



COMMONWEALTH of VIRGINIA

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November 23, 2011

The Honorable Robert F. McDonnell, Governor
The Honorable Lacey E. Putney, Chairman, House Appropriations Committee
The Honorable Charles J. Colgan, Chairman, Senate Finance Committee

Subject: 2011 Report - Renewal Cost of the State Employee Health Insurance Program Premiums

Pursuant to the Appropriation Act, Item 75 G (Regular Session, 2011), the attached report provides information on the renewal cost of the state employee health insurance premiums as well as a valuation of liabilities under the Other Post Employment Benefits Reporting Standards.

Please contact me if there are any questions.

Sincerely,

A handwritten signature in cursive script that reads "Sara R. Wilson".

Sara Redding Wilson

cc: The Honorable Lisa Hicks-Thomas

**2011 REPORT ON RENEWAL COST OF THE STATE EMPLOYEE HEALTH
INSURANCE PROGRAM PREMIUMS**

The Department of Human Resource Management submits this report to the Governor and Chairmen of the House Appropriations and Senate Finance Committees in response to the Appropriation Act, Item 75 G (Regular Session, 2011):

report to the Governor and Chairmen of the House Appropriations and Senate Finance Committees by October 15, of each year, the renewal cost of the state employee health insurance program premiums that will go into effect on July 1, 2011 and July 1, 2012. This report shall include the impact of the renewal cost on employee and employer premiums and a valuation of liabilities as required by Other Post Employment Benefits reporting standards.

Aon Hewitt, the actuarial firm for the state employee health insurance program, has projected a .9% rate increase for the state health plan implement for the plan year beginning July 1, 2012.

FY 2012 Monthly Rates

<u>Premium Distribution</u>	<u>Single</u>	<u>Plus One</u>	<u>Family</u>
Employer (Agency)	\$383	\$686	\$1,002
Employee	\$43	\$102	\$150
Employer Subsidy	\$68	\$122	\$182
Employee Subsidy	\$6	\$15	\$18
Total True Premium	\$500	\$925	\$1,352

FY 2013 Monthly Rates

<u>Premium Distribution</u>	<u>Single</u>	<u>Plus One</u>	<u>Family</u>
Employer (Agency)	\$455	\$815	\$1,195
Employee	\$49	\$118	\$170
Total True Premium	\$505	\$933	\$1,364

Over the last few years, the Health Insurance Fund has been used to subsidize both the employee and the employer premium, as reflected in the monthly rates above for FY 2012. In FY 2013, no subsidy is provided. These calculations have been rounded to the nearest whole dollar.

Attached is a report dated August 13, 2010 from Aon Hewitt, the health plan's actuary, which provides a valuation of liabilities as required by Other Post Employment Benefits reporting standards. In accordance with these standards, this report is produced every two years.



**Commonwealth of Virginia State
Health Benefits Program for Pre-
Medicare Retirees, Survivors and
LTD Participants**

**Actuarial Report for GASB OPEB
Valuation**

Valuation Date: July 1, 2009

Fiscal Year Ending: June 30, 2010

Date of Report: August 13, 2010

August 2010

This report contains the results of the July 1, 2009 actuarial valuation of the Commonwealth of Virginia's State Health Benefits Program for Retirees, Survivors and LTD Participants (the Plan). It provides results regarding accounting requirements for the Plan.

The accounting results are prepared in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). The purposes of the accounting results are to:

- Develop the Annual Required Contribution (ARC) and the Annual OPEB Cost (AOC) for the fiscal year ending June 30, 2010.
- Provide information needed by the Commonwealth of Virginia's auditors for financial statement entries and footnote disclosures to conform to the disclosure requirements under GASB 45.

This report is prepared for the sole use of the Commonwealth of Virginia (the Commonwealth) and supplies information consistent with the stated purposes of the report. It may not be appropriate to use this report for other business applications. Accordingly, additional discussion may be helpful in understanding the assumptions, methodologies, and limitations applied in the report.

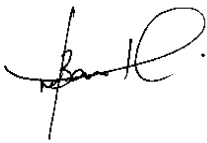
Aon Consulting is pleased to present this report, and we look forward to discussing it with you.

Respectfully submitted,

Aon Consulting

A handwritten signature in dark ink, appearing to read 'Catherine Furr'.

Catherine Furr, FSA, EA, MAAA
Senior Vice President

A handwritten signature in dark ink, appearing to read 'Merson Bartlett'.

Merson Bartlett, ASA, MAAA
Assistant Vice President

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SECTION I EXECUTIVE SUMMARY

GASB 45 requires government entities that sponsor Other Postemployment Benefits (OPEB) to account for these benefits on an accrual basis. The Commonwealth adopted GASB 45 for the fiscal year beginning July 1, 2007.

The Commonwealth provides health insurance benefits to participating retirees, spouses, and survivors. Also, participants on long-term disability and their spouses can qualify for retiree health insurance benefits. The benefits considered under this valuation were medical, prescription drug, and dental coverage.

Participants pay the total subsidized contribution for benefit coverage. This amount may be reduced by the Virginia Retirement System's (VRS) health insurance credit (HIC) for those participants who are eligible. The Commonwealth's OPEB liability is the difference between the estimated true cost of coverage and the subsidized contribution for coverage (the implicit subsidy).

There are two tiers of participants for the Plan's purpose – primary retirees and spouses. The results of the valuation are presented on a combined basis.

It is assumed that approximately 70% of all of the active employees who retire directly from employment and meet the State Health Benefits Program's eligibility criteria will participate in the health insurance component of the Plan.

The table on the next page summarizes the valuation results. The results have been calculated based upon the actuarial assumptions as to current claim cost, projected increases in health insurance costs, mortality, turnover, retirement, disability and discount rate.

These results also assume there is no liability associated with those retirees eligible for Medicare, as costs for members aged 65 and older are not subsidized by the active nor early retiree population (no implicit subsidy), participants pay 100% of the costs, and the liability associated with the health insurance credit is measured and held by the Virginia Retirement System.

Additionally, the results do not consider the creation of a qualified OPEB funding vehicle. It is Aon's understanding that the Commonwealth does not plan to segregate and restrict assets such that the Commonwealth's contributions to the Plan are irrevocable, dedicated to providing benefits to retirees and their beneficiaries, and legally protected from creditors of the Commonwealth, solely for the payment of benefits in accordance with the terms of the Plan. Furthermore, the Commonwealth has no current plan to contribute funds to a qualified OPEB funding vehicle for the fiscal years beyond 2010.

SECTION I
EXECUTIVE SUMMARY

This summary identifies the value of benefits on July 1, 2009 and costs for the 2010 fiscal year. The value of benefits on July 1, 2007 (the prior valuation date) and cost for the 2008 fiscal year are shown for comparison.

Fiscal Year	2010 (\$millions)	2008 (\$millions)
Present Value of Benefits (PVB)	\$1,961.5	\$1,580.0
Actuarial Accrued Liability (AAL)	\$1,218.3	\$982.2
Annual Required Contribution (ARC) ¹	\$153.6	\$127.4
Annual OPEB Cost (AOC)	\$150.7	\$127.4

¹The ARC reflects a 30-year open period, level dollar amortization of the Unfunded AAL. 30 years is the maximum period allowed under GASB 45.

The balance of this report provides greater detail for the above results.

The fiscal year 2010 valuation was performed using a 4.3% discount rate. The 4.3% rate is appropriate for the current funding arrangement for the Plan, reflecting that the Commonwealth has not placed assets in an irrevocable trust specifically segregated for future retiree benefits. The fiscal year 2008 valuation was performed using a 4.97% discount rate, which was appropriate at that time, reflecting the expected return on the general assets of the Commonwealth, from which future benefits are expected to be paid.

SECTION II ACTUARIAL CERTIFICATION

This report presents the results of the actuarial valuation for the Commonwealth of Virginia's State Health Benefits Program for Retirees, Survivors and LTD Participants as of July 1, 2009 for development of the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), Net OPEB Obligation (NOO) and other disclosure items under Governmental Accounting Standards Board (GASB) Statement No. 45.

This report was prepared using generally accepted actuarial practices and methods. The actuarial assumptions used in the calculations are individually reasonable and reasonable in aggregate.

The employee data and financial and claims information used in this valuation were submitted to Aon by the plan sponsor, or at the plan sponsor's direction. Aon did not audit the employee data and financial information used in this valuation but did review it for reasonableness and consistency. On the basis of this review, Aon believes the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

Actuarial computations under GASB 45 are for purposes of fulfilling the Commonwealth's accounting requirements. The calculations reported herein have been made on a basis consistent with Aon's understanding of these accounting standards. Determinations for purposes other than meeting the Commonwealth's financial accounting or disclosure requirements may be different from these results. As required by GASB 45, this valuation assumes the Plan will be an ongoing plan. However, this assumption does not imply any obligation by the Commonwealth to continue the Plan.

This report is intended for the sole use of the Commonwealth. It is intended only to supply information for the Commonwealth to comply with the stated purpose of the report and may not be appropriate for other business purposes. Reliance on information contained in this report by anyone for other than the intended purposes, puts the relying entity at risk of being misled because of confusion or failure to understand applicable assumptions, methodologies, or limitations of the report's conclusions. Accordingly, no person or entity, including the Commonwealth should base any representations or warranties in any business agreement on any statements or conclusions contained in this report without the written consent of Aon.

The actuaries whose signatures appear below are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. The actuaries are available to answer any questions with regard to the matters enumerated in this report.

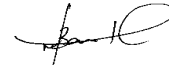
Aon's relationship with the Plan and the Plan Sponsor is strictly professional. There are no aspects of the relationship that may impair or appear to impair the objectivity of our work.

Catherine Furr, FSA, MAAA
Senior Vice President
Consulting Actuary



Date: August 13, 2010

Merson Bartlett, ASA, MAAA
Assistant Vice President
Certifying Actuary



Date: August 13, 2010

SECTION III
PRINCIPAL VALUATION RESULTS
(As of July 1, 2009)

This section presents detailed valuation results as of July 1, 2009 for the Commonwealth's retiree health insurance benefits program.

- The Present Value of Benefits (PVB) is the total present value of all expected future benefits, based upon certain actuarial assumptions. Benefits are defined as estimated paid claims and expenses from the plan, net of total subsidized contributions for retirees. The PVB is a measure of total liability or obligation. Essentially, the PVB is the value (on the valuation date) of the benefits, as they exist today, for retirees, both currently retired and currently active. The plan's PVB is \$1,961.5 million. A good portion of this liability (86%) is for the currently active employees (future retirees).
- The actuarial method selected by the Commonwealth is the Unit Credit method. The Actuarial Accrued Liability (AAL) is the liability or obligation for benefits earned through the valuation date, based on certain actuarial methods and assumptions. The plan's AAL is \$1,218.3 million.
- Normal Cost is the value of benefits expected to be earned during the year beginning on the valuation date, again based on certain actuarial methods and assumptions. The fiscal year 2010 Normal Cost at the beginning of the year is \$77.2 million.
- The Annual Required Contribution (ARC) is a combination of the Normal Cost and an amortization payment of the Unfunded AAL (UAAL). As there are no segregated assets as of July 1, 2009 to fund the retiree health insurance benefits, the Unfunded AAL (UAAL) is equal to the AAL. Using a 30-year open period level dollar amortization, the ARC for the Commonwealth is \$153.6 million, including interest to the end of the year. In addition, the amortization of the unfunded accrued liability can be determined as a level percentage of compensation rather than a level dollar amount. Aon has not performed any computations to determine the effect of utilizing different amortization periods or methods, although they could have a material impact on the amount of Net OPEB Obligation and the ARC.

The table on the following page shows results by participant status (active and retired), including results projected to the 2011 fiscal year, which could be used for reporting costs in the Commonwealth's fiscal year 2011 financial statements.

SECTION III
PRINCIPAL VALUATION RESULTS
(As of July 1, 2009)

This page also shows projected results to July 1, 2010 (FY 2011).

	FY 2010 (\$millions)	Projected FY 2011 (\$millions)
Present Value of Benefits		
Current Retirees	\$274.4	\$245.3
Actives	<u>1,687.1</u>	<u>1,747.4</u>
Total	\$1,961.5	\$1,992.7
Actuarial Accrued Liability		
Retirees	\$274.4	\$245.3
Actives	<u>943.9</u>	<u>\$1,052.9</u>
Total	\$1,218.3	\$1,298.2
Assets	\$0	\$0
Unfunded AAL	\$1,218.3	\$1,298.2
Annual Required Contribution		
Normal Cost	\$77.2	\$81.1
Amortization of Unfunded AAL ¹	\$70.0	\$74.6
Interest to End of Year	\$6.4	\$6.7
Total ARC	\$153.6	\$162.4
Expected Benefit Payments (pay-as-you-go) ²	\$51.9	\$62.9
Covered Payroll ³	\$3,170.3	\$3,297.1
ARC as % of pay-as-you-go	296.0%	258.2%
ARC as % of Covered Payroll	4.8%	4.9%

¹ At the beginning of the year

² Net of total subsidized contributions for retirees

³ Assumed payroll for the 2010 fiscal year; based on the 2008 fiscal year payroll (per the CAFR) increased at 4% per year for two years; payroll for FY 2011 increases this number by 4%.

SECTION III
PRINCIPAL VALUATION RESULTS
(As of July 1, 2009)

The table below compares the results of the actual July 1, 2009 (2010 fiscal year) valuation with the expected results based on a “roll-forward” of the July 1, 2007 (2008 fiscal year) valuation:

	----- (\$Millions) -----	
	AAL	ARC
Fiscal Year 2010 Based on a ‘Roll Forward’ from Fiscal Year 2008’s Valuation ¹	\$1,121.5	\$143.0
Fiscal Year 2010 Based on Valuation as of July 1, 2009 ²	\$1,218.3	\$153.6
Difference	\$96.8	\$10.6
Difference is due to:		
Actuarial (Gains)/Losses ³	(\$54.8)	(\$2.5)
Updated Baseline Claims and Premiums ⁴	\$95.3	\$12.4
Change in Discount Rate ⁵	\$ 82.5	\$6.0
Other Valuation Assumption Changes ⁶	(\$26.2)	(\$5.3)
	\$96.8	\$10.6

¹These are the expected valuation results from FY2008 actuarially projected to FY2010. That is, these results (a) assume no change in the population or assumptions from the FY2008 valuation, (b) reflect the expected increase in GASB OPEB costs due to employees accruing two additional years of service and (c) also reflect the expected increase in costs because future benefits are now two years closer to being paid.

²That is, a valuation based on census, claims and total subsidized contributions for retirees as of July 1, 2009.

³Actuarial gains reflect the reduction in GASB OPEB costs from FY2008 to FY2010 due to (a) differences between the populations valued (including changes in the number of participants valued, and changes in accrued service, average ages, etc), and (b) actual demographic experience from FY2008 to FY2010 being different from the demographic assumptions in the FY2008 valuation. Demographic assumptions include rates of mortality, termination, disability and retirement.

⁴Baseline claims used in the FY2010 valuation were slightly higher than expected, based on the claims from the FY2008 valuation trended to FY2010, and compared to the baseline claims used in the actual FY2010 valuation. Retiree premiums used in the FY2010 valuation were lower than expected, based on the premiums from the FY2008 valuation trended to FY2010, and compared to the premiums reflected in the actual FY2010 valuation. The slightly higher claims and the lower premiums combined to cause a sizeable increase in GASB OPEB costs.

⁵The discount rate was reduced from 4.97% for the FY2008 valuation to 4.30% for the FY2010 valuation. The rates reflect the expected returns on the assets from which future benefits are expected to be paid (i.e., on the general funds of the Commonwealth).

⁶The Commonwealth adopted updated retirement, termination, and disability assumptions for the 7/1/2009 pension valuation. The new assumptions have also been adopted for the OPEB valuation and are shown in the Methods and Assumptions Section of the report.

The balance of this report provides greater detail for the above results.

SECTION IV
ACCOUNTING INFORMATION

The GASB OPEB accounting standards were first adopted by the Commonwealth for the fiscal year ending June 30, 2008. The following shows the Annual OPEB Cost (AOC), estimated Net OPEB Obligation (NOO), funding status, and required supplementary information for the Commonwealth for the fiscal year ending June 30, 2010.

Annual OPEB Cost (AOC)

The *Annual OPEB Cost (AOC)* is the accounting expense, and is made up of the ARC, plus an adjustment to the ARC, consisting of interest on the *Net OPEB Obligation (NOO)* at the beginning of the period, less an amortization of the *Net OPEB Obligation (NOO)*.

The amounts shown below are for the fiscal year ending June 30, 2010.

Annual OPEB Cost (AOC)	Fiscal Year Ending June 30, 2010 (\$millions)
ARC	\$153.6
Interest on Net OPEB Obligation (NOO)	8.4
Adjustment to ARC	<u>(11.3)</u>
Total	\$150.7

Net OPEB Obligation (NOO)

The NOO is the cumulative difference between the AOC and the Commonwealth's total contributions. Because the Commonwealth is not pre-funding the cost of future benefit payments, the Commonwealth's contributions will consist of the difference between total retiree health benefits, administration and other fixed fees paid during a year and retiree premiums received (including any subsidies from VRS paid on behalf of retirees for the health coverage).

The contributions shown below are estimates for the fiscal year ending June 30, 2010, and should be replaced by actual Commonwealth contributions before determining the NOO to be disclosed in the Commonwealth's FY2010 financial statements.

Net OPEB Obligation (NOO)	Fiscal Year Ending June 30, 2010 (\$millions)
AOC	\$150.7
Contributions Made (Expected Benefit Payments)	<u>(51.9)</u>
Increase In NOO	\$98.8
NOO-Beginning of Year	<u>\$196.3</u>
NOO-End of Year	\$295.1

SECTION IV
ACCOUNTING INFORMATION

The following is a three-year history of the calculation of the Net OPEB Obligation. Before reporting information for the 2010 fiscal year, the Percentage of AOC Contributed and the Net OPEB Obligation for Fiscal Year Ended June 30, 2010 must first be updated to reflect actual Commonwealth contributions for the year. We also show the calculation of the estimated NOO for the fiscal year ending June 30, 2011.

Amounts shown are in millions.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation</u>
06/30/2008	\$127.2	25.2%	\$95.1
06/30/2009	\$131.9	23.3%	\$196.3
06/30/2010 estimated	\$150.7	34.4%	\$295.1
06/30/2011 projected	\$159.5	39.4%	\$391.7

Required Supplementary Information

Below is the Schedule of Funding Progress. The Covered Payroll for the July 1, 2009 Valuation Date should be updated to reflect actual payroll for the year beginning July 1, 2009.

Amounts shown are in millions.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a percentage of Covered Payroll (b-a)/(c)</u>
7/1/2007	\$0	\$982.2	\$982.2	0.0%	\$2,931.1	33.5%
7/1/2009	\$0	\$1,218.3	\$1,218.3	0.0%	\$3,170.3	38.4%
7/1/2010 projection	\$0	\$1,298.2	\$1,298.2	0.0%	\$3,297.1	39.4%

Covered payrolls are estimates.

It is important to note that without any additional contributions towards the AOC besides current pay-as-you go cost, the NOO will continue to increase, which will further increase the ARC and AOC for the following year (as the UAAL increases and interest on the NOO is accrued).

SECTION V
SENSITIVITY ANALYSIS

Below, we show the results using our assumed trend assumptions (as detailed in Section VIII) along with a 1% increase in trend rates for each projected year and a 1% decrease in trend rates, to illustrate the sensitivity of results to the trend rates.

July 1, 2009	
4.30%	
	Valuation Trend
	(\$millions)
PVB	\$1,961.5
AAL	\$1,218.3
ARC	
Normal Cost	\$77.2
Amortization of UAL	70.0
Interest to EOY	6.4
Total ARC	\$153.6
	Trend +1%
	(\$millions)
PVB	\$2,242.6
AAL	\$1,346.8
ARC	
Normal Cost	\$88.4
Amortization of UAL	77.4
Interest to EOY	7.1
Total ARC	\$172.9
	Trend -1%
	(\$millions)
PVB	\$1,727.3
AAL	\$1,107.6
ARC	
Normal Cost	\$67.8
Amortization of UAL	63.7
Interest to EOY	5.7
Total ARC	\$137.2

SECTION VI
DEMOGRAPHIC INFORMATION

In the following pages we summarize the demographic information for the current and future retirees in the State Health Benefits Program.

The table below shows a distribution of age and service for all active employees who currently participate in the State Health Benefits Program. All groups in total are shown.

Age	COMPLETED YEARS OF SERVICE										Total
	0-1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
0-25	0	2,567	19	0	0	0	0	0	0	0	2,586
25-29	0	5,792	931	24	0	0	0	0	0	0	6,747
30-34	0	5,180	2,150	743	16	0	0	0	0	0	8,089
35-39	0	4,794	2,538	1,891	577	40	0	0	0	0	9,840
40-44	0	4,316	2,506	2,060	1,656	960	37	0	0	0	11,535
45-49	0	4,032	2,579	2,119	1,958	2,478	868	144	0	0	14,178
50-54	0	3,432	2,218	1,944	1,872	2,465	1,782	1,546	132	0	15,391
55-59	0	2,471	1,865	1,735	1,774	2,145	1,424	1,777	907	43	14,141
60-64	0	1,202	1,114	1,044	1,122	1,402	886	913	758	298	8,739
65-69	0	259	262	303	325	387	231	271	222	164	2,424
70+	0	78	75	83	104	122	69	78	49	70	728
Total	0	34,123	16,257	11,946	9,404	9,999	5,297	4,729	2,068	575	94,398

Average Age: 46.9

Average Service: 12.1

SECTION VI
DEMOGRAPHIC INFORMATION

The next table shows headcounts and average age by group. Note in this table, the counts do not include spouses.

Group	Number of Lives	Average Age
Active	94,398	46.9
Inactive (under age 65) ¹	8,312	59.7

¹Retirees, survivors, LTDs

SECTION VII
SUMMARY OF PLAN PROVISIONS

Plan Plan provisions in effect as of July 1, 2009 are shown.

Eligibility For a retiree to participate in the Plan, the participant must be eligible for a monthly annuity from the Virginia Retirement System (VRS) or a periodic benefit from one of the qualified Optional Retirement Plan (ORP) vendors, and:

be receiving (not deferring) the annuity or periodic benefit immediately upon retirement*, and

have his or her last employer before retirement be the state, and

be eligible for coverage as an active employee in the State Health Benefits Program until his or her retirement date (not including Extended Coverage), and

Have submitted within 31 days of his or her retirement date an Enrollment Form to his or her Benefits Administrator to enroll.

*For VRS retirees, this means that the employing agency reported a retirement contribution in the month immediately prior to an employee's retirement date.

Surviving spouses of a participating retiree may continue coverage after the death of the retiree.

For this valuation, employees were considered eligible to retire and receive medical, prescription drug and dental benefits if they are (a) age 50 with at least ten years of service or (b) age 55 with 5 years of service or (c) disabled and are eligible for a VRS or ORP benefit. Employees must retire directly from VRS or ORP sponsored employment and they must apply for coverage within 31 days of retirement. If a retiree fails to enroll initially or cancels their coverage subsequent to retirement, then they are not eligible to enroll at a later date.

SECTION VII
SUMMARY OF PLAN PROVISIONS

Plan Benefit Summary

Health Benefits Effective July 1, 2009
Retiree Group Not Eligible for Medicare

Benefits	Plan		
	COVA Care/ COVA Connect	COVA HDHP	Kaiser Permanente
	Participant Pays		
Deductible - per plan year - One person - Two or more persons	\$225 \$450	\$1,750 \$3,500	None None
Out-of-pocket expense limit - per plan year - One person - Two or more persons	\$1,500 \$3,000	\$5,000 \$10,000	\$3,500 \$9,400
Doctor's visits - Primary Care Physician - Specialist	\$25 \$40	20% after deductible 20% after deductible	\$10 \$20
Hospital Services - Inpatient - Outpatient	\$300 per stay \$125 per visit	20% after deductible 20% after deductible	\$100 per admission \$50 per visit
Emergency Room Visits	\$125 per visit (waived if admitted)	20% after deductible	\$75 per visit (waived if admitted)
Outpatient diagnostic laboratory, test, shots and x-rays	20% after deductible	20% after deductible	\$75 specialty lab and imaging \$0 copayment lab, pathology, radiology, diagnostic testing
Prescription drugs - mandatory generic Retail Pharmacy Home Delivery Pharmacy	Up to 34-day supply: \$15/\$25/\$40/\$50 Up to 90-day supply: \$30/\$50/\$80/\$100	Up to 34-day supply: 20% after deductible Up to 90-day supply: 20% after deductible	<i>Up to 60-day supply</i> - Medical Center Pharmacy \$10/\$20/\$35 - Community Pharmacy \$20/\$40/\$55 <i>Up to 90-day supply</i> Mail Service \$8/\$18/\$33

SECTION VII
SUMMARY OF PLAN PROVISIONS

Plan Benefit Summary (continued)

Health Benefits Effective July 1, 2009
Retiree Group Not Eligible for Medicare

Benefits	Plan		
	COVA Care	COVA HDHP	Kaiser Permanente
	Participant Pays		
Wellness & Preventive Services			
Through age 6 <i>(Office visits at specified intervals, immunizations, lab and x-rays)</i>	\$0	\$0	\$0
Age 7 and older <i>(Annual checkup visit- Primary Care Physician or Specialist)</i>	\$0	\$0	\$10
<i>Immunizations, lab and x-rays</i>	\$0	\$0	\$0
Specified ages <i>(Routine gynecological exam, Pap test, mammography screening, prostate exam (digital rectal exam), prostate specific antigen test (PSA), and other colorectal cancer screening)</i>	\$0	\$0	\$0
Dental -per plan year	Basic	Expanded	Expanded
	-\$50/\$100 /\$150 Deductible -Plan pays up to \$2,000 per member	- \$50 /\$100/\$150 deductible - Plan pays up to \$2,000 per member	In-plan:\$25 deductible per member; plan pays up to \$1,000 per member
Out - of -Network	Buy-up available	Not available	Not available
Expanded Dental	Buy-up available	Included	Included
Vision & Hearing	Buy-up available	Not available	Routine vision only

**SECTION VII
SUMMARY OF PLAN PROVISIONS**

**VRS Health
Insurance Credit**

The health insurance credit provides participants with a reimbursement to assist with the cost of health insurance premiums. The credit is added to a participant's monthly retirement benefit.

The credit is a dollar amount set by the General Assembly for each year of service. The credit ends upon death and cannot exceed the amount of the individual health insurance premium.

Minimum Eligibility Requirements

- Retiring with 15 or more years of creditable service; or
- Retiring on disability; or
- Receiving a long-term disability benefit through the Virginia Sickness & Disability Program (VSDP)

Qualifying Health Plans

Individual health plans; coverage as a dependent on a spouse's plan; employer-sponsored health plans, including the Commonwealth of Virginia Health Benefits Program; Medicare Part B; and dental, vision and prescription drug plans including Medicare Part D are eligible. Other types of plans for specific conditions or coverage are not eligible.

Health Insurance Credit Dollar Amounts

Employee Type	Amount per Year of Service	Maximum Credit per Month
State employees, including participants in an optional or alternate retirement plan	\$4.00	No Cap
Teachers	\$4.00	No Cap
General registrars and their employees; constitutional officers and their employees; local social service employees	\$1.50	\$45.00
General registrars and their employees; constitutional officers and their employees; local social service employees if political subdivision elects \$1.00 enhancement	\$2.50	\$75.00
Other political subdivision employees if employer elects	\$1.50	\$45.00

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Actuarial Cost Method Unit Credit

Valuation Date July 1, 2009

Discount Rate 4.3% (changed from 4.97% as of July 1, 2007)

Assumed Trends on Retiree Costs

Year Beginning	Medical*	Pharmacy*	Dental*
7/1/2009	8.50%	9.00%	5.00%
7/1/2010	8.00%	8.50%	4.75%
7/1/2011	7.50%	8.00%	4.50%
7/1/2012	7.00%	7.50%	4.25%
7/1/2013	6.50%	7.00%	4.00%
7/1/2014	6.00%	6.50%	4.00%
7/1/2015	5.50%	6.00%	4.00%
7/1/2016	5.00%	5.50%	4.00%
7/1/2017+	5.00%	5.00%	4.00%

* For purposes of this valuation we have assumed that the current level of retiree cost sharing will continue in the future. This may be accomplished by increasing retiree contributions, co-payments, or out-of-pocket limits so that the level of retiree cost sharing increases at least at the rate of assumed medical trend.

Mortality Mortality rates vary by participant status.

Pre-Retirement

1994 Group Annuity Mortality Tables for males and females with a one year setback in age for males and females.

Post-Retirement

1994 Group Annuity Mortality Tables for males and females with a one year setback in age for males and females.

Post-Disablement

70% of PBGC Disabled Mortality Table 5a for males. 90% of PBGC Disabled Mortality Table 6a for females.

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Retirement Rates

Retirement rates vary by retirement benefit and gender and are shown below. The rates are different from the rates used in the July 1, 2007 valuation and are the rates for State Employees used in the July 1, 2009 valuation of the Virginia Retirement System.

Age	Retirements Per 100 Members			
	Less than 30 Years of Service		30 or more Years of Service	
	Male	Female	Male	Female
50	3.0	3.22	10.0	10.0
51	3.0	3.07	10.0	10.0
52	3.0	3.0	10.0	10.0
53	3.0	3.0	10.0	10.0
54	3.0	3.5	10.0	10.0
55	5.0	5.0	10.0	10.0
56	5.0	5.0	10.0	10.0
57	4.5	4.5	10.0	10.0
58	4.0	5.5	10.0	10.0
59	5.0	5.5	10.0	10.0
60	5.0	5.5	10.0	15.0
61	10.0	10.0	15.0	20.0
62	15.0	15.0	25.0	30.0
63	15.0	15.0	20.0	20.0
64	15.0	15.0	20.0	20.0
65	40.0	40.0	30.0	40.0
66	40.0	40.0	25.0	30.0
67	40.0	40.0	25.0	25.0
68	40.0	40.0	20.0	25.0
69	40.0	40.0	20.0	20.0
70	100.0	100.0	100.0	100.0

Disability Rates

As shown below for selected ages. 14% of disability cases are assumed to be service related. The rates are different from the rates used in the July 1, 2007 valuation and are the rates for State Employees used in the July 1, 2009 valuation of the Virginia Retirement System.

Age	Disabilities Per 100 Members	
	Male	Female
20	0.1	0.01
25	0.1	0.1
30	0.2	0.15
35	0.2	0.25
40	0.2	0.29
45	0.4	0.34
50	0.5	0.55
55	0.6	0.81
60	0.8	1.0
65	0.7	0.9

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Withdrawal Rates The following withdrawal rates are used based on age and years of service (for causes other than death, disability, or retirement). The rates are different from the rates used in the July 1, 2007 valuation and are the rates for State Employees used in the July 1, 2009 valuation of the Virginia Retirement System.

Male Members – Years of Service (%)											
Age	0	1	2	3	4	5	6	7	8	9	10+
20	26.0	26.0	26.0	21.0	21.0	21.0	21.0	21.0	21.0	21.0	0.0
25	22.0	22.0	22.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	0.0
30	20.0	20.0	20.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	5.0
35	17.0	17.0	17.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5	4.5
40	15.0	15.0	15.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	3.4
45	14.0	14.0	14.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	2.3
50	12.0	12.0	12.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	2.0
55	10.0	10.0	10.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	0.0
60	12.0	12.0	12.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	0.0
65	12.0	12.0	12.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	0.0

Female Members – Years of Service (%)											
Age	0	1	2	3	4	5	6	7	8	9	10+
20	30.0	30.0	30.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	0.0
25	25.5	25.5	25.5	16.0	16.0	16.0	16.0	16.0	16.0	16.0	0.0
30	22.5	22.5	22.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0	6.0
35	19.0	19.0	19.0	11.5	11.5	11.5	11.5	11.5	11.5	11.5	5.0
40	16.5	16.5	16.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	3.6
45	14.0	14.0	14.0	7.5	7.5	7.5	7.5	7.5	7.5	7.5	2.5
50	13.5	13.5	13.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	2.0
55	12.0	12.0	12.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	0.0
60	12.5	12.5	12.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	0.0
65	13.0	13.0	13.0	17.0	17.0	17.0	17.0	17.0	17.0	17.0	0.0

VRS Assumptions The mortality, retirement, withdrawal, disability and salary scale assumptions are the same as those used for the 6/30/09 pension valuation.

Participation Rate It was assumed that 70% of future eligible retirees will elect the plan coverage.

Spouse Coverage Seventy percent (70%) of actives are assumed to be married at retirement. It was assumed that males are three years older than females. Actual spousal data was used for current retirees. It was assumed that all surviving spouses retained coverage until their death.

New Entrants The valuation is performed on a closed group of current participants. Future entrants to the plan were not included.

Administrative Expenses No liability for administrative expenses is included in the valuation as both the baseline claims and the retiree premiums valued include expenses, and these expenses are assumed to cancel each other out.

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**Health Care
Claims Cost**

The actual claims experience for the retiree group and the premium rates of the program were collected. This data was used to calculate age-specific claim costs using factors developed by Aon Consulting. Representative 2009-2010 annual per capita medical, prescription drug, and dental plan costs at specific ages are shown below. The costs represent claims based on the plan design in effect on July 1, 2009. They are blended for healthy and disabled lives.

Age	Cost		
	Medical	Pharmacy	Dental
30	\$3,499.00	\$1,059.00	\$362.00
31	\$3,518.00	\$1,064.00	\$362.00
32	\$3,536.00	\$1,070.00	\$362.00
33	\$3,555.00	\$1,076.00	\$362.00
34	\$3,574.00	\$1,081.00	\$362.00
35	\$3,593.00	\$1,087.00	\$362.00
36	\$3,627.00	\$1,098.00	\$362.00
37	\$3,662.00	\$1,108.00	\$362.00
38	\$3,698.00	\$1,119.00	\$362.00
39	\$3,733.00	\$1,130.00	\$362.00
40	\$3,770.00	\$1,141.00	\$362.00
41	\$3,870.00	\$1,171.00	\$362.00
42	\$3,974.00	\$1,203.00	\$362.00
43	\$4,081.00	\$1,235.00	\$362.00
44	\$4,190.00	\$1,268.00	\$362.00
45	\$4,302.00	\$1,302.00	\$362.00
46	\$4,468.00	\$1,352.00	\$362.00
47	\$4,640.00	\$1,404.00	\$362.00
48	\$4,818.00	\$1,458.00	\$362.00
49	\$5,003.00	\$1,514.00	\$362.00
50	\$5,196.00	\$1,572.00	\$362.00
51	\$5,367.00	\$1,624.00	\$362.00
52	\$5,545.00	\$1,678.00	\$362.00
53	\$5,727.00	\$1,733.00	\$362.00
54	\$5,916.00	\$1,790.00	\$362.00
55	\$6,112.00	\$1,849.00	\$362.00
56	\$6,332.00	\$1,916.00	\$362.00
57	\$6,560.00	\$1,985.00	\$362.00
58	\$6,796.00	\$2,056.00	\$362.00
59	\$7,040.00	\$2,130.00	\$362.00
60	\$7,294.00	\$2,207.00	\$362.00
61	\$7,600.00	\$2,300.00	\$362.00
62	\$7,919.00	\$2,396.00	\$362.00
63	\$8,252.00	\$2,497.00	\$362.00
64	\$8,599.00	\$2,602.00	\$362.00
65 and over	\$0.00	\$0.00	\$0.00

SECTION VIII
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**Baseline Retiree
Contributions (2010
Fiscal Year)**

Group	Medical	Pharmacy	Dental
Retiree Contributions	\$4,252	\$1,112	\$355
Spouse Contributions	\$3,614	\$945	\$301