



State of New Jersey

State Health Benefits Program

For the Fiscal Year Ending June 30, 2018

Measurement Date June 30, 2017

GASB 75 Accounting Results – Local Education

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Executive Summary

Executive Summary

The Program provides medical, prescription drug, and Medicare Part B reimbursement to retirees and their covered dependents. The State of New Jersey provides the funding for the postretirement healthcare benefits (excluding Early Retiree Incentive (ERI) Program benefits) of retirees, spouses and dependents of Local Education Employers. All active employees who retire and meet the eligibility criteria will receive these benefits.

Retirees of Local Education Employers are also offered dental care. Since these benefits are completely paid for by the retirees, there is no GASB 75 liability for these benefits.

Pursuant to various Public Law enactments over the years, primarily Chapter 126 PL 1992, PERS, ABP and TPAF members who retire from educational enterprises with 25 or more years of service or a disability retirement will have state-paid coverage. These individuals are not required to participate in the SHBP/SEHBP while active to receive retiree benefits.

The following table summarizes key valuation results. Results for measurement date June 30, 2016 and June 30, 2017 are for the Fiscal Years Ending June 30, 2017 and June 30, 2018, respectively:

Liability Summary - Local Education	Measurement Date	
	June 30, 2016	June 30, 2017
Total OPEB Liability	\$ 57,831,784,184	\$ 53,639,841,858
Plan Fiduciary Net Position	\$ -	\$ -
Net OPEB Liability	\$ 57,831,784,184	\$ 53,639,841,858
Net Position as a Percentage of OPEB Liability	0.0%	0.0%
OPEB Expense¹	\$ 4,450,317,484	\$ 3,348,490,523

¹ Measurement Period Ending June 30, 2016 OPEB expense is shown for illustrative purposes. Amortizations calculated for Measurement Period Ending 2016 are not assumed to be recognized in the Measurement Period Ending 2017 expense.

The results displayed above were calculated based upon plan provisions and census data provided by the State, along with certain demographic and other actuarial assumptions as recommended by Aon, in conjunction with the State and guidance from the GASB statement. The Fiscal Year Ending June 30, 2017 GASB 75 results have been shown for comparison purposes.

The GASB 75 valuation results were determined using the Entry Age Normal (Level Percentage of Payroll) actuarial costing method. Previously under GASB 45, the valuation results were determined using the Projected Unit Credit actuarial costing method. The discount rate has also been updated to 3.58% for the GASB 75 valuation results, as compared to 4.50% in the Fiscal Year Ending June 30, 2017 GASB 45 valuations.

Mortality rate assumptions and trend rate assumptions have been updated from the previous valuation to be consistent with industry standards.

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

Actuarial Certification

This report documents the results of the actuarial valuation for the fiscal year ending June 30, 2018 of the School Employees' Health Benefits Program ("SEHBP"). These results are based on a Measurement Date of June 30, 2017. The information provided in this report is intended strictly for documenting information relating to plan disclosure and reporting requirements.

Determinations for purposes other than the financial accounting requirements may be significantly different from the results in this report. Thus, the use of this report for purposes other than those expressed here may not be appropriate.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice as issued by the Actuarial Standards Board. In addition, the valuation results are based on our understanding of the financial accounting and reporting requirements under U.S. Generally Accepted Accounting Principles as set forth in Government Accounting Standards Board Statement 75 (GASB 75) including any guidance or interpretations provided by the State and/or its audit partners prior to the issuance of this report. The information in this report is not intended to supersede or supplant the advice and interpretations of the Plan Sponsor's auditors. Additional disclosures may be required under GASB 75.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to (but not limited to) such factors as the following:

- Plan experience differing from that anticipated by the economic or demographic assumptions;
- Changes in actuarial methods or in economic or demographic assumptions;
- Increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and
- Changes in plan provisions or applicable law.

Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

Funded status measurements shown in this report are determined based on various measures of plan assets and liabilities. For entity and plan disclosure and reporting purposes, funded status is determined using plan assets measured at market value. Plan liabilities are measured based on the interest rates and other assumptions summarized in the Actuarial Assumptions and Methods section of this report.

These funded status measurements may not be appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations, and funded status measurements for plan sponsor and plan disclosure and reporting purposes may not be appropriate for assessing the need for or the amount of future contributions. In conducting the valuation, we have relied on personnel, plan design, health care claim cost, and asset information supplied by the Plan Sponsor as of the valuation date. While we cannot verify the accuracy of all the information, the supplied information was reviewed for consistency and reasonableness. As a result of this review, we have no reason to doubt the substantial accuracy or completeness of the information and believe that it has produced appropriate results.

Actuarial Certification (continued)

The actuarial assumptions and methods used in this valuation are described in the Actuarial Assumptions and Methods section of this report. The Plan Sponsor selected the economic and demographic assumptions and prescribed them for use for purposes of compliance with GASB 75. Aon provided guidance with respect to these assumptions, and it is our belief that the assumptions represent reasonable expectations of anticipated plan experience.

The undersigned are familiar with the near-term and long-term aspects of OPEB valuations and collectively meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. The information provided in this report is dependent upon various factors as documented throughout this report, which may be subject to change. Each section of this report is considered to be an integral part of the actuarial opinions.

Further, we certify that this report is in compliance with Actuarial Standard of Practice Number 41, "Actuarial Communications".

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



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Accounting Requirements

Accounting Requirements (continued)

Development of GASB 75 Net OPEB Expense

Calculation Details

The following table illustrates the Net OPEB Liability under GASB 75.

	Measurement Date	
	June 30, 2016	June 30, 2017
(1) OPEB Liability		
(a) Retired Participants and Beneficiaries Receiving Payment	\$ 21,922,535,661	\$ 19,658,456,351
(b) Active Participants	35,909,248,523	33,981,385,507
(c) Total	\$ 57,831,784,184	\$ 53,639,841,858
(2) Plan Fiduciary Net Position	\$ -	\$ -
(3) Net OPEB Liability	\$ 57,831,784,184	\$ 53,639,841,858
(4) Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.0%	0.0%
(5) Deferred Outflow of Resources for Contributions Made After Measurement Date ¹	\$ 1,196,663,817	\$ 1,190,373,242

¹ Non-Employer contributions made after June 30, 2017 are reported as a deferred outflow of resources but are not amortized in expense.

Expense

The following table illustrates the OPEB expense under GASB 75.

	Measurement Date	
	June 30, 2016 ¹	June 30, 2017
(1) Service Cost	\$ 1,723,999,319	\$ 2,391,878,884
(2) Interest Cost	1,823,643,792	1,699,441,736
(3) Expected Investment Return	-	-
(4) Administrative Expense	-	-
(5) Plan Changes	-	-
(6) Amortization of Unrecognized		
(a) Liability (Gain) / Loss	-	-
(b) Asset (Gain) / Loss	-	-
(c) Assumption Change (Gain) / Loss	902,674,373	(742,830,097)
(7) Total Expense	\$ 4,450,317,484	\$ 3,348,490,523

¹ Measurement Period Ending June 30, 2016 expense is shown for illustrative purposes only. Amortizations calculated for Measurement Period Ending 2017 are not assumed to be recognized in expense for the Measurement Period Ending 2017 and beyond.

Accounting Requirements (continued)

Shown below are details regarding the calculation of Service and Interest Cost components of the Expense.

	Measurement Date	
	June 30, 2016	June 30, 2017
(1) Development of Service Cost:		
(a) Normal Cost at Beginning of Measurement Period	\$ 1,723,999,319	\$ 2,391,878,884
(2) Development of Interest Cost:		
(a) Total OPEB Liability at Beginning of Measurement Period	\$ 46,849,651,824	\$ 57,831,784,184
(b) Normal Cost at Beginning of Measurement Period	1,723,999,319	2,391,878,884
(c) Actual Contributions - Member ¹	46,273,747	45,748,749
(d) Actual Gross Benefit Payments ¹	(1,223,298,019)	(1,242,412,566)
(e) Discount Rate	3.80%	2.85%
(f) Interest Cost	\$ 1,823,643,792	\$ 1,699,441,736

¹Employer benefit payments and member contributions were provided by the State.

Accounting Requirements (continued)

Reconciliation of Net OPEB Liability

Shown below are details regarding the Total OPEB Liability for the Measurement Period from June 30, 2016 to June 30, 2017 and from June 30, 2015 to June 30, 2016:

	<u>Increase / (Decrease)</u>
	<u>Total OPEB Liability</u>
Balance as of June 30, 2016 Measurement Date	\$ 57,831,784,184
Changes Recognized for the Fiscal Year	
Service Cost	\$ 2,391,878,884
Interest on the Total OPEB Liability	1,699,441,736
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	(7,086,599,129)
Gross Benefit Payments ¹	(1,242,412,566)
Contributions From the Non-Employer	N/A
Contributions From the Member ¹	45,748,749
Net Investment Income	N/A
Administrative Expense	N/A
Net Changes	<u>\$ (4,191,942,326)</u>
Balance as of June 30, 2017 Measurement Date	\$ 53,639,841,858

¹Employer benefit payments and employee contributions were provided by the State.

	<u>Increase / (Decrease)</u>
	<u>Total OPEB Liability</u>
Balance as of June 30, 2015 Measurement Date	\$ 46,849,651,824
Changes Recognized for the Fiscal Year	
Service Cost	\$ 1,723,999,319
Interest on the Total OPEB Liability	1,823,643,792
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	8,611,513,521
Gross Benefit Payments ¹	(1,223,298,019)
Contributions From the Non-Employer	N/A
Contributions From the Member ¹	46,273,747
Net Investment Income	N/A
Administrative Expense	N/A
Net Changes	<u>\$ 10,982,132,360</u>
Balance as of June 30, 2016 Measurement Date	\$ 57,831,784,184

¹Employer benefit payments and employee contributions were provided by the State.

Accounting Requirements (continued)

Liability (Gain) / Loss

The following table illustrates the liability gain / loss under GASB 75.

	Measurement Date	
	June 30, 2016 ³	June 30, 2017
(1) OPEB Liability at Beginning of Measurement Period	\$ 46,849,651,824	\$ 57,831,784,184
(2) Service Cost	1,723,999,319	2,391,878,884
(3) Interest on the Total OPEB Liability	1,823,643,792	1,699,441,736
(4) Changes of Benefit Terms	-	-
(5) Changes of Assumptions	8,611,513,521	(7,086,599,129)
(6) Contributions: Member	46,273,747	45,748,749
(7) Gross Benefit Payments ¹	(1,223,298,019)	(1,242,412,566)
(8) Expected OPEB Liability at End of Measurement Period	57,831,784,184	53,639,841,858
(9) Actual OPEB Liability at End of Measurement Period	57,831,784,184	53,639,841,858
(10) OPEB Liability (Gain) / Loss	\$ -	\$ -
(11) Average Future Working Life Expectancy ²	9.54	9.54
(12) OPEB Liability (Gain) / Loss Amortization	\$ -	\$ -
(13) Assumption Change (Gain) / Loss ⁵	8,611,513,521	(7,086,599,129)
(14) Average Future Working Life Expectancy ²	9.54	9.54
(15) Assumption Change (Gain) / Loss Amortization ⁴	\$ 902,674,373	\$ (742,830,097)

¹ Employer benefit payments were provided by the State.

² Based on the average of the expected remaining service lives of all active and inactive employees that are provided with benefits through the OPEB plan.

³ Fiscal Year Ending June 30, 2017 expense is shown for only illustrative purposes. Amortizations calculated for Fiscal Year 2017 are not assumed to be recognized in expense for the Fiscal Year 2018 and beyond.

⁴ Fiscal Year Ending June 30, 2017 amortizations are shown for only illustrative purposes. These amortizations are not assumed to be recognized for Fiscal Year Ending June 30, 2018 expense.

⁵ The increase in the liability from June 30, 2015 to June 30, 2016 is due to the decrease in the assumed discount rate from 3.80% as of June 30, 2015 to 2.85% as of June 30, 2016. The decrease in the liability from June 30, 2016 to June 30, 2017 is due to the increase in the assumed discount rate from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

Accounting Requirements (continued)

Deferred Outflows / Inflows

The following table illustrates the Deferred Inflows and Outflows as of June 30, 2017 under GASB 75 prior to any reduction due to the Fiscal Year 2018 amortizations.

	Deferred Outflows	Deferred Inflows
(1) Difference Between Actual and Expected Experience	\$ -	\$ -
(2) Net Difference Between Expected and Actual Earnings on OPEB Plan Investments	-	-
(3) Assumption Changes	-	(6,343,769,032)
(4) Sub Total	\$ -	\$ (6,343,769,032)
(5) Contributions Made in Fiscal Year Ending 2018 After June 30, 2017 Measurement Date ¹	\$ 1,190,373,242	N/A
(6) Total	\$ 1,190,373,242	\$ (6,343,769,032)

¹ Employer contributions made after June 30, 2017 are reported as a deferred outflow of resources but are not amortized in expense.

Amortization of Deferred Inflows / Outflows

The table below lists the amortizations bases included in the deferred inflows/outflows as of June 30, 2017.

Date Established	Type of Base	Period ¹		Balance		Annual Payment
		Original	Remaining	Original	Remaining	
July 1, 2017	Liability (Gain) / Loss	9.54	8.54	\$ -	\$ -	\$ -
July 1, 2017	Asset (Gain) / Loss	5.00	4.00	\$ -	\$ -	\$ -
July 1, 2017	Assumptions	9.54	8.54	\$ (7,086,599,129)	\$ (6,343,769,032)	\$ (742,830,097)
	Total Charges				\$ (6,343,769,032)	\$ (742,830,097)

¹ Based on the average of the expected remaining service lives of all Local Education active and inactive employees that are provided with benefits through the OPEB plan.

Amounts Recognized in the deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the OPEB expense as follows:

Measurement Period Ending June 30,	
2018	\$ (742,830,097)
2019	\$ (742,830,097)
2020	\$ (742,830,097)
2021	\$ (742,830,097)
2022	\$ (742,830,097)
Total Thereafter	\$ (2,629,618,547)

Accounting Requirements (continued)

Net OPEB Liability

The components of the Net OPEB Liability as of June 30, 2016 and June 30, 2017 are as follows:

Liability Summary - Local Education	Measurement Date	
	June 30, 2016	June 30, 2017
Total OPEB Liability	\$ 57,831,784,184	\$ 53,639,841,858
Plan Fiduciary Net Position	\$ -	\$ -
Net OPEB Liability	\$ 57,831,784,184	\$ 53,639,841,858
Net Position as a Percentage of OPEB Liability	0.0%	0.0%
OPEB Expense¹	\$ 4,450,317,484	\$ 3,348,490,523

¹ Measurement Period Ending June 30, 2016 OPEB expense is shown for illustrative purposes. Amortizations calculated for Measurement Period Ending 2016 are not assumed to be recognized in Measurement Period Ending 2017 expense.

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following table illustrates the impact of discount rate sensitivity on the Net OPEB Liability as of June 30, 2017:

Local Education (\$ millions)	1% Decrease		Current Rate		1% Increase	
	2.58%		3.58%		4.58%	
Total OPEB Liability	\$ 63,674,362,200	\$ 53,639,841,858	\$ 45,680,364,953			
Plan Fiduciary Net Position	\$ -	\$ -	\$ -			
Net OPEB Liability	\$ 63,674,362,200	\$ 53,639,841,858	\$ 45,680,364,953			

The following table illustrates the impact of discount rate sensitivity on the Net OPEB Liability as of June 30, 2016:

Local Education (\$ millions)	1% Decrease		Current Rate		1% Increase	
	1.85%		2.85%		3.85%	
Total OPEB Liability	\$ 69,283,705,084	\$ 57,831,784,184	\$ 48,817,654,566			
Plan Fiduciary Net Position	\$ -	\$ -	\$ -			
Net OPEB Liability	\$ 69,283,705,084	\$ 57,831,784,184	\$ 48,817,654,566			

Accounting Requirements (continued)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table illustrates the impact of healthcare cost trend sensitivity on the Net OPEB Liability as of June 30, 2017:

Local Education (\$ millions)	1% Decrease		Trend Rate		1% Increase	
Total OPEB Liability	\$	44,113,584,560	\$	53,639,841,858	\$	66,290,599,457
Plan Fiduciary Net Position	\$	-	\$	-	\$	-
Net OPEB Liability	\$	44,113,584,560	\$	53,639,841,858	\$	66,290,599,457

The following table illustrates the impact of healthcare cost trend sensitivity on the Net OPEB Liability as of June 30, 2016:

Local Education (\$ millions)	1% Decrease		Trend Rate		1% Increase	
Total OPEB Liability	\$	47,452,589,164	\$	57,831,784,184	\$	71,707,778,970
Plan Fiduciary Net Position	\$	-	\$	-	\$	-
Net OPEB Liability	\$	47,452,589,164	\$	57,831,784,184	\$	71,707,778,970

Plan Membership

At June 30, 2016, the Program membership consisted of the following:

Local Education	June 30, 2016
Active Plan Members	223,747
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	142,331
Inactive Plan Members Entitled to but Not Yet Receiving Benefit Payments	-
Total Plan Members	366,078

Accounting Requirements (continued)

Disclosure—Changes in the Net OPEB Liability and Related Ratios

Local Education

	Measurement Date	
	June 30, 2016	June 30, 2017
Total OPEB Liability		
Service Cost	\$ 1,723,999,319	\$ 2,391,878,884
Interest Cost	1,823,643,792	1,699,441,736
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experiences	-	-
Changes of Assumptions	8,611,513,521	(7,086,599,129)
Contributions: Member ¹	46,273,747	45,748,749
Gross Benefit Payments ¹	<u>(1,223,298,019)</u>	<u>(1,242,412,566)</u>
Net Change in Total OPEB Liability	\$ 10,982,132,360	\$ (4,191,942,326)
Total OPEB Liability (Beginning)	\$ 46,849,651,824	\$ 57,831,784,184
Total OPEB Liability (Ending)	\$ 57,831,784,184	\$ 53,639,841,858
Plan Fiduciary Net Position		
Plan Fiduciary Net Position (Ending)	\$ -	\$ -
Net OPEB Liability (Ending)	\$ 57,831,784,184	\$ 53,639,841,858
Net Position as a Percentage of OPEB Liability	0%	0%
Covered Employee Payroll²	\$ 13,493,400,208	\$ 13,493,400,208
Net OPEB Liability as a Percentage of Payroll	429%	398%

¹ Data for Measurement Periods ending June 30, 2016 and June 30, 2017 were provided by the State.

² Covered payroll for the Measurement Periods ending June 30, 2016 and June 30, 2017 is based on the payroll on the June 30, 2016 census data.

Notes to Schedule:

Benefit Changes: None

Changes in Assumptions: The increase in the liability from June 30, 2015 to June 30, 2016 is due to the decrease in the assumed discount rate from 3.80% as of June 30, 2015 to 2.85% as of June 30, 2016. The decrease in the liability from June 30, 2016 to June 30, 2017 is due to the increase in the assumed discount rate from 2.85% as of June 30, 2016 to 3.58% as of June 30, 2017.

Accounting Requirements (continued)

Disclosure – Contribution Schedule

Local Education

	Measurement Date	
	June 30, 2016	June 30, 2017
Actuarially Determined Contribution	N/A	N/A
Contributions Made in Relation to the Actuarially Determined Contribution	N/A	N/A
Contribution Deficiency (Excess)	N/A	N/A
Covered Employee Payroll ¹	\$ 13,493,400,208	TBD
Contributions as a Percentage of Payroll	N/A	N/A

¹ Covered payroll for the Measurement Period ending June 30, 2016 is based on the payroll on the June 30, 2016 census data.

Notes to Schedule:

Valuation Date June 30, 2016

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method Entry Age Normal – Level % of Salary

Asset Valuation Method Funded on a pay-as-you-go basis

Salary Scale Differs by pension group (e.g. – PERS, TPAF, PFRS, ABP). See “Actuarial Assumptions and Methods” section

Investment Rate of Return 3.58%

Retirement Age¹ 63

Mortality RP-2014 headcount-weighted mortality table for healthy and disabled lives with fully generational mortality improvement projections from the central year using Scale MP-2017

¹Weighted average retirement age based on June 30, 2016 census data and retirement rates provided in the “Actuarial Assumptions and Methods” section.

Accounting Requirements (continued)

Actuarial Valuation Date

The actuarial valuation date is the date in which the Total OPEB liability is determined. The actuarial valuation date for the GASB 75 valuation is June 30, 2016. GASB 75 Total OPEB liability results at June 30, 2016 and June 30, 2017 were all initially determined as of the actuarial valuation date and adjusted to the applicable date. The Total OPEB liability was adjusted by using roll-forward procedures to determine the liability at the measurement date. The actuarial valuation date is required to be a date at most 30 months prior to the fiscal year ending date.

Measurement Date

The measurement date under GASB 75 is the date in which the discount rate, the balance sheet liabilities and income statement entries are reported. GASB 75 allows for the measurement date to be equal to any day in the Fiscal Year. The State of New Jersey has decided to choose the GASB 75 measurement date in the beginning of the Fiscal Year. The measurement date for the Fiscal Year Ending June 30, 2018 GASB 75 valuation is June 30, 2017.

The Total OPEB Liabilities for each fiscal year are based on valuation results as of the actuarial valuation date (June 30, 2016) and are adjusted to the measurement date using actual benefit payments (provided by the State). They reflect changes in the discount rate as of the end of each fiscal year.

Fiscal Year Ending June 30, 2017 GASB 75 Results

Fiscal Year Ending June 30, 2017 GASB 75 results have been calculated and shown for comparison purposes. The actuarial valuation date is June 30, 2016 and the measurement date is June 30, 2016 for the Fiscal Year Ending June 30, 2017 results.

GASB 75 expense and gain-loss amortizations are shown for illustrative purposes only. These amortizations are not assumed to be recognized in the expense for the Measurement Period ending June 30, 2017.

Amortization of Deferred Inflows / Outflows

Differences in the Total OPEB Liability due to actual and projection experience along or due to assumptions changes are amortized over the future working lifetime of active and inactive employees. Changes in the Total OPEB Liability due to benefit changes are not amortized and recognized immediately. Differences in the actual and projected return on the assets are amortized over five years. This methodology is consistent with the GASB 75 statement.

The future working lifetime of active and inactive employees is equal to 9.54 years for Measurement Period as of June 30, 2017 and it is assumed to also be 9.54 for Measurement Period as of June 30, 2016 given that the Actuarial Valuation Date is the same for both Fiscal reporting years. The future working lifetime is based on all Local Education active and inactive employees that are provided benefits in the OPEB plan.

Accounting Requirements (continued)

Plan Provisions

Results are based on plan provisions effective for Plan Year 2017. For Plan Year 2017, the savings for the SEHBP were realized due to the retiree Rx copays reverting to the Plan Year 2014 level and the extension of the ESI vendor contract for two years. The impact of these plan design changes have been reflected in the liabilities as of June 30, 2017. Further detail is provided in the “Plan Provisions” section of this report.

Effective January 1, 2018, prescription drug benefits for Actives and Retirees will be administered by Optum (previously administered by Express Scripts through December 31, 2017). Savings associated with the change in vendor has been reflected.

Health Care Reform – Excise Tax

Certain provisions of health care legislation that are effective in future years have the potential to impact the GASB 75 liabilities. As a result of the Affordable Care Act of 2010, there will be a 40% excise tax on per capita medical benefit costs that exceed certain thresholds. On December 18, 2015, the implementation of the excise tax was delayed from 2018 to 2020. As a result of the excise tax, we estimate that the Program’s Net OPEB Liability and Service Cost as of June 30, 2017 will increase approximately 3.6% and 5.0% respectively.

Actuarial Assumptions

The results contained herein are consistent with the following actuarial assumptions as of June 30, 2017. Further detail is provided in the “Actuarial Assumptions and Methods” section of this report.

Economic Assumptions

Discount Rate

The discount rate basis under GASB 75 is required to be consistent with a 20-Year Municipal Bond Index. The Bond Buyer General Obligation 20-Bond Municipal Bond Index is used for the determination of the discount rate. The discount rate will be based on this index rate that is reported on the last Friday prior to the measurement date. The discount rates used for fiscal years ending June 30, 2015, June 30, 2016, and June 30, 2017 are 3.80%, 2.85%, and 3.58% respectively. Additional detail regarding the discount rates as of June 30, 2015, June 30, 2016, and June 30, 2017 are provided in the “Actuarial Assumptions and Methods” section of this report.

Health Care Trend

The health care trend assumption is used to project the growth of the expected claims over the lifetime of the health care recipients. The GASB statement does not require a particular source for information to determine health care trends, but it does recommend selecting a source that is “publicly available, objective, and unbiased”.

Aon developed the trend assumption utilizing the short term rates expected on the State of New Jersey plan along with the information in published papers from other industry experts (actuaries, health economists, etc.). For pre-Medicare PPO medical benefits, this amount initially is 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO medical benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long-

Accounting Requirements (continued)

term trend rate after nine years. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. This reflects the known underlying cost of the Part B premium.

Medicare Advantage trends were developed using Aon's proprietary trend model in conjunction with Aon's internal trend guidance and industry standards. In setting the trend rate assumptions for the Medicare Advantage plans, Aon considered gross trend assumptions, vendor STAR ratings and the potential for the 2018 Health Insurer Fee. Gross medical costs are assumed to grow at 4.5% per year and CMS revenue is projected using data from the 2016 Medicare Trustees Report. Future SEHBP Medicare Advantage savings realized by the State may vary based on the State's ability to secure favorable pricing terms and negotiate competitive offers, actual CMS revenue, the STAR ratings of the insurers, and whether or not the Health Insurer fee is reinstated. The assumed Medicare Advantage trend rate is 4.5% in all future years.

Salary Scale

The salary scale assumptions in the calculation of the Entry Age Normal (Level Percent) liability and normal cost results will be consistent with the salary scale assumptions used in the pension plans and the calculation of the retiree health contributions for current and future retirees who are subject to Chapter 78. The following pension actuarial valuation reports for the fiscal year ending June 30, 2018 are used:

- Public Employees' Retirement System (PERS)
- Teachers' Pension and Annuity Fund (TPAF) & Alternate Benefits Program (ABP)
- Police and Firemen's Retirement System (PFRS)

Funding Policy

The State provides the funding for the postretirement healthcare benefits (excluding Early Retiree Incentive (ERI) Program benefits) of retirees of Local Education Employers on a pay-as-you-go basis. The contributions from the State are included in this report as Contributions from Non-Employer Contributing Entities.

Demographic Assumptions

Demographic assumptions used to project the data are consistent with the assumptions used in the pension plan valuations. There is no assumption for future new hires.

The Society of Actuaries (SOA) released an updated set of life expectancy assumptions, Scale MP-2017. These new assumptions reflect recent mortality data for the U.S. population, and show a lower degree of longevity improvement than projected based on the previous SOA assumptions. As of June 30, 2016, the mortality improvement projection scale assumption was updated from Scale MP-2015 to Scale MP-2017.

Active decrement rates (e.g. – retirement, withdrawal, disability) for the plans are based on the actuarial assumptions used in the pension valuations. The GASB 75 valuation reflects the experience study results and recommended assumptions outlined in the following experience study reports:

Accounting Requirements (continued)

- Public Employees' Retirement System (PERS) – prepared as of June 30, 2014
- Teachers' Pension and Annuity Fund (TPAF) – prepared as of June 30, 2015
- Police and Firemen's Retirement System (PFRS) – prepared as of June 30, 2013

Further detail regarding demographic assumptions used in this valuation is provided in the "Actuarial Assumptions and Methods" section of this report.

Projection Results

Projected Cash Flows

The following table summarizes the annual expected payments for benefits provided by the State based on assumptions and contributions described in the “Plan Provisions” and “Actuarial Assumptions and Methods” sections:

Local Education	
Year Ending	(\$ millions)
6/30/2017 ¹	\$1,196.7
6/30/2018	\$1,314.0
6/30/2019	\$1,389.1
6/30/2020	\$1,465.3
6/30/2021	\$1,545.4
6/30/2022	\$1,629.6
6/30/2023	\$1,721.3
6/30/2024	\$1,816.5
6/30/2025	\$1,919.5
6/30/2026	\$2,027.1
6/30/2027	\$2,148.4

¹Actual health and prescription drug benefit payments and member contributions for the year ending June 30, 2017 provided by the State.

Ten-Year Projection of Total OPEB Liability

Projections assume an annual discount rate of 3.58% and a level active population. Please note that the discount rate will change each year based on the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate each year and actual results will vary from the projected liability projections below.

Local Education (\$ millions)

Measurement Period Ending	Total OPEB Liability (Beginning)	Service Cost + Interest Cost ¹	Changes in Assumptions	Benefit Payments ²	Total OPEB Liability (End)
6/30/2018	\$ 53,639.8	\$ 3,812.1	\$ -	\$ 1,314.0	\$ 56,137.9
6/30/2019	\$ 56,137.9	\$ 3,969.0	\$ -	\$ 1,389.1	\$ 58,717.8
6/30/2020	\$ 58,717.8	\$ 4,122.9	\$ -	\$ 1,465.3	\$ 61,375.4
6/30/2021	\$ 61,375.4	\$ 4,277.4	\$ -	\$ 1,545.4	\$ 64,107.4
6/30/2022	\$ 64,107.4	\$ 4,431.3	\$ -	\$ 1,629.6	\$ 66,909.1
6/30/2023	\$ 66,909.1	\$ 4,586.4	\$ -	\$ 1,721.3	\$ 69,774.2
6/30/2024	\$ 69,774.2	\$ 4,741.5	\$ -	\$ 1,816.5	\$ 72,699.2
6/30/2025	\$ 72,699.2	\$ 4,895.4	\$ -	\$ 1,919.5	\$ 75,675.1
6/30/2026	\$ 75,675.1	\$ 5,047.4	\$ -	\$ 2,027.1	\$ 78,695.4
6/30/2027	\$ 78,695.4	\$ 5,215.0	\$ -	\$ 2,148.4	\$ 81,762.0

1. Projection assumes an annual discount rate of 3.58%. Service Cost increases each year with the average salary scale by pension group.
2. Based on expected benefit payments.

Appendix

Participant Data

The actuarial valuation was based on personnel information provided by the State as of June 1, 2016. Below are some of the pertinent characteristics from the personnel data as of that date. Both age and service have been determined using years and months as of the valuation date.

Local Education	
Participant Counts as of June 30, 2016	
<u>Actives</u>	
<i>PERS General</i>	74,254
<i>TPAF</i>	142,231
<i>ABP</i>	7,241
<i>PFRS</i>	21
Active Total	223,747
<u>Retirees</u>	
Single Coverage	
<i>HMO</i>	3,045
<i>PPO</i>	49,134
Family Coverage	
<i>HMO</i>	2,476
<i>PPO</i>	42,600
<i>No Coverage</i>	468
Retiree Total	97,723
Spouses of Retirees Total	45,076
Grand Total	366,546

Male / Female Ratio as of June 30, 2016	
<u>Actives</u>	
<i>% Female</i>	74%
<i>% Male</i>	26%
<u>Retirees</u>	
<i>% Female</i>	70%
<i>% Male</i>	30%

Average Age as of June 30, 2016	
Actives	46.53
Retirees	71.44

Average Service as of June 30, 2016	
Actives	12.93
Retirees	N/A

Note: The June 30, 2017 and June 30, 2016 liabilities are based on census data as of June 30, 2016, adjusted for changes in discount rate.

Age / Service Scatter

The following table summarizes the distribution of the future retiree population by age and service as of June 30, 2016.

Age	Local Education							Total
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30+	
15-19	7							7
20-24	2,480	11						2,491
25-29	14,639	3,349	53					18,041
30-34	8,100	12,080	4,953	56				25,189
35-39	4,555	5,368	13,262	4,407	26			27,618
40-44	3,973	3,635	5,978	10,631	1,773	28	3	26,021
45-49	4,170	4,476	5,446	6,698	5,858	1,578	40	28,266
50-54	3,326	4,569	6,728	5,831	3,145	3,849	1,599	29,047
55-59	2,360	3,521	6,649	7,382	3,824	2,677	3,729	30,142
60-64	1,260	2,175	4,053	5,423	4,174	2,856	3,268	23,209
65-69	428	1,068	1,726	1,960	1,624	1,467	1,471	9,744
70+	151	523	893	795	558	479	573	3,972
Total	45,449	40,775	49,741	43,183	20,982	12,934	10,683	223,747

Health Care Claims Development

Applicability of Health Care Reforms to Valuation

Background

On March 23, 2010, the "Patient Protection and Affordable Care Act" was signed into law, followed by the passage of the "Health Care and Education Affordability Reconciliation Act of 2010" on March 30, 2010 ("Acts"). The health care reforms contained in these Acts have wide-spread impact on corporate health care programs, including those covering retirees. This valuation reflects Aon's interpretation of the Acts based on information currently available. Future regulations on each aspect of the Acts may be different than Aon Hewitt's initial interpretations.

Key issues in Health Care Reform that have an effect on the Plan Sponsor valuation include:

- Excise tax on high-cost health plans
- Group market reforms
- Early Retiree Reimbursement Program
- Taxation of Retiree Drug Subsidy for Post-65 Coverage

The valuation issues related to each of these topics are discussed below.

Excise Tax on High-Cost Health Plans

The excise tax on high cost plans becomes effective in 2020. However, the expected additional cost needs to be reflected in OPEB valuations and disclosures. Key features of the law include:

- Imposes a non-deductible excise tax of 40% on plans with an aggregate value of health insurance coverage exceeding specified dollar thresholds beginning in 2020
 - Aggregate value includes medical, pharmacy, and employer HSA/HRA contributions (excludes standalone dental and vision plans)
- 2018 thresholds for high-risk professions are:
 - \$11,850 for single coverage and \$30,950 for family coverage for age 55 to 64 retirees
 - \$10,200 for single coverage and \$27,500 for family coverage for Medicare retirees.
- Thresholds will be increased if the increase in the cost of the Federal Employees Health Benefit Plan (FEHBP) increases by more than 55% from 2010 to 2018
 - Thresholds indexed at general inflation (CPI-U) plus 1 % from 2018 to 2019, and to CPI-U only thereafter
- Excise tax applies only to portion of cost that exceeds threshold amount
- The law provides for blending of pre-65 and post-65 retirees.

The pre-65 and the post-65 retirees were blended together to determine the overall value of the benefit relative to the excise tax threshold. The values of the benefits were assumed to increase with the valuation trend and the excise tax thresholds were assumed to increase by 2.5% per year.

Health Care Claims Development (continued)

Group Market Reforms

- **Requirement to Cover Children to Age 26**—The Acts requires that a group health plan that provides dependent coverage of children shall continue to make such coverage available for an adult child until the child turns 26 years of age. Current and future dependent children are valued implicitly in the valuation. Per capita claims costs were developed using claims information for all covered lives and adult headcounts. As such, the impact of child coverage is built into the per capita claims for retirees and spouses.
- **Elimination of Benefit Limitations**—The Acts include a number of other provisions that may increase the cost of retiree health care including the elimination of lifetime maximum benefits and “restrictive” annual benefit limitations. We have made no adjustment for these additional benefits because there are no material limits in the plans.

Medicare Part D reimbursements and the Early Retiree Reinsurance program do not fall under GASB 75.

Claims Cost Development

PPO and HMO medical, and prescription drug incurred claims were developed based on actual claims experience through September 2016 (October 2016 for prescription drugs). Projected incurred claims used to develop projected claims amounts include claims that are assumed to be incurred but not reported. Claims were trended and adjusted for plan design changes in effect for Plan Year 2017. Projected EGWP revenue amounts for Plan Year 2017 are based on a blend of historical information and expectations concerning payment changes from Medicare for EGWP programs.

Claim costs for future retirees are based on a blend of the claim costs for current retirees. This blend consists of 85% of the current retiree PPO costs and 15% of the current retiree HMO costs.

Claims Cost for Current Retirees as of June 30, 2016

Age	Local Education Retirees					
	PPO			HMO		
	Medical & Admin	Rx Claims	Retiree EGWP	Medical & Admin	Rx Claims	Retiree EGWP
25	\$4,273	\$679	\$0	\$3,950	\$742	\$0
30	\$4,919	\$859	\$0	\$4,522	\$938	\$0
35	\$5,668	\$1,085	\$0	\$5,184	\$1,185	\$0
40	\$6,537	\$1,372	\$0	\$5,952	\$1,499	\$0
45	\$7,543	\$1,734	\$0	\$6,843	\$1,895	\$0
50	\$9,001	\$2,182	\$0	\$8,134	\$2,384	\$0
55	\$11,007	\$2,745	\$0	\$9,908	\$3,000	\$0
60	\$13,599	\$3,437	\$0	\$12,201	\$3,756	\$0
65	\$1,939	\$3,499	(\$1,234)	\$2,283	\$4,250	(\$1,253)
70	\$2,169	\$4,216	(\$1,487)	\$2,588	\$5,123	(\$1,509)
75	\$2,341	\$4,770	(\$1,682)	\$2,816	\$5,796	(\$1,709)
80	\$2,571	\$4,963	(\$1,751)	\$3,123	\$6,031	(\$1,779)
85	\$2,903	\$5,013	(\$1,771)	\$3,565	\$6,091	(\$1,799)
90	\$3,089	\$5,038	(\$1,781)	\$3,812	\$6,121	(\$1,809)

Health Care Claims Development (continued)

Claims Cost for Future Retirees as of June 30, 2016

Age	Local Education Actives		
	Medical & Admin	Rx Claims	Retiree EGWP
25	\$4,225	\$688	\$0
30	\$4,859	\$871	\$0
35	\$5,595	\$1,100	\$0
40	\$6,449	\$1,391	\$0
45	\$7,438	\$1,758	\$0
50	\$8,871	\$2,212	\$0
55	\$10,842	\$2,783	\$0
60	\$13,389	\$3,485	\$0
65	\$1,991	\$3,612	(\$1,237)
70	\$2,232	\$4,352	(\$1,490)
75	\$2,412	\$4,924	(\$1,686)
80	\$2,654	\$5,123	(\$1,755)
85	\$3,002	\$5,175	(\$1,775)
90	\$3,197	\$5,200	(\$1,785)

Medicare Part B* Reimbursements as of January 1, 2017

Average Rates
\$136.47 per month

* Note: The Medicare Part B reimbursement is the assumed amount for all future retirees and non-Medicare current retirees. Actual Part B reimbursements were used for current Medicare retirees, provided by the State for the State and the Local Education groups.

Trends

Medical Trend (all programs in these categories)

To Fiscal Year Ending	Annual Rate of Increase			
	PPO %		HMO %	
	Pre - 65	Post - 65	Pre - 65	Post - 65
2017	5.90%	4.50%	5.90%	4.50%
2018	5.80%	4.50%	5.80%	4.50%
2019	5.70%	4.50%	5.70%	4.50%
2020	5.60%	4.50%	5.60%	4.50%
2021	5.50%	4.50%	5.50%	4.50%
2022	5.40%	4.50%	5.40%	4.50%
2023	5.30%	4.50%	5.30%	4.50%
2024	5.20%	4.50%	5.20%	4.50%
2025	5.10%	4.50%	5.10%	4.50%
2026 and Later	5.00%	4.50%	5.00%	4.50%

Medicare Advantage Trends

Annual Rate of Increase	
To Fiscal Year Ending	%
2017 and Later	4.50%

Health Care Claims Development (continued)

	Annual Rate of Increase	
	To Fiscal Year Ending	%
Prescription Drug Trend (all programs in these categories)		
EGWP revenue assumed to increase with prescription drug trend	2017	10.50%
	2018	10.00%
	2019	9.50%
	2020	9.00%
	2021	8.50%
	2022	8.00%
	2023	7.00%
	2024	6.00%
	2025 and Later	5.00%

	Annual Rate of Increase	
	To Fiscal Year Ending	%
Medicare Part B Premium Reimbursement	2017 and Later	5.00%

Morbidity

Medical

Expected medical claims are assumed to increase as participants age as follows:

Annual rate of increase	
Age	%
20 - 24	3.00%
25 - 29	3.00%
30 - 34	3.00%
35 - 39	3.00%
40 - 44	3.00%
45 - 49	3.70%
50 - 54	4.20%
55 - 59	4.40%
60 - 64	3.70%
65 - 69	2.70%
70 - 74	1.80%
75 - 79	2.20%
80 - 84	2.80%
85 - 89	1.40%
90+	0.00%

Health Care Claims Development (continued)

Prescription Drug

Expected prescription drug claims are assumed to increase as participants age as follows:

Annual rate of increase	
Age	%
20 - 24	4.80%
25 - 29	4.80%
30 - 34	4.80%
35 - 39	4.80%
40 - 44	4.80%
45 - 49	4.70%
50 - 54	4.70%
55 - 59	4.60%
60 - 64	4.60%
65 - 69	3.80%
70 - 74	2.50%
75 - 79	0.80%
80 - 84	0.20%
85 - 89	0.10%
90+	0.00%

Actuarial Assumptions and Methods

Actuarial Cost Method	Entry Age Normal cost method.
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017
Valuation Date	June 30, 2016
Census Data	As of June 30, 2016
Service Cost	The Actuarial Present Value of benefits is allocated as a level percentage over the earnings of an individual between entry age (i.e. – age at hire) and assumed retirement age.
Discount Rate	As of June 30, 2017: 3.58% As of June 30, 2016: 2.85% As of June 30, 2015: 3.80%
Municipal Bond Rate Basis	Bond Buyer General Obligation 20-Bond Municipal Bond Index
Salary Increases	Active salaries, used to determine retirement allowance in the future, are assumed to increase as follows:

Public Employees' Retirement System (PERS)

Age	Annual Rate of Increase (%)	
	FYE 2016 to FYE 2026	FYE 2026 and Later
20	4.15	5.15
25	3.90	4.90
30	3.65	4.65
35	3.40	4.40
40	3.15	4.15
45	2.90	3.90
50	2.65	3.65
55	2.40	3.40
60	2.15	3.15

Police and Firemen's Retirement System (PFRS)

Age	Annual Rate of Increase (%)	
	FYE 2016 to FYE 2026	FYE 2026 and Later
25	8.98	9.98
30	5.97	6.97
35	4.17	5.17
40	3.33	4.33
45	2.90	3.90
50	2.75	3.75
55	2.60	3.60
60	2.35	3.35
64	2.10	3.10

Actuarial Assumptions and Methods (Continued)

Teachers' Pension and Annuity Fund (TPAF) & Alternate Benefits Program (ABP)

Completed Years of Service	Annual Rate of Increase (%)	
	FYE 2016 to FYE 2026	FYE 2026 and Later
0 - 8	3.80	4.90
9 - 12	4.55	5.45
13	4.30	5.30
14	4.15	4.95
15	3.95	4.55
16	3.40	4.00
17	3.15	3.65
18	2.85	3.45
19	2.70	3.20
20	2.50	3.10
21	2.25	2.75
22	2.00	2.60
23 - 25	1.90	2.45
26 - 30	1.70	2.30
31+	1.55	2.00

CPI 2.50%

Retirement Rates See Table

Pre-Retirement Healthy Mortality RP-2014 Headcount-Weighted Healthy Employee Male / Female Mortality Table with Fully Generational Mortality Improvement Projections from the central year using Scale MP-2017

Post-Retirement Healthy Mortality RP-2014 Headcount-Weighted Healthy Annuitant Male / Female Mortality Table with Fully Generational Improvement Projections from the central year using Scale MP-2017

Disabled Mortality RP-2014 Headcount-Weighted Disabled Male / Female Mortality Table with Fully Generational Improvement Projections from the central year using Scale MP-2017

Withdrawal Rates See Table

Disability Rates See Table.

Decrement Timing Middle of year decrements, with 100% retirement occurring at beginning of year.

Spouse Coverage Election Rate Spouses are assumed to lose coverage upon the death of the former employee. While spouses may participate in the SEHBP at an unsubsidized rate, we have assumed they will not participate.

Future Retirees It is assumed that 55% are married. Future retirees who are assumed to be married are assumed to choose family coverage at retirement. Males are assumed to be three years older than their female spouses.

Actuarial Assumptions and Methods (Continued)

Current Retirees	Spousal coverage is based on actual retiree coverage elections. Actual spouse age is used where available. In instances where this information is not available, males are assumed to be three years older than their female spouses.
Coverage	<p>We assumed that:</p> <ul style="list-style-type: none">➤ 100% of all retirees who currently have healthcare coverage will continue with the same coverage.➤ 100% of all actives, upon retirement, will be assumed to have the following coverage blend: <p style="text-align: center;">PPO: 85% HMO: 15%</p> <p>Other available plan options are assumed to garner zero enrollment</p> <p>Only 10% of State future retirees and non-Medicare current retirees are assumed to be eligible for Medicare Part B reimbursement.</p>
Participant Contributions for Current Retirees	Actual contribution amounts were provided by the State for current healthy and disabled retirees who contribute towards the cost of their postretirement health care benefits. The Chapter 78 contribution percentages for healthy retirees were determined based on the actual contributions received from the State and each retiree's plan election.
Actuarial Accrued Liability	The Actuarial Present Value of Benefits allocated to all periods prior to the valuation year.
Valuation Methodology and Terminology	We have used the GASB accounting methodology to determine the postretirement medical benefit obligations. Under the EGWP program, the Medicare reimbursements to the Plan will be shown as a reduction in the plan sponsor liability.
Amortization Period	The amortization cost for the initial Unfunded Actuarial Accrued Liability is a level dollar open amortization for a period of 30 years.
Data Adjustments	During the course of our review of the census data provided by the State, reasonable adjustments were made to the census data resulting from conversations with the State.

Actuarial Assumptions and Methods (Continued)

Note: Alternate Benefit Program participants are assumed to follow Teachers' Pension and Annuity Fund assumptions.

Medical and Prescription Drug Benefit Contributions for Current Retirees and Grandfathered Future Retirees

Individuals who pay 100% of the plan cost are excluded from the valuation results.

For retirees receiving State-paid SEHBP benefits and future retirees who are currently in retirement status as of July 1, 2011 or have at least 20 years of service as of July 1, 2011, we will apply average contribution rates to the population. Based on the reporting in published SEHBP financial reports, the average contributions are as follows:

Local Education: 0% of cost

Certain future retirees will pay 1.5% of pension for retiree medical coverage, unless they participate in the New Jersey Retirees' Wellness Program. The valuation assumes that 100% of future retirees will participate in the Wellness Program and, therefore, avoid paying the contribution rates for coverage.

The contribution required in retirement for State employees who have become members on or after May 21, 2010 will not be waived for a retiree who participates in the Wellness Program.

Actuarial Assumptions and Methods (Continued)

Retiree Contributions for Current Retirees Grandfathered under Chapter 78

Age	Local Education	
	Employee Contributions	
	PPO	HMO
25	\$0	\$0
30	\$0	\$0
35	\$0	\$0
40	\$0	\$0
45	\$0	\$0
50	\$0	\$0
55	\$0	\$0
60	\$0	\$0
65	\$0	\$0
70	\$0	\$0
75	\$0	\$0
80	\$0	\$0
85	\$0	\$0
90	\$0	\$0

Grandfathered Retiree Contributions for Future Retirees (not subject to Retiree Contributions under Chapter 78)

Age	Local Education
	Employee Contributions
25	\$0
30	\$0
35	\$0
40	\$0
45	\$0
50	\$0
55	\$0
60	\$0
65	\$0
70	\$0
75	\$0
80	\$0
85	\$0
90	\$0

Actuarial Assumptions and Methods (Continued)

Plan Year 2017 Medical & Rx Annual Gross Premiums

(Used to determine future Retiree Contributions under Chapter 78)

Medical Cost Group	Pre 65		65 and Over	
	Single	Family	Single	Family
Local Education	\$10,449	\$19,916	\$2,479	\$5,925

Rx Cost Group	Pre 65		65 and Over	
	Single	Family	Single	Family
Local Education	\$3,252	\$6,952	\$3,043	\$6,156

Medical premiums are assumed to increase with medical trend. Prescription drug premiums are assumed to increase with prescription drug trend.

Single premiums are a weighted average of PPO and HMO premiums. Family premiums reflect the current enrollment distribution of Married, Family, and Parent premiums, as well as the PPO/HMO blend.

Medical and Prescription Drug Benefit Contributions for Non-Grandfathered Future Retirees (who are subject to retiree contributions under Chapter 78)

Future retirees, who do not have at least 20 years of service as of July 1, 2011 are expected to pay an amount equal to their Contribution Rate times the plan's gross premiums. In no event shall the contribution be less than 1.5% of the Retirement Allowance. The Contribution Rate is based on type of coverage (single or family) and the Retirement Allowance.

Retiree Contribution Rates

Retirement Allowance (RA)	Single	Family
RA < \$20k	4.5%	3.43%
\$20k =< RA < \$25k	5.5%	3.43%
\$25k =< RA < \$30k	7.5%	4.43%
\$30k =< RA < \$35k	10.0%	5.85%
\$35k =< RA < \$40k	11.0%	6.85%
\$40k =< RA < \$45k	12.0%	7.85%
\$45k =< RA < \$50k	14.0%	9.85%
\$50k =< RA < \$55k	20.0%	14.55%
\$55k =< RA < \$60k	23.0%	16.55%
\$60k =< RA < \$65k	27.0%	20.40%
\$65k =< RA < \$70k	29.0%	22.40%
\$70k =< RA < \$75k	32.0%	25.40%
\$75k =< RA < \$80k	33.0%	26.40%
\$80k =< RA < \$85k	34.0%	27.40%
\$85k =< RA < \$90k	34.0%	29.40%
\$90k =< RA < \$95k	34.0%	29.70%
\$95k =< RA < \$100k	35.0%	29.85%
\$100k =< RA < \$110k	35.0%	34.55%
\$110k =< RA	35.0%	35.00%

Actuarial Assumptions and Methods (Continued)

Family coverage is defined as 85% of the "Family + One" schedule and 15% of the "Family" schedule.

Medical and Prescription Drug Benefit Contributions for Future Disabled Retirees

All future disabled retirees are assumed to contribute 1.5% of their Retirement Allowance.

Retirement Allowance

Retirement Allowance is assumed to be the annual annuity from the State of New Jersey pension plan:

<i>Public Employees' Retirement System (PERS)</i>	Final Compensation times service at retirement divided by 55
<i>Teacher's Pension and Annuity Fund (TPAF)</i>	Final Compensation times service at retirement divided by 55
<i>Alternate Benefits Program (ABP)</i>	50% of salary at retirement
<i>Police and Firemen's Retirement System (PFRS)</i>	Special Retirement Benefit: 65% of Final Compensation plus 1% of Final Compensation for each year of credited service over 25, subject to a maximum of 70% of Final Compensation

Actuarial Assumptions and Methods (Continued)

The following tables provide a sampling of the decrement rate assumptions for each pension group. Where applicable, the sample decrement rates below were adjusted to incorporate eligibility for OPEB benefits.

Public Employees' Retirement System of New Jersey

Age	Disability	
	Ordinary	Accidental
30	0.060%	0.004%
35	0.189%	0.005%
40	0.269%	0.012%
45	0.363%	0.017%
50	0.434%	0.021%
55	0.587%	0.026%
60	0.759%	0.030%
65	0.932%	0.027%
69	1.110%	0.027%

Age	Select Withdrawal			Ultimate Withdrawal	
	1st Year	2nd Year	3rd Year	Prior to Eligibility for Benefit	After Eligibility for Benefit
30	38.84%	14.67%	13.32%	6.11%	0.03%
35	33.51%	11.74%	10.77%	3.99%	0.03%
40	32.05%	10.52%	10.66%	2.91%	0.05%
45	31.01%	10.08%	10.36%	2.46%	0.16%
50	28.39%	9.58%	9.57%	1.94%	0.64%
55	27.96%	9.40%	9.08%	1.60%	0.77%
60	22.37%	9.40%	6.84%	1.52%	0.77%

Age	Retirement
55	11.70%
60	7.80%
65	16.54%
69	11.55%

Actuarial Assumptions and Methods (Continued)

Police and Firemen's Retirement System of New Jersey

Age	Disability	
	Ordinary	Accidental
25	0.045%	0.029%
30	0.147%	0.278%
35	0.265%	0.393%
40	0.362%	0.423%
45	0.394%	0.396%
50	0.449%	0.179%
55	0.554%	0.161%
60	1.024%	0.161%
64	1.680%	0.161%

Age	Select Withdrawal					Ultimate Withdrawal
	1st Year	2nd Year	3rd Year	4th Year	5 to 9 Years	After 9 Years
25	6.90%	2.03%	1.18%	0.60%	0.35%	0.00%
30	9.30%	2.75%	1.76%	1.31%	0.60%	0.24%
35	9.80%	3.17%	1.76%	1.57%	0.77%	0.24%
40	13.70%	2.25%	1.85%	1.74%	0.67%	0.27%
45	3.50%	2.25%	1.85%	2.32%	1.35%	0.28%
50	0.00%	2.25%	1.85%	2.00%	1.60%	0.30%
55	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Age	Retirement			
	Less than 20 Years of Service	20 Years of Service	21 to 24 Years of Service	25 or More Years of Service
40	4.00%	0.60%	45.57%	15.40%
45	4.00%	0.60%	54.83%	15.40%
50	4.30%	0.60%	57.62%	18.48%
55	6.00%	0.00%	64.94%	24.47%
60	3.20%	0.00%	77.49%	27.34%
64	37.50%	0.00%	85.24%	51.03%
65	100.00%	100.00%	100.00%	100.00%

Actuarial Assumptions and Methods (Continued)

Teachers' Pension and Annuity Fund of New Jersey and Alternate Benefit Program

Age	Disability			
	Ordinary		Accidental	
	Male	Female	Male	Female
25	0.030%	0.038%	0.006%	0.006%
30	0.047%	0.055%	0.006%	0.006%
35	0.061%	0.067%	0.006%	0.006%
40	0.070%	0.089%	0.006%	0.006%
45	0.102%	0.132%	0.006%	0.006%
50	0.142%	0.176%	0.006%	0.006%
55	0.469%	0.351%	0.006%	0.006%

Withdrawal:

Years of Employment	Less than 10 Years of Employment		
	Male	Female	
		< 40	40+
0	10.23%	9.66%	10.96%
1	7.64%	6.80%	7.57%
2	6.89%	6.58%	6.85%
3	5.12%	5.39%	5.16%
4	3.46%	4.76%	3.18%
5	2.77%	4.49%	2.75%
6	2.09%	4.30%	2.07%
7	1.85%	3.98%	1.78%
8	1.50%	3.80%	1.38%
9	1.25%	3.23%	1.39%

Age	Annual Rates for Those With Deferred Annuity Benefits*					
	10-14 Years of Employment		15-19 Years of Employment		20-24 Years of Employment	
	Male	Female	Male	Female	Male	Female
30	0.67%	2.30%	0.47%	2.08%	0.27%	0.55%
35	0.63%	1.88%	0.42%	1.40%	0.27%	0.55%
40	0.60%	1.17%	0.38%	0.70%	0.26%	0.43%
45	0.63%	0.74%	0.36%	0.46%	0.25%	0.27%
50	0.77%	0.22%	0.50%	0.48%	0.31%	0.28%
55	1.10%	1.20%	0.83%	0.80%	0.54%	0.53%

*Members must have attained 10 years of service or 60 years of age (62 years of age for Tier 3/4 members, 65 years of age for Tier 5 members) in order to receive an OPEB benefit.

Age	Annual Rates for Those Receiving Return of Contributions					
	10-14 Years of Employment		15-19 Years of Employment		20-24 Years of Employment	
	Male	Female	Male	Female	Male	Female
30	0.45%	0.77%	0.31%	0.69%	0.18%	0.19%
35	0.42%	0.62%	0.28%	0.47%	0.18%	0.19%
40	0.39%	0.39%	0.25%	0.24%	0.18%	0.14%
45	0.42%	0.25%	0.25%	0.15%	0.16%	0.09%
50	0.33%	0.24%	0.22%	0.16%	0.13%	0.09%
55	0.28%	0.21%	0.21%	0.14%	0.13%	0.09%

Actuarial Assumptions and Methods (Continued)

Teachers' Pension and Annuity Fund of New Jersey and Alternate Benefit Program (continued)

Retirement:

Tier 1

Age	Less than Age 55 or Less than 25 Years of Service		Attainment of Age 55 and 25 Years of Service			
	Male	Female	First Eligibility		After First Eligibility	
	Male	Female	Male	Female	Male	Female
< 47	1.2%	1.2%	N/A	N/A	N/A	N/A
48	1.5%	1.5%	N/A	N/A	N/A	N/A
49	1.7%	1.7%	N/A	N/A	N/A	N/A
50	2.0%	2.0%	N/A	N/A	N/A	N/A
51	2.4%	2.4%	N/A	N/A	N/A	N/A
52	2.8%	2.8%	N/A	N/A	N/A	N/A
53	3.8%	3.8%	N/A	N/A	N/A	N/A
54	4.8%	4.8%	N/A	N/A	N/A	N/A
55	N/A	N/A	15.0%	17.0%	N/A	N/A
56	N/A	N/A	22.0%	19.0%	12.0%	13.0%
57	N/A	N/A	22.0%	19.0%	13.0%	14.0%
58	N/A	N/A	28.0%	27.0%	14.0%	15.0%
59	N/A	N/A	28.0%	27.0%	16.0%	17.0%
60	7.0%	5.0%	35.0%	33.0%	20.0%	21.0%
61	6.5%	5.0%	32.0%	38.0%	22.5%	23.0%
62	8.0%	7.5%	45.0%	50.0%	35.0%	32.0%
63	9.0%	7.5%	45.0%	50.0%	30.0%	29.0%
64	9.0%	7.5%	45.0%	50.0%	30.0%	29.0%
65	14.0%	12.0%	50.0%	55.0%	33.0%	33.0%
66-70	18.0%	15.0%	55.0%	55.0%	30.0%	30.0%
71 +	19.0%	16.0%	55.0%	55.0%	27.0%	30.0%

Actuarial Assumptions and Methods (Continued)

Teachers' Pension and Annuity Fund of New Jersey and Alternate Benefit Program (continued)

Tier 2

Age	Less than Age 60 or Less than 25 Years of Service		Attainment of Age 60 and 25 Years of Service			
	Male	Female	First Eligibility		After First Eligibility	
	Male	Female	Male	Female	Male	Female
< 47	0.6%	0.6%	N/A	N/A	N/A	N/A
48	0.8%	0.8%	N/A	N/A	N/A	N/A
49	0.9%	0.9%	N/A	N/A	N/A	N/A
50	1.0%	1.0%	N/A	N/A	N/A	N/A
51	1.2%	1.2%	N/A	N/A	N/A	N/A
52	1.4%	1.4%	N/A	N/A	N/A	N/A
53	1.9%	1.9%	N/A	N/A	N/A	N/A
54	2.4%	2.4%	N/A	N/A	N/A	N/A
55	11.5%	11.5%	N/A	N/A	N/A	N/A
56	12.0%	12.0%	N/A	N/A	N/A	N/A
57	12.5%	12.5%	N/A	N/A	N/A	N/A
58	13.5%	13.5%	N/A	N/A	N/A	N/A
59	14.0%	14.0%	N/A	N/A	N/A	N/A
60	7.0%	5.0%	32.0%	31.0%	N/A	N/A
61	6.5%	5.0%	32.0%	38.0%	22.5%	23.0%
62	8.0%	7.5%	45.0%	50.0%	35.0%	32.0%
63	9.0%	7.5%	45.0%	50.0%	30.0%	29.0%
64	9.0%	7.5%	45.0%	50.0%	30.0%	29.0%
65	14.0%	12.0%	50.0%	55.0%	33.0%	33.0%
66-70	18.0%	15.0%	55.0%	55.0%	30.0%	30.0%
71 +	19.0%	16.0%	55.0%	55.0%	27.0%	30.0%

Actuarial Assumptions and Methods (Continued)

Teachers' Pension and Annuity Fund of New Jersey and Alternate Benefit Program (continued)

Tier 3/4

Age	Less than Age 62 or Less than 25 Years of Service		Attainment of Age 62 and 25 Years of Service			
	Male	Female	First Eligibility		After First Eligibility	
	Male	Female	Male	Female	Male	Female
< 47	0.6%	0.6%	N/A	N/A	N/A	N/A
48	0.7%	0.7%	N/A	N/A	N/A	N/A
49	0.8%	0.8%	N/A	N/A	N/A	N/A
50	0.9%	0.9%	N/A	N/A	N/A	N/A
51	1.1%	1.1%	N/A	N/A	N/A	N/A
52	1.3%	1.3%	N/A	N/A	N/A	N/A
53	1.7%	1.7%	N/A	N/A	N/A	N/A
54	2.2%	2.2%	N/A	N/A	N/A	N/A
55	10.5%	10.5%	N/A	N/A	N/A	N/A
56	10.8%	10.8%	N/A	N/A	N/A	N/A
57	11.0%	11.0%	N/A	N/A	N/A	N/A
58	12.0%	12.0%	N/A	N/A	N/A	N/A
59	12.5%	12.5%	N/A	N/A	N/A	N/A
60	20.0%	20.0%	N/A	N/A	N/A	N/A
61	22.0%	22.0%	N/A	N/A	N/A	N/A
62	30.0%	24.0%	50.0%	46.0%	N/A	N/A
63	9.0%	7.5%	45.0%	50.0%	30.0%	29.0%
64	9.0%	7.5%	45.0%	50.0%	30.0%	29.0%
65	14.0%	12.0%	50.0%	55.0%	33.0%	33.0%
66-70	18.0%	15.0%	55.0%	55.0%	30.0%	30.0%
71 +	19.0%	16.0%	55.0%	55.0%	27.0%	30.0%

Actuarial Assumptions and Methods (continued)

Teachers' Pension and Annuity Fund of New Jersey and Alternate Benefit Program (continued)

Tier 5

Age	Less than Age 65 or Less than 30 Years of Service		Attainment of Age 65 and 30 Years of Service			
	Male	Female	First Eligibility		After First Eligibility	
	Male	Female	Male	Female	Male	Female
< 47	0.3%	0.3%	N/A	N/A	N/A	N/A
48	0.4%	0.4%	N/A	N/A	N/A	N/A
49	0.4%	0.4%	N/A	N/A	N/A	N/A
50	0.5%	0.5%	N/A	N/A	N/A	N/A
51	0.6%	0.6%	N/A	N/A	N/A	N/A
52	0.7%	0.7%	N/A	N/A	N/A	N/A
53	0.9%	0.9%	N/A	N/A	N/A	N/A
54	1.1%	1.1%	N/A	N/A	N/A	N/A
55	5.0%	5.0%	N/A	N/A	N/A	N/A
56	6.0%	6.0%	N/A	N/A	N/A	N/A
57	7.0%	7.0%	N/A	N/A	N/A	N/A
58	8.0%	8.0%	N/A	N/A	N/A	N/A
59	9.0%	9.0%	N/A	N/A	N/A	N/A
60	15.0%	15.0%	N/A	N/A	N/A	N/A
61	16.0%	16.0%	N/A	N/A	N/A	N/A
62	36.0%	32.0%	N/A	N/A	N/A	N/A
63	28.0%	28.0%	N/A	N/A	N/A	N/A
64	28.0%	28.0%	N/A	N/A	N/A	N/A
65	40.0%	40.0%	50.0%	55.0%	N/A	N/A
66-70	18.0%	15.0%	55.0%	55.0%	30.0%	30.0%
71 +	19.0%	16.0%	55.0%	55.0%	27.0%	30.0%

Actuarial Assumptions and Methods (continued)

Tier Classifications

Tier	Criteria
Tier 1	Enrollment prior to July 1, 2007
Tier 2	Enrollment on or after July 1, 2007 and prior to November 2, 2008
Tier 3	Enrollment on or after November 2, 2008 and prior to May 22, 2010
Tier 4	Enrollment on or after May 22, 2010 and prior to June 28, 2011
Tier 5	Enrollment on or after June 28, 2011

Plan Provisions

Program Eligibility for Retired Group Coverage

The following individuals will be eligible for State-paid Retired Group coverage for themselves and their eligible dependents:

- Full-time local education employees, including members of the Teacher's Pension and Annuity Fund and school board or county college employees enrolled in the Public Employees' Retirement System or Police and Firemen's Retirement System who retire with 25 years or more of service credit in the retirement system or who retire on a Disability Retirement even if their employer did not cover its employees under the SEHBP. This also includes those who elect to defer retirement with 25 or more years of service credit in the retirement system.
- Participants in the Alternate Benefit Program who retired with at least 25 years of credited ABP service or those who are on a long-term disability.

The following subsections outline the eligibility for retirement (that would qualify a retiree for State-paid Program benefits) for the various groups of State employees. Service under multiple Retirement Systems can be aggregated for purposes of Program's benefit eligibility.

Public Employees' Retirement System Members

(i) In General for State-paid Benefits

Service Retirement	Eligible at age 60 with 25 years of service.
Early Retirement	Eligible after 25 years of service prior to age 60.
Ordinary Disability Retirement	Eligible after 10 years of service and total and permanent disability.
Accidental Disability	Eligible upon total and permanent disability as a result of a duty injury.

(ii) Law Enforcement (Chapter 330, P.L. 1997)

In General for State-paid Benefits

Service Retirement	Eligible at age 55 after 25 years of service.
Chapter 4, P.L. 2001 Special Retirement	Completion of 25 years of service.
Ordinary Disability	Eligible after 5 years of service and total and permanent disability.

Plan Provisions (continued)

(iii) Legislators

In General for State-paid Benefits

Service Retirement	Eligible at age 60 and 25 years of service.
Early Retirement	Attainment of 25 years of service prior to age 60.
Ordinary Disability Retirement	Eligible after 10 years of service and total and permanent disability.
Accidental Disability	Eligible upon total and permanent disability as a result of a duty injury.

(iv) Prosecutors Part (Chapter 366, P.L. 2001)

In General for State-paid Benefits

Service Retirement	Eligible after age 55 and 25 years of service.
Special Retirement	After completion of 25 years of service.
Ordinary Disability Retirement	Eligible after 10 years of service and total and permanent disability.
Accidental Disability	Eligible upon total and permanent disability as a result of a duty injury.

(v) Workers' Compensation Judges Part (Chapter 259, P.L. 2001)

Service Retirement	(A) Mandatory retirement at age 70. Voluntary retirement prior to age 70 as follows: <ul style="list-style-type: none">(a) Age 70 and 10 years of service as a Workers' Compensation Judge;(b) Age 65 and 15 years of service as a Workers' Compensation Judge; or(c) Age 60 and 20 years of service as a Workers' Compensation Judge.
	(B) Age 65, with 5 consecutive years of service as a Workers' Compensation Judge and 15 years in the aggregate of public service; or Age 60, with 5 consecutive years of service as a Workers' Compensation Judge and 20 years in the aggregate of public service.

Plan Provisions (continued)

In General for State-paid Benefits	Attainment of 25 years of service and Service Retirement eligibility.
Early Retirement	Prior to age 60, with 5 consecutive years of service as a Workers' Compensation Judge and 25 years or more in the aggregate of public service.
Ordinary Disability Retirement	Eligible after 10 years of service and total and permanent disability
Accidental Disability	Eligible upon total and permanent disability as a result of a duty injury.

Teachers Pension and Annuity Fund Members

Employees appointed to positions requiring certification as members of a regular teaching or professional staff of a public school system in New Jersey are required to enroll as a condition of employment. Employees of the Department of Education holding unclassified, professional and certified titles are eligible for membership. Temporary or substitute employees are not eligible.

In General for State-paid Benefits

Service Retirement	Eligibility means age 60 with 25 years of service for Program benefits.
Early Retirement	A Member may retire after completion of 25 years of Creditable Service.
Ordinary Disability Retirement	A Member is eligible for Ordinary Disability Retirement if he (she) has 10 years of Creditable Service and is totally and permanently incapacitated from the performance of usual or available duties.
Accidental Disability Retirement	A Member is eligible upon total and permanent incapacitation as a direct result of a traumatic event occurring during and as a result of the performance of regular or assigned duties.

Alternate Benefit Program (ABP) Members

Participants in the ABP who retire with at least 25 years of credited ABP service, or those who are on a long-term disability, will qualify for SEHBP benefits.

Plan Provisions (continued)

Police and Firemen's Retirement System Members

Enrollment is restricted to eligible policemen and fireman who are permanent and full-time and who pass the physical and mental fitness requirements. The maximum enrollment age is 35.

In General for State-paid Benefits

Service Retirement	Eligibility means age 55 and 25 years of service. Mandatory at age 65.
Special Retirement	After completion of 25 years of service.
Ordinary Disability Retirement	A Member is eligible for Ordinary Disability Retirement if he (she) has 4 years of Service and is totally and permanently incapacitated from the performance of usual or available duties.
Accidental Disability Retirement	A Member is eligible upon total and permanent incapacitation from the performance of usual and available duties as a result of injury during the performance of regular duties.
Special Disability Retirement	A Member is eligible for Special Disability Retirement if he (she) has 5 years of Credited Service, is under age 55, and has received a heart transplant.

Plan Provisions (continued)

The following tables provide concise summaries of each of the benefit plan designs available to eligible retirees as of January 1, 2017:

Medical Plans	In-Network					Out-of-Network		
	Office Visit	ER Copay (SHBP/SEHBP)	Deductible	Member Coinsurance	Out-of-Pocket Maximum*	Deductible	Member Coinsurance	Out-of-Pocket Maximum
HMO	\$10	\$85 / \$35	None	0%	\$5,739	Not Covered		
PPO 10	\$10	\$75 / \$25	None	0%	\$400	\$100	20%	\$2,000
PPO 15	\$15	\$100 / \$50	None	0%	\$400** & \$5,739	\$100	30%	\$2,000

* Excludes prescription drug copays.

** The \$400 out-of-pocket maximum includes coinsurance only.

Rx Plans	Retail			Mail			Out-of-Pocket Maximum
	Generic	Preferred Brand	Other Brand	Generic	Preferred Brand	Other Brand	
HMO (Local Education)	\$6	\$13	\$26	\$5	\$19	\$31	\$1,411
PPO 10/15 (Local Education)	\$10	\$21	\$42	\$5	\$31	\$52	\$1,411

Local Education Medicare retirees are also eligible to enroll in one of four Medicare Advantage plan offerings.