The Report of the Actuarial Valuation as of June 30, 2006 of the Connecticut State Teachers' Retirement System Retiree Health Care Plan

GRS

Gabriel Roeder Smith & Company

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February 7, 2007

Board of Trustees
Connecticut State Teachers' Retirement System
21 Grand Street
Hartford, Connecticut 06106

Dear Members of the Board:

Submitted in this report are the results of an Actuarial Valuation of the liabilities associated with the employer financed retiree health benefits provided by the Connecticut State Teachers' Retirement System ("System"). The date of the valuation was June 30, 2006, effective for the fiscal year July 1, 2006 through June 30, 2007. This report was prepared at the request of the Connecticut State Teachers' Retirement System.

The actuarial calculations were prepared for purposes of complying with the requirements of Statements No. 43 and No. 45 of the Governmental Accounting Standards Board (GASB). The calculations reported herein have been made on a basis consistent with our understanding of these accounting standards. Determinations of the liability associated with the benefits described in this report for purposes other than satisfying the System's financial reporting requirements may produce significantly different results. This report may be provided to parties other than the Connecticut State Teachers' Retirement System only in its entirety and only with the permission of the Connecticut State Teachers' Retirement System.

The valuation was based upon information, furnished by the System, concerning retiree health benefits, individual members, and financial data. Data was checked for internal consistency but was not otherwise audited.

To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods.

One or more of the undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the Academy of Actuaries to render the actuarial opinion herein.

Respectfully submitted,

Larry Langer, ASA, MAAA, EA

Zhi Hu, FSA, MAAA

WJK:dm

EXECUTIVE SUMMARY

Executive Summary

Annual Required Contribution

This report presents the annual expense required to be recognized by the plan sponsor for purposes of complying with the accounting requirements of Governmental Accounting Standards Board Statement No. 45. Based on the information provided by the employer, implementation of GASB Statement No. 45 will begin with the fiscal year ending June 30, 2008.

The Annual Required Contribution (ARC) for the fiscal year ending June 30, 2007 is $111.7 million. The ARC was calculated based on the cost of providing the subsidy and the Medicare Supplement coverage. Costs covered by members through Medicare Supplement premiums are excluded from the actuarial liabilities and normal cost. In the first year GASB Statement No. 45 is adopted, the annual OPEB cost required to be disclosed on the employer's financial statements is equal to the ARC. Actual premiums paid on behalf of retirees may be treated as employer contributions in relation to the ARC and act to reduce the Net OPEB Obligation (NOO). This amount is expected to be approximately $20 million in the fiscal year ending June 30, 2007.

For additional details please see Section B of the report.

Additional OPEB Reporting Requirements

In addition to the annual OPEB cost described above, employers will have to disclose a Net OPEB Obligation (or asset). The Net OPEB Obligation is the cumulative difference between annual OPEB costs and annual employer contributions in relation to the ARC, accumulated from the implementation of Statement No. 45. The Net OPEB Obligation is zero as of the beginning of the fiscal year that Statement No. 45 is implemented, unless the employer chooses to recognize a beginning balance.

The requirements for determining the employer's contributions in relation to the ARC are described in paragraph 13 g. of Statement No. 45. Additional information required to be disclosed in the employer's financial statements is detailed in paragraphs 24 through 27 of Statement No. 45.

EXECUTIVE SUMMARY (CONTINUED)

This report anticipates that Connecticut State Teachers' Retirement System will implement the GASB requirements as of the valuation date. The Net Pension Obligation as of June 30, 2006, is $0. Additional accounting information will be included in Section F of this report in subsequent years.

Liabilities and Assets

The present value of all benefits expected to be paid to current plan members as of June 30, 2006 is $3.1 billion. The actuarial accrued liability, which is the portion of the $3.1 billion attributable to service accrued by plan members as of June 30, 2006, is $2.21 billion. As of June 30, 2006, there are no valuation assets available to offset the liabilities of the plan.

The liabilities and ARC have been calculated based on our understanding of Section 10-183(t) of the Connecticut Statutes and the plan provisions as provided by the System's staff. The statutes divide the cost of providing health care benefits into three components. Retired members pay 1/3 of the cost directly through premiums, the State pays 1/3 of the cost on a year-to-year basis and the remainder is covered by active member contributions of 1.25 percent of pay through the Health Insurance Premium Account. We have not included any accumulated assets, because it is our understanding that they do not qualify as assets per GASB Statements Nos. 43 and 45. To qualify as plan assets under GASB Statements Nos. 43 and 45, the following three conditions must be satisfied:

- employer contributions to the plan are irrevocable
- plan assets are dedicated to providing benefits to plan employees and their beneficiaries under the terms of the plan
- plan assets are legally protected from creditors of the employer(s) or the plan administrator.

The information presented in this report represents the State's portion of the cost of providing retiree health care benefits. We have assumed that the State would pay for any long-term shortfall that arises should the current active member contribution rate be insufficient. This assumption is based on our understanding of Subsection D of Section 10-183(t) of the Connecticut statutes.

SECTION A

OVERVIEW

GASB BACKGROUND

The purpose of this valuation is to provide information on the cost associated with providing postemployment benefits other than pensions, or OPEB, to current and former employees. OPEB benefits are most often associated with postemployment health care, but cover almost any benefit not provided through a pension plan, including life insurance, dental and vision benefits. It is important to note that OPEB benefits, by definition, do not include benefits *currently* being provided to active employees – however, this report includes the liabilities for benefits expected to be paid to current active employees when they terminate employment at a future date.

The rising cost of health care has been a cause of concern to both individuals and employers who sponsor health care plans. The accounting community became concerned that many sponsors of public plans were accounting for the cost of their OPEB plans solely on the basis of benefits paid and that this method did not accurately reflect the ultimate cost of benefits promised to current and former employees. In 1988 the Governmental Accounting Standards Board (GASB) began working on a project to develop comprehensive standards for financial reporting of OPEB plans.

The GASB determined that an OPEB plan was similar to a pension plan in that benefits are earned during an active employee's working lifetime but paid out at a future date. In the GASB's view, accounting for OPEB should follow the same basic principle as accounting for public plan pension costs: These benefits are compensation for employees' services and should be accounted for during the period of time that services are performed.

The GASB worked on comprehensive standards for OPEB accounting for more than a decade, culminating with the release of GASB Statements No. 43 and No. 45 in the Spring of 2004. GASB Statement No. 43 covers the accounting rules for OPEB *plans* while GASB Statement No. 45 describes the rules for *employers* sponsoring OPEB plans. The effective dates of the Statements are based on the implementation of GASB Statement No. 34, based on the sponsor's annual revenue for the first fiscal year ending on or after June 15, 1999, and follow the schedule below:

Total Annual Revenue In the First Fiscal Year Ending After June 15, 1999	**GASB No. 43 OPEB Standards for the Plan's Financial Statements will be Effective for Periods Beginning After**	**GASB No. 45 OPEB Standards for the Employer's Financial Statements will be Effective for Periods Beginning After**
Phase 1 Govts. - $100 million or more	December 15, 2005	December 15, 2006
Phase 2 Govts. - $10 million or more, but less than $100 million	December 15, 2006	December 15, 2007
Phase 3 Govts. – Less than $10 million	December 15, 2007	December 15, 2008

GASB STANDARDS

Unlike pension plans, OPEB plans often do not have a formal document detailing the specific terms of the plan. Under GASB No. 43 and No. 45 the benefits to be accounted for are those provided by the *substantive plan* – loosely defined as the benefits covered by the plan as understood by the employer and plan members at the time of each actuarial valuation. The substantive plan provisions used in this valuation are summarized in Section D.

GASB also requires that the calculations assume the terms of the substantive plan continue indefinitely. It has been argued that there is a likelihood future OPEB plan provisions would be different than the current substantive plan (due to rising health care costs or social changes) and therefore liabilities based on the current substantive plan may overstate what will actually occur. However, the GASB Statement is designed to measure liabilities for the plan as it currently exists. While it may be reasonable to assume future changes in the OPEB plan for other purposes, recognition of anticipated changes is not allowed for purposes of accounting for OPEB.

The specific items required to be disclosed on an OPEB sponsor's financial statements are described in detail in GASB Nos. 43 and 45. In general terms, though, the plan sponsor is required to disclose an annual OPEB cost, the funded status of the plan and the funding progress on the valuation date.

Although GASB does not require OPEB contributions, it has chosen to call the base component of the annual OPEB cost the Annual Required Contribution, or ARC. The ARC consists of the cost of benefits accruing in a year plus an amount calculated to amortize any unfunded actuarial accrued liability over a period of not more than 30 years.

The funded status of the plan is a ratio of the plan's assets (if any) to the actuarial accrued liability on the valuation date. The plan is also required to disclose the cumulative difference between the ARC and the employer's actual contribution to the plan. This amount is known as the Net OPEB Obligation (NOO). Each year, the NOO accumulates with interest, plus the difference between the ARC and actual contributions for the year, plus some technical adjustments. **For most plans the NOO is set to zero as of the effective date of the GASB OPEB standard. It is the NOO, and not the actuarial accrued liability, that will be disclosed on the employers' Statement of Net Assets.**

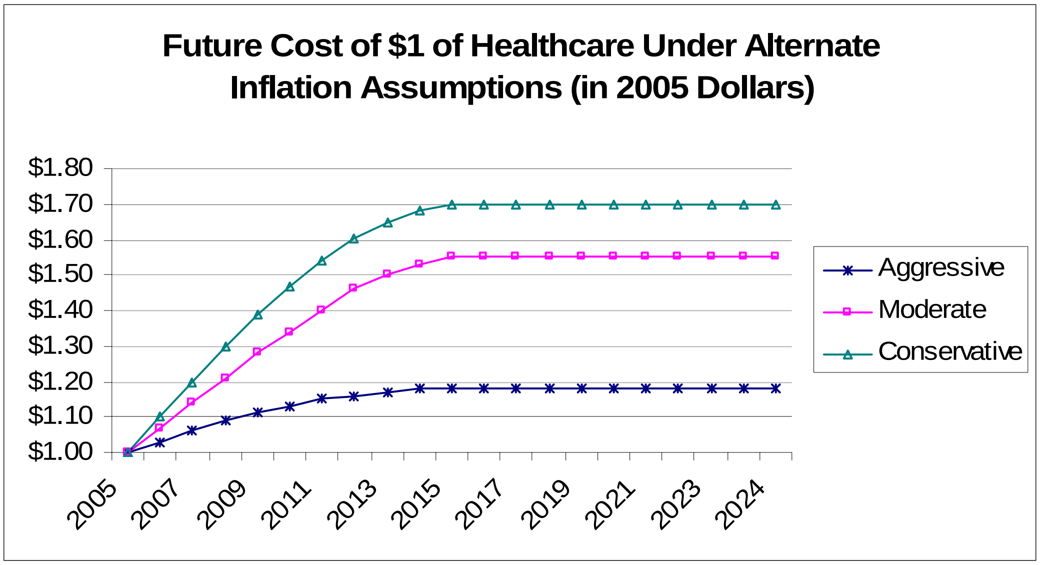
OPEB SPECIFIC ASSUMPTIONS

In any long-term actuarial valuation (such as for pensions and OPEB), certain demographic, economic and behavioral assumptions must be made concerning the population, investment discount rates, and the benefits provided. These actuarial assumptions form the basis for the actuarial model which is used to project the future population, benefits to be provided, and contributions to be collected. The investment return rate assumption is used to discount the future benefits to a present value on the valuation date. While assumptions such as future rates of retirement and mortality are similar for both OPEB and pension plans, there are some additional assumptions required when projecting benefits for a health care plan.

The cost of providing medical services has been increasing more rapidly than prices in general for many years. During the period from 1955 to 2005 general inflation averaged 4.0%, while health expenditures increased by an average of about 10% per year. If this trend is projected to continue for years to come, it implies that years from now virtually all our expenditures will be for health care. The seemingly more reasonable alternative is that in the not too distant future medical expense inflation will stabilize at a level at or near general inflation. It is on this basis that we project that retiree health care costs will continue to exceed general inflation in the near term, but by less each year until leveling off at an ultimate rate that is similar to general price increases.

Health care increase rates used in this valuation lie within a range of reasonable assumptions, and are described in Section G of this report. The health care increase rate assumption has a major effect on the calculation of plan liabilities. To illustrate the effect of differing future medical inflation rates, the chart on the next page projects the growth of $1 of health care benefits under three sets of assumptions.

In this illustration, each set of assumptions trends smoothly to an assumed long term rate of inflation over the next ten years: The assumption set labeled “Conservative” begins at a rate of 10% in excess of general inflation, the “Moderate” assumption begins at a rate of 7% in excess of general inflation, while the “Aggressive” assumption begins at a rate of 3% in excess of general inflation.



The chart above shows that the cost of providing health care is expected to increase over 50% in inflation-adjusted dollars over the next 20 years, using the "Moderate" health care increase assumption set. To put this in perspective, assuming health care increases are brought under control almost immediately, as in the "Aggressive" assumption set, implies future per capita health care costs will be expected to increase less than 20% over current levels. In addition to the per capita health care inflation, costs are expected to rise as the retiree population increases.

The selection of an investment return rate also has a major impact on the calculation of the reported GASB OPEB expense.

It is important to note that GASB Statements No. 43 and No. 45 require the selection of an interest rate assumption to be based on the expected long-term rate of return on the assets expected to pay the OPEB when due. GASB states that the return should be based on expected returns of:

- Plan assets – if the sponsor has been contributing the ARC on a regular basis;
- The employer's general assets – where no OPEB assets have been accumulated;
- A blend of plan and employer assets – in cases where OPEB assets exist but the plan is contributing amounts less than the ARC.

ACTUARIAL COST METHOD

GASB Statement No. 45 provides some flexibility to governmental employers (and their actuaries) in the use of various actuarial cost methods. It should be noted that an actuarial cost method determines a contribution or expense by assigning portions of the present value of projected benefits to various years with the general goal of accruing the cost of benefits over the working lifetime of the employees. The choice of a particular method does not change the ultimate cost of the promised benefits.

The Entry Age Normal Level Percent of Payroll actuarial cost method has been used to calculate the GASB ARC for this valuation. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The entry age method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability. If experience is in accordance with the assumptions used, the ARC will increase at approximately the same rate as active member payroll, and the ARC as a percentage of payroll will remain basically level on a year to year basis. This is both an acceptable and reasonable cost method. The use of another actuarial cost method would produce different results.

OPEB PREFUNDING

Many employers fund retiree heath care benefits using the pay-as-you-go (or cash disbursement) method. The employer's annual contribution for these benefits is equal to the actual disbursements during the year for health care benefits for retired employees. This method of funding will result in increasing contributions over time. First, per capita cash disbursements will tend to increase from year to year as the cost of health care services, or the utilization of these services increase. Second, the number of retired members is likely to increase for years to come. The more retirees, the greater the disbursements as a percentage of employee payroll.

A retiree health care plan is similar to a defined benefit pension plan, in that promises are made to employees to provide them with a benefit payable at some future date. For defined benefit pension plan sponsors a common funding objective is to contribute annual amounts to a fund which will i) remain level as a percentage of active member payroll, and ii) when combined with present assets and future investment return will be sufficient to meet the financial obligations of the Plan to current and future retirees.

The ultimate determination as to the level of pre-funding will be the result of decisions made in an attempt to reconcile the often conflicting needs of benefit security for members and fiscal responsibility for the State. The GASB accounting standards noted in the previous section of the report can factor into decisions concerning the level of pre-funding.

SECTION B

VALUATION RESULTS

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION FOR THE OTHER POST EMPLOYMENT BENEFITS FISCAL YEAR ENDING JUNE 30, 2007

Contributions for	Development of the Annual Required Contribution for July 1, 2006 - June 30, 2007
Normal Cost	
Normal Retirement	$ 32,475,041
Early Retirement	21,176,917
Termination Benefits	13,770,288
Death in Service	504,419
Disability	1,255,455
Future Refund of Member Contributions	-
Total Normal Cost	$ 69,182,120
Annual Active Member Contribution	$ 38,185,853
Employer Normal Cost	$ 30,996,267
Amortization of Unfunded Actuarial Accrued Liabilities (Amortized over 30 years)	$ 80,660,451
Annual Required Contribution (ARC)	$ 111,656,718
Expected Pay Paid for the Fiscal Year Ending June 30, 2007	$ 3,094,868,241
ARC as a Percentage of Projected Payroll	3.61%
ARC Per Active Participant	$ 2,189

The unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 30 years. A 30-year amortization period for unfunded actuarial accrued liabilities is the maximum period that complies with GASB requirements.

Connecticut State Teachers' Retirement System
Determination of Unfunded Actuarial Accrued Liability
as of June 30, 2006

A. Present Value of Future Benefits		
1. Retirees and Beneficiaries	$	1,084,152,862
2. Inactive Members		62,090,339
3. Active Members		1,951,215,452
Total Present Value of Future Benefits	$	3,097,458,653
B. Present Value of Future Employer Normal Costs	$	418,647,086
C. Present Value of Future Contributions from Current Active Members	$	468,797,115
D. Actuarial Accrued Liability (A.-B.-C.)	$	2,210,014,452
E. Actuarial Value of Assets	$	-
F. Unfunded Actuarial Accrued Liability (D.-E.)	$	2,210,014,452

The Unfunded Actuarial Accrued Liability (UAAL) is not booked as an expense all in one year and does not appear in the Employer's Statement of Net Assets. Nevertheless, it is reported in the Notes to the Financial Statements and in the Required Supplementary Information. These are information sections within the employer's financial statements.

COMMENTS

COMMENT A: One of the key assumptions used in any valuation of the cost of post-employment benefits is the rate of return on Plan assets. Higher assumed investment returns will result in a lower ARC. Lower returns will tend to increase the computed ARC. If the Plan Sponsor chooses to pre-fund with contributions less than the ARC (or not prefund at all), GASB requires the use of a lower rate of return on assets. Because the Plan Sponsor is currently not prefunding post-employment benefits, we have calculated the liability and the resulting ARC using a rate of return commensurate with short-term investments. Pre-funding the plan would allow for the use of a higher rate of return commensurate with longer-term investments and would considerably decrease the ARC and the net OPEB obligation that is disclosed on the employer's financial statement. If the plan is pre-funded, the ARC would be reduced to $60.4 million or 1.95% of pay, assuming an 8.5 percent rate of return (this value compares to the un-funded ARC of 3.61% as shown on page B-1 of the report). The total liabilities under the pre-funding scenario are $1.28 billion with a total normal cost of 0.71 percent of pay.

COMMENT B: Based on the number of plan members as of this valuation, the plan sponsor is required by GASB to perform annual actuarial valuations at least biannually. An annual actuarial valuation can recompute the required contribution rate each year. This will permit fluctuations and trends in experience to be reflected in the contribution rate on a regular basis.

COMMENT C: The ARC shown in this report has been calculated to increase at the same rate as the projected increase in active member payroll (4% per year).

COMMENT D: The contribution rates shown include amortization of the unfunded actuarial accrued liability over 30 years. This is the maximum time period permitted by the Governmental Accounting Standards Board Statements No. 43 and No. 45. A shorter amortization period would result in a higher ARC.

SECTION C

RETIREE PREMIUM RATE DEVELOPMENT

RETIREE PREMIUM RATE DEVELOPMENT

Initial premiums are required for one class of retirees (post-65 retirees who elect the Medicare Supplement coverage). These premiums were developed using the medical claims experience for fiscal years 2004 through 2006 from Stirling & Stirling, Inc. and the prescription drug claim experience for fiscal years 2005 through 2006 from Medco in conjunction with the exposure data for the corresponding claim experience periods for the retired members of the retiree health care program.

The premium rates for the medical and prescription drug coverage were blended into one composite post-65 per capita premium rate. This composite premium rate is used for both current and future retirees. The vision, hearing and dental coverage are completely funded by member contributions; therefore, these benefits were excluded from the premium rate development and do not impact the projected premiums going forward.

Age graded and sex distinct premiums are utilized by this valuation. The premium developed by the preceding process is appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium for each combination. This process more accurately reflects health care costs in the retired population over the projection period.

RETIREE PREMIUM RATE DEVELOPMENT (CONTINUED)

The monthly one-person premium rates including medical and prescription drug benefits at select ages are shown below:

Per Capita Premium Rates for Medicare Supplement		
Age	**Male**	**Female**
65	$244.59	$225.24
70	282.14	253.70
75	313.22	277.98
80	335.84	296.03
85	349.27	306.64

Based on the guidance provided by GASB on issues related to Medicare Part D payments to State and Local Governments effective June 30, 2006, an employer should apply the measurement requirements of GASB Statement No. 45 to determine the actuarial accrued liabilities, the annual required contribution of the employer, and the annual OPEB cost without reduction for Retiree Drug Subsidy (RDS) payments. Therefore the impact of the RDS that is part of the Medicare Prescription Drug Improvement and Modernization Act of 2003 is not reflected in this report.

CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM
MEMBERS AS OF JUNE 30, 2006
BY HEALTH CARE PLAN AND COVERAGE TYPE

Members Receiving a Subsidy for Coverage Under Former Employer	Retirees		Spouses		Total
	Male	Female	Male	Female	
Pre-65 Covered Members	2,210	3,862	1,313	1,628	9,013
Post-65 Covered Members	2,002	3,554	1,266	1,290	8,112
Total	4,212	7,416	2,579	2,918	17,125

Medicare Supplement Plan Type[1]	Retirees		Spouses		Total
	Male	Female	Male	Female	
Medical with Prescriptions	1,647	2,988	1,121	993	6,749
Medical with Prescriptions, Vision & Hearing	1,480	2,319	931	703	5,433
Vision & Hearing	29	78	75	23	205
Total	3,156	5,385	2,127	1,719	12,387

[1]Each of the following plan types can include dental.

Members electing vision, hearing, and/or dental coverage pay the full cost of coverage; thus, there is no liability associated with these benefits. Assumptions regarding the percentage of retirees that elect the Medicare supplement plan versus receiving the subsidy are disclosed in Section G of this report.

SUMMARY OF KEY RETIREE HEALTH CARE BENEFITS

Benefit	Coverage
Individual Member Deductible:	$0 Effective January 1, 2007
Coinsurance	20%
Dollar Maximum:	$1 million under Major Medical (lifetime per member for all covered services)
Prescription Drugs Retail:	
Deductible	$250
Out-of-Pocket Maximum	$1,000 (per calendar year)
Non-maintenance Coinsurance	
Generic	5/10% after 2 refills
Preferred	20%
Non-Preferred	30%
Maintenance Coinsurance	
Generic	5/10% after 2 refills
Preferred	25%
Non-Preferred	35%
Mail Order Prescription Drugs:	
Maintenance Coinsurance	
Generic	5%
Preferred	20%
Non-Preferred	30%

SECTION D

SUMMARY OF BENEFIT PROVISIONS

CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM
RETIREE HEALTH CARE PLAN
SUMMARY OF BENEFITS AS OF JUNE 30, 2006

Outlined below are the principal provisions of the System which were reflected in the results shown in this report.

1. **Covered Employees**

   Any teacher, principal, superintendent or supervisor engaged in service of public schools, plus professional employees at State schools of higher education if they choose to be covered.

2. **Credited Service**

   One month for each month of service as a teacher in Connecticut public schools, maximum 10 months for each school year. Ten months of credited service constitutes one year of Credited Service. Certain other types of teaching service, State employment, or war-time military service may be purchased at retirement, if the Member pays one-half of the cost.

3. **Normal Retirement**

   Eligibility: Age 60 with 20 years of Credited Service in Connecticut or 35 years of Credited Service including at least 25 years of service in Connecticut.

4. **Early Retirement**

   Eligibility: At any age after the completion of 25 years of Credited Service including 20 years of Connecticut service or at or after age 55 and the completion of 20 years of Credited Service including 15 years of Connecticut service, with the last 5 years in Connecticut.

5. **Proratable Retirement**

   Eligibility: Age 60 with 10 years of Credited Service, with the last 5 years in Connecticut.

6. **Disability Retirement**

   Eligibility: Disability after 5 years of Credited Service in Connecticut if not incurred in the performance of duty and without regard to service if incurred in the performance of duty.

7. Deferred Vested Retirement

Eligibility: 10 or more years of Credited Service.

8. Teachers' Required Contribution

Effective July 1, 1992, each teacher is required to contribute 6% of annual salary for the pension benefit. An additional 1.25% of annual salary is contributed for health insurance of retired teachers, except for the first $500,000 of such total.

9. Retiree Health Care Coverage

Any member that is currently receiving a retirement or disability benefit is eligible to participate in the health care plan. There are two components of the health care benefits offered through the system: a subsidy paid to members still receiving coverage through their former employer and Medicare Supplement coverage for those participating in Medicare, but not receiving the subsidy.

Any member that is not currently participating in Medicare Parts A & B is eligible to continue health care coverage with their former employer. A subsidy of up to $110 for a retired member plus an additional $110 for a spouse enrolled in a local school district plan is provided to the school district to first offset the employee's share of the cost of coverage, any remaining portion is used to offset the district's cost. The subsidy amount is set by statute, (C. G. S. 10-183t) and has not increased since July of 1996.

Any member that is currently participating in Medicare Parts A & B is eligible to either continue health care coverage with their former employer, if offered, or enroll in the plan sponsored by the CTRB. If they elect to remain in the plan with their former employer, the same subsidies as above will be paid to offset the cost of coverage.

If a member participating in Medicare Parts A & B so elects they can enroll in the health care plan sponsored by the CTRB. As of January 1, 2007, there are three choices for coverage. Active members, retirees, and the State pay equally toward the cost of the basic plan health insurance plan offered through the System. The costs of dental and vision coverage are paid entirely by the member. The choices and premiums charged are shown in the table below:

Coverage	**Monthly Premium per Person**
Medicare Supplement with Prescriptions	$87.00
Medicare Supplement with Prescriptions & Dental	$127.00
Medicare Supplement with Prescriptions, Dental, Vision and Hearing	$131.00

10. Survivor Health Care Coverage

Survivors of former employees or retirees remain eligible to participate in the plan and continue to be eligible to receive either the subsidy or participate in the plan sponsored by CTRB as long as they do not remarry.

SECTION E

SUMMARY OF PARTICIPANT DATA

CONNECTICUT STATE TEACHERS' RETIREMENT SYSTEM
TOTAL ACTIVE MEMBERS AS OF JUNE 30, 2006
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
Under 20	3							3	$ 54,058
20-24	712	1						713	25,777,758
25-29	4,587	917	2					5,506	227,579,478
30-34	2,353	3,478	309					6,140	297,268,330
35-39	1,445	2,547	1,859	158	2			6,011	333,581,462
40-44	1,179	1,366	1,094	1,097	288	1		5,025	301,761,201
45-49	1,099	1,321	892	930	1,216	348	2	5,808	368,344,810
50-54	791	1,317	1,155	1,044	996	2,008	779	8,090	559,104,310
55-59	492	860	844	1,169	1,173	1,218	3,520	9,276	686,531,712
60-64	145	251	260	459	617	565	1,330	3,627	274,917,224
65 & Over	24	49	62	98	128	123	332	816	62,763,935
Totals	**12,830**	**12,107**	**6,477**	**4,955**	**4,420**	**4,263**	**5,963**	**51,015**	**$ 3,137,684,279**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 45.0 Years
Service: 13.6 Years
Annual Pay: $61,505

Connecticut State Teachers' Retirement System
Retired Members and Spouses Electing Medicare Supplement Coverage as of June 30, 2006
by Attained Age

Medical with Prescriptions

Attained Age	Number of Retirees and Spouses		
	Male	**Female**	**Total**
Under 65	8	11	19
65-69	244	408	652
70-74	634	853	1,487
75-79	849	1,051	1,900
80-84	606	729	1,335
85 & Over	427	929	1,356
Totals	**2,768**	**3,981**	**6,749**

Medical with Prescriptions, Vision & Hearing

Attained Age	Number of Retirees and Spouses		
	Male	**Female**	**Total**
Under 65	18	21	39
65-69	837	1,109	1,946
70-74	728	833	1,561
75-79	460	494	954
80-84	230	289	519
85 & Over	138	276	414
Totals	**2,411**	**3,022**	**5,433**

Vision & Hearing

Attained Age	Number of Retirees and Spouses		
	Male	**Female**	**Total**
Under 65	0	0	0
65-69	4	1	5
70-74	26	34	60
75-79	41	37	78
80-84	22	17	39
85 & Over	11	12	23
Totals	**104**	**101**	**205**

SECTION F

GASB ACCOUNTING SCHEDULES

GASB Statement Numbers 43 and 45
Required Actuarial Information
Fiscal Year Ending June 30, 2007
Schedules 1 & 2

The Net OPEB Obligation as of June 30, 2006, is $0, and the Annual OPEB Cost is equivalent to the Annual Required Contribution. Exhibits developing the Net OPEB Obligation and Annual OPEB Cost will be incorporated into subsequent valuations.

GASB STATEMENT NUMBERS 43 AND 45
REQUIRED SUPPLEMENTARY INFORMATION

Valuation Date	June 30, 2006
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Periods	30 Years
Asset Valuation Method	Not Applicable
Actuarial Assumptions:	
Investment Rate of Return	4.50%
Projected Salary Increases	4.0% - 7.5%
Health Care Cost Trend Rate	11% Initial 4% Ultimate

SECTION G

ACTUARIAL COST METHOD
AND
ACTUARIAL ASSUMPTIONS

VALUATION METHODS

Actuarial Cost Method. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

(i) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities (UAAL) (full funding credit if assets exceed liabilities) were amortized by level (principal & interest combined) percent-of-payroll contributions. The UAAL amortization payment (one component of the contribution requirement), is the level percent-of-payroll required to fully amortized the UAAL over a 30 year period beginning on the valuation date.

Actuarial Value of System Assets. Until a prefunding approach is implemented, no methodology is needed to determine the actuarial value of assets.

Economic Assumptions

The investment return rate used in the valuation was 4.5% per year, compounded annually (net after administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the inflation rate. Considering wage inflation recognition of 4.0%, the 4.5% rate translates to an assumed real rate of return of 0.5%. This rate was first used for the ***June 30, 2006,*** valuation.

Pay increase assumptions for individual active members are shown on page G-9. Part of the assumption is for a merit and/or seniority increase related to the member's years of service, and the other 4.0% recognizes wage inflation. These rates were first used for the ***June 30, 2006,*** valuation.

The Active Member Group size is assumed to remain constant at its present level.

Total active member payroll is assumed to increase 4.0% per year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This rate was first used for the ***June 30, 2002,*** valuation.

Non-Economic Assumptions

The mortality table used to measure non-disabled retired life mortality was the 2000 Retired Pensioners Combined Mortality Table projected forward 19 years using scale AA, with a two-year age setback for males and females. Related values are shown on page G-4. Both the male and female non-disabled retired life mortality were then given a 10-year age set-forward to be used for disabled retiree mortality. Rates for active male and female members are 75 percent of their respective retired member rates. ***Pre-retirement mortality rates*** are shown on page G-7. These tables were first used for the ***June 30, 2006*** valuation.

The probabilities of retirement for members eligible to retire are shown on page G-5. These rates were first used in the ***June 30, 2006*** valuation.

The probabilities of withdrawal from service are shown for sample ages on page G-6. ***Disability rates*** are shown on page G-8. The withdrawal and disability rates were first used in the valuation as of ***June 30, 2006***, and do not apply to members who are eligible for retirement.

The entry age actuarial cost method with level percent of payroll funding was used in determining the normal cost and actuarial accrued liabilities for the System.

Differences in the past between assumed experience and actual experience ("actuarial gains and losses") become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (the total of principal and interest) which are level percent of payroll contributions.

The rates of electing coverage, as advised by fund staff, are as follows: for pre-65 members, it is assumed that 68 percent will elect the subsidy and 32 percent will elect no coverage. Of those electing the subsidy, it is assumed that 47 percent will cover a spouse. We have also assumed that the full $110 subsidy will be paid for all future members and spouses electing the subsidy. For post-65 members, it is assumed that 45 percent will elect the Medicare Supplement Plan, 36 percent will elect to receive the subsidy, and 19 percent will elect no coverage. Of those electing the Medicare Supplement Plan, we have assumed that 38 percent will elect coverage for a spouse.

The amount of the Plan provided subsidy is currently $110 and was assumed to remain at that level into the future.

The data about persons now covered was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

POST-RETIREMENT MORTALITY PROBABILITIES

	% Dying Next Year			% Dying Next Year	
Age	Male	Female	Age	Male	Female
50	0.1369%	0.1015%	81	4.6947%	3.6320%
51	0.1440%	0.1098%	82	5.3179%	4.0147%
52	0.1514%	0.1210%	83	6.0671%	4.4435%
53	0.1701%	0.1363%	84	6.9094%	4.9260%
54	0.1817%	0.1544%	85	7.7020%	5.4696%
55	0.1986%	0.1755%	86	8.7312%	6.0831%
56	0.2177%	0.2003%	87	9.6919%	6.9078%
57	0.2517%	0.2332%	88	10.7454%	7.8529%
58	0.2974%	0.2756%	89	12.1344%	8.9273%
59	0.3388%	0.3162%	90	13.6910%	9.9435%
60	0.3881%	0.3567%	91	15.1302%	11.2543%
61	0.4376%	0.4038%	92	16.9960%	12.4375%
62	0.4966%	0.4596%	93	18.5121%	13.6580%
63	0.5760%	0.5286%	94	20.4586%	14.8872%
64	0.6571%	0.6052%	95	22.0697%	16.4072%
65	0.7659%	0.6953%	96	23.6783%	17.5976%
66	0.8629%	0.7836%	97	25.7507%	18.7249%
67	0.9744%	0.8824%	98	27.3309%	19.7713%
68	1.1237%	0.9959%	99	28.8660%	21.1187%
69	1.2537%	1.1058%	100	30.9359%	21.9730%
70	1.3671%	1.2224%	101	32.3989%	22.7030%
71	1.5149%	1.3510%	102	33.8068%	23.2996%
72	1.6663%	1.5221%	103	35.8628%	24.4834%
73	1.8437%	1.6572%	104	37.1685%	25.4498%
74	2.0471%	1.8432%	105	38.3040%	26.6044%
75	2.2802%	2.0100%	106	39.2003%	27.9055%
76	2.5438%	2.2277%	107	39.7886%	29.3116%
77	2.8943%	2.4128%	108	40.0000%	30.7811%
78	3.2259%	2.6583%	109	40.0000%	32.2725%
79	3.6581%	2.9844%	110	100.0000%	100.0000%
80	4.1439%	3.2898%	Ref	456 1.00 2	457 1.00 2

PROBABILITIES OF AGE AND SERVICE RETIREMENT FOR MEMBERS ELIGIBLE TO RETIRE

	% of Active Participants Retiring					
	Unreduced		Proratable		Reduced	
Age	Male	Female	Male	Female	Male	Female
50	27.5%	15.0%			2.0%	2.0%
51	27.5%	15.0%			2.0%	2.0%
52	27.5%	15.0%			3.0%	4.0%
53	27.5%	15.0%			3.0%	4.5%
54	27.5%	15.0%			5.0%	5.5%
55	38.5%	30.0%			5.0%	7.5%
56	38.5%	30.0%			7.0%	8.5%
57	38.5%	30.0%			10.0%	9.5%
58	38.5%	30.0%			11.0%	10.0%
59	38.5%	30.0%			12.0%	10.0%
60	22.0%	20.0%	6%	5.4%		
61	25.3%	22.5%	6%	7.2%		
62	25.3%	22.5%	15%	9.9%		
63	27.5%	22.5%	10%	7.2%		
64	27.5%	22.5%	10%	7.2%		
65	36.3%	30.0%	20%	13.5%		
66	27.5%	30.0%	20%	10.8%		
67	27.5%	30.0%	20%	13.5%		
68	27.5%	30.0%	20%	10.8%		
69	27.5%	30.0%	35%	10.8%		
70	100.0%	40.0%	35%	10.8%		
71	100.0%	40.0%	35%	10.8%		
72	100.0%	40.0%	35%	10.8%		
73	100.0%	40.0%	35%	10.8%		
74	100.0%	40.0%	35%	18.0%		
75	100.0%	40.0%	40%	18.0%		
76	100.0%	40.0%	40%	18.0%		
77	100.0%	40.0%	40%	18.0%		
78	100.0%	40.0%	40%	18.0%		
79	100.0%	40.0%	40%	18.0%		
80	100.0%	100.0%	40%	18.0%		
Tbl	804	805	806	807	1094	1095
Anch	50	50	60	60	45	45
Mult	1.1	1	1	0.9	1	1

WITHDRAWAL RATES
PRIOR TO ELIGIBILITY FOR RETIREMENT

% of Active Participants Withdrawing					
Service-Based Withdrawal			**Age-Based Withdrawal**		
Service	**Male**	**Female**	**Age**	**Male**	**Female**
0-1	0.1400	0.1200	25	0.0120	0.0350
1-2	0.0850	0.0900	26	0.0120	0.0350
2-3	0.0550	0.0700	27	0.0120	0.0350
3-4	0.0450	0.0600	28	0.0120	0.0350
4-5	0.0350	0.0550	29	0.0120	0.0350
5-6	0.0250	0.0500	30	0.0120	0.0350
6-7	0.0240	0.0450	31	0.0120	0.0350
7-8	0.0230	0.0350	32	0.0120	0.0350
8-9	0.0220	0.0300	33	0.0120	0.0350
9-10	0.0210	0.0250	34	0.0120	0.0350
			35	0.0120	0.0350
			36	0.0120	0.0350
			37	0.0120	0.0350
			38	0.0120	0.0310
			39	0.0120	0.0270
			40	0.0120	0.0230
			41	0.0120	0.0190
			42	0.0120	0.0160
			43	0.0122	0.0150
			44	0.0124	0.0140
			45	0.0126	0.0130
			46	0.0128	0.0120
			47	0.0130	0.0110
			48	0.0152	0.0115
			49	0.0174	0.0120
			50	0.0196	0.0125
			51	0.0218	0.0130
			52	0.0240	0.0130
			53	0.0272	0.0140
			54	0.0304	0.0150
			55	0.0336	0.0160
			56	0.0368	0.0170
			57	0.0400	0.0180
			58	0.0400	0.0180
			59	0.0400	0.0190
Sw	407	408	Wx	735	736

PRE-RETIREMENT MORTALITY PROBABILITIES

	% Dying Next Year	
Age	Male	Female
20	0.0164%	0.0108%
21	0.0173%	0.0107%
22	0.0180%	0.0106%
23	0.0190%	0.0104%
24	0.0198%	0.0105%
25	0.0210%	0.0109%
26	0.0220%	0.0113%
27	0.0233%	0.0118%
28	0.0253%	0.0127%
29	0.0260%	0.0133%
30	0.0268%	0.0140%
31	0.0281%	0.0148%
32	0.0303%	0.0164%
33	0.0340%	0.0198%
34	0.0383%	0.0225%
35	0.0431%	0.0249%
36	0.0479%	0.0269%
37	0.0527%	0.0289%
38	0.0574%	0.0307%
39	0.0616%	0.0324%
40	0.0645%	0.0343%
41	0.0670%	0.0365%
42	0.0695%	0.0398%
43	0.0721%	0.0436%
44	0.0753%	0.0479%
45	0.0790%	0.0527%
46	0.0833%	0.0579%
47	0.0882%	0.0620%
48	0.0927%	0.0662%
49	0.0976%	0.0704%
50	0.1027%	0.0761%
51	0.1080%	0.0823%
52	0.1136%	0.0908%
53	0.1276%	0.1022%
54	0.1363%	0.1158%
55	0.1489%	0.1316%
56	0.1633%	0.1502%
57	0.1888%	0.1749%
58	0.2231%	0.2067%
59	0.2541%	0.2372%
60	0.2911%	0.2675%
61	0.3282%	0.3029%
62	0.3725%	0.3447%
63	0.4320%	0.3965%
64	0.4928%	0.4539%
65	0.5744%	0.5215%
Ref	456 0.75 2	457 0.75 2

DISABILITY RATES
PRIOR TO ELIGIBILITY FOR RETIREMENT

Attained Age	% Becoming Disabled	
	Male	Female
20	0.0455%	0.0500%
21	0.0455%	0.0500%
22	0.0455%	0.0500%
23	0.0455%	0.0500%
24	0.0455%	0.0500%
25	0.0455%	0.0500%
26	0.0455%	0.0500%
27	0.0455%	0.0500%
28	0.0455%	0.0470%
29	0.0455%	0.0440%
30	0.0455%	0.0410%
31	0.0455%	0.0380%
32	0.0455%	0.0350%
33	0.0455%	0.0370%
34	0.0455%	0.0390%
35	0.0455%	0.0410%
36	0.0455%	0.0430%
37	0.0455%	0.0450%
38	0.0520%	0.0540%
39	0.0650%	0.0630%
40	0.0715%	0.0720%
41	0.0845%	0.0810%
42	0.1040%	0.0900%
43	0.1170%	0.1000%
44	0.1430%	0.1100%
45	0.1625%	0.1200%
46	0.1820%	0.1300%
47	0.2015%	0.1400%
48	0.2340%	0.1810%
49	0.2730%	0.2220%
50	0.3250%	0.2630%
51	0.3900%	0.3040%
52	0.4615%	0.3450%
53	0.5330%	0.3760%
54	0.6175%	0.4070%
55	0.7150%	0.4380%
56	0.8320%	0.4690%
57	0.9490%	0.5000%
58	1.0790%	0.5000%
59	1.2805%	0.5000%
60	1.2805%	0.5000%
Ref:	312 x 0.65	135 x 0.50

PAY INCREASE ASSUMPTIONS FOR AN INDIVIDUAL MEMBER

	% Increases in Salaries Next Year		
Service	Merit & Seniority	Base	Total
0	3.50%	4.00%	7.50%
1	3.50%	4.00%	7.50%
2	3.50%	4.00%	7.50%
3	3.50%	4.00%	7.50%
4	3.50%	4.00%	7.50%
5	2.50%	4.00%	6.50%
6	2.50%	4.00%	6.50%
7	2.50%	4.00%	6.50%
8	2.50%	4.00%	6.50%
9	2.50%	4.00%	6.50%
10	1.50%	4.00%	5.50%
11	1.50%	4.00%	5.50%
12	1.50%	4.00%	5.50%
13	1.50%	4.00%	5.50%
14	1.50%	4.00%	5.50%
15	0.00%	4.00%	4.00%
16	0.00%	4.00%	4.00%
17	0.00%	4.00%	4.00%
18	0.00%	4.00%	4.00%
19	0.00%	4.00%	4.00%
20	0.00%	4.00%	4.00%
21	0.00%	4.00%	4.00%
22	0.00%	4.00%	4.00%
23	0.00%	4.00%	4.00%
24	0.00%	4.00%	4.00%
25	0.00%	4.00%	4.00%
26	0.00%	4.00%	4.00%
27	0.00%	4.00%	4.00%
28	0.00%	4.00%	4.00%
29	0.00%	4.00%	4.00%
30	0.00%	4.00%	4.00%
31	0.00%	4.00%	4.00%
32	0.00%	4.00%	4.00%
33	0.00%	4.00%	4.00%
34	0.00%	4.00%	4.00%
35	0.00%	4.00%	4.00%
36	0.00%	4.00%	4.00%
37	0.00%	4.00%	4.00%
38	0.00%	4.00%	4.00%
39	0.00%	4.00%	4.00%
40	0.00%	4.00%	4.00%
Ref	4	4.00%	

HEALTH CARE COST INCREASES

	Healthcare Trend Inflation		
Year	Subsidy	Claims Costs	Premiums [1]
2006	0.0%	11.0%	4.8%
2007	0.0	10.0	10.0
2008	0.0	9.0	9.0
2009	0.0	8.0	8.0
2010	0.0	7.0	7.0
2011	0.0	6.0	6.0
2012	0.0	5.0	5.0
2013	0.0	4.0	4.0
2014	0.0	4.0	4.0
2015	0.0	4.0	4.0
2016	0.0	4.0	4.0
2017	0.0	4.0	4.0
2017 & Later	0.0	4.0	4.0

[1] The first year trend rate for premiums reflects the increase from $83 to $87 in the premium charged to retirees for basic coverage.

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption:	85% of males and 75% of females are assumed to be married for purposes of valuing death-in-service benefits.
Pay Increase Timing:	Beginning of (fiscal) year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and exact service on the date the decrement is assumed to occur.
Benefit Service:	Exact years of service are used to determine the amount of benefit payable.
Decrement Timing:	Retirement decrements are assumed to occur at the beginning of the year, other decrements are assumed to occur mid-year.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and turnover decrements do not operate after member reaches retirement eligibility.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
Trend Timing:	Trend is assumed to occur at 12/31 for premiums and at 6/30 for health care claims.
Miscellaneous Loading Factors:	None.

APPENDIX

GLOSSARY

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

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

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

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

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

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

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

GLOSSARY (CONCLUDED)

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

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

Medical Trend Rate (Health Care Inflation). The increase in the cost of providing health care benefits over time. Trend includes such elements as pure price inflation, changes in utilization, advances in medical technology, and cost shifting.

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

Other Post-Employment Employee Benefits (OPEB). OPEB are post-employment benefits other than pensions. OPEB generally takes the form of health insurance and dental, vision, prescription drugs or other health care benefits.

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

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

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