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March 27, 2008

Ms. Sharon Dickerson
Executive Director
Employee Benefits Division
Department of Finance & Administration
501 Woodlane
Suite 500
Little Rock, AR 72201

Re: PSE Funding Levels for Plan Years 2004 through 2010

Dear Sharon:

The State and Public School Employees Life and Health Insurance Board (“the Board”) has requested that Milliman, Inc. (“Milliman”) determine the total State funding commitment necessary to fund the 2009 and 2010 plan years at the same level as the 2005 plan year for the Public School Employees (“PSE”) program. This letter provides the results of this analysis.

Results

Act 1842 of the 85th Arkansas General Assembly provides an additional commitment of \$35 million per year in funding for the PSE active employee program beginning October 1, 2005. The table below provides the cost split between the State and employee for the most popular plan. Note that this illustration does not recognize any supplemental contributions made by individual School districts that defray employee premium cost.

Split of PSE Health Benefit Program Cost Responsibility			
Plan Year Beginning <u>October 1</u>	State <u>Commitment</u> ¹	Reserve <u>Allocation</u> ²	Employee <u>Premium Cost</u>
2004	37%	0%	63%
2005	49%	0%	51%
2006	44%	6%	50%
2007	43%	5%	52%
2008	40%	4%	56%
2009	37%	0%	63%
2010	34%	0%	66%

¹ Includes the basic district contribution of \$131 month per participating employee plus the annual contribution of \$35 M.

² Authorized by the State Life & Health Insurance Board to offset trend impact on employee cost.



The State Commitment for the plan year beginning October 1, 2009, expressed as a percent of program cost, is expected to be at the same relative level as the plan year beginning October 1, 2004, which is prior to the implementation of Act 1842.

Using February 2008 enrollment as a guide, the additional cost to maintain the same relative State commitment as the plan year beginning October 1, 2004 (37%), prior to Act 1842, is:

Plan Year Beginning <u>October 1</u>	Additional Funding <u>Required</u> ³
2009	\$0.0 M
2010	\$8.2 M

The additional cost to maintain the same relative State commitment as the plan year beginning October 1, 2005 (49%), recognizing Act 1842, is:

Plan Year Beginning <u>October 1</u>	Additional Funding <u>Required</u> ³
2009	\$34.9 M
2010	\$46.1 M

Limitations and Caveats

In performing this analysis, we relied on data and other information provided by the Employee Benefits Division of the Department of Finance and Administration of the State of Arkansas and their vendors. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Judgments as to the conclusions contained in our report should be made only after studying the report in its entirety. Furthermore, conclusions reached by review of a section or sections on an isolated basis may be incorrect.

³ In addition to the \$131 per enrolled employee per month and the current \$35 M annual commitment.



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This report has been prepared solely for the internal business use of and is only to be relied upon by the State and Public School Employees Life and Health Insurance Board. No portion of this report may be provided to any other party without Milliman's prior written consent. In the event such consent is provided, the report must be provided in its entirety. We do not intend to benefit, and assume no liability to, any third party who receives the report in this fashion.

Sharon, feel free to contact us if you have any questions regarding the information contained herein.

Sincerely,

A handwritten signature in cursive script that reads "John W. Bauerlein".

John W. Bauerlein, FSA, MAAA
Consulting Actuary

cc: Kevin Geurtsen