

**POSTRETIREMENT HEALTH BENEFITS TRUST FUND
(A FIDUCIARY FUND OF THE STATE OF MARYLAND)**

**Financial Statements Together with
Report of Independent Public Accountants**

For the Year Ended June 30, 2018



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2018

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees
of the Maryland State Retirement and Pension System

Report on the Financial Statements

We have audited the accompanying financial statements of the Postretirement Health Benefits Trust Fund (the Fund), a fiduciary fund of the State of Maryland, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Fund, as of June 30, 2018, and the respective change in its plan net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Fund are intended to present only the financial position of the Fund and do not purport to, and do not, present fairly the financial position of the State of Maryland as of June 30, 2018, and the change in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of change in net OPEB liability and related ratios for other post-employment benefit plan, schedule of investment returns and schedule of employer contributions, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hunt Valley, Maryland
December 14, 2018

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Management's Discussion and Analysis As of June 30, 2018

This discussion and analysis of the Postretirement Health Benefits Trust Fund's (the Fund) financial performance provides an overview of the Fund's financial activities for the years ended June 30, 2018 and 2017. Please read this discussion and analysis in conjunction with the Fund's financial statements, which follow this section.

Financial Highlights

- Net position increased by \$22.6 million during the year from \$306.7 million as of June 30, 2017, to \$329.3 million as of June 30, 2018. The increase is due to market gains for the domestic and international stocks, bonds as well as a 7% increase in employer contributions.
- The Fund had net investment income of \$22.6 million for the year ended June 30, 2018 compared to net investment income of \$30.6 million for the year ended June 30, 2017.

Overview of the Financial Statements

This financial report consists of the statement of fund net position and the statement of change in fund net position. These statements provide information about the financial position and activities of the Fund as a whole. These amounts are included in the statement of fiduciary net position in the State of Maryland's financial statements.

Notes to the Financial Statements

The accompanying notes to the financial statements provide additional information that is essential for a comprehensive understanding of the Fund's financial condition and financial performance. The notes to the financial statements can be found on pages 8-15 of this report.

Other Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information regarding the change in net OPEB liability and related ratios, the investments return, the Fund's funding progress as well as contributions required and made to the Fund as of and for the year ended June 30, 2018. Required supplementary information can be found on page 16 of this report.

Analysis of Financial Position and Financial Performance

The Fund's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer contributions as well as earning an adequate long-term rate of return on its investments are essential components of the Fund for accumulating the funds needed to finance future retirement benefits.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Management's Discussion and Analysis As of June 30, 2018

Fiscal Year 2018 Compared to 2017

The following schedule depicts the balances of the Fund's investments and the change from fiscal year 2018 to 2017.

Statements of Fund Net Position

	As of June 30,		Variance	% Change
	2018	2017		
Cash and cash equivalents	\$ 11,767	\$ -	\$ 11,767	100%
U.S. government obligations	48,268,968	41,995,494	6,273,474	15%
Domestic corporate obligations	31,867,517	27,622,895	4,244,622	15%
Global bonds	6,274,414	9,183,446	(2,909,032)	-32%
Mortgage and mortgage related	7,759,716	8,064,756	(305,040)	-4%
Domestic stocks	83,285,690	74,388,545	8,897,145	12%
International stocks	102,758,923	101,272,082	1,486,841	1%
Alternative investments	13,743,079	13,970,205	(227,126)	-2%
Real estate	35,301,433	30,175,115	5,126,318	17%
Net Position Restricted for Post-Retirement Health Benefits	\$ 329,271,507	\$ 306,672,538	\$ 22,598,969	7%

The Fund's net position restricted for post-retirement health benefits increased by \$22.6 million or 7%, over the prior fiscal year primarily due to an increase of net investment income.

The following schedule depicts the change in Fund net position for the years ended June 30, 2018 and 2017.

Statements of Changes in Fund Net Position

	As of June 30,		Variance	% Change
	2018	2017		
Additions				
Employer contributions	\$ 562,478,668	\$ 526,535,311	\$ 35,943,357	7%
Net investment income	22,598,969	30,623,622	(8,024,653)	-26%
Total additions	585,077,637	557,158,933	27,918,704	5%
Deductions				
Benefit payments	562,478,668	526,535,311	35,943,357	7%
Changes in Fund Net Position	\$ 22,598,969	\$ 30,623,622	\$ (8,024,653)	-26%

The State funded the Fund on a pay-as-you-go basis during fiscal year 2018 and 2017 and did not make any additional contributions to the Fund. As a result, the change in fund net position is due to an increase in investment earnings.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Management's Discussion and Analysis As of June 30, 2018

Requests for Information

The Benefits Division and Senior Management are fiduciaries of the Pension Trust Fund and, as such, are charged with the responsibility of ensuring that the Fund's assets are used exclusively for the benefit of plan participants and their beneficiaries. This financial report is designed to provide an overview of the Fund's finances and to demonstrate accountability for the resources entrusted to the Fund for the benefit of all of the Fund's stockholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:

General Accounting Division
Office of the Comptroller
Attention: Plan Administrator
P.O Box 746
Annapolis, Maryland 21204

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Statement of Fund Net Position

As of June 30, 2018

Cash & cash equivalents	\$ 11,767
Investments, at fair value:	
U.S. government obligations	48,268,968
Domestic corporate obligations	31,867,517
Global bonds	6,274,414
Mortgage and mortgage related	7,759,716
Domestic stocks	83,285,690
International stocks	102,758,923
Alternative investments	13,743,079
Real estate	35,301,433
Total Investments	329,259,740
Net Position Restricted for Post-Retirement Health Benefits	\$ 329,271,507

The accompanying notes are an integral part of this financial statement.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Statement of Change in Fund Net Position For the Year Ended June 30, 2018

Additions	
Employer contributions	\$ 562,478,668
Investment income:	
Net appreciation in fair value of investments	22,791,007
Dividends and interest	<u>23,744</u>
Investment income	22,814,751
Less: investment expenses	<u>215,782</u>
Net investment income	<u>22,598,969</u>
Total additions	<u>585,077,637</u>
Deductions	
Benefit payments	<u>562,478,668</u>
Change in Fund Net Position	<u>22,598,969</u>
Net Position Restricted for Post-Retirement Health Benefits	
Beginning of the year	<u>306,672,538</u>
End of the Year	<u><u>\$ 329,271,507</u></u>

The accompanying notes are an integral part of this financial statement.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements

June 30, 2018

1. FUND DESCRIPTION

The Other Post-Employment Health Benefits Trust Fund (the Fund), a fiduciary fund of the State of Maryland, was established as an irrevocable trust under Section 34-101 of the State Personnel and Pensions Article to receive appropriated funds and contributions which will be used to assist the State Employee and Retiree Health and Welfare Benefits Program (the Plan) in financing the State's postretirement health insurance subsidy. The Fund is administered by the Board of Trustees for the Maryland State Retirement and Pension System (the System). The Board of Trustees consists of 15 members.

The Plan is a single-employer defined benefit healthcare plan established by State Personnel and Pensions Article, Sections 2-501-2-516, of the Annotated Code of Maryland. The Plan is self-insured to provide medical, hospitalization, prescription drug and dental insurance benefits to eligible state employees, retirees and their dependents. State law grants authority to establish and amend benefit provisions to the Secretary of the Department of Budget and Management (DBM). In addition, the Secretary shall specify by regulation the types or categories of State employees who are eligible to enroll, with or without the State subsidies, or who are not eligible to enroll.

Funding Policy

The contribution requirements of Plan members and the State are established by the Secretary. Each year the Secretary recommends to the Governor the State's share of the costs of the Plan. Funds may be separately appropriated in the State's budget for transfer to the Fund. Applicable administrative expenses are payable from the Fund but may not exceed \$100,000 annually.

Generally, a retiree may enroll and participate in the health benefit options if the retiree (1) retired directly from State service with at least five years of creditable service, (2) ended State service with at least ten years of creditable service and within five years before the age at which a vested retirement allowance normally would begin, or (3) ended State service with at least 16 years of creditable service. For members hired on or after July 1, 2011, a retiree may enroll and participate in the health benefit options if the retiree (1) completed at least 25 years of creditable service, (2) retired directly from State service with at least ten years of creditable service, or (3) ended State service with at least ten years of creditable service and within five years before the age at which a vested retirement allowance normally would begin.

The number of participants in the Plan as of June 30, 2018, was as follows:

Active plan members	78,334
Vested former employees	2,902
Retirees and beneficiaries receiving benefits	74,662
Total	155,898

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity and Basis of Presentation

The Fund is a fiduciary fund of the State of Maryland (the State) and its transactions, assets, liabilities and net assets are accounted for using the economic resource measurement focus in accordance with accounting principles generally accepted in the United States of America. The Fund's financial statements are prepared on the accrual basis of accounting, under which expenses are recorded when the liability is incurred, and contributions are recognized in the period in which employee salaries are reported. Benefit payments are paid for and recorded in the State's general fund. The Fund's current purpose is the accumulation of resources to settle the ultimate liability of the Fund.

The accompanying statement of fund net position as of June 30, 2018, and the related statement of change in plan net position for the year then ended relate to the Fund for the Plan. Accordingly, benefit payments that were not paid through the fund are not included in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Investment Policy

On behalf of the Fund and in accordance with State Personnel and Pension Article Section 21-123 of the Annotated Code of Maryland, the System is permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the System. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in non-dividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the System. The System is authorized by Section 21-116 of the State Personnel and Pensions Article to establish and maintain the investment policy manual, which authorizes investing in all major sectors of the capital market in order to diversify and minimize total investment program risk. Such sectors would include, but are not limited to, common stock, preferred stock, convertible securities, warrants and similar rights of U.S. and non-U.S. companies; private equity – direct/partnership/funds; real estate investment trusts; commingled real estate funds; directly owned real estate; fixed income obligations of the U.S. government and its states and local subdivisions, non-U.S. governments and their states and local subdivisions, U.S. and non-U.S. companies, and supra-national organizations; futures and options; foreign exchange forward and future contracts and options; equity index futures; and equity options.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements

June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment Valuation

Investments of the Fund are stated at fair value. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Fair value for real estate investments is based on estimated current values and independent appraisals. Fair value for private equity investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers.

Contributions

For the fiscal year ended June 30, 2018, retiree plan members contributed \$86,303,182, or approximately 13.3% of total retiree premiums, and the State contributed \$562,478,668.

Recent Accounting Pronouncements

As of the year ended June 30, 2018, the Governmental Accounting Standards Board (GASB) issued GASB No. 84, *Fiduciary Activities*. The Fund has not completed the process of evaluating the impact that will result from adopting these GASB statements, but does not expect that these GASB statements would have a material effect on the financial statements. The Fund will adopt these GASB statements, as applicable, by their effective date.

3. INVESTMENTS

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund addresses interest rate risk through a process that focuses on the review of investment managers and fund returns.

The investment maturities of the Fund are as follows:

Investment Type	Fair Value	Investment Maturities (in years)				
		Less than 1	1 to 5	6 to 10	11 to 15	More than 15
Asset backed securities	\$ 67,223	\$ -	\$ -	\$ 67,223	\$ -	\$ -
U.S. Government obligations	48,268,968	-	-	13,615,323	34,653,645	-
Domestic corporate obligations	31,800,294	-	5,695,864	23,460,393	2,644,037	-
Global inflation linked	6,274,414	-	-	6,274,414	-	-
Mortgage and mortgage related	7,759,716	-	-	7,759,716	-	-
Total	\$ 94,170,615	\$ -	\$ 5,695,864	\$ 51,177,069	\$ 37,297,682	\$ -

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements June 30, 2018

3. INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that, in the event of the failure of the counterparty to a transaction, a government may not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

As of June 30, 2018, the Fund's investments were rated by Standard and Poor's and/or an equivalent national rating organization as follows:

Investment Type	Fair Value		Quality Rating								Percentage of Total Investments
	AAA	AA	A	BAA	BA	BBB	BB	B	NR		
US Asset Backed	\$ 67,223	\$ 61,099	\$ 3,126	\$ 2,810	\$ 188	\$ -	\$ -	\$ -	\$ -	\$ -	0.02%
US Intermediate Credit	5,695,864	653,885	600,914	2,104,052	2,337,013	-	-	-	-	-	
US High Yield	23,460,393	-	-	-	-	-	65,689	13,271,544	10,123,160	-	
US Credit	2,644,037	103,117	156,791	1,111,818	1,272,311	-	-	-	-	-	
Domestic Corporate Obligations	31,800,294	757,002	757,705	3,215,870	3,609,324	-	65,689	13,271,544	10,123,160	-	9.66%
US Treasury Inflation Protected	13,615,322	13,615,322	-	-	-	-	-	-	-	-	
US Government Bonds	34,653,646	34,584,339	69,307	-	-	-	-	-	-	-	
US Government Obligations	48,268,968	48,199,661	69,307	-	-	-	-	-	-	-	14.66%
Mortgage and Mortgage Related	7,759,716	-	-	-	-	-	-	-	-	7,759,716	2.36%
Passive Emerging Mkts	3,012,477	26,811	29,221	952,244	1,207,401	771,495	-	-	-	25,305	
Emerging Mkts Hard Currency	3,261,937	(16,636)	33,924	495,162	1,240,515	1,428,728	-	-	-	80,244	
International Obligations	6,274,414	10,175	63,145	1,447,406	2,447,916	2,200,223	-	-	-	105,549	1.91%
Short term	11,767	-	-	11,767	-	-	-	-	-	-	0.00%

Investments at Fair Value

Accounting principles generally accepted in the United States require a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly (For example, quoted prices for similar assets or liabilities in active markets).

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements June 30, 2018

3. INVESTMENTS (continued)

Investments at Fair Value (continued)

The Fund categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Fund has the following recurring fair value measurements as of June 30, 2018:

Investments by Fair Value Level	Total	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government obligations	\$ 48,268,968	\$ 48,268,968	\$ -	\$ -
Domestic corporate obligations	31,867,517	31,867,517	-	-
Global inflation linked	6,274,414	-	6,274,414	-
Mortgage and mortgage related	7,759,716	-	-	7,759,716
Domestic stocks	83,285,690	83,285,690	-	-
International stocks	102,758,923	102,758,923	-	-
Total Investments by Fair Value Level	280,215,228	\$ 266,181,098	\$ 6,274,414	\$ 7,759,716
Investments Measured at Net Asset Value (NAV)				
Alternative investments	13,743,079			
Real estate	35,301,433			
Total Investments Measured at Net Asset Value (NAV)	49,044,512			
Total Investments	\$329,259,740			

The Net Asset Value (NAV) of an investment company is the company's total assets, minus its total liabilities. This investment category consists of two (2) funds that include funds or products that employ dynamic trading strategies aimed at achieving absolute returns. The investment funds do not redeem shares on a daily basis. The funds have varying restrictions on liquidity and transferability. The fair values of the investments in this type have been determined using NAV per share of the investments.

4. CONTRIBUTIONS

The contribution requirements of Plan members and the State are established by the Secretary. Each year, the Secretary recommends to the Governor the State's share of the costs of the Plan. Funds may be separately appropriated in the State's budget for transfer to the Fund. Applicable administrative expenses may be paid from the Fund but may not exceed \$100,000 annually. During the year ended June 30, 2018, administrative expenses were not charged to the Fund.

Based on current practice, the State subsidizes approximately 50% to 80% of retiree premiums to cover medical, dental, prescription and hospitalization costs, depending on the type of insurance plan. The Plan assesses a charge to retirees for post-employment health care benefits, which is based on health care insurance charges for active employees. For the fiscal year ended June 30, 2018, retiree plan members contributed \$86,303,182, or approximately 13.3%, of total retiree premiums, and the State contributed \$562,478,668 of total retiree premiums. During fiscal year 2018, the State did not appropriate funds to the Fund to prefund future OPEB costs.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements

June 30, 2018

5. NET OPEB LIABILITY

The components of the net OPEB liability are as follows:

Total OPEB liability	\$ 10,900,550,349
Less: plan fiduciary net position	329,271,507
Employer net OPEB liability	<u>\$ 10,571,278,842</u>
Plan fiduciary net position as a percentage of the total OPEB liability	3.02%

Long-term Expected Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the Plan's target asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

Long-term Expected Rate of Return (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public equity	37%	5.8%
Private equity	13%	6.7%
Rate sensitive	19%	1.1%
Credit opportunity	9%	3.6%
Real Assets	14%	4.8%
Absolute return	8%	3.2%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 3.87% as of June 30, 2018. The projection of cash flow used to determine the discount rate assumed that the State would not make additional contribution to the Fund and continue to fund the Plan on a pay-as-you-go basis. Based on those assumptions, the OPEB Plan's fiduciary net position was not projected to cover a full year of projected future benefit payments. Therefore, all future benefit payments are discounted at the current index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements

June 30, 2018

5. NET OPEB LIABILITY (continued)

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate:

Regarding the sensitivity of the net OPEB liability to change in the healthcare cost trend rates, the following presents the Plan's net OPEB liability, calculated using current rates, as well as what the Plan's net OPEB liability would be if it were calculated using rates that are 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease in Trend Rates	Current Healthcare Cost Trend Rates	1% Increase in Trend Rates
Net OPEB liability.....	\$ 8,907,398,711	\$ 10,571,278,842	\$ 12,684,025,046

Sensitivity of the net OPEB liability to changes in the discount rate:

Regarding the sensitivity of the net OPEB liability to change in the single discount rate, the following presents the plans net OPEB liability, calculated using a single discount rate of 3.87%, as well as what the plan's net OPEB liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	1% Decrease 2.87%	Discount Rate 3.87%	1% Increase 4.87%
Net OPEB liability.....	\$ 12,965,295,385	\$ 10,571,278,842	\$ 9,521,212,624

The annual money-weighted rate of return, net of investment expenses, on Plan investments for the year ended June 30, 2018, was 7.37%. A money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

6. ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Notes to the Financial Statements

June 30, 2018

6. ACTUARIAL METHODS AND ASSUMPTIONS (continued)

The actuarial method and significant assumptions listed below were used in the actuarial valuations as of June 30, 2018.

Actuarial cost method	Entry age normal (percent of pay)
Asset valuation method	Market value of assets
Rate of return on investments	7.5%
Inflation rate	2.7%
Aggregate salary growth	3.2%
Method to determine blended rate	3.87% represents an unblended pay-go rate
Healthcare cost trend rates:	
Medical:	
Under 65	8.50% graded to 4.50% over 16 years
Over 65	7.00% graded to 4.50% over 10 years
Prescription Drugs:	
Under 65	10.00% graded to 4.50% over 22 years
Over 65	N/A - benefit not offered after December 31, 2018
Dental	3.50%
Administrative expenses	3.50%
Amortization method	Level percentage of projected payroll
Amortization period	30 years (open)
Discount Rate	3.87%

Changes in assumption in the June 30, 2018 valuation included an update on valuation year, increase in discount rate, increase in participation assumptions, and the assumed medical plan election proportions for future retirees, and decrease in the assumed future salary scales for active participants.

7. RISKS AND UNCERTAINTIES

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Position.

Plan contributions are made, and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is reasonably possible that changes in these estimates and assumptions in the near-term would-be material to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

**Required Supplementary Information
For the Year Ended June 30, 2018**

**Schedule of Change in Net OPEB Liability and Related Ratios
for Other Post-Employment Benefit Plan
For the Year Ended June 30,
(expressed in thousands)**

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 306,642	\$ 476,243
Interest	410,862	370,188
Differences between expected and actual experience	323,130	(82,171)
Changes of assumptions	(969,487)	(1,621,932)
Benefit payments, including refunds of member contributions	(562,479)	(526,535)
Net changes in total OPEB liability	(491,332)	(1,384,207)
Total OPEB liability-beginning	<u>11,391,883</u>	<u>12,776,090</u>
Total OPEB liability-ending (a)	<u>\$ 10,900,551</u>	<u>\$ 11,391,883</u>
Plan fiduciary net position		
Employer contributions	\$ 562,479	\$ 526,535
Net investment income	22,599	30,624
Benefit payments	(562,479)	(526,535)
Net investment income	22,599	30,624
Net change in plan fiduciary net position	22,599	30,624
Plan fiduciary net position-beginning	<u>306,673</u>	<u>276,049</u>
Plan fiduciary net position-ending (b)	<u>\$ 329,272</u>	<u>\$ 306,673</u>
Net OPEB liability-ending (a)-(b)	<u>\$ 10,571,279</u>	<u>\$ 11,085,210</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>3.0%</u>	<u>2.7%</u>
Covered employee payroll	<u>\$ 5,115,140</u>	<u>\$ 5,111,236</u>
Plan net OPEB liability as a percent of covered-employee payroll	<u>206.7%</u>	<u>216.9%</u>

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

**Required Supplementary Information
For the Year Ended June 30, 2018**

**SCHEDULE OF INVESTMENT RETURNS
For the Year Ended June 30,
(expressed in thousands)**

Fiscal Year Ended	2018	2017
Annual money-weighted rate of return, net of investment expenses	7.37%	11.09%

**Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

POSTRETIREMENT HEALTH BENEFITS TRUST FUND

Required Supplementary Information For the Year Ended June 30, 2018

SCHEDULE OF EMPLOYER CONTRIBUTIONS For the Year Ended June 30, (expressed in thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially determined contribution	\$ 532,287	\$ 779,316	\$ 634,552	\$ 574,359	\$ 576,050	\$ 634,465	\$ 704,382	\$ 1,225,206	\$ 1,184,522	\$ 1,148,522	\$ 1,086,240
Less: Contributions in relation to the actuarially determined contribution	<u>562,479</u>	<u>526,535</u>	<u>490,765</u>	<u>449,750</u>	<u>402,794</u>	<u>393,078</u>	<u>385,078</u>	<u>368,844</u>	<u>336,388</u>	<u>366,388</u>	<u>390,319</u>
Contribution deficiency/(excess)	<u>\$ (30,192)</u>	<u>\$ 252,781</u>	<u>\$ 143,787</u>	<u>\$ 124,609</u>	<u>\$ 173,256</u>	<u>\$ 241,387</u>	<u>\$ 319,304</u>	<u>\$ 856,362</u>	<u>\$ 848,134</u>	<u>\$ 782,134</u>	<u>\$ 695,921</u>
Covered employee payroll	\$ 5,115,140	\$ 5,111,236	\$ 4,997,602	\$ 4,929,100	\$ 4,803,627	\$ 4,457,421	\$ 4,144,267	\$ 4,633,653	\$ 4,627,379	\$ 4,740,553	\$ 4,625,145
Actual contributions as a percentage of covered-employee payroll	11.0%	10.3%	9.8%	9.1%	8.4%	8.8%	9.3%	8.0%	7.3%	7.7%	8.4%

Notes to Schedule

Valuation date:

Actuarially determined contribution amounts are calculated as of June 30 prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry age actuarial cost method

Amortization method

Level percent of payroll

Remaining amortization period

30 years

Asset valuation method

Market value of asset

* The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.