

**POLICIES AND PROCEDURES APPLICABLE  
TO THE TREASURY DIVISION,  
DEPARTMENT OF REVENUE,  
STATE OF ALASKA**



**APPENDIX ZD**

**Univita Actuarial Report and Memo from Division of Retirement and Benefits**

**Dated May 17, 1999 Regarding Insurance Reserves**



**Actuarial Valuation of the  
State of Alaska Long Term Care Program  
as of 6/30/2009**

**PREPARED BY:**

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SVP & Actuary  
Univita Health, Inc.**

**July 30, 2010**

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## **Data Reliance**

We relied on data and information supplied by State of Alaska personnel. In addition, since Univita administers the claims for these policies, we also relied on data and information supplied by Univita data services personnel. We have not audited or independently verified the information furnished to us. Although we have no reason to suspect the integrity of the underlying data, to the extent that the data is materially flawed, the results of our analysis may be materially impacted. The principal materials relied upon that were provided by State of Alaska and Univita personnel include:

1. Census listing of all policies ever issued as of 3/19/10 (LTCCensus2010Data v03192010-no names.zip).
2. Census of State of Alaska members (2009 AK Census.mdb).
3. Data extracts from Univita administrative system.
4. Financial statements.
5. Plan descriptions.
6. Premium and claim summaries (LTC-PremiumsClaimsPaid 1999 – July 2009.xls).

## **SECTION III**

### **Summary of Key Assumptions**

The Appendices describe the assumptions underlying the results illustrated in this report. The basis of the major assumptions is discussed below.

1. Expected claim costs were developed from Univita's expected LTC incidence rates and continuance tables, adjusted for State of Alaska's experience relative to Univita's expected costs. Actual experience is summarized in Appendix B.
2. Lapse rates vary by duration as developed from historical experience through December 2009.
3. Ultimate mortality rates are assumed equal to 85% of the 1994 Group Annuitant Mortality table. This mortality level is consistent with mortality rates observed on other LTC insurance blocks of business.
4. Expenses are based on TPA fee invoices and State of Alaska Health Fund financial statements.
5. Future investment earnings rates are based on input from Buck Consultants.
6. No rate increases or adjustments to the premium rate schedules are assumed in the projections.

Actual experience may differ from that assumed in the projections. To the extent actual experience is different from the assumptions underlying this report, so will actual results differ from the projected results shown here. Sensitivity of results to changes in assumptions is provided in Section IV, Sensitivity Testing Results.

### Long Term Care Model and Assumptions

#### Model

The State of Alaska LTC program includes four plan offerings: Bronze, Silver, Gold and Platinum. Table 3 describes benefits included in each plan.

<b>Table 3 State of Alaska Long Term Care Program Benefit Summary by Plan Option</b>				
<b>Benefit</b>	<b>Bronze</b>	<b>Silver</b>	<b>Gold</b>	<b>Platinum</b>
Lifetime Maximum	\$200,000 (HH is limited to \$50,000)	\$400,000	\$300,000	\$300,000
Inflation Protection	None	None	5% Simple until attained age 85	5% Compound until attained age 85
Elimination Period	90 Day	90 Day		
Benefit Trigger	2 of 5 ADLs	2 of 6 ADLs or cognitively impaired		
Nursing Home Daily Benefit	\$125 in-state \$75 out-of-state	\$200		
Assisted Living Facility Daily Benefit	If approved	\$150 (75% of NH)		
Home Health Care Daily Benefit	\$75 in-state \$40 out-of-state	\$125 (62.5% of NH)		
Hospice Daily Benefit	Not covered	\$125 (62.5% of NH)		
Respite Benefit	Not covered	Up to \$200 daily Up to 14 days per calendar year		

The cash flow results are based on a seriatim projection of 21,264 inforce lives as of 12/31/09. Current projections do not include any new issues.

Coverage Type	Number of Lives	Distribution
Single	6,211	29.2%
Married Person, however spouse is not covered	3,887	18.3%
Married Couples, where both persons are covered	11,166	52.5%
Total	21,264	100.0%

Gender	Lives	Distribution
Male	9,694	45.6%
Female	11,570	54.4%
Total	21,264	100.0%

Issue Year	Lives	Distribution
<1990	2,316	10.9%
1990-1994	2,799	13.2%
1995-1999	6,173	29.0%
2000-2004	5,255	24.7%
2005	882	4.1%
2006	875	4.1%
2007	1,028	4.8%
2008	1,018	4.8%
2009	918	4.3%
Total	21,264	100.0%

### **Assumptions**

**Morbidity** – Claim costs were developed from Univita’s expected LTC incidence rates and continuance tables. The claim costs vary by plan option (e.g., Bronze, Silver), gender and attained age.

Expected claim costs were adjusted to recognize State of Alaska program experience relative to Univita’s expected costs. The analysis of program claim experience is documented in Appendix B. Based on that analysis we adjusted Univita expected claim costs by a factor of 0.85 in the cash flow projections.

**Lapses** – Univita studied the policy termination experience of the State of Alaska LTC Program. Appendix B provides the results of the termination study.

<b>Policy Duration</b>	<b>Lapse Assumption</b>
1	2.6%
2	1.5%
3	1.3%
4	1.1%
5+	1.0%

**Mortality** – 85% of the 1994 Group Annuity Mortality table. This mortality assumption is based on experience we have observed in other blocks of LTC insurance.

**Net Investment Earnings** – 5.0% earned on total assets. Present values are also calculated assuming a 5% discount rate.

**Expenses** –

- Claims administration and care management: \$0.75 per member per month in 2010 inflating at 3% each calendar year
- Percentage of premium: 3.5% all years

**Sensitivity Tests**

<b>Variance</b>	<b>Increase</b>	<b>Decrease</b>
Morbidity	10% all years	10% all years
Voluntary lapse	200% of best estimate	50% of best estimate
Mortality	100% of 1994 GAM	70% of 1994 GAM
Discount rate	50 bps 100 bps	50 bps 100 bps

**State of Alaska LTC Program  
Experience Analysis**

typically use to price an LTC product. The following table provides results of our claim termination study of this block of business. 344 claims contributed exposure to the claim termination study (we only included claims with approved episodes of benefit).

<b>Table 9 State of Alaska LTC Program Experience Claim Termination Study as of 12/31/2009</b>					
<b>Claim Duration (months)</b>	<b># of Exposure Months</b>	<b># of Claim Terms</b>	<b>Univita Expected</b>	<b>Act / Exp</b>	<b>Credibility Weighted Adj'ment</b>
1	335	15	29.4	0.51	0.94
2-3	618	21	49.3	0.43	0.92
4-6	839	22	48.6	0.45	0.92
7-12	1,401	39	48.7	0.80	0.96
13-24	1,989	42	48.5	0.87	0.97
25-48	2,189	22	48.2	0.46	0.92
48+	1,227	32	25.6	1.25	1.04
Total	8,598	193	298.3	0.65	0.95

For the most part claims are terminating at a slower rate than Univita's pricing assumptions would expect. We have not fully recognized the lower termination rates due to the credibility of the data. The final column in the table above indicates the adjustments we applied to Univita's claim termination rates to generate disabled life reserves and claim costs for the State of Alaska's LTC program.

**Claim Reserve and Incurred Claim Analysis** - The following table summarizes paid claims and claim reserve estimates as of 12/31/2009. The table includes incurral periods from 1998 through the end of fiscal year 2009. Actual incurred claim estimates are compared to expected incurred claims which were derived by applying expected claim costs to program exposures.

## State of Alaska Long Term Care Program Summary of Yearly Cash Flows and Projected Asset Balances

Totals - Present Values	209,494,425	351,571,252	10,246,253	(152,323,080)
As a % of Premiums	100.0%	167.8%	4.9%	-72.7%

Asset Adequacy (Deficiency)	3,298,300
As a % of Premiums	1.6%

Investment earnings rate/discount rate = 5.0%

Fiscal Year	Lives	Collected Premium	Paid Claims	Expenses	Net Cash Flow	Investment Earnings	Total Assets
2009	21,187						155,621,380
2010	21,009	18,562,657	5,406,956	843,400	12,312,301	8,085,122	176,018,803
2011	20,500	18,211,812	6,052,454	832,883	11,326,475	9,080,648	196,425,927
2012	19,982	17,752,137	6,737,166	817,689	10,197,282	10,073,119	216,696,328
2013	19,452	17,284,840	7,470,316	801,995	9,012,529	11,057,381	236,766,238
2014	18,908	16,807,141	8,258,624	785,670	7,762,847	12,030,016	256,559,101
2015	18,350	16,317,840	9,107,779	768,638	6,441,423	12,987,026	275,987,550
2016	17,779	15,816,949	10,025,680	750,880	5,040,389	13,923,850	294,951,790
2017	17,195	15,305,058	11,019,417	732,397	3,553,244	14,835,337	313,340,371
2018	16,599	14,783,355	12,094,139	713,217	1,975,999	15,715,816	331,032,186
2019	15,992	14,252,807	13,256,186	693,360	303,261	16,559,098	347,894,545
2020	15,376	13,714,516	14,507,779	672,851	-1,466,114	17,358,521	363,786,953
2021	14,750	13,169,652	15,853,183	651,719	-3,335,250	18,106,983	378,558,686
2022	14,118	12,619,014	17,295,535	629,980	-5,306,501	18,796,890	392,049,075
2023	13,478	12,063,455	18,835,976	607,654	-7,380,175	19,420,200	404,089,100
2024	12,834	11,503,888	20,470,174	584,765	-9,551,051	19,968,591	414,506,640
2025	12,186	10,941,305	22,194,571	561,343	-11,814,609	20,433,569	423,125,600
2026	11,536	10,376,826	23,997,040	537,423	-14,157,637	20,806,656	429,774,619
2027	10,886	9,811,747	25,851,552	513,056	-16,552,861	21,079,957	434,301,715
2028	10,238	9,247,515	27,736,668	488,297	-18,977,450	21,246,436	436,570,701
2029	9,593	8,685,702	29,625,835	463,216	-21,403,349	21,299,978	436,467,330
2030	8,955	8,128,013	31,484,292	437,885	-23,794,164	21,235,768	433,908,934
2031	8,325	7,576,290	33,275,270	412,394	-26,111,374	21,050,624	428,848,184
2032	7,707	7,032,526	34,950,871	386,841	-28,305,186	20,743,410	421,286,408
2033	7,101	6,498,803	36,453,387	361,335	-30,315,919	20,315,666	411,286,156
2034	6,512	5,977,241	37,735,135	335,991	-32,093,885	19,771,747	398,964,018
2035	5,942	5,469,954	38,755,167	310,930	-33,596,143	19,118,542	384,486,416
2036	5,392	4,979,044	39,482,653	286,278	-34,789,887	18,365,182	368,061,711
2037	4,865	4,506,599	39,877,099	262,163	-35,632,663	17,523,134	349,952,182
2038	4,364	4,054,633	39,919,965	238,716	-36,104,048	16,606,017	330,454,151
2039	3,891	3,625,019	39,594,797	216,067	-36,185,845	15,629,095	309,897,402
2040	3,446	3,219,428	38,905,765	194,336	-35,880,673	14,608,794	288,625,523
2041	3,031	2,839,272	37,863,227	173,639	-35,197,594	13,562,069	266,989,998
2042	2,648	2,485,692	36,492,798	154,075	-34,161,181	12,505,887	245,334,704
2043	2,296	2,159,518	34,825,153	135,733	-32,801,368	11,456,703	223,990,038
2044	1,976	1,861,236	32,897,273	118,682	-31,154,719	10,430,134	203,265,453
2045	1,687	1,590,953	30,762,701	102,974	-29,274,722	9,440,331	183,431,062
2046	1,429	1,348,381	28,473,595	88,638	-27,213,852	8,499,505	164,716,715
2047	1,201	1,132,843	26,085,229	75,681	-25,028,067	7,617,766	147,306,414
2048	1,001	943,294	23,648,253	64,084	-22,769,043	6,803,037	131,340,408
2049	827	778,364	21,212,340	53,812	-20,487,788	6,061,073	116,913,693
2050	678	636,412	18,829,140	44,807	-18,237,535	5,395,307	104,071,466
2051	551	515,587	16,541,719	36,996	-16,063,128	4,806,893	92,815,231
2052	444	413,899	14,383,239	30,291	-13,999,631	4,295,040	83,110,639
2053	355	329,282	12,380,396	24,599	-12,075,713	3,857,321	74,892,248
2054	282	259,667	10,548,994	19,816	-10,309,143	3,490,027	68,073,132
2055	222	203,034	8,902,200	15,839	-8,715,005	3,188,439	62,546,566
2056	173	157,470	7,442,990	12,566	-7,298,086	2,947,102	58,195,581
2057	134	121,202	6,168,107	9,900	-6,056,805	2,760,206	54,898,982
2058	103	92,632	5,069,723	7,748	-4,984,839	2,621,848	52,535,991
2059	79	70,348	4,135,698	6,027	-4,071,377	2,526,257	50,990,871
2060	60	53,129	3,350,213	4,663	-3,301,747	2,468,007	50,157,131
2061	46	39,935	2,697,540	3,589	-2,661,194	2,442,138	49,938,075
2062	34	29,901	2,158,944	2,751	-2,131,794	2,444,259	50,250,540
2063	26	22,317	1,718,965	2,100	-1,698,748	2,470,576	51,022,368
2064	19	16,614	1,362,970	1,599	-1,347,955	2,517,831	52,192,243
2065	14	12,343	1,076,618	1,213	-1,065,488	2,583,300	53,710,055

**MEMORANDUM****STATE OF ALASKA  
DEPARTMENT OF ADMINISTRATION**

**To:** Ross Kinney, Deputy Commissioner  
Department of Revenue

**Date:** May 17, 1999

**Through:** Robert Poe Jr., Commissioner *RLP*  
Department of Administration

**Phone:** 465-4471

**From:** Guy Bell, Director *Guy Bell*  
Department of Administration  
Division of Retirement and Benefits

**Subject:** Insurance Reserves

Effective July 1, 1997, the Department of Administration established the Group Health and Life Insurance Fund, into which we pay active employee premiums, and the Retiree Health Insurance Fund, into which we pay retiree premiums. The Retiree Health Insurance Fund is further broken down into three plans: (1) medical, (2) dental, vision, audio, and (3) long term care.

The purpose of this memorandum is to update the investment policies for reserves accruing to those funds. Under AS 39.30.095(d), if the Commissioner of Administration determines that there is more money in the Funds than needed to cover claims incurred and administrative costs in the current year, the surplus, or as much of it as the Commissioner of Administration considers advisable, may be invested by the Commissioner of Revenue in the same manner as the retirement funds are invested. Money in the funds, which is needed in the short term, would be invested by the Commissioner of Revenue in instruments of much shorter duration, similar to investments of General Fund money.

The purpose of this memorandum is to identify fund reserves and investment time horizons for the Group Health and Life Insurance Fund and for the plans in the Retiree Health Insurance Fund.

Group Health and Life Insurance Fund

The Group Health and Life Insurance Fund (GHLIF) consists of premiums paid by or on behalf of state employees who are in the state's health plan. After reviewing the status of this fund we have concluded that there is no surplus in this fund. All money in this fund should be invested in short-term instruments (general fund equivalent).

Retiree Medical Insurance Plan

The Retiree Medical Insurance Plan (RMIP) consists of premiums paid for retiree medical insurance. For investment purposes, we have broken estimated reserves requirements into two categories: incurred but not reported (IBNR); and claims fluctuation. Before identifying reserve requirements for each of these categories, I will briefly describe them.

The Claims Fluctuation Reserve is needed to cover differences between premiums collected and claims and administrative costs paid out in any month. This would include catastrophic claims, which we have defined as medical claims over \$100,000. Money in this reserve needs to be available in the short term.

Incurred But Not Reported claims are those for which a service has been provided but which have not been reported to (or paid by) our third party administrator, NYLCare. Generally, the reserve requirement for IBNR claims is between two and three months of experience. Because the state is fully self-insured, and because of the stability of this group, we have determined that these reserves can be held in a combination of intermediate (one to three year maturity) and long term (up to five year maturity) fixed investments.

After the amount needed for these reserves is calculated, the balance is available for investment over a long term.

Our reserves analysis as of January 31, 1999, indicates the following reserve requirements:

	\$\$ Thousands	Notes re. Investment
January 31, 1999 Balance	\$31,972.1	
Reserve for Claims Fluctuation	9,000.0	General Fund equivalent
Reserve for Incurred But Not Reported claims	18,789.7	50/50 Intermediate/Long term Fixed Income
Balance as Reserve for Future Plan Costs	<u>\$4,182.4</u>	Long term fixed income

Retiree Dental, Vision, Audio Plan

The Retiree Dental, Vision, Audio Plan (RDVAP) consists of premiums paid for retiree dental, vision, and audio insurance. Our January 31, 1999, review of the fund's status indicates that there is a deficit balance in this fund. All money in the fund should be invested for the short-term.

	\$\$ Thousands	Notes re. Investment
January 31, 1999 Balance	\$-700.7	
Reserve for Claims Fluctuation	0.0	
Reserve for Incurred But Not Reported (IBNR) claims	1,631.6	
Fund Balance net of IBNR	<u>\$ 930.9</u>	General Fund Equivalent

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Retiree Long Term Care Plan

The Retiree Long Term Care Plan (LTCP) consists of premiums paid for retiree long term care. While approximately 12,000 retirees are paying premiums into the plan today, we have only 45 active claimants. Annual premiums exceed \$4 million, while total annual expenses, including claims payments, are less than \$600 thousand. We expect a slow growth in active claims. Therefore, this plan can be invested with a long term view (in excess of five years).

Our reserves analysis as of January 31, 1999, indicates the following reserve requirements:

	\$\$ Thousands	Notes re. Investment
January 31, 1999 Balance	\$6,813.8	
Reserve for Claims Fluctuation	0.0	Not necessary since premiums far exceed claims
Reserve for Incurred But Not Reported claims	0.0	Can be covered from incoming premiums
Balance as Reserve for Future Plan Costs	<u>\$ 6,813.8</u>	Long Term 5+ Year Investment

Aetna, the former Long Term Care Plan carrier, currently holds the majority of reserves accumulated in this plan through June 30, 1997. Under our contract with Aetna, Aetna will be responsible for paying claims for all plan beneficiaries who were receiving benefits as of June 30, 1997. The balance of the reserves will be turned over the Retiree Long Term Care Plan for investment by the state for future Long Term Care claims. Upon receipt, 100% of that money should be allocated based on a 5+ year time horizon.

As we discussed, allocation to equities should be undertaken over a one year period in equal quarterly installments, with the balance to remain in fixed-income securities. This will allow us to allocate cash flow systematically and to evaluate any necessary adjustments.

Attachment

cc: Wilson Condon, Commissioner, Department of Revenue  
 Alison Elgee, Deputy Commissioner, Department of Administration  
 Robert Storer, Chief Investment Officer, Department of Revenue  
 Janet Parker, Retirement and Benefits Manager  
 Pat Pechacek, Deloitte & Touche

**State of Alaska**  
**Retiree Health Internal Service Fund**

**Statement of Revenues, Expenses and Changes in Retained Earnings**  
For Month Ended January 31, 1999 and Fiscal Year to Date Totals

	January 31, 1999				Fiscal Year to Date			
	Medical	DVA	LTC	Totals	Medical	DVA	LTC	Totals
<b>Revenues:</b>								
Premiums	8,750,879.80	833,020.00	373,615.50	9,957,515.10	52,278,131.23	5,017,594.60	2,800,953.85	59,897,639.78
DOT RSA	24,896.00			24,896.00	172,592.00			172,592.00
Self-pays	-	109.00	-	109.00	87,199.85	2,577.00	-	89,876.85
<b>Total Revenues</b>	<b>8,775,775.80</b>	<b>833,129.00</b>	<b>373,615.50</b>	<b>9,982,060.10</b>	<b>52,538,923.18</b>	<b>5,020,231.60</b>	<b>2,800,953.85</b>	<b>60,160,108.63</b>
<b>Expenses:</b>								
<sup>1</sup> Claims Paid	7,185,804.34	834,879.51	24,697.98	8,044,961.83	48,793,464.25	4,857,343.51	118,198.98	54,757,006.74
Claims Reimbursement	98,434.11	-	-	98,434.11	1,002,987.15	-	-	1,002,987.15
Funding Increase	2,800,000.00	-	-	2,800,000.00	2,800,000.00	-	-	2,800,000.00
<sup>2</sup> Admin Expenses (Incurred by the State)	38,768.68	8,346.68	84.48	45,199.82	327,542.27	73,044.88	807.12	401,394.28
Admin Expenses (Paid to NYLCare)	317,368.48	72,063.68	815.78	390,247.92	2,200,576.02	497,080.00	5,406.99	2,703,062.99
Admin Expenses - PPO Access Fee (Paid to NYLCare)	25,891.25	-	-	25,891.25	175,368.25	-	-	175,368.25
<b>Total Expenses</b>	<b>10,069,188.84</b>	<b>915,069.85</b>	<b>25,608.22</b>	<b>11,009,866.71</b>	<b>54,093,964.84</b>	<b>5,427,468.39</b>	<b>122,413.03</b>	<b>59,643,846.07</b>
Operating Income	(1,293,853.04)	(81,960.85)	348,007.28	(1,027,806.61)	(1,555,041.48)	(407,236.79)	2,478,540.82	516,262.56
<sup>3</sup> Investment Income (State)	183,594.08	8,824.50	24,885.29	215,283.86	1,422,844.48	52,869.51	182,704.66	1,688,438.65
<b>Net Income</b>	<b>(1,110,258.96)</b>	<b>(73,136.35)</b>	<b>372,872.56</b>	<b>(812,522.75)</b>	<b>(132,196.98)</b>	<b>(354,347.29)</b>	<b>2,671,245.48</b>	<b>2,184,701.21</b>
Retained Earnings Beginning of Period	14,266,570.91	(625,580.32)	6,440,851.89	20,110,932.28	13,317,606.93	(346,376.38)	4,142,578.77	17,113,708.32
Retained Earnings End of Period	13,185,311.95	(700,726.67)	6,813,824.25	19,298,409.53	13,185,311.95	(700,726.67)	6,813,824.25	19,298,409.53
Included But Not Paid	18,786,755.00	1,831,848.00		20,418,401.00	18,786,755.00	1,831,848.00		20,418,401.00
<b>Fund Balance Net of Incurred But Not Paid</b>	<b>31,972,066.95</b>	<b>830,919.33</b>	<b>6,813,824.25</b>	<b>39,716,810.53</b>	<b>31,972,066.95</b>	<b>830,919.33</b>	<b>6,813,824.25</b>	<b>39,716,810.53</b>

1) DVA Claims Paid numbers for December 1998 and January 1999 are averages. LTC Claims Paid number for January 1999 is an average. Claims Paid for all prior months for DVA and LTC are actual numbers.  
 2) Allocated based on the total administrative expenses paid for each group.  
 3) Allocated based on beginning of year cash balance of \$30,531,832.70 for Major Medical, \$1,134,125.89 for DVA and \$4,134,064.14 for LTC.

<sup>##</sup> Note: Fund balance includes amounts from FY98 audited financial statements of \$18,786,755.00 (Major Medical) and \$1,831,848.00 (DVA) for Incurred But Not Paid.

**State of Alaska  
Retiree Health Fund**

**Statement of Revenues, Expenses and Changes in Fund Balance**

Year Ended June 30, 1998

	Medical	DVA	LTC	Totals
Startup Transfer from Aetna	8,139,009.00	860,991.00		9,000,000.00
June 1997 Premium Collected in July	6,348,901.79	496,505.55	388,139.00	7,233,546.34
Premiums	81,809,526.27	7,153,000.35	3,682,952.75	92,645,479.37
DOT RSA	309,120.00	-	-	309,120.00
Self-pays	481,188.44	1,719.70	1,270.75	484,178.89
	<u>82,579,834.71</u>	<u>7,154,720.05</u>	<u>3,684,223.50</u>	<u>93,418,778.26</u>
<sup>1</sup> Interest Income (State)	1,814,072.40	156,078.65	83,072.81	2,053,223.86
Total Revenue	<u>98,891,817.90</u>	<u>8,668,295.25</u>	<u>4,155,435.31</u>	<u>111,705,548.46</u>
<sup>2</sup> Incurred But Not Paid	18,786,755.00	1,631,646.00		20,418,401.00
<sup>4</sup> Claims Paid Total	63,543,934.36	6,721,514.84	4,600.00	70,270,049.20
<sup>2</sup> Admin Expenses (State) Totals	265,903.05	54,396.79	878.94	320,978.78
<sup>5</sup> Admin Expenses (NYLCare) Totals	2,967,716.56	607,117.00	7,577.60	3,582,411.16
Total Expenditures	<u>85,564,308.97</u>	<u>9,014,674.63</u>	<u>12,856.54</u>	<u>94,591,840.14</u>
Ending Fund Balance	<u>13,317,508.93</u>	<u>(346,379.38)</u>	<u>4,142,578.77</u>	<u>17,113,708.32</u> <sup>4</sup>
Incurred But Not Paid	18,786,755.00	1,631,646.00		20,418,401.00
Fund Balance Net of Incurred But Not Paid	<u>32,104,263.93</u>	<u>1,285,266.62</u>		<u>37,532,109.32</u>

- 1) Allocation based on the total revenues received for each group.
- 2) Amounts per FY98 audited financial statements.
- 3) Allocation based on administrative expenses paid to NYLCare. Allocated portions based on each group's proportion of total administrative expenses paid to NYLCare.
- 4) Based on actual numbers for DVA, LTC, and the remainder Major Medical.
- 5) Based on invoices paid.

**State of Alaska**  
**Division of Retirement and Benefits**  
**Retirees' Health Fund**

**Summary of Significant Accounting Policies**

The Department of Administration, Division of Retirement and Benefits (DRB) has established a Retirees' Health Fund (RHF) in the Alaska State Accounting System (AKSAS) to account for premiums and claims payments, administrative expenses, and interest earnings relating to the three retiree plans: medical; dental, visual and audio (DVA); and long term care (LTC). Following is a summary of the methodology DRB staff will use in tracking plan balances, reserves, and interest.

- The Commissioner of Administration or the designee of the Commissioner is the administrator of the RHF, under AS 39.30.095 (c).
- Premiums shall be transferred into the RHF from deductions from retirees' monthly benefit payments and as plan paid contributions from the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), the Judicial Retirement System (JRS) and the Elected Public Officers Retirement System (EPORS) on behalf of retirees. Premiums are collected in the month they are due.
- Premium payments will be tracked on a monthly basis by plan.
- Premium rates are reviewed annually by DRB and their benefit consultant. Premium increases or decreases take effect on January 1 of each year.
- Money will be invested by the Department of Revenue, Treasury Division in a combination of short term, one year, and long term investment vehicles, depending on reserve requirements identified by DRB. A reserve analysis will be performed annually by DRB.
- Investment income will be posted to each of the three plans at the end of each year, based on their proportionate share of invested money (by term of duration) at the beginning of each plan year.
- DRB shall contract with a third-party administrator (TPA) for the administration of benefit claims and payments. The TPA shall be reimbursed weekly, via Electronic Fund Transfer (EFT), for cashed claim payment checks. Settlement date for the weekly EFT is Friday.
- A detailed breakdown of claims payments by the three plans will be extracted from the TPA's system once a year so that claims expenditures can be attributed to each plan.
- The TPA's administrative expenses are paid monthly, based on the number of eligible members in each plan and the contracted monthly fee.
- DRB's administrative expenses are paid directly from the RHF in a manner similar to the retirement funds. DRB's administrative expenses will be allocated to each of the three plans at the end of each plan year.
- The TPA currently retains \$2.4 million of the fund's money in order to make claim payments until the weekly reimbursement cycle is complete. DRB will review the amount retained

several times a year to determine if it should be adjusted. DRB will annually review the interest earned on this balance, net of banking fees, to determine if any part of it should be transferred from the TPA to the RHF.

- The Commissioner of Revenue is the fiduciary of the fund under AS 37.10.071 (11) (f) (1).
- Department of Revenue, Treasury Division (Treasury) will provide custody, investment management and accounting services for invested assets of the RHF.
- Investment income will be posted to the RHF once a month by Treasury.
- Treasury administrative expenses consist of personal services and contractual services. The personal services costs are accumulated for investment management staff who will invest the funds and monitor performance, accounting staff who will prepare monthly financial reports for the investments and record accounting transactions, the annual audit, and all other overhead costs. Contractual services costs include a fixed annual maintenance fee to the custodian and an annual variable fee equal to one basis point (.01%) of the total assets held (at fair value).
- The FY99 Treasury administrative expenses will be paid through an unbudgeted Reimbursable Services Agreement. Treasury will request an increment for this amount in their FY00 budget.