10 Preferred formulary Brand \$24 Non-Preferred Brand \$48 <u>Maintenance Network or Mail Order Pharmacy at 90-day supply</u> Copay at 2 times retail		
Maximum Lifetime Benefit	Unlimited	Unlimited	Unlimited

¹ Network charges

² Usual and customary charges

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF PRINCIPAL PLAN PROVISIONS

Quality Care Dental Plan

<i>Plan Feature</i>	
<u>Annual Deductible</u>	None
-Preventive and diagnostic services	
- All other covered services	\$125 per participant
<u>Plan Year Maximum Benefit</u>	\$2,500 per participant
-Preventive and diagnostic services	
- All other covered services	\$2,500 per participant
<u>Covered Services</u>	
-Preventive and diagnostic	Subject to schedule
-Basic and major benefits	Subject to schedule

Vision Plan

<i>Plan Feature</i>	<i>In-Network</i>	<i>Out-of-Network</i>	<i>Benefit Frequency</i>
Eye Exam	\$10 co-pay	\$30 allowance	Once every 12 months
Spectacle Lenses	\$10 co-pay	\$50 allowance, for single vision, and \$80 allowance for bifocal and trifocal	Once every 24 months
Contact Lenses (In lieu of standard frames and spectacle lenses)	\$120 allowance	\$120 allowance	Once every 24 months

OTHER POST-EMPLOYMENT BENEFITS
 SPONSORED BY THE
 STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
 GASB NO. 45 VALUATION AS OF JUNE 30, 2011
 SUMMARY OF PRINCIPAL PLAN PROVISIONS

Life Insurance

<i>Plan Feature</i>	
<p><u>Basic life insurance</u></p> <ul style="list-style-type: none"> - For annuitants under age 60 - For annuitants over age 60 - For spouse if annuitant age is less than 60 - For spouse if annuitant age is greater than 60 - For dependent child 	<p>One times annual salary as of last day of active State service</p> <p>\$5,000</p> <p>\$10,000</p> <p>\$5,000</p> <p>\$10,000</p>
<u>Member contribution</u>	None
<u>Other option life insurance benefits</u>	Are fully paid by the member using individual age and other rating factors and have been excluded from the valuation

SECTION H
GLOSSARY

OTHER POST-EMPLOYMENT BENEFITS
SPONSORED BY THE
STATE EMPLOYEES GROUP INSURANCE PROGRAM OF ILLINOIS
GASB NO. 45 VALUATION AS OF JUNE 30, 2011
GLOSSARY

Accrued Service. The service credited under the plan, which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability (AAL). The difference between (i) the actuarial present value of future plan benefits; and (ii) the actuarial present value of future normal cost, which is sometimes referred to as "accrued liability" or "past service liability."

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover, and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Actuarial Value of Assets. The value of cash, investments, and other property belonging to a pension or OPEB plan, as used by the actuary for the purpose of an actuarial valuation.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

Annual OPEB Cost (AOC). An accrual-basis measure of the periodic cost of an employer's participation in a defined OPEB plan.

Annual Required Contribution (ARC). The ARC is the normal cost plus the portion of the unfunded actuarial accrued liability to be amortized in the current period. The ARC is an amount that is actuarially determined in accordance with the requirements so that, if paid on an ongoing basis, it would be expected to provide sufficient resources to fund both the normal cost for each year and the amortized unfunded liability.

Discount Rate. The rate used to adjust a series of future payments to reflect the time value of money.

Expected Net Employer Contributions. The difference between the age-adjusted premium or expected retiree healthcare claims and retired member's share of the premium. This amount is used to offset the Annual OPEB Cost during the fiscal year.

Governmental Accounting Standards Board (GASB). GASB is the private, nonpartisan, nonprofit organization that works to create and improve the rules U.S. state and local governments follow when accounting for their finances and reporting them to the public.

Implicit Rate Subsidy. The de facto subsidy of retirees by permitting them to pay lower than age-adjusted premiums through the use of a single common or blended premium for both retirees and active employees.

OTHER POST-EMPLOYMENT BENEFITS
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GASB NO. 45 VALUATION AS OF JUNE 30, 2011
GLOSSARY

Explicit Rate Subsidy. The portion of the premium paid by the employer. The premium may be based on the experience of active and retired members or retired members only.

Medical Trend Rate (Health Inflation). The increase in the plan's cost over time. Trend includes all elements that may influence a plan's cost, assuming those enrollments and the plan benefits do not change. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

Net OPEB Obligation (NOO). An accounting liability when an employer doesn't fully fund the ARC.

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Other Postemployment Benefits (OPEB). OPEB are postemployment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other healthcare benefits.

Pay-as-you-go funding. A method of financing benefits by making required payments only as they come due.

Plan member. A plan's membership includes active service employees, terminated employees who are eligible to receive benefits but are not receiving them, and retired employees and beneficiaries currently receiving benefits.

Pre-funding. A method of financing benefits by placing resources in trust as employees earn benefits so that the resources thus accumulated, along with related earnings, can be used to make benefit payments as they become due.

Present Value of all Projected Benefits. The present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value of money and the probabilities of payment.

Projected Unit Credit Cost Method. A method under which the normal cost and actuarial accrued liability are directly proportional to the employee's service. The normal cost equals the present value of future benefits divided by projected service at retirement, and the actuarial accrued liability equals the present value of benefits multiplied by the ratio of service at valuation date to projected service at retirement.

Qualified Plan. A qualified plan is an employer-sponsored retirement plan that qualifies for special tax treatment under Section 401(a) of the Internal Revenue Code.

Reserve Account. An account used to indicate that funds have been set-aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability (UAAL). The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

Valuation Assets. The value of current plan assets recognized for valuation purposes.