UNIVERSITY OF NEW MEXICO

ACTUARIAL VALUATION OF POSTEMPLOYMENT BENEFIT PLAN AS OF JULY 1, 2009

May 24, 2010

Healthcare Analytics
a Division of Gallagher Benefit Services, Inc.

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Scope

This report presents the results of the actuarial valuation of the University of New Mexico ("University") postemployment benefit plan (other than pensions) as of the valuation date of July 1, 2009 under the Governmental Accounting Standards Board Statement No. 45 (GASB 45).

The purpose of the report is to:

- Determine the plan's liabilities as of July 1, 2009,
- Determine the Annual Required Contribution (ARC) and annual OPEB expense for the period July 1, 2009 to June 30, 2010 under GASB Statement No. 45 (GASB 45),
- Provide an estimate of the June 30, 2010 net OPEB obligation; and
- Document actuarial assumptions and plan provisions used in the July 1, 2009 actuarial valuation.

Postemployment Benefits

The University provides postemployment benefits for eligible participants enrolled in the University sponsored plans. The benefits are provided in the form of:

- An explicit subsidy where the University provides a subsidy to a closed group of eligible retirees,
- An implicit rate subsidy where retirees receive health insurance coverage by paying a combined retiree/active rate

Section 7 describes the postemployment benefits and plan provisions.

Methods and Assumptions

GASB 45 allows the use of one of several actuarial cost methods. These cost methods allocate the OPEB costs differently. The method used in this valuation is the **Unit Credit.** This method is the only method allowed under the Financial Accounting Standards Board's corresponding statement, *Statement of Financial Accounting Standards No. 106.*

The valuation results are developed assuming a **discount rate** of 4.50%. Under GASB 45, the discount rate to be used for the valuation is determined based on the long term investment yield on the investments used to finance the payment of benefits. For this valuation it is assumed that postemployment benefits are paid from general assets which generally consist of short-term investments. If the University is considering prefunding or transferring assets to a trust, or equivalent arrangement, in which plan assets are established and dedicated to providing benefits to retirees and beneficiaries in accordance with the terms of the plan, the determination of the discount rate would be based on the nature and mix of current and expected investments. The University should consult with its auditors in selecting an appropriate discount rate. Alternative valuation results are provided in Section 5 assuming discount rates of 6.00% and 8.00% in the event the University wishes to determine the impact of a change in the discount rate on its annual OPEB expense.

Other critical assumptions used in the actuarial valuation are the health care cost trend rate and participation assumptions. The health care cost trend assumption is used to project the cost of health care to future years. The valuation uses a **health care cost trend rate assumption** of 11.00% in the year July 1, 2009 to June 30, 2010 grading down by 0.5% each year until an ultimate health care cost trend rate is reached in 2022 of 5.00%.

The **participation assumption** is the assumed percentage of future retirees that participate and enroll in the health plan. The participation assumption used in this valuation is 10%, and is based on data provided by the University. The University should monitor the postemployment plan participant enrollment in future years in case this assumption needs to be revised.

Liabilities

Future benefits include all benefits estimated to be payable to plan members as a result of their service through the valuation date and their expected future service. The **present value of future 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 of money and the probabilities of payment. The present value of future benefits for the University's postemployment benefit plan as of July 1, 2009 is $193,115,000.

The **actuarial accrued liability** is the present value of future benefits which is attributable to past service. The actuarial accrued liability of the University's postemployment benefit plan as of July 1, 2009 is $131,868,000. The **unfunded actuarial accrued liability** is the difference between the actuarial accrued liability and the actuarial value of plan assets. **Plan assets** are financial assets that are segregated and restricted in a trust (or equivalent arrangement). Assets in this trust are dedicated to providing benefits to plan participants and are legally protected from creditors of employers. Since there are no plan assets, the unfunded actuarial accrued liability for the University's postemployment benefit plan is the same as the actuarial accrued liability, $131,868,000.

The **normal cost** is the portion of the present value of future benefits that is allocated to the current year for active plan members. The normal cost for the active members of the University's postemployment benefit plan for the period July 1, 2009 to June 30, 2010 is $5,578,000.

The table below summarizes the University's postemployment benefit plan liabilities.

	Postemployment Benefit Plan
Present Value of Future Benefits	$193,115,000
Accrued Actuarial Liability	$131,868,000
Normal Cost	$5,578,000

Annual OPEB Cost and Annual Required Contribution

The major component of the **annual OPEB cost** is the **annual required contribution** (ARC). The ARC is the sum of the normal cost and the amortization of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized over the maximum allowable period of 30 years on an open basis. The ARC for the University's postemployment benefit plan for the period July 1, 2009 to June 30, 2010 is $12,213,000 which is comprised of the normal cost (plus interest) of $5,829,000 and amortization of unfunded actuarial accrued liability (plus interest) of $6,384,000.

The other components of the annual OPEB cost are one year's interest on the **net OPEB obligation** (defined below) at the beginning of the year and **adjustment to the ARC**. The adjustment to the ARC is the discounted present value of the net OPEB obligation at the beginning of the year.

The table below summarizes the annual OPEB cost for the University's postemployment benefit plan for the period July 1, 2009 to June 30, 2010.

	Annual OPEB Cost
ARC	$12,213,000
Interest on Net OPEB Obligation	$263,000
Adjustment to ARC	($223,000)
Total	$12,253,000

It is important to note that GASB 45 does not require the University to prefund an amount equal to the ARC. The ARC represents an accounting expense. The University should report the OPEB expense for the year equal to the annual OPEB cost.

Net OPEB Obligation and Recognition in Financial Statements

The **net OPEB obligation** (NOO) is the cumulative difference between the annual OPEB cost and the employer's contributions to the plan since the University's adoption date of GASB 45. A positive (negative) year-end balance in the net OPEB obligation should be recognized as a year-end liability (asset) in the University's financial statements.

An estimate of the year-end net OPEB obligation is $12,813,000. The University's contribution is estimated to be the pay-as-you-go or expected postemployment benefit payments less participant contributions from the valuation for the period July 1, 2009 to June 30, 2010. The development of the year-end net OPEB obligation is below.

	Postemployment Benefit Plan
Net OPEB Obligation – Beginning of Year	$5,836,000
Annual OPEB Cost	$12,253,000
Employer Contributions*	$5,276,000
Increase in Net OPEB Obligation	$6,977,000
Net OPEB Obligation – End of Year	$12,813,000

* Estimated using pay as you go

Under GASB 45, an employer has made contributions if the employer has done one or more of the following:

1) Made payments of benefits directly to or on behalf of a retiree or beneficiary
2) Made premium payments to an insurer
3) Irrevocably transferred assets to a trust, or equivalent arrangement, in which plan assets are dedicated to providing benefits to retirees and beneficiaries in accordance with the terms of the plan and are legally protected from creditors of the employer or plan administrator.

Earmarking of employer assets or other means of financing that do not meet the conditions above do not constitute employer contributions.

The actual year-end net OPEB obligation can be determined once the contribution information is available later in the year. If the University needs assistance in determining the year-end net OPEB obligation, they would be advised to contact Healthcare Analytics.

Reconciliation to Prior Valuation

Healthcare Analytics provided a valuation effective July 1, 2007. In that valuation, the actuarial accrued liability was $91.3 million on an unfunded basis. If we roll that liability forward for two years using the valuation assumptions and the calculated normal cost, we would have projected a liability as of July 1, 2009 of approximately $110 million. Our actual calculated liability is $131.9 million. There are two key factors that caused the increase.

The biggest factor is the sharp increase in premiums for the Medicare Advantage plans for retirees over age 65. This caused a much larger increase in the explicit subsidy than we had expected. The other major contributing factor is the decrease in the discount rate from 5.0% to 4.5%. See Page 5-1 for an illustration of the sensitivity of the liability to the discount rate.

Other factors that affected the liability include changes in the retirement and termination assumptions based on updated tables used by our source (the New Mexico Educational Retirement Board Actuarial valuation), and normal variance between our assumptions and actual experience. These factors were less significant than the key factors noted above.

Actuarial Certification

At the request of University of New Mexico, Healthcare Analytics, a division of Gallagher Benefit Services, Inc., has completed an actuarial valuation as of July 1, 2009 under Statement No. 45 of the Governmental Accounting Standards Board (GASB 45). The calculations derived for this report have been made on a basis consistent with our understanding of GASB 45. The valuation has been conducted in accordance with generally accepted actuarial principles and practices. The results of this report are to be used solely for the purpose of meeting employer financial accounting requirements.

In preparing the results of this report, we have relied on employee data, plan information and claims data provided by University of New Mexico. While the scope of the engagement did not call for us to perform an audit or independent verification of this information, we reviewed it for reasonableness. The accuracy of the results presented in the report is dependent upon the accuracy and completeness of the underlying information.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,
Healthcare Analytics

Glen R. Volk, FSA, MAAA
Consulting Actuary
May 24, 2010
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The following tables provide a summary of plan participant information and the present value of future benefits by source and type as of July 1, 2009.

NUMBER OF PARTICIPANTS	
Actives (Fully Eligible)	890
Actives (Not Fully Eligible)	5421
Retirees	2121
TOTAL	**8432**

	POSTEMPLOYMENT BENEFIT PLAN
PRESENT VALUE OF FUTURE BENEFITS (PVFB)	

BY EMPLOYEE TYPE	
Actives (Fully Eligible)	$25,674,000
Actives (Not Fully Eligible)	$97,392,000
TOTAL ACTIVES	**$123,066,000**
Retirees	$70,049,000
TOTAL	**$193,115,000**

BY BENEFIT	
Medical Claims	$286,605,000
Medical Administration	$39,236,000
Total Medical Contributions	($301,907,000)
Medical Subsidy	$149,901,000
Dental Subsidy	$19,246,000
Life Insurance Subsidy	$34,000
TOTAL	**$193,115,000**

BY SUBSIDY TYPE	
Explicit Subsidy	$169,181,000
Implicit Subsidy	$23,934,000
TOTAL	**$193,115,000**

BY AGE	
Actives (<65)	$66,167,000
Actives (65+)	$56,899,000
TOTAL ACTIVES	**$123,066,000**
Retirees (<65)	$27,804,000
Retirees (65+)	$42,245,000
TOTAL RETIREES	**$70,049,000**
TOTAL	**$193,115,000**

The following tables provide the actuarial accrued liability by source and type and unfunded actuarial accrued liability as of July 1, 2009.

	POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL ACCRUED LIABILITY (AAL)	

BY EMPLOYEE TYPE	
Actives (Fully Eligible)	$22,136,000
Actives (Not Fully Eligible)	$39,682,000
TOTAL ACTIVES	**$61,818,000**
Retirees	$70,050,000
TOTAL	**$131,868,000**

BY BENEFIT	
Medical Claims	$197,354,000
Medical Administration	$27,358,000
Total Medical Contributions	($209,851,000)
Medical Subsidy	$103,379,000
Dental Subsidy	$13,601,000
Life Insurance Subsidy	$27,000
TOTAL	**$131,868,000**

BY SUBSIDY TYPE	
Explicit Subsidy	$117,007,000
Implicit Subsidy	$14,861,000
TOTAL	**$131,868,000**

BY AGE	
Actives (<65)	$32,348,000
Actives (65+)	$29,470,000
TOTAL ACTIVES	**$61,818,000**
Retirees (<65)	$27,804,000
Retirees (65+)	$42,245,000
TOTAL RETIREES	**$70,049,000**
TOTAL	**$131,868,000**

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	
Actuarial Accrued Liability	**$131,868,000**
Plan Assets	$0
Unfunded Actuarial Accrued Liability	**$131,868,000**

The following tables provide the annual required contribution ("ARC") for the period July 1, 2009 to June 30, 2010 and an estimate of the net OPEB obligation as of June 30, 2010.

	POSTEMPLOYMENT BENEFIT PLAN
ANNUAL REQUIRED CONTRIBUTION (ARC)	
Normal Cost	$5,578,000
Interest on Normal Cost	$251,000
Amortization Payment	$6,109,000
Interest on Amortization Payment	$275,000
TOTAL	**$12,213,000**

NET OPEB OBLIGATION *	
Net OPEB Obligation - Beginning of Year	$5,836,000
ARC	$12,213,000
Interest on prior year NOO	$263,000
Adjustment to ARC	($223,000)
Annual OPEB Cost	**$12,253,000**
Employer Contributions *	$5,276,000
Increase in Net OPEB Obligation	**$6,977,000**
Net OPEB Obligation – End of Year	**$12,813,000**
Percentage of OPEB Cost Contributed	**43.06%**

* Estimated using expected pay-as-you-go cost.

The following exhibit illustrates the impact of a 1% change in the health care trend rates:

	POSTEMPLOYMENT BENEFIT PLAN	
	Plus 1%	**Minus 1%**
VALUATION RESULTS		
ACTUARIAL ACCRUED LIABILITY (AAL)		
TOTAL	$152,401,000	$116,590,000
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)		
TOTAL	$152,401,000	$116,590,000
ANNUAL REQUIRED CONTRIBUTION (ARC)		
Normal Cost	$6,717,000	$4,589,000
Interest on Normal Cost	$302,000	$207,000
Amortization Payment	$7,061,000	$5,402,000
Interest on Amortization Payment	$318,000	$243,000
TOTAL	**$14,398,000**	**$10,441,000**
IMPACT OF TREND CHANGE		
ACTUARIAL ACCRUED LIABILITY (AAL)		
TOTAL	$20,533,000	($15,278,000)
% CHANGE	15.57%	-11.59%
TOTAL	$20,533,000	($15,278,000)
% CHANGE	15.57%	-11.59%
Normal Cost	$1,139,000	($989,000)
Interest on Normal Cost	$51,000	($44,000)
Amortization Payment	$952,000	($707,000)
Interest on Amortization Payment	$43,000	($32,000)
TOTAL	$2,185,000	($1,772,000)
% CHANGE	17.89%	-14.51%

The following exhibit provides valuation results at 6.00% and 8.00% discount rates:

	POSTEMPLOYMENT BENEFIT PLAN	
	Discount Rate 6.00%	Discount Rate 8.00%
VALUATION RESULTS		
ACTUARIAL ACCRUED LIABILITY (AAL)		
TOTAL	$108,683,000	$86,369,000
UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)		
TOTAL	$108,683,000	$86,369,000
ANNUAL REQUIRED CONTRIBUTION (ARC)		
Normal Cost	$4,159,000	$2,964,000
Interest on Normal Cost	$250,000	$237,000
Amortization of Unfunded Accrued Liability	$5,991,000	$5,852,000
Interest on Amortization	$359,000	$468,000
TOTAL	**$10,759,000**	**$9,521,000**
IMPACT OF DISCOUNT RATE CHANGE		
ACTUARIAL ACCRUED LIABILITY (AAL)		
TOTAL	($23,185,000)	($45,499,000)
% CHANGE	-17.58%	-34.50%
TOTAL	($23,185,000)	($45,499,000)
% CHANGE	-17.58%	-34.50%
Normal Cost	($1,419,000)	($2,614,000)
Interest on Normal Cost	($1,000)	($14,000)
Amortization Payment	($118,000)	($257,000)
Interest on Amortization Payment	$84,000	$193,000
TOTAL	($1,454,000)	($2,692,000)
% CHANGE	-11.91%	-22.04%

The following exhibit provides the expected cash flows for the postemployment benefit plan based on the current population, plan provisions and actuarial assumptions:

Year	Benefit Payments	Retiree Contributions	Net Benefit Payments
1st Year	$12,296,000	($7,020,000)	$5,276,000
2nd Year	$13,942,000	($7,980,000)	$5,962,000
3nd Year	$15,727,000	($9,005,000)	$6,722,000
4th Year	$17,017,000	($9,828,000)	$7,189,000
5th Year	$18,415,000	($10,690,000)	$7,725,000
6th Year	$19,633,000	($11,492,000)	$8,141,000
7th Year	$20,982,000	($12,354,000)	$8,628,000
8th Year	$22,473,000	($13,246,000)	$9,227,000
9th Year	$23,891,000	($14,113,000)	$9,778,000
10th Year	$24,551,000	($14,659,000)	$9,892,000
11th Year	$25,687,000	($15,390,000)	$10,297,000
12th Year	$26,709,000	($16,065,000)	$10,644,000
13th Year	$27,766,000	($16,720,000)	$11,046,000
14th Year	$28,307,000	($17,129,000)	$11,178,000
15th Year	$29,160,000	($17,652,000)	$11,508,000
16th Year	$29,405,000	($17,914,000)	$11,491,000
17th Year	$29,956,000	($18,295,000)	$11,661,000
18th Year	$30,423,000	($18,637,000)	$11,786,000
19th Year	$30,893,000	($18,971,000)	$11,922,000
20th Year	$31,167,000	($19,213,000)	$11,954,000

Eligibility
Employees who choose to participate in the New Mexico Educational Retirement Board pension plan must meet one of the following criteria:

- Age and earned service credits equal 75 or more (Rule of 75);
- Earned service credit and/or allowed service credit totaling 25 years or more; or
- Age 65 with at least 5 years of earned service credit.

Employees who choose to participate in the Alternative Retirement Plan defined contribution plan must meet the following criteria:

- Have completed a minimum of five (5) consecutive years of service with the University immediately prior to retirement; and
- Are at least 59 ½ years old at the time of application for retirement; and
- Have been actively enrolled in health, dental and life insurance by a local group health insurance policy for at least four (4) of the last five (5) years and who are presently enrolled in one of UNM's health insurance plans during the last 12 consecutive months of employment at UNM.

Plan Design

Medical/Prescription Drug
Eligible Early Retirees receive health care coverage through one of three medical plans, including prescription drugs: a fully insured plan through UnitedHealthcare; and self-insured plans administered by Lovelace Insurance Company and Presbyterian Health Plan.

Eligible Medicare Retirees receive health care coverage through one of five fully insured medical plans, including prescription drugs: drugs: two Presbyterian plans; two Lovelace plans; and one United Healthcare plan.

<u>Early Retirees: Lovelace Health Plan & Presbyterian Health Plan</u>

	Lobocare	In-Network	Out-of-Network
Deductible (3X Family)	$0	$100	$750
Coinsurance	100%	80%	60%
Annual Out-of-Pocket Max. (3X Family)	$1,000	$1,500	$5,000
Emergency Room	$150 Copayment		
Rx Drug Copayment			
Generic	Retail : $10, Mail Order : $10		
Brand - Formulary	Retail : $25, Mail Order : $50		
Brand – Non-formulary	Retail : $40, Mail Order : $80		
Specialty	Retail : 15% to $250 per Rx Mail Order : 15% to $500 per Rx		

Early Retirees: United Healthcare - Choice POS II

	UMNH Network	UHC Network	Out-of-Network
Deductible (3X Family)	$0	$100	$750
Coinsurance	100%	80%	60%
Annual OOP Max. (3X Family)	$1,000	$1,500	$5,000
Emergency Room	$150 Copayment		
Rx Drug Copayment			
Generic	Retail : $10, Mail Order : $20		Not Covered
Brand - Formulary	Retail : $25, Mail Order : $50		
Brand – Non-formulary	Retail : $40, Mail Order : $80		
Specialty	Retail : 15% to $250 per Rx Mail Order : 15% to $500 per Rx		

Lovelace Health Plan – LSP (Standard & Enhanced Plans)

	Standard	Enhanced
Deductible (3X Family)	$0	$0
Coinsurance	100%	100%
Office Visit / Specialist Visit	$5 / $20	$5 / $35
Inpatient Admission Copayment	$200	$200
Emergency Room Copayment	$50	$50
Rx Drug Copayment		
Generic	$10	$10
Brand – Formulary	$30	$30
Brand – Non-formulary	$50	$50
Specialty	$60	$60
Rx note:	- After $2,400 OOP, copayment of $10-preferred generics / 100% of all other drugs. - After $3,850 OOP, copayment of $2.15-generic / $5.35 or 5% coinsurance whichever is greater.	After $3,850 OOP, copayment of $2.15-generic / $5.35 or 5% coinsurance whichever is greater.

Presbyterian Health Plans – Select & Premier

	In-network	Out-of-Network
Deductible (3X Family)	$0	$0
Coinsurance	100% after copay	Varies by service
Office Visit / Specialist Visit)	$10 / $20	$25 / $50
Inpatient Admission Copayment	$250	$750
Emergency Room Copayment	$50	$50
Rx Drug Copayment		
Generic	$5	
Brand - Formulary	$20	
Brand – Non-formulary	$45	
Specialty	$100	
Rx note:	After $3,850 OOP, copayment of $2.15-generic / $5.35 or 5% coinsurance whichever is greater.	

AARP / United Healthcare – Medicare Supplemental Plan F

Deductible (3X Family)	$0
Office Visit / Specialist Visit	$0 / $0
Emergency Room	$0
Rx Drug Copayment – Retail*	
Generic	$6
Brand	$28
Non Preferred – varies by region	$61 - $70
Specialty	33%

*Mail order 3x

Dental

Eligible retired employees are provided two dental insurance benefit options.

Premier High Option

Deductible (3X Family)	$50
Plan Year Maximum	$1,500 per person
Preventative / Diagnostic	100% - deductible waived
Basic Services	85%
Major Services	50%
Orthodontic Services	50% - $1,000 lifetime maximum (covers adult & child)

PPO Low Option

	In-Network	**Out of Network**
Deductible (3X Family)	$25	
Plan Year Maximum	$750 per person	
Preventative / Diagnostic	90% - deductible waived	
Basic Services	50%	
Major Services	50%	
Orthodontic Services	Not Covered	

Basic Life Insurance

Eligible retired employees can continue the Basic Life insurance benefit at retirement. Retirees may receive a benefit in the amount of 1x annual compensation up to a maximum of $80,000 with a minimum of $25,000. At age 65, retiree coverage level reduces to $4,000.

Vision, Long Term Care and Supplemental Life Insurance

Eligible retired employees may continue these fully insured benefits on a fully contributory basis. Retirees pay age-based rates for the supplemental life insurance benefit. (Since these benefits are offered on a fully contributory basis, any implicit subsidy is de minimis.)

Required Monthly Contributions
Retiree contributions for medical and dental are required for both retiree and dependent coverage. Retirees are required to pay the full premiums less a subsidy provided by the University. Medicare retirees are required to contribute 57% of the premium. Retirees less than 65 are required to contribute a percentage of premium based on their pre-retirement annual salary. The contribution percentages are provided below.

	Pre-Retirement Annual Salary		
Rate Tier	**$24,999 & below**	**$25,000 - $34,999**	**$35,000 & above**
Contribution %	20%	30%	40%

Medical Benefit
The full premiums for medical coverage effective July 1, 2009 are provided below.

Early Retiree Premium Rates

	Lovelace	**Presbyterian**
Retiree Only	$386.33	$505.40
Retiree + Spouse	$789.92	$1,036.07
Retiree + Child(ren)	$643.86	$844.02
Family	$985.95	$1,288.77

Note: Early retirees covered under the Lovelace and Presbyterian plans pay the same premiums as active employees. Retirees choosing the United Healthcare plan pay fully-insured age- and area-based premium rates.

Medicare Retiree Premium Rates

	Lovelace Standard	**Lovelace Enhanced**	**Presbyterian Premier**	**Presbyterian Select**	**UHC AARP**
Premium (PMPM)	$0.00	$130.00	$130.00	$162.00	$198.70

Note: As there is no direct correlation between an early retiree's medical plan choice and subsequent Medicare retiree option, we calculated a future Medicare premium for these individuals to reflect a weighted average based on the current enrollment and premium cost of the five available plans.

Dental Benefit
The full active/retiree premiums for dental coverage effective July 1, 2009 are provided below.

	Preferred	Premier
Retiree Only	$13.88	$37.15
Two Party	$27.07	$72.40
Family	$39.98	$119.75

Basic Life Insurance Benefit
All retirees contribute 100% of the premium cost for the continuation of basic life coverage. The current premium is $2.85 per $1,000 per month.

Note: Since retirees pay fully insured retiree-only premiums, any implicit subsidy associated with the Basic and Supplemental life insurance benefits is de minimis.

Valuation Date
July 1, 2009

Discount Rate
A 4.50% annual discount rate is assumed.

Census Data
The census data was provided by the University as of March 2010.

Actuarial Cost Method
Projected unit credit with benefits attributed from the date of hire to expected retirement age.

Amortization Method
The unfunded actuarial accrued liability is amortized over the period of 30 years on an open basis. It is calculated assuming a level percentage of projected payroll.

Health Care Cost Trend Rate
The following annual trend rates are applied on a select and ultimate basis:

Benefit	Select	Ultimate
Medical/Rx	11.0%	5.0%
Dental	5.0%	5.0%

Select trends are reduced 0.5% each year until reaching the ultimate trend.

Participant Contributions
Participant contributions are assumed to increase according to the healthcare cost trend rate assumption.

Per Capita Health Claim Cost
Per capita health claim costs for the University's plan are developed by adjusting a blend of the fully insured and self insured claims experience.

The annual age 60 and age 70 per capita health claim costs are presented in the table below:

Per Capita Cost	Lovelace	Presbyterian	United Healthcare
Age 60 – Current Retirees	$5,503	$6,418	N/A
Age 60 – Current Actives	$5,833		

Per Capita Cost	Lovelace Standard	Lovelace Enhanced	Presbyterian Select	Presbyterian Premier	UHC AARP
Age 70 – Current Retirees	N/A	$1,326	$1,326	$1,652	$2,027
Age 70 – Current Actives	$1,343				

Age Based Morbidity

The increases in per capita health claim costs related to age are assumed to be the following:

Age	Increase	Age	Increase
42 – 46	3.19%	65 – 69	3.00%
47 – 51	3.89%	70 - 74	2.50%
52 – 56	3.58%	75 – 79	2.00%
57 – 61	4.52%	80 – 84	1.00%
62 - 64	5.06%	85 - 89	0.05%

Non-Claim Expenses

The University's self funded plan non-claim expenses as of July 1, 2009 are provided in the table below.

Expense Type	Lovelace	Presbyterian	Dental
Administrative Expense	$37.54	$40.71	$2.98
Specific Premium – Composite	$17.84	$16.81	N/A
Aggregate Premium – Composite	$1.75	$1.70	N/A

The non-claim expenses associated with the University's retiree Medicare plans is assumed to be 15% of the fully insured premium rates. These per employee per month amounts are provided in the table below.

Expense Type	Lovelace Enhanced	Presbyterian Select	Presbyterian Premier	UHC AARP
Administrative	$19.50	$19.50	$24.30	$29.81

It is assumed that these expenses increase with healthcare cost trend.

Termination

The rate of withdrawal for reasons other than death and retirement has been developed from the New Mexico Educational Retirement Board Actuarial Valuation as of June 30, 2008. These rates are dependent on an employee's age, gender and years of service. Sample rates are provided below.

Male Employees – Age									
Service	**25**	**30**	**35**	**40**	**45**	**50**	**55**	**60**	**65**
1	45.10%	42.28%	40.37%	39.28%	38.59%	37.83%	36.87%	35.79%	34.67%
2	33.50%	28.78%	26.82%	26.65%	26.98%	27.06%	26.97%	27.22%	28.18%
3	23.39%	20.12%	18.43%	17.89%	18.04%	18.60%	19.58%	21.09%	23.21%
4	17.10%	14.85%	13.40%	12.64%	12.55%	13.10%	14.29%	16.11%	18.55%
5	13.75%	11.95%	10.65%	9.85%	9.58%	9.90%	10.83%	12.36%	14.47%
6	11.68%	10.34%	9.29%	8.56%	8.20%	8.24%	8.70%	9.58%	0.00%
7	10.21%	9.17%	8.37%	7.82%	7.49%	7.35%	7.43%	7.69%	0.00%
8	8.94%	8.08%	7.48%	7.13%	6.94%	6.83%	6.77%	6.74%	0.00%
9	7.79%	7.04%	6.58%	6.38%	6.37%	6.45%	6.54%	6.57%	0.00%
10	7.10%	6.28%	5.80%	5.65%	5.79%	6.13%	6.59%	7.11%	0.00%
11+	8.86%	5.99%	3.84%	2.40%	1.81%	2.50%	5.30%	10.67%	0.00%

Female Employees – Age									
Service	**25**	**30**	**35**	**40**	**45**	**50**	**55**	**60**	**65**
1	40.50%	36.06%	33.25%	31.79%	31.29%	31.49%	32.32%	33.76%	35.82%
2	29.30%	25.45%	23.24%	22.00%	21.37%	21.39%	22.32%	24.34%	27.54%
3	21.62%	18.97%	16.75%	15.10%	14.28%	14.49%	15.72%	17.95%	21.14%
4	17.88%	15.08%	12.79%	11.14%	10.40%	10.65%	11.79%	13.71%	16.33%
5	16.08%	12.93%	10.57%	9.05%	8.46%	8.71%	9.67%	11.24%	13.36%
6	14.90%	11.68%	9.37%	7.99%	7.48%	7.71%	8.47%	9.62%	0.00%
7	13.60%	10.69%	8.62%	7.34%	6.83%	6.96%	7.57%	8.51%	0.00%
8	11.81%	9.58%	7.94%	6.86%	6.32%	6.32%	6.76%	7.54%	0.00%
9	9.39%	8.12%	7.11%	6.35%	5.87%	5.74%	6.02%	6.72%	0.00%
10	6.66%	6.36%	6.03%	5.66%	5.32%	5.18%	5.39%	6.07%	0.00%
11+	7.55%	5.47%	3.87%	2.76%	2.20%	2.27%	3.10%	4.95%	0.00%

Mortality
1994 Group Annuity Mortality Table, applied on a gender-specific basis (Males set back three years; females set back two years.)

Retirement Age
Annual retirement probabilities have been determined based on the New Mexico Educational Retirement Board Actuarial Valuation as of June 30, 2008. The values are specific to gender, age and years of service.

	Males					
	Years of Service					
Age	**0 – 4**	**5 – 9**	**10 – 14**	**15 – 19**	**20 – 24**	**25+**
45	0%	0%	0%	0%	0%	20%
51	0%	0%	0%	0%	2%	20%
55	0%	0%	0%	0%	5%	20%
56	0%	0%	0%	6%	6%	20%
57	0%	0%	0%	7%	7%	20%
58	0%	0%	0%	8%	8%	20%
59	0%	0%	0%	10%	10%	20%
60	0%	0%	20%	15%	20%	25%
61	0%	0%	30%	20%	20%	20%
62	0%	0%	40%	40%	35%	35%
63	0%	0%	25%	30%	30%	30%
64	0%	0%	40%	25%	25%	30%
65	0%	25%	20%	45%	45%	45%
66	0%	15%	20%	25%	30%	30%
70	100%	100%	100%	100%	100%	100%

	Females					
	Years of Service					
Age	**0 – 4**	**5 – 9**	**10 – 14**	**15 – 19**	**20 – 24**	**25+**
45	0.00	0.00	0.00	0.00	0.00	0.20
51	0.00	0.00	0.00	0.00	0.05	0.20
53	0.00	0.00	0.00	0.00	0.05	0.21
54	0.00	0.00	0.00	0.00	0.05	0.22
55	0.00	0.00	0.00	0.00	0.06	0.23
56	0.00	0.00	0.00	0.16	0.08	0.24
57	0.00	0.00	0.00	0.17	0.10	0.25
58	0.00	0.00	0.00	0.18	0.12	0.27
59	0.00	0.00	0.00	0.19	0.14	0.28
60	0.00	0.00	0.00	0.20	0.15	0.30
61	0.00	0.00	0.40	0.25	0.25	0.35
62	0.00	0.00	0.50	0.35	0.35	0.40
63	0.00	0.00	0.40	0.20	0.20	0.30
64	0.00	0.00	0.35	0.25	0.25	0.30
65	0.00	0.35	0.35	0.35	0.35	0.35
66	0.00	0.20	0.20	0.20	0.20	0.20
67	0.00	0.15	0.15	0.15	0.15	0.15
69	0.00	0.20	0.20	0.20	0.20	0.20
70	1.00	1.00	1.00	1.00	1.00	1.00

Plan Participation Percentage

We have assumed that 65% of all employees and their dependents who are eligible for early retiree benefits and that 58% of all employees and their dependents who are eligible of Medicare retiree benefits will participate in the retiree medical plan. We also have assumed that 50% of all employees who are eligible for the early retiree life insurance benefit will participate. This assumes that a one-time irrevocable election to participate is made at retirement.

Spousal Coverage

The assumed number of eligible spouses is based on the current census information.

Salary Increase Assumption

2.0% per Annum

A summary of the current active employee and retired population for the University is provided in the tables below:

	ACTIVE POPULATION				
Age Group	**Fully Eligible**	**Not Fully Eligible**	**Total**		**RETIRED EMPLOYEES***
<40	0	1,664	**1,664**		**6**
40-44	1	768	**769**		**8**
45-49	16	894	**910**		**24**
50-54	102	990	**1,092**		**73**
55-59	288	771	**1,059**		**186**
60-64	302	297	**599**		**436**
65-69	140	32	**172**		**448**
70-74	27	5	**32**		**356**
75-79	9	0	**9**		**270**
80-84	5	0	**5**		**194**
85+	0	0	**0**		**120**
Total	**890**	**5,421**	**6,311**		**2,121**

* Currently receiving postemployment benefits

A summary of the current active employees based on years of service is provided in the table below:

Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30+**	**Total**
<40	1,225	320	100	19	0	0	0	**1,664**
40-44	324	242	126	53	23	1	0	**769**
45-49	299	237	190	114	54	16	0	**910**
50-54	286	247	217	158	139	35	10	**1,092**
55-59	227	224	215	169	146	55	23	**1,059**
60-64	126	128	107	82	71	43	42	**599**
65-69	32	32	19	27	23	9	30	**172**
70-74	7	3	4	3	4	4	7	**32**
75-79	3	1	1	0	1	2	1	**9**
80-84	0	0	1	1	0	1	2	**5**
85+	0	0	0	0	0	0	0	**0**
Total	**2,529**	**1,434**	**980**	**626**	**461**	**166**	**115**	**6,311**

Applicability of Accounting Standards

The Governmental Accounting Standards Board (GASB) released Statement No. 43 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans ("GASB 43") in April 2004 and Statement No. 45 – Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans ("GASB 45") in June 2004. These two statements establish uniform accounting and financial reporting standards for state and local governmental entities related to postemployment benefits other than pensions ("OPEB").

The required effective date for adoption of the standards by an employer varies depending on their total annual revenue. For the purposes of defining the effective date of the standards, GASB 43 and 45 use the terms *phase 1 government, phase 2 government, and phase 3 government.* The following table shows the definition of the three phases for plans and employers and their respective effective dates. The employer is required to report under the standards no later than the first fiscal year beginning after the date shown.

Phase	Total Annual Revenues	Plans	Employers
1	$100,000,000 or more	12/15/05	12/15/06
2	$10,000,000 - $100,000,000	12/15/06	12/15/07
3	Less than $10,000,000	12/15/07	12/15/08

Actuarial Cost Methods

One of the following actuarial cost methods can be used: Unit Credit, Entry Age Normal, Attained Age, Aggregate, Frozen Entry Age, or Frozen Attained Age. These methods can be used on a service (level dollar) or earnings (level percentage) basis.

Calculation Definitions

- Actuarial Accrued Liability ("AAL") – The AAL is the portion of the actuarial present value of the total projected benefits allocated to years of employment prior to the measurement date.
- Unfunded Actuarial Accrued Liability ("UAAL") – The UAAL is the difference between the AAL and the actuarial value of plan assets.

Reporting Requirements

- Annual Required Contribution ("ARC") – The ARC is equal to the normal cost and the amortization of the Unfunded Actuarial Accrued Liability plus interest. The normal cost is equal to the actuarial present value ("APV") allocated to one year of service.
- Net OPEB Obligation ("NOO") – The NOO is the cumulative difference between the ARC and employer's contributions to the plan. For unfunded plans, the employer's contribution would be equal to the annual benefit payments less employee contributions. At transition, the NOO may be set at zero.
- Required Supplementary Information ("RSI") – The RSI will require historical trend information from the last three valuations, including disclosure information about the

UAAL and the progress in funding the plan. At transition, the RSI may include only the first year of information.

Disclosures
The following information is required to be disclosed:

- Plan description, including:
    - Type of employer – single employer, multiple-employer, etc.
    - Classes of employees covered and the number of plan members
    - Brief description of benefit provisions
- Summary of significant accounting policies, including a brief description of how fair value of investments is determined.
- Contributions and reserves, including:
    - Authority under which the obligations of plan members, employer(s), and other contributing entities who contribute to the plan are established or may be amended.
    - Funding policy.
    - Required contribution rates of actives and retirees in accordance with the funding policy.
    - Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.
    - The balance in the plan's legally required reserves at the reporting date.
- Funded status and progress
    - Information about the funded status as of the most recent valuation date, including:
        - Actuarial Valuation Date
        - Actuarial Value of Assets
        - Actuarial Accrued Liability ("AAL")
        - Total Unfunded Actuarial Accrued Liability ("UAAL")
        - Funded ratio – actuarial value of assets as a percentage of the actuarial accrued liability
        - Annual Covered Payroll
        - Ratio of Unfunded Actuarial Liability to Annual Covered Payroll
- Disclosure of information about actuarial methods and assumptions used in valuations on which reported information about the ARC and the funded status and funding progress of OPEB plans are based.