



STATE OF ILLINOIS
**OFFICE OF THE
AUDITOR GENERAL**

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND

Financial Audit
For the Year Ended: June 30, 2012

Release Date: April 25, 2013

Summary of Findings:

Total this audit:	1
Total last audit:	2
Repeated from last audit:	1

INTRODUCTION

This report covers our financial audit of the Teacher Health Insurance Security Fund for the year ended June 30, 2012. At June 30, 2012 the Net Assets Held in Trust for Other Postemployment Benefits reflected a deficit of \$31,196,000. Further, the Schedule of Funding Progress reflects an Unfunded Actuarial Accrued Liability of \$18,853,250,000.

Per the Governor's Executive Order 12-01, the Department's respective powers, duties, rights and responsibilities related to the Teachers' Retirement Insurance Program were transferred to the Department of Central Management Services as of July 1, 2012.

SYNOPSIS

- The Department failed to have a documented written rate-setting methodology for the calculation of the Teachers' Retirement Insurance Program premiums.

{ Expenditures and Activity Measures are summarized on the reverse page. }

**DEPARTMENT OF HEALTHCARE AND FAMILY SERVICES
TEACHER HEALTH INSURANCE SECURITY FUND
FINANCIAL AUDIT
For the Year Ended June 30, 2012**

STATEMENT OF CHANGES IN PLAN NET ASSETS (expressed in thousands)	Fiscal Year 2012	Fiscal Year 2011
Additions		
Contributions		
Employer.....	\$ 71,376	\$ 70,570
State.....	87,622	85,953
Plan Members		
Actives.....	95,271	94,176
Retirees.....	165,651	162,586
Federal Government Medicare Part D.....	24,911	23,422
Consolidated Omnibus Budget Reconciliation Act.....	119	88
Total Contributions.....	<u>444,950</u>	<u>436,795</u>
Interest Income.....	127	173
Total Additions.....	<u>445,077</u>	<u>436,968</u>
Deductions		
Benefit Payments and Refunds.....	480,452	466,310
General and Administrative.....	2,946	2,756
Total Deductions.....	<u>483,398</u>	<u>469,066</u>
Net Additions (Deductions).....	(38,321)	(32,098)
Net Assets Held in Trust for Other Postemployment Benefits		
Beginning of Year.....	7,125	39,223
End of Year.....	\$ (31,196)	\$ 7,125

SCHEDULE OF FUNDING PROGRESS (expressed in thousands)	June 30, 2011	June 30, 2009	June 30, 2007
Actuarial Value of Assets.....	7,125	54,603	65,790
Actuarial Accrued Liability - Projected Unit.....	18,860,375	14,931,396	14,284,678
Unfunded Actuarial Accrued Liability.....	18,853,250	14,876,793	14,218,888
Funded Ratio.....	0.04%	0.37%	0.46%

SUPPLEMENTARY INFORMATION	Fiscal Year 2012	Fiscal Year 2011
Number of retirees and beneficiaries receiving benefits.....	72,324	69,438
Number of waived retirees who may elect healthcare coverage in the future.....	18,300	17,117
Number of terminated plan members entitled to but not yet receiving benefits..	14,416	13,498
Number of active plan members.....	162,259	162,127
Total.....	<u>267,299</u>	<u>262,180</u>
Number of participating employers.....	1,002	1,007

AGENCY DIRECTOR
During Examination Period: Ms. Julie Hamos
Currently: Ms. Julie Hamos

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**LACK OF WRITTEN RATE-SETTING
METHODOLOGY**

Department had no written rate-setting methodology

The Department did not have a documented written rate-setting methodology to calculate the insurance rates that are used to determine the premium rates charged to participants for the Teachers' Retirement Insurance Program (TRIP).

The one individual who was aware of the rate-setting methodology left the agency

We noted that only one individual was involved in calculating the insurance rates and there was no written rate-setting methodology of how this individual calculates the TRIP insurance rates. This individual left the agency near the end of the fiscal year and the Department did not have any other employees aware of how the previous individual calculated the rates. Additionally, there was no formal process for a documented review of the insurance rate calculation.

No methodology submitted to Teachers' Retirement System

Further, auditors noted that during fiscal year 2012, the Department did provide information used to determine health care premiums; however, there was no rate-setting methodology provided to the Teachers' Retirement System of the State of Illinois explaining where the information was obtained from and how the information was used to determine the premium rates. (Finding 1, pages 21-22) **This finding was first reported in 2010.**

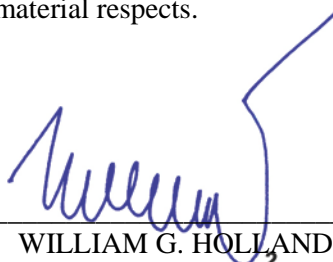
We recommended a formal written rate-setting methodology be developed as required by the State Employees Group Insurance Act. We also recommended all submission requirements of the State Employees Group Insurance Act be complied with.

Executive Order 12-01 transferred responsibility to Central Management Services

Department officials stated that Executive Order 12-01 transferred the Office of Healthcare Purchasing from HFS back to CMS effective July 1, 2012. The functions associated with State Healthcare Purchasing and the development of a formal written rate-setting methodology are now the responsibility of CMS. (For the previous Department response, see Digest Footnote #1)

AUDITORS' OPINION

Our auditors state the financial statements of the Teacher Health Insurance Security Fund as of June 30, 2012, are fairly presented in all material respects.



WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED

This audit was performed by the Office of the Auditor General's staff.

DIGEST FOOTNOTES

#1 –Lack of Written Rate-Setting Methodology – Previous Department Response

2011: The Department accepts the recommendation. The Department will develop a formal written rate-setting methodology and comply with all submission requirements as required by the State Employees Group Insurance Act.