STATE OF HAWAII

VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION (VEBA) TRUST FOR THE HAWAII STATE TEACHERS ASSOCIATION (HSTA)

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Actuarial Valuation Study

Valuation Date: July 1, 2006

Date of Report: April 18, 2007

April 18, 2007

Mr. Russ K. Saito
State Comptroller
State of Hawaii
1151 Punchbowl Street
Honolulu, Hawaii 96813

Re: GASB 45 Actuarial Valuation Report

This report contains the results of the July 1, 2006 actuarial valuation of the State of Hawaii's Other Postemployment Benefits (OPEB) provided to retirees of the Hawaii State Teachers Association (HSTA) Voluntary Employees' Beneficiary Association (VEBA).

The results are prepared in accordance with GASB 45, which address accounting and financial reporting requirements for employers with OPEB. The purpose of the report is to:

- Develop the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and Net OPEB Obligation (NOO) for the State of Hawaii under GASB 45.
- Provide information needed by auditors for financial statement entries and footnote disclosures in conformity with the disclosure requirements under GASB Statement No. 45.
- Present the financial condition of the plan as measured for accounting purposes.

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

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

Respectfully submitted,

Bradley J. Au

Bradley J. Au, MAAA
Vice President

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Table of Contents

I Executive Summary

For reference, a glossary of terms is provided in Exhibit XI.

Background

The State of Hawaii allows the establishment of Voluntary Employees Beneficiary Associations (VEBAs) that provide healthcare benefits to certain public employees, retirees, and their dependents. These VEBAs are tax exempt trusts pursuant to IRS Code section 501(c)(9). Memorandums of Understanding (MOUs), between the State and employee associations that establish such a VEBA, set forth the terms under which the State makes contributions to the trust on behalf of the retirees for other postemployment benefits (OPEB). Any such VEBA is responsible for contracting with providers of medical, dental, vision, and life insurance plans.

The provisions for establishing such a VEBA trust are set forth in Hawaii Revised Statutes (HRS) Chapter 87D. Effective March 1, 2006, the Hawaii State Teachers Association (HSTA) VEBA was established, and is the only trust created under these provisions as of the date of this report. Generally, retirees and their dependents may receive health care coverage if they are eligible for pension benefits under the Employees' Retirement System of the State of Hawaii (ERS). The State's contribution levels to the HSTA VEBA are determined under collective bargaining and vary based on an employee's years of service. These retiree healthcare benefits constitute the OPEB discussed in this report.

OPEB for other State employees are provided through the Employer-Union Health Benefits Trust Fund (EUTF), as allowed in HRS Chapter 87A. The State's liability for contributions made to the EUTF on behalf of retirees is not considered in this valuation. A separate actuarial valuation report addresses the GASB liabilities for such benefits.

GASB 45

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, which addresses accounting and financial reporting by employers of Postemployment Benefits Other Than Pensions. This statement replaces and significantly modifies prior guidance and is initially effective for the State for the 2007-2008 fiscal year.

The plan's liabilities and employer costs for the retiree benefits are calculated in this actuarial valuation in accordance with GASB 45. Similar to most government entities, the State does not currently prefund or recognize OPEB liability as benefits are accrued. As this report shows, any required accrual determined on a GASB basis will be considerably higher than the amount on a pay-as-you-go basis.

It is important to note that only current active, deferred inactive, and retired participants are valued in this actuarial study. To better understand GASB 45's long term effect, the State may want to further study the impact of future new entrants or any projected growth in the State's employee population.

I Executive Summary (cont.)

ARC Development

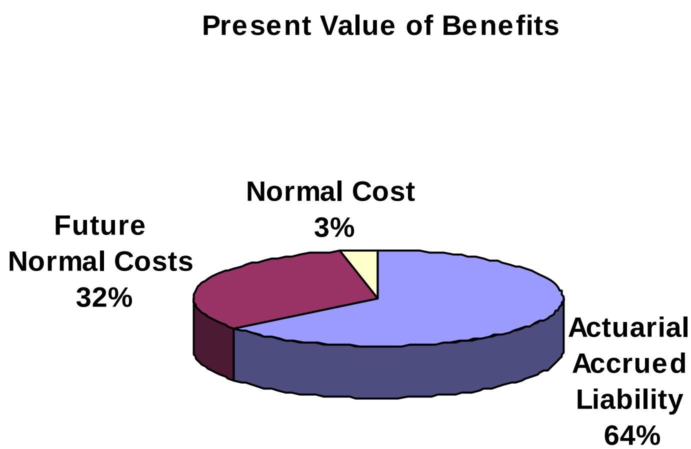
GASB requires the development of an Annual Required Contribution (ARC), which is the basis for determining the Annual OPEB Cost (AOC), or the amount employers recognize in annual expense. Although GASB does not actually require pre-funding, the portion of the ARC that is not funded each year accumulates as a liability on the State's financial statements.

The ARC can be developed under a variety of actuarial cost methods. This report shows details under the Entry Age Normal method and also compares principal results to those under the Projected Unit Credit and Aggregate methods in Appendix A. We also show the ARC calculated using different amortization periods and spread as a level percent of payroll.

Summary of Results

Liabilities

There are a few terms to understand related to the Plan's liabilities. The Present Value of Benefits (PVB) represents the actuarial present value of all future benefits expected to be paid to current active, deferred inactive, and retired employees. The Actuarial Accrued Liability (AAL) is the portion of the PVB attributable to past service. The Normal Cost is the portion of the PVB that is allocated to the current fiscal year for active employees. The chart below shows the relative allocation of these items for this plan.



I Executive Summary (cont.)

Each liability is a present value calculated by using a selected discount rate. As requested by the State, results in this report are developed based on both a 5.0% and 8.0% discount rate to show costs assuming the scenarios where obligations are not prefunded or fully prefunded, respectively. The table below summarizes the liability results based on these two discount rates as of July 1, 2006:

($ Millions)	**No Prefunding (5.0%)**	**Prefunding (8.0%)**
Present Value of Benefits (PVB)	$2,188.2	$1,012.8
Actuarial Accrued Liability (AAL)	$1,406.1	$778.9
Normal Cost	$72.0	$27.4

Note: The AAL and normal cost shown above were calculated under the Entry Age Normal cost method by spreading costs as a level percentage of pay. The costs could also be spread as level amounts, which would result in higher AAL.

Discount Rate Selection

As illustrated above, the discount rate can have a considerable impact on the magnitude of the liabilities, with lower discount rates resulting in higher liabilities. As guidance in selecting an appropriate discount rate, GASB states that the discount rate should be based on the long-term yield of investments used to finance the benefits.

If the State wants to better understand the long term advantages and disadvantages to pre-funding in a trust, a study which projects cash flow, accrual amounts, and balance sheet obligations based on current and future participants should be performed.

Annual Required Contributions (ARC)

The following table shows the ARC for the fiscal year ending June 30, 2007 under the scenarios where obligations are not prefunded (5.0%) and fully prefunded (8.0%):

($ Millions)	**No Prefunding (5.0%)**	**Prefunding (8.0%)**
Entry Age Normal Method		
30 year amortization	$135.9	$78.2

The ARC can be compared to the estimated pay-as-you-go funding amount of $2.9 million.

As discussed above, the ARC can be developed using various methodologies and amortization periods. Appendix A provides a summary analysis of ARC results under the various options.

* * *

The remainder of the report shows greater details of the above results.

II Actuarial Valuation Certificate

This report presents the results of the actuarial valuation, as of July 1, 2006, for the State of Hawaii's Other Postemployment Benefits (OPEB) provided to retirees of the Hawaii State Teachers Association (HSTA) Voluntary Employees' Beneficiary Association (VEBA) under Governmental Accounting Standards Board (GASB) Statement 45.

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

Aon Consulting did not audit the employee data and financial information used in this valuation. On the basis of our review of this data, we believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

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

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

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

II Actuarial Valuation Certificate (cont.)

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

Respectfully submitted,

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April 18, 2007

III Plan Liabilities

The liabilities shown in this exhibit were calculated as of the July 1, 2006 valuation date. These liabilities are utilized in the development of the Annual Required Contribution (ARC) under various alternatives shown in this report.

While GASB allows the development of the ARC under various funding cost methods, this report shows the ARC under the Entry Age Normal cost method, which is based on the Actuarial Accrued Liability shown below. Other cost methods are summarized in the appendix.

The **Present Value of Benefits (PVB)** represents the actuarial present value of all benefits ever to be paid to current employees and retirees.

The **Actuarial Accrued Liability (AAL)** is a portion of the PVB attributable to past service. For retirees and fully eligible active employees, the AAL is equal to the PVB. For other active employees, the AAL is the portion of the PVB deemed to be accrued to date. The **Normal Cost** is the portion of the PVB that is allocated to the current plan year for active employees.

The AAL in this report is based on the Entry Age Normal cost method and has been developed by spreading costs as a level percentage of payroll. Spreading costs as a level percent of payroll results in lower AAL (i.e. past service liability) than if costs are spread as a level amount.

The following tables show results by retired, deferred vested, and active employee groups:

I. Assuming No Prefunding of Obligations

($ Millions)	**Medical / Dental / Vision / Life**	**Medicare Part B**	**Total**
Present Value of Benefits (PVB)			
Retirees	$3.1	$0.5	$3.6
Deferred Inactives	$98.2	$27.2	$125.4
Actives	$1,611.3	$447.9	$2,059.2
Total PVB	$1,712.6	$475.6	$2,188.2
Actuarial Accrued Liability (AAL)			
Retirees	$3.1	$0.5	$3.6
Deferred Inactives	$98.2	$27.2	$125.4
Actives	$1,021.2	$255.9	$1,277.1
Total AAL	$1,122.5	$283.6	$1,406.1
Normal Cost	$54.3	$17.7	$72.0

III Plan Liabilities (cont.)

II. Assuming Prefunding of Obligations

($ Millions)	**Medical / Dental / Vision / Life**	**Medicare Part B**	**Total**
Present Value of Benefits (PVB)			
Retirees	$2.0	$0.3	$2.3
Deferred Inactives	$48.8	$12.5	$61.3
Actives	$764.1	$185.1	$949.2
Total PVB	$814.9	$197.9	$1,012.8
Actuarial Accrued Liability (AAL)			
Retirees	$2.0	$0.3	$2.3
Deferred Inactives	$48.8	$12.5	$61.3
Actives	$583.1	$132.2	$715.3
Total AAL	$633.9	$145.0	$778.9
Normal Cost	$21.1	$6.3	$27.4

IV Accounting Information

The initial effective period for the State's accounting under GASB 45 is the fiscal year ending June 30, 2008. Earlier adoption is optional. This section shows the Annual Required Contribution (ARC), Annual OPEB Cost (AOC), and projected June 30, 2008 Net OPEB Obligation (NOO) amounts based on adoption for the fiscal year ending June 30, 2007.

Annual Required Contribution (ARC)

The method for determining the ARC includes the Normal Cost plus the amortization of the Unfunded AAL over the selected period. The following table shows the development of the ARC using a 30 year amortization of the Unfunded AAL as a level percent of payroll (increasing 3.5% annually).

I. Assuming No Prefunding of Obligations (in millions)

($ Millions)	**Totals**
Actuarial Accrued Liability (AAL)	$1,406.1
Assets	$0.0
Unfunded AAL	$1,406.1
Normal Cost plus interest	$75.7
Amortization of Unfunded AAL	$60.2
Total ARC	$135.9
% of Payroll	20.7%

II. Assuming Prefunding of Obligations (in millions)

($ Millions)	**Totals**
Actuarial Accrued Liability (AAL)	$778.9
Assets	$0.0
Unfunded AAL	$778.9
Normal Cost plus interest	$29.6
Amortization of Unfunded AAL	$48.6
Total ARC	$78.2
% of Payroll	11.9%

Please note that the normal cost is an actuarial liability and *not* the same as the pay-as-you-go cost. The ARC can be compared to the estimated pay-as-you-go funding amount of $2.9 million.

IV Accounting Information (cont.)

Annual OPEB Cost (AOC)

If there is no OPEB obligation on an employer's financial statements at transition, then the AOC is equal to the ARC. However, if there is an initial obligation at transition, the AOC should reflect an adjustment for the transition obligation. Note that, generally, GASB directs plan sponsors to set their Initial Net OPEB Obligation to zero at transition. However, this may result in inconsistent accounting results. We recommend employers discuss this issue with their auditors if an obligation is currently recorded on its financial statements. Note that in the first year of implementation of GASB 45, there is no adjustment to the ARC in determining the AOC. Thereafter, any cumulative unpaid ARC will result in an adjustment to determine the AOC.

The following section shows the AOC based on the Entry Age Normal actuarial cost method and 30- year amortization of the unfunded AAL.

I. Assuming No Prefunding of Obligations

	($ Millions)
Annual Required Contribution (ARC)	$135.9
Adjustment to Annual Required Contribution	0.0
Total Annual OPEB Cost (AOC)	$135.9

II. Assuming Prefunding of Obligations

	($ Millions)
Annual Required Contribution (ARC)	$78.2
Adjustment to Annual Required Contribution	0.0
Total Annual OPEB Cost (AOC)	$78.2

IV Accounting Information (cont.)

OPEB Summary (After adoption, a 3-year display will be shown)

I. Assuming No Prefunding of Obligations

Fiscal Year Ending	Annual OPEB Cost ($ Millions)	Percentage of Annual OPEB Cost Contributed*	Net OPEB Obligation ($ Millions)
6/30/2007	$135.9	2.1%	$133.0

* *Based on expected benefit payments ($2.9 M) for the applicable fiscal year end.*

II. Assuming Prefunding of Obligations

Fiscal Year Ending	Annual OPEB Cost ($ Millions)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation ($ Millions)
6/30/2007	$78.2	100.0%	$0.0

Projected June 30, 2007 Net OPEB Obligation (NOO)

Based on the Annual OPEB Cost developed above, the following is the projected June 30, 2007 Net OPEB Obligation (NOO):

I. Assuming No Prefunding of Obligations

	Total ($ Millions)
July 1, 2006 Net OPEB Obligation (NOO) (initial assumed)	$0.0
Plus: Annual OPEB Cost (AOC)	$135.9
Less: Employer Contributions	$2.9
Equals: Expected June 30, 2007 Net OPEB Obligation (NOO)*	$133.0

** Actual reserves would use actual 2006-2007 FY benefit payments.*

IV Accounting Information (cont.)

II. Assuming Prefunding of Obligations

	Total ($ Millions)
July 1, 2006 Net OPEB Obligation (NOO) (initial assumed)	$0.0
Plus: Annual OPEB Cost (AOC)	$78.2
Less: Employer Contributions	$78.2
Equals: Expected June 30, 2007 Net OPEB Obligation (NOO)*	$0.0

Required Supplementary Information

Below is the sample of the projected schedule of funding progress, shown as of the valuation date:

I. Assuming No Prefunding of Obligations

Valuation Date	Actuarial Value of Assets ($ Millions) (a)	Actuarial Accrued Liability ($ Millions) (b)	Unfunded Actuarial Accrued Liability ($ Millions) (b) – (a)	Funded Ratio (a) / (b)	Covered Payroll ($ Millions) (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (b) – (a) / (c)
7/1/2006	$0	$1,406.1	$1,406.1	0%	$657.0	214%

II. Assuming Prefunding of Obligations

Valuation Date	Actuarial Value of Assets ($ Millions) (a)	Actuarial Accrued Liability ($ Millions) (b)	Unfunded Actuarial Accrued Liability ($ Millions) (b) – (a)	Funded Ratio (a) / (b)	Covered Payroll ($ Millions) (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (b) – (a) / (c)
7/1/2006	$0	$778.9	$778.9	0%	$657.0	119%

V Projected Benefit Payments

The following table shows the estimated projected net benefit payments based on the current plan provisions, current plan participants, and the valuation assumptions used in this report. The payments would be equivalent to funding the liabilities on a pay-as-you-go basis.

	Projected Payments *($ Millions)*		
Year Ending June 30	**Medical / Dental / Vision / Life**	**Medicare Part B**	**Total**
2007	$2.8	$0.1	$2.9
2008	6.0	0.3	6.3
2009	9.6	0.5	10.1
2010	13.8	0.9	14.7
2011	18.3	1.4	19.7
2012	22.9	2.0	24.9
2013	27.3	2.9	30.2
2014	31.5	3.9	35.4
2015	36.1	5.0	41.1
2016	40.6	6.3	46.9
2017	45.7	7.6	53.3
2018	50.7	9.0	59.7
2019	56.0	10.6	66.6
2020	61.7	12.1	73.8
2021	67.6	13.6	81.2

VI Sensitivity Analysis

Impact of 1% Change to Healthcare Trend Rates

This report shows the sensitivity to discount rates by comparing results assuming no prefunding (5.0% discount rate) to results assuming prefunding (8.0% discount rate). Results are also sensitive to the healthcare trend assumptions. The following table shows the impact of a 1.0% increase in the healthcare trend rate assumption, shown for both a 5.0% and 8.0% discount rate.

I. Assuming No Prefunding of Obligations

($ Millions)	**5.0% Discount Rate - Baseline Results**	**Impact of 1.0% Increase in the Health Trend Rate**	**Impact of 1.0% Decrease in the Health Trend Rate**
Present Value of Benefits	$2,188.2	$2,963.5	$1,648.3
Funded Status:			
Actuarial Accrued Liability	$1,406.1	$1,849.1	$1,088.5
Assets	$0.0	$0.0	$0.0
Unfunded AAL	$1,406.1	$1,849.1	$1,088.5
Annual Required Contribution (ARC):			
Normal Cost plus interest	$75.7	$104.8	$55.9
Amortization of Unfunded AAL	$60.2	$79.1	$46.6
Total ARC	$135.9	$183.9	$102.5

II. Assuming Prefunding of Obligations

($ Millions)	**8.0% Discount Rate - Baseline Results**	**Impact of 1.0% Increase in the Health Trend Rate**	**Impact of 1.0% Decrease in the Health Trend Rate**
Present Value of Benefits	$1,012.8	$1,309.8	$798.9
Funded Status:			
Actuarial Accrued Liability	$778.9	$986.1	$626.1
Assets	$0.0	$0.0	$0.0
Unfunded AAL	$778.9	$986.1	$626.1
Annual Required Contribution (ARC):			
Normal Cost plus interest	$29.6	$40.1	$22.5
Amortization of Unfunded AAL	$48.6	$61.5	$37.0
Total ARC	$78.2	$101.6	$59.5

VII Participant Information

These exhibit summaries contain participant demographic information.

Active Employee Age/Service Distribution

	Years of Service								
Age	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35+	Total
<25	203								203
25-29	1,298	150							1,448
30-34	790	853	118						1,761
35-39	414	542	822	87					1,865
40-44	321	283	418	651	41				1,714
45-49	257	256	284	415	355	29			1,596
50-54	250	240	281	355	300	345	71	1	1,843
55-59	187	173	263	428	260	222	306	145	1,984
60-64	86	93	103	141	108	70	65	191	857
65-69	10	16	20	19	19	12	11	40	147
70-74	1	5	6	8	4	1	1	8	34
75-79		2						5	7
80+			1					1	2
Total	3,816	2,613	2,317	2,104	1,087	679	454	391	13,461

Note: Birth and hire dates were not provided for 1,621 active employees. The distribution of age and service for these employees was assumed to be similar to the other employees for whom data was available.

Inactive Age Distribution

Age	Deferred Inactives	Retirees	Total
< 35	19		19
35-39	84		84
40-44	132	1	133
45-49	110		110
50-54	127	1	128
55-59	126	3	129
60-64	46	4	50
65-69	1		1
Total	645	9	654

VII Participant Information (cont.)

Participant Statistics

Retirees

Number of retirees (including surviving spouses) valued	9
Average age of retirees	57.1

Deferred Vested

Number of deferred vested valued	645
Average age of deferred vested	48.1

Actives

Number of actives valued	13,461
Average age of actives	43.9
Average past service	12.3

Participant Distribution Among Health Plans

Retirees

	Single	Family	Total
HMSA	0	8	8
Kaiser	0	1	1
Total Medical			9
Dental	0	9	9
Vision	0	9	9
Life			9

Actives

	Single	Family	Waived	Total
HMSA	4,625	4,364	n/a	8,989
Kaiser	1,215	830	n/a	2,045
Waived	n/a	n/a	2,427	2,427
Total				13,461
Dental	5,926	5,900	1,635	13,461
Vision	5,738	5,923	1,800	13,461

VIII Summary of Principal Plan Provisions

The following plan provisions are the basis for the calculations in this actuarial valuation.

1. Benefit Eligibility

Eligibility for benefits is based on the Hawaii State Teachers Association collective bargaining agreement. Generally, members and dependents are eligible for retiree OPEB upon eligibility for pension benefits under ERS.

Retired members receiving EUTF benefits prior to March 1, 2006 were given a one time option to transfer to the HSTA VEBA. The State's contribution for these transferred retirees will be equal to the amount the State would have paid under the EUTF plan. All members retiring on or after March 1, 2006 receive benefits through the VEBA. The State's contribution amount for these members is subject to collective bargaining.

Approximately 1,000 retirees elected to transfer coverage from the EUTF to the VEBA and begin receiving benefits under the trust effective January 1, 2007.

2. Benefits Plans Provided

Medical – PPO through HMSA, or HMO through Kaiser
Dental – Hawaii Dental Service
Vision – Vision Services Plan
Life Insurance – Pacific Guardian
Medicare Part B premium reimbursement

3. Monthly Base Contribution

The State's maximum monthly contribution paid to the VEBA is subject to collective bargaining and the monthly base contributions in HRS Chapter 87A. For the one-time transferred retirees from the EUTF, the monthly base contribution (employer cap) provides limits as to the amount the State will contribute on behalf of those retirees.

4. Employer Contributions

Employers pay a percentage of the monthly base contribution that depends on a participant's hire date and years of service, as shown in the table below. The amount may not exceed the total premium for types of coverage elected.

Hire Date	Years of Service	% of Base Contribution
Pre-7/1/96	< 10 > 10	50% 100%
Post-7/1/96 (Post-7/1/01 applied to self premium only)	< 10 10-14 15-25 > 25	0% 50% 75% 100%

VIII Summary of Principal Plan Provisions (cont.)

5. Retiree Contributions

Retirees are required to pay to the VEBA the portion of the premium rate not paid by the State.

6. Dependent and Survivor Coverage

Eligible dependents and survivors may elect coverage under the plans if they pay the required employee contribution.

IX Actuarial Methods and Assumptions

Where applicable, the Employees' Retirement System of the State of Hawaii (ERS) July 1, 2006 actuarial valuation assumptions were used.

1. Actuarial Valuation Date

July 1, 2006

2. Actuarial Cost Method

The costs shown in the report were developed using the Entry Age Normal (EAN) cost method. The EAN cost method spreads plan costs for each participant from entry date (assuming the plan existed on the employee's hire date) to the expected retirement date. Under the EAN cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The AAL is the cumulative value, on the valuation date, of prior service costs. For retirees, the AAL is the present value of all projected benefits.

The ARC under this method equals the normal cost plus the amortization of the unfunded AAL based on the following:

- Specified amortization period (10, 20, or 30 years are shown)
- Level percentage of future payroll amounts.

The Plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover, and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true Plan costs.

3. Discount Rate

5.0% - No Prefunding - This rate is based on the assumption that benefits will be paid from general employer assets.

8.0% - Prefunding - This rate is based on the assumption that employers pre-fund contributions.

4. Payroll Increases

3.5% - This is the annual rate at which total payroll is expected to increase and is used in the cost method to calculate the ARC as a level percent of payroll. For purposes of reporting current costs as a percent of pay, employer payroll for the HSTA members covered is estimated at $657 million for the 2006/07 fiscal year.

5. Mortality

Pre-retirement non-duty mortality: ERS mortality rates were used. Below are sample rates:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
25	0.02%	0.01%	0.01%	0.01%	0.01%	0.00%
30	0.02%	0.01%	0.02%	0.01%	0.01%	0.00%
35	0.03%	0.02%	0.03%	0.02%	0.01%	0.01%
40	0.04%	0.03%	0.04%	0.02%	0.02%	0.01%
45	0.06%	0.05%	0.05%	0.04%	0.02%	0.02%
50	0.09%	0.07%	0.07%	0.06%	0.03%	0.03%
55	0.12%	0.10%	0.11%	0.09%	0.05%	0.04%
60	0.20%	0.16%	0.17%	0.14%	0.07%	0.06%
65	0.30%	0.23%	0.27%	0.20%	0.11%	0.09%

Pre-retirement duty mortality: ERS mortality rates were used. Below are sample rates:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
25	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%
30	0.00%	0.00%	0.00%	0.00%	0.02%	0.01%
35	0.01%	0.00%	0.00%	0.00%	0.03%	0.02%
40	0.01%	0.01%	0.01%	0.00%	0.04%	0.02%
45	0.02%	0.01%	0.01%	0.01%	0.05%	0.04%
50	0.02%	0.02%	0.01%	0.01%	0.07%	0.06%
55	0.03%	0.03%	0.02%	0.01%	0.11%	0.09%
60	0.05%	0.04%	0.02%	0.02%	0.17%	0.14%
65	0.08%	0.06%	0.04%	0.03%	0.27%	0.20%

Post-retirement healthy mortality: ERS mortality rates were used. Below are sample rates:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
50	0.33%	0.18%	0.21%	0.10%	0.22%	0.12%
55	1.03%	0.47%	0.36%	0.24%	0.38%	0.20%
60	1.32%	0.83%	0.34%	0.31%	0.68%	0.38%
65	1.51%	0.84%	0.43%	0.28%	1.24%	0.73%
70	1.93%	0.86%	1.12%	0.58%	2.02%	1.17%
75	2.96%	1.39%	1.87%	0.92%	3.16%	1.93%
80	4.43%	2.40%	3.70%	2.06%	5.27%	3.35%
85	7.58%	4.58%	7.34%	4.81%	8.27%	5.76%
90	12.68%	10.26%	12.85%	9.01%	13.00%	9.88%

IX Actuarial Methods and Assumptions (cont.)

Post-retirement disabled mortality: ERS mortality rates were used. Below are sample rates:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
50	0.80%	0.51%	0.40%	0.26%	0.44%	0.23%
55	1.45%	0.97%	0.71%	0.51%	0.80%	0.44%
60	2.37%	1.50%	1.29%	0.97%	1.45%	0.86%
65	3.72%	2.53%	2.17%	1.50%	2.37%	1.37%
70	6.20%	4.40%	3.41%	2.53%	3.72%	2.27%
75	9.72%	7.53%	5.59%	4.40%	6.20%	3.94%
80	15.29%	12.88%	8.96%	7.53%	9.72%	6.77%
85	23.36%	20.25%	13.95%	12.88%	15.29%	11.63%
90	31.72%	29.66%	21.57%	20.25%	23.36%	18.62%

6. Termination

ERS termination rates were used in the valuation.

The following rates apply for employees with less than 6 years of service, regardless of age:

	General Employees		Teachers		Police & Fire	
Years	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
0	15.50%	18.50%	32.00%	28.00%	11.00%	11.00%
1	12.50%	16.50%	22.00%	22.00%	7.50%	7.50%
2	10.50%	12.50%	14.00%	15.00%	4.00%	4.00%
3	9.00%	10.00%	12.00%	14.00%	4.00%	4.00%
4	7.00%	8.00%	10.00%	11.00%	4.00%	4.00%
5	6.50%	7.00%	9.00%	8.00%	4.00%	4.00%

The following rates apply for employees with 6 or more years of service:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
25	6.50%	7.83%	4.98%	6.72%	1.91%	1.91%
30	5.46%	5.84%	4.12%	6.15%	2.53%	2.53%
35	4.40%	4.04%	3.95%	4.99%	2.75%	2.75%
40	3.60%	3.30%	3.60%	3.70%	2.01%	2.01%
45	3.02%	2.65%	2.88%	2.88%	1.18%	1.18%
50	2.54%	2.42%	2.34%	2.36%	0.79%	0.79%
55	3.16%	3.36%	3.62%	4.04%	0.24%	0.24%
60	4.33%	4.61%	5.86%	5.38%	0.00%	0.00%
65	1.53%	1.62%	2.18%	1.73%	0.00%	0.00%

IX Actuarial Methods and Assumptions (cont.)

7. Disability

Non-Duty Disability: ERS disability rates were used in the valuation. Sample rates are as follows:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
25	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
30	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
35	0.01%	0.01%	0.00%	0.00%	0.01%	0.01%
40	0.04%	0.02%	0.01%	0.01%	0.02%	0.02%
45	0.10%	0.06%	0.03%	0.03%	0.04%	0.04%
50	0.22%	0.14%	0.06%	0.06%	0.10%	0.10%
55	0.30%	0.19%	0.08%	0.08%	0.14%	0.14%
60	0.32%	0.20%	0.08%	0.08%	0.15%	0.15%
65	0.57%	0.36%	0.15%	0.15%	0.27%	0.27%

Duty Disability: ERS disability rates were used in the valuation. Sample rates are as follows:

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
25	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
30	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
35	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
40	0.01%	0.00%	0.00%	0.00%	0.01%	0.01%
45	0.01%	0.00%	0.00%	0.00%	0.02%	0.02%
50	0.03%	0.01%	0.01%	0.01%	0.05%	0.05%
55	0.04%	0.01%	0.01%	0.01%	0.07%	0.07%
60	0.04%	0.01%	0.01%	0.01%	0.07%	0.07%
65	0.08%	0.02%	0.02%	0.02%	0.13%	0.13%

IX Actuarial Methods and Assumptions (cont.)

8. Retirement Age

ERS retirement rates were used in the valuation. Sample rates are as follows:

For active participants in a contributory pension plan

	General Employees		Teachers		Police & Fire	
Age	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**
45	1.00%	0.00%	0.00%	0.00%	18.00%	18.00%
50	2.00%	1.00%	1.00%	0.00%	18.00%	18.00%
55	20.00%	20.00%	20.00%	22.00%	25.00%	25.00%
60	15.00%	12.00%	14.00%	18.00%	30.00%	30.00%
65	35.00%	45.00%	25.00%	25.00%	100.00%	100.00%
70	25.00%	25.00%	25.00%	25.00%	100.00%	100.00%
75	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

For active participants in a non-contributory pension plan

	General Employees		Teachers	
Age	**Male**	**Female**	**Male**	**Female**
45	0.00%	0.00%	0.00%	0.00%
50	0.00%	0.00%	0.00%	0.00%
55	10.00%	10.00%	10.00%	13.00%
60	10.00%	15.00%	10.00%	18.00%
65	40.00%	30.00%	24.00%	30.00%
70	20.00%	25.00%	15.00%	25.00%
75	100.00%	100.00%	100.00%	100.00%

9. Annual Medical Inflation ("Trend")

Annual medical costs were assumed to increase as follows:

Year	Medical & Rx	Dental	Vision	Medicare Part B
2006	11.0%	7.0%	3.0%	5.6%
2007	10.0	6.5	3.0	8.0
2008	9.0	6.0	3.0	7.5
2009	8.0	5.5	3.0	7.0
2010	7.0	5.0	3.0	6.5
2011	6.0	4.5	3.0	6.0
2012	5.0	4.0	3.0	5.5
2013+	5.0	4.0	3.0	5.0

IX Actuarial Methods and Assumptions (cont.)

10. Healthcare Premiums

Effective July 1, 2006, the total monthly premium rates for retirees are shown in the table below:

	VEBA	EUTF Transfers	Administrative Fee *(Maximum, based on EUTF)*
HMSA Non-Medicare			
Single	$ 332.30	$ 318.39	$ 1.68
Family	917.35	887.23	5.04
HMSA Medicare			
Single	213.33	187.49*	1.94
Family	693.08	604.67*	5.28
Kaiser Non-Medicare			
Single	272.59	351.17	1.68
Family	809.74	1,049.51	5.04
Kaiser Medicare			
Single	169.15	167.37	1.68
Family	499.50	498.07	5.04
HDS			
Single	28.20	29.04	0.16
Family	56.40	58.08	0.48
VSP (included in Medical above)			
Single	4.65	4.65	0.03
Family	9.99	9.99	0.07

* Rates shown were effective 1/7/07 and used in the valuation for projecting costs. Actual rates as of 7/1/06 were $203.79 and $662.67 for single and family, respectively.

The Medicare Part B monthly premium for 2006 is $88.50.

All amounts are assumed to increase with healthcare trend.

11. Monthly Base Contribution (Employer Caps)

The monthly base contribution for the fiscal year beginning July 1, 2006 follows:

	Single	Family
Non-Medicare	$505.58	$1,386.94
Medicare	328.96	1,019.56

This base contribution is assumed to increase at the same rate as Medicare Part B trend.

12. Additional Bargaining Agreement Employer Caps (for Non-EUTF Transfers)

Per the MOU between the State and HSTA, monthly employer contributions for VEBA retirees for the fiscal year beginning July 1, 2006 are not to exceed the following amounts:

	Single	Family
HMSA Non-Medicare	$332.30	$917.35
HMSA Medicare	213.13	693.08
Kaiser Non-Medicare	369.16	1,086.75
Kaiser Medicare	247.58	518.87
HDS	28.20	56.40

These amounts are assumed to increase at the same rate as healthcare trend.

13. Life Insurance

The life insurance benefit amount effective on the valuation date is $2,000.

14. Retiree Contributions

Retirees are required to pay the portion of the premium rate not paid by the employer. Future premium rates are assumed to increase by healthcare trend.

15. Plan Participation

The rates at which future eligible retirees are assumed to elect coverage vary based on the employer contribution percentage, as follows:

Employer Contribution	Medical	Dental/Vision	Life	Medicare Part B
0%	50%	70%	100%	99%
50%	50%	70%	100%	99%
75%	75%	85%	100%	99%
100%	99%	99%	100%	99%

16. Plan Election

All active and retired participants are assumed to continue coverage in the plan in which they are currently enrolled. Current actives waiving coverage and deferred inactives are assumed to elect medical coverage in the same proportion as current retired participants – currently 82% HMSA / 18% Kaiser.

IX Actuarial Methods and Assumptions (cont.)

17. Plan Coverage

For current retirees, actual plan coverage (e.g., single, family) is used. Future retirees are assumed to elect plan coverage in the same proportion as current retirees – currently 57% single / 43% family.

All participants are assumed to be eligible for Medicare upon attaining age 65.

18. Dependent Age

Actual spouses' dates of birth are used, if available. Otherwise, males are assumed to be 4 years older than their female spouses. Certain dependents under age 24 who are valued are assumed to be 25, 27, or 30 years younger than the retiree.

19. Participants Valued

Only current retired, deferred inactives, and active participants are valued. No future entrants are considered in this valuation.

1,080 retired members receiving EUTF benefits prior to March 1, 2006 elected to transfer to the HSTA VEBA and begin receiving benefits through the VEBA in January 2007. As of July 1, 2006, liabilities for these participants were included in the EUTF valuation and were not included in this valuation. The liability for these retirees will be included in the HSTA VEBA's July 1, 2007 valuation.

X GASB OPEB Summary

The Government Accounting Standards Board (GASB) has issued Statements No. 43 and 45 for the recognition and disclosure for public entities sponsoring other (than pensions) post-retirement benefit plans.

This Exhibit summarizes pertinent issues from the above statements and includes comments about GASB's OPEB standard.

Why Pay-As-You-Go Accounting Will Be Unacceptable

The GASB believes, like the FASB, that other post-retirement benefits, like pensions, are a form of deferred compensation. Accordingly, GASB is saying these benefits should be recognized (in an organization's financial statement) when earned by employees, rather than when paid out. Under SFAS 106, pay-as-you-go accounting is replaced with accrual accounting for these benefits. *This approach is similar to (although more restrictive than) GASB's approach under Statements No. 43 and 45*.

Allocating Costs (Attribution)

The FASB defines attribution as the process of assigning other post-retirement benefit cost to periods of employee service. SFAS 106 specifies how (the attribution method) and over what accounting periods (the attribution period) the postretirement benefits promise must be allocated.

The attribution (actuarial cost) method specified by SFAS 106 is the "projected unit credit actuarial cost method". This method attributes an equal amount of the total postretirement benefit to each year of service during the "attribution period".

The attribution period is the period over which the total postretirement benefit is earned. Unless the plan states that post-retirement benefits are not earned until a later date, the attribution period is from the employee's hire date until the employee is first eligible for the benefit. *The GASB Statements do not restrict entities to a single attribution method, but instead allows sponsors (and actuaries) to choose from several acceptable methods (similar to GASB 27).* GASB allows six funding methods and also allows attribution to the expected retirement age rather than the earliest eligibility age.

Defining the Plan

SFAS 106 refers to the substantive plan as the basis for accounting. The substantive plan may differ from the written plan in that it reflects the employer's cost sharing policy based on past practice or communication of intended changes, or a past practice of cost increases in monetary benefits. Under SFAS 106, the substantive plan is the basis for allowing recognition of potential future changes to the plan. *GASB follows FASB's lead on this issue, requiring entities to recognize the underlying promise, not just the written plan.*

X GASB OPEB Summary (cont.)

One GASB requirement relates to the implied subsidy when retirees participate in the active healthcare plan, but are charged a rate based on composite active and retiree experience. Under the GASB standard, even if an organization does not otherwise subsidize the benefit, then the organization will have to recognize an OPEB obligation for the implied subsidy.

Actuarial Assumptions

SFAS 106 says actuarial assumptions should be explicit. This means each individual assumption should represent the actuary's best estimate. GASB also, generally, requires explicit assumptions.

GASB requires the discount rate be based on the source of funds used to pay the benefits. This means the underlying expected long-term rate of return on plan assets for funded plans. However, since the source of funds for unfunded plans is usually the organization's general fund, and organizations are usually restricted by State law as to what investments they can have in their general fund, unfunded plans will need to use a relatively low discount rate.

Transition Issues

Because historical annual required contribution information will rarely be available, *GASB is taking a prospective approach on transition issues.* This means there will be no requirement for any initial transition obligation.

Effective Dates

The new standards have staggered effective dates, similar to GASB Statement No. 34, as follows:

		Effective for Fiscal Years Beginning After	
	Annual Revenue	**GASB 43**	**GASB 45**
Phase I	≥ $100 million	December 15, 2005	December 15, 2006
Phase II	≥ $10 million, but < $100 million	December 15, 2006	December 15, 2007
Phase III	< $10 million	December 15, 2007	December 15, 2008

XI Glossary

Actuarial Accrued Liability (AAL)

As determined by a particular Actuarial Cost Method, the portion of the Actuarial Present Value of plan benefits and expenses which is attributable to past service, and thus not provided for by future Normal Costs.

Actuarial Assumptions

Assumptions as to the occurrence of future events affecting benefit costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and employer provided benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; and other relevant items. The Actuarial Assumptions are used in connection with the Actuarial Cost Method to allocate plan costs over the working lifetime of plan participants.

Actuarial Cost Method

A procedure for determining the Actuarial Present Value of plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods (e.g., past service, future service), usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Experience Gain or Loss

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation Dates, as determined in accordance with a particular Actuarial Cost Method.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.).
b. multiplied by the probability of the occurrence of an event (such as survival, death disability, termination of employment, etc.) on which the payment is conditioned, and
c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

Actuarial Present Value of Total Projected Benefits or Present Value of Benefits (PVB)

Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial Valuation

The determination, as of a Valuation Date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a benefit plan.

Actuarial Valuation Date

The date as of which an actuarial valuation is performed.

Actuarial Value of Assets

The value of cash, investments, and other property belonging to a benefit plan, as used by the actuary for the purpose of an Actuarial Valuation.

Agent Multiple-Employer Plan

An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.

Aggregate Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets.

XI Glossary (cont.)

Amortization (of Unfunded Actuarial Accrued Liability)

The portion of benefit plan costs or contributions which is designed to pay off principal and interest on the Unfunded Actuarial Accrued Liability.

Annual OPEB Cost (AOC)

An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual Required Contributions of the Employer (ARC)

The employer's periodic required contributions to a Defined Benefit OPEB Plan, which is the basis for determining an employer's Annual OPEB Cost. For a Cost Sharing Multiple-Employer Plan, the Contractually Required Contributions should be used to determine an employer's Annual OPEB Cost.

Contractually Required Contributions (CRC)

The contributions assessed by a Cost Sharing Multiple-Employer Plan to the participating employer for a period, without regard for the method used to determine the amounts.

Cost Sharing Multiple-Employer Plan

A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members, and the same contribution rate(s) applies for each employer.

Covered Group

Plan members included in an actuarial valuation.

Deferred Inactives

Former employees, not yet receiving retirement benefits, who are eligible for plan benefits in the future.

Defined Benefit OPEB Plan

An OPEB plan having terms that specify the benefits to be provided at or after separation from employment. The benefits may be specified in dollars (for example, a flat dollar payment or an amount based on one or more factors such as age, years of service, and compensation), or as a type or level of coverage (for example, prescription drugs or a percentage of healthcare insurance premiums).

XI Glossary (cont.)

Discount Rate (Investment Return Assumption)

The rate used to adjust a series of future payments to determine the present value by reflecting the time value of money.

Employer Contributions

Contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (a) made payments of benefits directly to or on behalf of a retiree or beneficiary, (b) made premium payments to an insurer, or (c) irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer(s) of plan administrator. Employer contributions generally do not necessarily equate to benefits paid.

Entry Age Normal Actuarial Cost Method

A method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a valuation date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

Funded Ratio

The actuarial value of assets expressed as a percentage of the Actuarial Accrued Liability.

Funding Excess

The excess of the Actuarial Value of Assets over the Actuarial Accrued Liability.

Funding Policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities to provide the benefits specified by an OPEB plan.

Healthcare Cost Trend Rate

The rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

Implicit Rate Subsidy

The differential between utilizing a blend of active and non-Medicare retiree experience for cost of benefits, and utilizing solely the expected retiree experience. Blending a lower cost active cohort with retirees results in an implicit rate subsidy for the retirees of the entire group.

XI Glossary (cont.)

Inactives

Certain former employees with a minimum amount of years of creditable service who have benefits payable from the retirement system.

Level Percentage of Projected Payroll Amortization Method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases (e.g., due to inflation); in dollars adjusted for inflation, the payments can be expected to remain level.

Market-Related Value of Plan Assets

A term used with reference to the actuarial value of assets. A market related value may be fair value, market value (or estimated market value), or a calculated value that recognizes changes in fair or market value over a period of, for example, three to five years.

Net OPEB Obligation (NOO)

The cumulative difference since the effective date of this Statement between Annual OPEB Cost and the employer's contributions to the plan, including the OPEB liability (asset) at transition, if any, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to OPEB-related debt.

Normal Cost

The portion of the Actuarial Present Value of plan benefits and expenses that is allocated to a valuation year by the Actuarial Cost Method.

OPEB Assets

The amount recognized by an employer for contributions to an OPEB plan greater than OPEB expense.

OPEB Expenditures

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the modified accrual basis of accounting.

OPEB Expense

The amount recognized by an employer in each accounting period for contributions to an OPEB plan on the accrual basis of accounting.

XI Glossary (cont.)

OPEB Liabilities

The amount recognized by an employer for contributions to an OPEB plan less than OPEB expense/expenditures.

Other Postemployment Benefits (OPEB)

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan, excluding benefits defined as termination offers and benefits.

Pay-As-You-Go

A method of financing a plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Plan Assets

Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust, or equivalent arrangement, in which (a) employer contributions to the plan are irrevocable, (b) assets are dedicated to providing benefits to retirees and their beneficiaries, (c) assets are legally protected from creditors of the employers or plan administrator, for the payment of benefits in accordance with the terms of the plan.

Plan Members

The individuals covered by the terms of an OPEB plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Postemployment

The period between termination of employment and retirement as well as the period after retirement.

Postemployment Healthcare Benefits

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees and their dependents and beneficiaries.

XI Glossary (cont.)

Postretirement Benefit Increase

An increase in the benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. Ad hoc increases may be granted periodically by a decision of the board of trustees, legislature, or other authoritative body; both the decision to grant an increase and the amount of the increase are discretionary. Automatic increases are periodic increases specified in the terms of the plan; they are nondiscretionary except to the extent that the plan terms can be changed.

Projected Benefits

Those plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. That portion of an individual's Projected Benefit allocated to service to date, determined in accordance with the terms of a plan and based on future compensation as projected to retirement, is called the Credited Projected Benefit.

Projected Unit Credit Actuarial Cost Method

A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability.

Under this method, the Actuarial Gains (or Losses), as they occur, generally reduce (or increase) the Unfunded Actuarial Accrued Liability.

Under this method, benefits are projected to all future points in time under the terms of the Plan and actuarial assumptions (for example, health trends). Retirees are considered to be fully attributed in their benefits. For actives, attribution is to expected retirement age; thus, benefits at each future point in time are allocated to past service based on a proration of service-to-date over total projected service.

Required Supplementary Information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Single-Employer Plan

A plan that covers the current and former employees, including beneficiaries, of only one employer.

XI Glossary (cont.)

Sponsor

The entity that established the plan. The sponsor generally is the employer or one of the employers that participate in the plan to provide benefits for their employees and employees of other employers.

Substantive Plan

The terms of an OPEB plan as understood by the employer(s) and plan members.

Transition Year

The fiscal year in which this Statement is first implemented.

Unfunded Actuarial Accrued Liability (Unfunded Actuarial Liability)

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Appendix A Alternative Cost Methods

GASB allows plan sponsors to use one of six actuarial cost methods. The tables below show the principle valuation results under three of the methods. The other three methods produce the same results in the initial year as one of the methods shown. For all cost methods, differences lie in the manner in which liabilities are spread. It is important to note that the Hawaii ERS valuation results are based on the Entry Age Normal cost method, which is also the most common method used in the public sector. FASB rules, which are followed by non-public sector entities, require the use of the Projected Unit Credit cost method.

I. Assuming No Prefunding of Obligations

($ Millions)	Entry Age Normal	Projected Unit Credit	Aggregate
Liability - AAL / PVB	$1,406.1	$1,561.3	$2,188.2
Assets	$0.0	$0.0	$0.0
Unfunded AAL / PVB	$1,406.1	$1,561.3	$2,188.2
Normal Cost plus interest	$75.7	$68.9	n/a
Total ARC - 30 Year Amortization	$135.9	$135.7	n/a
Total ARC - 20 Year Amortization	$160.0	$162.6	n/a
Total ARC - 10 Year Amortization	$233.1	$243.7	n/a
Total ARC - Future Working Lifetime	n/a	n/a	$191.3

II. Assuming Prefunding of Obligations

($ Millions)	Entry Age Normal	Projected Unit Credit	Aggregate
Liability - AAL / PVB	$778.9	$776.6	$1,012.8
Assets	$0.0	$0.0	$0.0
Unfunded AAL / PVB	$778.9	$776.6	$1,012.8
Normal Cost plus interest	$29.6	$29.6	n/a
Total ARC - 30 Year Amortization	$78.2	$78.1	n/a
Total ARC - 20 Year Amortization	$90.8	$90.6	n/a
Total ARC - 10 Year Amortization	$130.7	$130.4	n/a
Total ARC - Future Working Lifetime	n/a	n/a	$106.7

Amortization of unfunded liabilities – The results shown are developed by amortizing unfunded liabilities as a level percent of payroll, as compared to a level dollar amount. Funding as a percent of payroll reduces current costs but increases future costs as employer payroll increases. It should also be noted that GASB allows amortization of the unfunded liabilities for up to 30 years. Further, an Open or Closed Amortization Period can be used, as described in the Glossary. Funding over a longer period reduces annual costs but extends the funding period.

Appendix B EUTF Retiree Transfers to VEBA

Retired members receiving EUTF benefits prior to March 1, 2006 were given a one time option to transfer to the HSTA VEBA. The State's contribution for these transferred retirees will be equal to the amount the State would have paid under the EUTF plan.

The 1,080 retired members receiving EUTF benefits prior to March 1, 2006 who elected to transfer to the HSTA VEBA began receiving benefits in January 2007. As of July 1, 2006, liabilities for these participants were included in the EUTF valuation and were not included in this valuation. These retirees will be included in the liability for the HSTA VEBA for the July 1, 2007 valuation.

The purpose of this section is to show the approximate liability and costs that will move from the EUTF to the VEBA in the July 1, 2007 valuation. The tables below show amounts for these participants as of July 1, 2006:

I. Assuming No Prefunding of Obligations

($ Millions)	**Totals**
Actuarial Accrued Liability (AAL)	$217.5
Assets	$0.0
Unfunded AAL	$217.5
Normal Cost plus interest	$0.0
Amortization of Unfunded AAL	$9.3
Total ARC	$9.3
% of Payroll	n/a

II. Assuming Prefunding of Obligations

($ Millions)	**Totals**
Actuarial Accrued Liability (AAL)	$149.8
Assets	$0.0
Unfunded AAL	$149.8
Normal Cost plus interest	$0.0
Amortization of Unfunded AAL	$9.3
Total ARC	$9.3
% of Payroll	n/a

Please note that the normal cost is an actuarial liability and *not* the same as the pay-as-you-go cost. The ARC can be compared to the estimated pay-as-you-go funding amount of $8.0 million.

Appendix C Impact of OPEB Standards and Managing the Obligation

This appendix addresses the impact of GASB's OPEB standards on financial statements and provides potential alternative strategies for managing the OPEB obligation.

Projection of Annual OPEB Cost (AOC)

The projections below illustrate the AOC and Net OPEB Obligation (NOO) for the HSTA VEBA. The purpose of this exhibit is to compare these amounts in the "no prefunding" and "prefunding" scenarios. The projections assume a closed group population (i.e., no new hires) and are based on the entry age normal cost method with unfunded actuarial liabilities amortized over a 30 year period.

The actual amounts in the projections will vary depending on experience and the extent to which future hires impact results. The prefunding scenario assumes assets grow at an 8% annual rate of investment return.

I. Assuming No Prefunding of Obligations

Fiscal Year Ending (FYE)	*($ Millions)*				
	ARC	**Adjustment to ARC ***	**Total AOC**	**Contributions**	**NOO at FYE**
6/30/2007	$135.9	$0.0	$135.9	$2.9	$133.0
6/30/2008	150.6	2.1	148.5	6.3	275.2
6/30/2009	166.5	4.7	161.8	10.1	426.8
6/30/2010	183.6	7.8	175.8	14.7	587.9
6/30/2011	202.1	11.5	190.6	19.7	758.8
6/30/2012	222.0	15.9	206.1	24.9	940.1
6/30/2013	243.6	21.1	222.5	30.2	1,132.4
6/30/2014	267.2	27.3	239.8	35.4	1,336.8
6/30/2015	292.8	34.7	258.0	41.1	1,553.8
6/30/2016	320.8	43.5	277.3	46.9	1,784.1

* Including interest on Net OPEB Obligation

II. Assuming Prefunding of Obligations

Fiscal Year Ending (FYE)	($ Millions)				
	ARC	Adjustment to ARC *	Total AOC	Contributions	NOO at FYE
6/30/2007	$78.2	$0.0	$78.2	$78.2	$0.0
6/30/2008	82.3	0.0	82.3	82.3	0.0
6/30/2009	86.7	0.0	86.7	86.7	0.0
6/30/2010	91.3	0.0	91.3	91.3	0.0
6/30/2011	96.2	0.0	96.2	96.2	0.0
6/30/2012	101.4	0.0	101.4	101.4	0.0
6/30/2013	106.9	0.0	106.9	106.9	0.0
6/30/2014	112.8	0.0	112.8	112.8	0.0
6/30/2015	119.1	0.0	119.1	119.1	0.0
6/30/2016	125.7	0.0	125.7	125.7	0.0

Alternative Strategies for Managing the OPEB Obligation

In addition to the advantages of prefunding the obligations, as illustrated in the projections above, there are other ways to manage the impact of the GASB OPEB statements.

It is important to note there are many variations to alternatives and the impact can vary greatly, depending on the extent to which any changes are implemented. Alternatives include:

- Manage healthcare costs
  - Review potential cost containment opportunities
  - Revise benefit levels of future retirees
- Modify employer / retiree contribution strategy
  - For all retirees, or future retirees only
  - Increase retiree contribution percentages
  - Charge higher contributions to retirees who retire at younger ages
  - Incorporate defined contribution type spending accounts
- Alter eligibility requirements to receive benefits
  - Increase required eligibility age
  - Require retirement eligibility immediately upon termination (i.e., no deferred eligibility)
  - Increase required length of service
- Optimize investment strategies for pre-funded assets