

Via Electronic Mail

December 12, 2014

Mr. Bob Alexander
 Executive Director
 Employee Benefits Division
 501 Woodlane, Suite 500
 Little Rock, AR 72201

Re: Cost Impact of Subsidy for New Teachers with Alternative Grading

Dear Bob:

As requested, we have updated our estimate of the projected cost impacts of providing a subsidy for new teachers during their first five years of employment to reflect an alternative subsidy schedule over five years. Our understanding is that the subsidy would only apply to teachers hired in 2015 or later and is only for new teachers with the State of Arkansas. The subsidy evaluated is initially equal to the contribution for employee only coverage in the Premium plan (\$179.38 per month in 2015) for the first two years of employment, and is phased out at 25% of the subsidy per year. (Our November 12 estimate evaluated the subsidy of 100% for one year, phasing out at 20% per year.) Participants who select the Classic or Basic plans would receive any excess of the subsidy amount over their employee contribution as an HSA contribution.

The annual cost by calendar year is shown in the chart below, and consists of (a) the cost for subsidizing the contributions, (b) additional claims and expenses due to higher enrollment in excess of additional employee contributions (some of which are paid by the subsidy). The current District monthly contributions of \$153 per participant, assuming the same formula is applicable under this change, would fund the amounts in column (c).

\$in millions	(a)+(b)	(a)	(b)	(c)
Calendar Year	Annual Net Cost	Subsidy Cost	Net Claims & Expenses Cost	Additional District Contributions
2015	\$2.2	\$1.7	\$0.5	\$0.6
2016	8.9	7.1	1.8	2.3
2017	15.5	12.1	3.4	3.8
2018	21.5	16.1	5.4	5.2
2019	26.7	19.0	7.7	6.5
2020	30.9	21.0	9.9	7.5
2021	34.0	22.2	11.8	8.0



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Page 2

We note that there is a *great deal of uncertainty* around these figures. Please see our November 12 estimate for a discussion on the sensitivity of these figures, as well a discussion of the data, assumptions, and methods used in our analysis.

Cheiron's analysis was prepared exclusively for the State of Arkansas for the specific purpose of providing an initial review of the subsidy described above. Our analysis is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

I hereby certify that, to the best of my knowledge, this analysis and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this analysis. This analysis does not address any contractual or legal issues. I am not an attorney and our firm does not provide any legal services or advise.

Please contact us with any questions or concerns.

Sincerely,
Cheiron



John Colberg, FSA, MAAA
Principal Consulting Actuary

cc: Gaille Gravot, FSA, MAAA