Public Employees Health Programs

A DISCRETE COMPONENT UNIT OF THE STATE OF UTAH
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT AND REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ended December 31, 2017 and 2016

Larson
CERTIFIED PUBLIC ACCOUNTANTS

PUBLIC EMPLOYEES HEALTH PROGRAMS

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Larson
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Utah State Retirement Board
Public Employees Health Programs:

We have audited the accompanying financial statements of **Public Employees Health Programs** (PEHP) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise PEHP's basic financial statements, as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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 control 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 control 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 control. 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.

Opinion

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of **Public Employees Health Programs** as of December 31, 2017 and 2016 and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-9, the 10 year loss development schedule on pages 37-38, and the schedule of the proportionate share of the net pension liability and schedule of contributions on pages 39-40, 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.

Ten Year Loss Development Schedule

PEHP is transitioning into the ten year loss development schedule, see required supplementary information paragraph above. PEHP will begin with five years of data and build upon that data from year-to-year until a full ten years is presented in accordance with GASB No. 30, Risk Financing Omnibus, an amendment of GASB Statement No. 10.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, on our consideration of PEHP's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Larsen & Company PC

Salt Lake City, Utah
May 8, 2018

PUBLIC EMPLOYEES HEALTH PROGRAMS

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

The management of Public Employees Health Program (PEHP) presents the following discussion and analysis of the financial statements for the year ended December 31, 2017. PEHP is authorized and created under Title 49, Chapters 20 and 21, of the Utah Code to organize and administer self insurance risk pools for employee benefits for the state, its educational institutions, and political subdivisions.

PEHP, as a trust organization, does not own any assets, have any liabilities, or earn income. All accounting transactions, including PEHP expenses, are recorded or allocated to the various risk pools and lines of business. This is consistent with the statute that created PEHP, to organize and administer funded self-insurance risk pools. PEHP does not report the various risk pools as separate funds.

The long-term disability, term life, retiree life, and health reimbursement arrangement plan (HRA) lines of business, and the Medicare Supplement and reinsurance risk pools are singular risk pools in which all participating employers share the risk. The medical and the dental lines of business are divided into various risk pools of single or multiple employer pools. The medical line of business, including Medicare supplement, encompasses 86.39% of PEHP's benefit expenses. Dental accounted for 4.51% leaving 9.10% for all of the other lines business in total.

PEHP is a "public entity risk pool" as defined by GASB Statement No. 10, encompassing three of the four types of pools identified. Risk is shared in the long-term disability, term life, retiree life, and health reimbursement arrangement lines of business, the Medicare supplement program and in the medical and dental risk pools for the Utah School Board Association and the Local Government Risk Pool. Catastrophic reinsurance is purchased from private insurance companies through the "Reinsurance" risk pool and the term life program. PEHP acts as a third-party administrator and provides administrative services only and holds no significant contingency reserves for Jordan School District and Salt Lake County.

GASB Statement No. 10 provides guidelines for recording and reporting of revenues, expenses, liabilities, assets, and specified supplementary information. PEHP records transactions according to these guidelines. Given the short-term nature of PEHP's lines of business, the required supplementary information presented is deemed sufficient to meet the principles of GASB Statement No. 10. PEHP has also adopted the financial reporting provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 63 amends certain portions of the financial reporting provisions of GASB Statement No. 10. GASB Statement No. 63 establishes the standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. PEHP has prepared the financial statements in accordance with GASB Statement No. 63.

FINANCIAL CONDITION

PEHP works with the employers and actuaries to set medical and dental premium rates that will maintain appropriate reserve levels for each risk pool. The criteria vary depending on the type of risk pool. New risk pools provide an initial deposit or establish reserves over time.
Total contingency reserves increased by $21.42 million as follows:

- The medical program contingency reserves increased by $27.35 million due primarily to favorable claims experience.
- Contingency reserves decreased by $2.52 million in the dental program due primarily from the $4 million dental experienced refund dividend.
- The long-term disability program realized a decrease of $25.95 thousand in contingency reserves. In 2017, PEHP paid out nearly $5.5 million experienced refund dividend.
- Term life contingency reserve increased by $2.14 million primarily from lower life claims paid in 2017 compared to 2016.
- The retiree life program had a contingency reserve decrease of $837 thousand. The decrease was due to an increase retiree life claims.
- The reinsurance program had a contingency reserve decrease of $9.37 million due to unfavorable claim experience.
- The HRA Program reserves restricted for benefits increased by $3.35 million due to employer contributions exceeding benefit payments.

FINANCIAL STATEMENTS

The financial statements for PEHP are prepared on the accrual basis of accounting in accordance with the generally accepted accounting principles in the United States, as promulgated by the Governmental Accounting Standards Board (GASB). PEHP is reported as a discrete component unit of the State of Utah. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the footnotes for more information.

PUBLIC EMPLOYEES HEALTH PROGRAMS

Management's Discussion and Analysis
For the Year Ended December 31, 2017
(Unaudited)

The Summary of Net Position at December 31 is as follows:

ASSETS AND OUTFLOWS	2017	2016	Dec 16 to Dec 17 Increase (Decrease)	Percent Increase (Decrease)
Cash, investments and receivables	$ 388,576,969	$ 359,136,008	$ 29,440,961	8.20%
Receivables	78,149,157	65,736,014	12,413,143	18.88%
Capital assets	156,954	95,515	61,439	64.32%
Net pension asset	-	652	(652)	-100.00%
Deferred outflows relating to pensions	7,799,585	5,349,062	2,450,523	45.81%
Total assets and deferred outflows	474,682,665	430,317,251	44,365,414	10.31%
LIABILITIES AND INFLOWS				
Claims and other	114,990,927	93,327,885	21,663,042	23.21%
Life and long-term disability	76,915,407	76,927,326	(11,919)	-0.02%
Net pension liability	13,917,002	13,012,267	904,735	6.95%
Deferred inflows relating to pensions	1,769,492	1,383,650	385,842	27.89%
Total liabilities and deferred inflows	207,592,828	184,651,128	22,941,700	12.42%
NET POSITION				
Restricted for claims contingency reserves	236,099,926	218,203,814	17,896,112	8.20%
Restricted for benefits	30,989,911	27,462,309	3,527,602	N/A
Total net position	$ 267,089,837	$ 245,666,123	$ 21,423,714	8.72%

Financial Analysis

- The total of cash and investments increased by $29.44 due to favorable claim experience and positive investment returns.
- Total receivables increased by $12.41 million due increased covered lives.
- Capital assets include computers and office equipment. The net capital assets increased by $61 thousand due to the purchase of two office vehicles.
- The net pension liability increased by $905 thousand due to lowering the assumed earnings rate to 7.2% from 7.5%.
- The total liabilities increased by $22.94 million due primarily from the increased security lending non-cash collateral liability and other deposits for new groups.

The Summary for the Statement of Changes in Net Position for the years ended December 31, 2017 and 2016 is as follows:

REVENUES	2017	2016	Dec 16 to Dec 17 Increase (Decrease)	Percent Increase (Decrease)
Premiums and fees	$ 717,274,569	$ 668,496,083	$ 48,778,486	7.30%
Investment income	9,526,339	10,825,858	(1,299,519)	-12.00%
Total revenues	726,800,908	679,321,941	47,478,967	6.99%
EXPENSES				
Insurance benefits	670,001,864	588,009,494	81,992,370	13.94%
Administrative and other expenses	35,375,332	35,152,853	222,479	0.63%
Total benefits and expenses	705,377,196	623,162,347	82,214,849	13.19%
Revenues over (under) benefits and expenses	21,423,712	56,159,594	(34,735,882)	-61.85%
NET POSITION				
Beginning of year, restricted for claims contingency reserves	218,203,816	189,506,529	28,697,287	15.14%
Beginning of year, restricted for benefits	27,462,309	-	27,462,309	N/A
End of year, restricted for claims contingency reserves	236,099,926	218,203,814	17,896,112	
End of year, restricted for claims contingency reserves	30,989,911	27,462,309	3,527,602	N/A
Ending net position, restricted	$ 267,089,837	$ 245,666,123	$ 21,423,714	8.72%

- Premium and fee income increased by $48.78 million, due primarily to increases in medical rates and additions of new business.

- Investment income decreased by $1.3 million due to the decrease in the bond yield. The market value of investments for the year increased by $26 thousand compared to $2.28 million in the prior year. The total investment income (investment yield plus or minus adjustments to the market value) for the year ended December 31, 2017, was $9.53 million for an overall return of 3.43%. The benchmark used to measure the Dodge and Cox performance is Bloomberg Barclays U.S. Intermediate Aggregate Bond Index. For the calendar year, this index had a rate of return of 2.27%, whereas the return net of fees for the Dodge and Cox managed portfolio for the year was 3.33%.

- Insurance benefits expense increased by $81.99 million. This was due primarily to increase in covered lives.

Enrollment – Covered Lives

The table below shows the number of covered lives by line of business and the number of participants for the flexible spending account (FLEX$™) administration. Term life coverage for dependents may cover one or more children. Each dependent coverage is counted as one life. The term life totals can also include multiple coverages on the same individuals, including term life, line-of-duty, spouse, dependent, and AD&D (Accidental Death and Dismemberment). Each coverage is included in the count because they each represent a separate potential liability. Grand totals are not given because many of the same individuals are covered in more than one line of business.

Year	Medical	Dental	Long-term Disability	Term Life	Retiree Life	Flex$	HRA's
6/30/2013	131,370	97,613	36,505	101,444	21,100	8,931	
12/31/2013	134,682	100,956	36,492	101,596	21,115	8,598	
12/31/2014	134,300	102,821	33,600	101,799	21,127	8,252	
12/31/2015	140,046	105,300	28,588	100,373	20,802	8,318	
12/31/2016	145,512	109,052	28,321	103,434	21,672	7,890	3,177
12/31/2017	152,137	109,277	27,909	103,626	22,939	7,664	3,216

BUDGETS

Since the risk pools belong to the current participating employers, PEHP does not budget revenues and insurance benefit expenses. Budgets are prepared on administrative expenses. For the budget years ended June 30, 2017 and June 30, 2016, the administrative expenses were $611,865 under budget and $1,161,942 respectively as outlined in the table below.

Budget Year Ending	Budget Expenses	Actual Expenses	Under Budget
6/30/2017	$31,601,645	$30,989,780	$611,865
6/30/2016	$30,178,761	$29,016,819	$1,161,942

PEHP was under budget in the salaries, wages and benefits and contractual services. This was due to continued cost cutting measures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

PEHP has no major capital asset activity and has issued no long-term debt.

PUBLIC EMPLOYEES HEALTH PROGRAMS

Statements of Net Position

December 31, 2017 and 2016

ASSETS	2017	2016
Cash and cash equivalents	**$ 96,210,795**	$ 92,158,057
Investments	**292,366,174**	266,977,951
Receivables:		
Premium and service fees	**55,470,599**	40,097,188
Investments	**2,123,646**	2,002,427
Employer contributions	**51,662**	28,752
Total receivables	**57,645,907**	42,128,367
Prepaid expenses and other current assets	**20,503,250**	23,607,647
Furniture and equipment, net of accumulated depreciation of **$384,266** and $1,466,581 for the periods ended December 2017 and 2016, respectively	**156,954**	95,515
Net pension asset	**-**	652
Total assets	**466,883,080**	424,968,189
Deferred outflows of resources:		
Deferred outflows of resources relating to pensions	**7,799,585**	5,349,062
Total assets and deferred outflows of resources	**$ 474,682,665**	$ 430,317,251
LIABILITIES AND NET POSITION		
Liabilities:		
Claims payable	**25,826,191**	24,823,601
Liability for claims incurred but not reported	**46,865,093**	46,517,467
Benefit reserves:		
Life insurance	**56,703,394**	55,137,146
Long-term disability claims reserves	**18,460,795**	19,539,131
Long-term disability medical premium reserves	**1,751,218**	2,251,049
Premiums payable	**507,681**	620,721
Unearned premiums	**3,236,712**	3,274,419
Accrued expenses	**5,302,395**	4,599,912
Taxes payable	**9,275**	8,295
Experience dividend payable	**226,153**	29,812
Due to other agencies and administrative reserve	**15,689,745**	10,460,264
Securities lending liability	**17,327,682**	2,993,394
Net pension liability	**13,917,002**	13,012,267
Total liabilities	**205,823,336**	183,267,478
Deferred inflows of resources:		
Deferred inflows of resources relating to pensions	**1,769,492**	1,383,650
Net position:		
Restricted for claims contingency reserves	**236,099,926**	218,203,814
Restricted for benefits	**30,989,911**	27,462,309
Total net position	**$ 267,089,837**	$ 245,666,123

The accompanying notes to the financial statements are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAMS

Statements of Changes in Net Position

For the Years Ended December 31, 2017 and 2016

	2017	2016
Revenue:		
Premiums earned and service fees, net of refunds	**$ 694,223,832**	$ 628,441,104
Federal subsidy	**15,381,086**	11,580,698
Employer contributions	**7,638,014**	28,439,724
Net investment income	**9,526,339**	10,825,858
Miscellaneous income	**31,637**	34,557
Total revenue	**726,800,908**	679,321,941
Insurance benefits:		
Claims	**653,463,949**	575,305,821
Change in unpaid claims and claims incurred but not reported	**1,338,302**	10,476,888
Policyholder experience dividends	**15,199,613**	2,226,785
Total insurance benefits	**670,001,864**	588,009,494
Administrative and other expenses:		
Salaries, wages and benefits	**24,457,254**	22,949,246
Administrative expenses	**8,915,576**	8,653,555
PPACA fees	**208,581**	609,753
Commissions	**2,953,215**	2,671,325
Other expenses	**(1,159,294)**	268,974
Total administrative and other expenses	**35,375,332**	35,152,853
Total benefits and expenses	**705,377,196**	623,162,347
Revenue over (under) benefits and expenses	**21,423,712**	56,159,594
Net position:		
Beginning of year, restricted for claims contingency reserves	**218,203,816**	189,506,529
Beginning of year, restricted for benefits	**27,462,309**	-
End of year, restricted for claims contingency reserves	**236,099,926**	218,203,814
End of year, restricted for benefits	**30,989,911**	27,462,309
Total net position	**$ 267,089,837**	$ 245,666,123

The accompanying notes to the financial statements are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAMS

Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Cash received from premiums and service fees	**$**	**701,727,498**	$	662,444,310
Cash paid for insurance benefits		**(653,463,954)**		(575,306,351)
Cash paid for administrative and other expenses		**(27,466,771)**		(58,031,495)
Policyholder experience dividends paid		**(15,003,272)**		(2,215,410)
Net cash provided (used) by operating activities		**5,793,501**		26,891,054
Cash flows from investing activities:				
Investment income		**14,446,066**		11,574,432
Proceeds from maturities of sales of fixed income securities		**76,051,095**		71,079,686
Purchases of fixed income securities		**(92,145,976)**		(85,982,637)
Net cash provided (used) by investing activities		**(1,648,815)**		(3,328,519)
Cash flows from capital and related financing activities:				
Proceeds from sale of assets		**-**		-
Purchases of equipment		**(91,948)**		(31,832)
Net cash provided (used) by financing activities		**(91,948)**		(31,832)
Net increase in cash and cash equivalnts		**4,052,738**		23,530,703
Cash and cash equivalents at beginning of year		**92,158,057**		68,627,354
Cash and cash equivalents at end of year	**$**	**96,210,795**	$	92,158,057

The accompanying notes to the financial statements
are an integral part of these statements

PUBLIC EMPLOYEES HEALTH PROGRAMS

Statements of Cash Flows (Continued)

For the Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of revenue over (under) benefits and expenses to net cash provided (used) by operating activities:		
Revenue over (under) benefits and expenses	**$ 21,423,712**	$ 56,159,594
Adjustments to reconcile revenue over (under) benefits and expenses to net cash provided (used) by operating activities:		
Depreciation	**30,511**	99,109
Net investment income	**(9,526,339)**	(10,825,858)
Pension related items	**(1,159,294)**	268,974
Change in assets and liabilities:		
Premiums and service fees receivable	**(15,373,411)**	(6,564,535)
Employer contributions receivable	**(22,910)**	(28,752)
Prepaid expenses and other current assets	**3,104,397**	(14,598,169)
Claims payable	**1,002,590**	1,641,708
Liability for claims incurred but not reported	**347,626**	10,352,139
Benefit reserves	**(11,919)**	(1,517,489)
Experience dividend payable	**196,341**	11,375
Due to other agencies	**5,229,481**	2,607,966
Premiums payable	**(113,040)**	200,817
Unearned premiums	**(37,707)**	340,700
Accrued expenses	**702,483**	(11,256,986)
Taxes payable	**980**	461
Net cash provided by operating activities	**$ 5,793,501**	$ 26,891,054

The accompanying notes to the financial statements are an integral part of these statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Public Employees Health Programs (the "Program") is a discrete component unit of the State of Utah created under the State of Utah Retirement Act to provide insurance services to public employees of the State of Utah. PEHP also provides insurance services to employees of approximately 300 municipalities, school districts, and other public entities within the State of Utah. Under authority granted by the Retirement Act, PEHP is administered by the Utah State Retirement Board (the "Board").

PEHP provides insurance services predominately for agencies of the State of Utah. Effective with the year ended June 30, 2003, the State of Utah changed its accounting for PEHP from an internal service fund to a discrete component unit of the State of Utah, in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 10, *Accounting for Financial Reporting for Risk Financing and Related Insurance Issues* as defined in that statement.

Insurance products offered by PEHP include medical, dental, long-term disability, and life insurance. Public entities participating in the medical and dental programs are grouped into various risk pools for purposes of establishing rates, providing policyholder experience dividends, and retaining risk of loss from such insurance products. Under the Board's current policy, medical risk pools can elect to participate in PEHP's internal reinsurance fund. This fund provides specific stop-loss insurance for individual claimants who incur claims in excess of amounts between $100,000 and $250,000 during the fiscal years ended December, 31 2017 and 2016. The fund also provides aggregate stop-loss coverage at various levels. Management believes that it has recorded claims payable and benefit reserves adequate to meet all actuarially determined losses. PEHP has reinsurance coverage for a life catastrophic occurrence in excess of $7,500,000, not to exceed $80,000,000 per year with a one-time reinstatement with additional premium. PEHP has also entered into an excess medical reinsurance agreement which provides for PEHP to retain medical losses on the first $1,250,000 of loss or losses on any one person insured during the term of the reinsurance agreement, after which the reinsurer will pay 100% of the amount which exceeds $1,250,000. The upper limit of the reinsurer's liability ranges from $2,000,000 to $5,000,000 during the lifetime of the person. The limit is dependent on the participating group's lifetime maximum. The retention per person will be reapplied to PEHP each calendar year. During the years ended December 31, 2017 and 2016, PEHP paid **$729,047** and $939,505 respectively, in premiums under all reinsurance agreements. PEHP also collects and passes through premiums for certain independent insurers.

The accounting policies of PEHP conform to accounting principles generally accepted in the United States of America in all material respects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents reported on the Statements of Net Position and the Statements of Cash Flows include a demand account at a commercial financial institution and funds held on deposit with Utah Retirement Systems. The demand account is covered by an overnight repurchase agreement with the financial institution. PEHP considers all highly liquid debt instruments with a maturity of less than three months to be cash equivalents.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates which are particularly susceptible to change relate to the actuarial valuation of the claims incurred but not reported and benefit reserves. Actual results could differ from those estimates.

PEHP invests in various investment securities which, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the Statements of Net Position.

Investments

Investments are comprised of U.S. government securities and money market funds invested in U.S. government securities, agency notes and mortgage-backed securities, corporate notes and asset backed securities, and preferred stock. These investments are carried at fair value determined on quoted market prices. Changes in the fair value of investments are recognized as investment income in the Statements of Changes in Net Position.

Investment Valuation

PEHP categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Allowance for Doubtful Accounts

PEHP considers all receivables collectible and writes off any bad debt in the period in which it was determined to be uncollectible.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Furniture and Equipment

Furniture and equipment are defined by PEHP as assets with an initial cost of more than $5,000. Furniture and equipment are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives for furniture and equipment range from three to ten years.

Claim Liabilities and Benefit Reserves

PEHP establishes claim liabilities and benefit reserves based on actuarial and other estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Long-term disability benefit reserves are reported using discount rates between 2.00% and 5.75% to calculate the present value of estimated future cash payments as of December 31, 2017 and 2016. Because actual claim costs depend on such complex factors as inflation and changes in insurance benefits, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically by an actuary to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. Inflation is implicit in the calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. Adjustments to claims liabilities and benefit reserves for changes in estimates are recorded in the Statements of Changes in Net Position in the period for which the estimates are made.

Health Reimbursement Arrangement

The Health Reimbursement Arrangement (HRA) is a tax-advantaged health savings plan for State employees funded by employer contributions to pay for qualified healthcare expenses incurred after retirement. No employee contributions are permitted. The plan net position as of December 31, 2017 and 2016, was **$30,989,911** and $27,462,309, respectively. During 2016, the HRA Plan was transferred from Utah Retirement Systems to PEHP to administer.

Claims Contingency Reserves

In order for PEHP to manage risks which are not accounted for when premiums were set to fund the costs of insurance benefits, PEHP maintains claims contingency reserves. The claims contingency reserves also manages risks which were accounted for in the premiums for a given coverage period, but where the potential impact of these risks could be higher than what was accounted for in the funding of insurance benefits. The claims contingency reserve is shown as restricted net position on the Statement of Net Position. In order to ensure that PEHP maintains adequate levels of claims contingency reserves, an independent external actuary was hired to evaluate the claims contingency reserves at June 30 and provide recommendations on appropriate claims contingency reserves levels.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claims Contingency Reserves (Continued)

The independent actuary's recommendation included an estimate of claims contingency reserves to cover the various risks faced by groups' benefit plans. Specifically, the claims contingency reserves estimates includes amounts to offset the following risks: (1) an underestimate of unpaid claim liabilities or IBNR estimates, which would impact funding for a future coverage period; (2) a trend fluctuation margin to cover the 95th percentile of trend estimate over the trend assumption used for setting the budget premium amounts for the employee benefit plan; (3) a claim fluctuation reserve to cover 95th percentile of the claim level variation over the average expected claim levels, when other actuarial assumptions used for funding the employee benefit plans are held constant; and (4) a reserve to cover variation in claim costs due to other unexpected or unknown contingent events such as data errors, unexpected litigation, natural disasters, a catastrophic epidemics etc.

At December 31, 2017 the restricted claims contingency reserve is significantly higher than it would be at June 30, 2018.

The estimate of each of the claims contingency reserves evaluated are presented in terms of days of average premium. The actuary performed an evaluation for each pool and provided to PEHP the appropriate level of the claims contingency reserve, in terms of days, for each of the pools evaluated.

To ensure that the claims contingency reserves are maintained at the recommended funding levels, PEHP evaluates the days of average premium at the end of each budget year. The budget year for PEHP is July 1 through June 30. PEHP performs this evaluation at the end of the budget year because PEHP's budget more closely matches the policy period for PEHP's insureds groups and presents a more accurate financial picture of the benefits paid for that policy period. If the claims contingency reserves are underfunded, a pool may potentially see an increase in premiums until claims contingency reserves are returned to the recommended levels. If the pool is overfunded, PEHP, will either: (1) refund a portion of the claims contingency reserves (in the form of policyholder experience dividends), (2) provide the pool a premium holiday, and/or (3) hold premiums constant for the next renewal period.

Please refer to Note 4 for the current year Policyholder Experience Dividends paid for the years ended December 31, 2017 and 2016.

Premium Revenue and Unearned Premiums

Premium revenue is recorded in the month in which coverage is provided. Premiums received in advance are recorded as unearned premiums.

Federal Income Taxes

PEHP is exempt from the payment of Federal income taxes under Section 115 of the Internal Revenue Code.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PPACA Fees

The Patient Protection and Affordable Care Act (PPACA) fees are fees that are charged to all applicable insureds as a result of the PPACA. This line item from the Statements of Changes in Net Position and Reserve Balances on page 11 represents the amount charged to PEHP during the year directly related to the PPACA.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the financial statement will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue until that time.

2. CASH AND INVESTMENTS

Listed below is a summary of the deposit and investment portfolios as of December 31, 2017 and 2016. Investing is governed by the prudent man rule in accordance with statutes of the State of Utah. All investments of PEHP are considered to have been made in accordance with these governing statues.

Deposits

Deposits of PEHP are carried at cost plus accrued interest. The carrying amount of the deposits, net of outstanding checks, is accounted for in "Cash and Cash Equivalents" on the Statements of Net Position, and is **($3,011,928),** and $8,349,723 as of December 31, 2017 and 2016, respectively. The corresponding bank balance of the deposits was **$3,233,832** and $14,286,963 as of December 31, 2017 and 2016, respectively. PEHP maintains non-interest bearing bank accounts at financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

As of December 31, 2017 and 2016 PEHP's cash deposit balances exceeded FDIC limits.

Cash and cash equivalents consisted of the following at December 31, 2017 and 2016:

	2017	2016
Overnight repurchase agreements	**$ 37,352,125**	$ 38,861,669
Cash on deposit with Zions Bank	**(3,011,928)**	8,349,723
Cash on deposit with Northern Trust	**61,870,298**	45,628,183
Cash on deposit with URS	**-**	(681,818)
Petty cash	**300**	300
Total	**$ 96,210,795**	$ 92,158,057

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of December 31, 2017 and 2016, the overnight repurchase agreements of **$37,352,125** and $38,861,669, respectively are uninsured and are collateralized with securities held by the pledging financial institution's trust department or agent but not in PEHP's name. The deposits with Northern Trust and Dodge & Cox as of December 31, 2017 and 2016 of **$61,870,298** and $45,628,183, respectively, are uninsured and uncollateralized.

2. CASH AND INVESTMENTS (Continued)

Custodial Credit Risk (Continued)

The carrying values of deposits and investments are reconciled to the amounts recorded in the Statements of Net Position as of December 31, 2017 and 2016 as follows:

	2017	2016
Cash and cash equivalents	**$ 96,210,795**	$ 92,158,057
Investments	**292,366,174**	266,977,951
Total	**$ 388,576,969**	$ 359,136,008

Investments

The schedules below provide information about the credit risk, interest rate risk, and concentration of credit risk associated with PEHP's investments as of December 31, 2017 and 2016, respectively.

		Investment Maturities (in Years) (in thousands)				
	Fair Value	Less Than 1	1-5	6-10	11-20	More Than 20
Investment type						
as of December 31, 2017:						
U.S. Treasuries	$ 44,162	$ 601	$ 22,730	$ 20,831	$ -	$ -
U.S. Agencies	5,509	-	493	5,016	-	-
Corporate bonds	104,553	1,872	55,646	45,630	1,405	-
Gov't mortgage backed securities	95,879	-	389	8,462	24,305	62,723
Asset backed securities	15,974	-	12,114	1,518	2,342	-
Municipal bonds	8,098	2,463	5,635	-	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of December 31, 2016)	17,328	17,328	-	-	-	-
Total investments	$ 291,503	$ 22,264	$ 97,007	$ 81,457	$ 28,052	$ 62,723

2. CASH AND INVESTMENTS (Continued)

Investments (Continued)

		Investment Maturities (in Years) (in thousands)				
	Fair Value	Less Than 1	1-5	6-10	10-20	More Than 20
Investment type as of December 31, 2016:						
U.S. Treasuries	$ 40,961	$ -	$ 29,408	$ 11,553	$ -	$ -
U.S. Agencies	619	-	451	168	-	-
Corporate bonds	116,572	4,329	40,008	69,969	2,266	-
Gov't mortgage backed securities	86,364	395	110	5,469	29,142	51,248
Asset backed securities	9,834	-	6,842	1,591	1,401	-
Municipal bonds	8,824	1,283	7,541	-	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $**0** value of non-cash collateral as of December 31, 2015)	2,993	2,993	-	-	-	-
Total investments	$ 266,167	$ 9,000	$ 84,360	$ 88,750	$ 32,809	$ 51,248

Interest Rate Risk

PEHP manages its exposure to fair value loss arising from increasing interest rates by complying with the following policy:

For the PEHP fixed income portfolio, the investment manager's portfolio will have an effective duration between 75 – 125% of the effective duration of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price.

PEHP compares an investment's effective duration against the Barclays U.S. Intermediate Aggregate Bond Index.

The allowable duration range was **3.01** to **5.01** and 3.04 to 5.60 as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the portfolio was within the policy guidelines.

2. CASH AND INVESTMENTS (Continued)

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is PEHP's policy to limit its investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs) so the total investment portfolio maintains an "A" (S&P) or equivalent minimum rating. PEHP's debt investments as of December 31, 2017 and 2016 were rated by S&P and/or an equivalent NRSRO and the ratings are presented below:

		Quality Ratings (000's)							
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**NR**
Investment type									
as of December 31, 2017:									
U.S. Treasuries	**$ 44,162**	**$ 27,346**	**$ -**	**$ -**	**$ 601**	**$ -**	**$ -**	**$ -**	**$ 16,215**
U.S. Agencies	**5,509**	**-**	**375**	**-**	**5,016**	**-**	**-**	**-**	**118**
Corporate bonds	**104,553**	**-**	**5,006**	**21,703**	**71,325**	**3,884**	**513**	**2,122**	**-**
Gov't mortgage backed securities	**95,879**	**133**	**95,746**	**-**	**-**	**-**	**-**	**-**	**-**
Asset backed securities	**15,974**	**10,297**	**5,107**	**-**	**-**	**-**	**-**	**349**	**221**
Municipal bonds	**8,098**	**-**	**4,681**	**-**	**3,417**	**-**	**-**	**-**	**-**
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool	**17,328**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,328**
Total investments	**$ 291,503**	**$ 37,776**	**$ 110,915**	**$ 21,703**	**$ 80,359**	**$ 3,884**	**$ 513**	**$ 2,471**	**$ 33,882**

		Quality Ratings Quality Ratings (000's)							
	Fair Value	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**NR**
Investment type									
as of December 31, 2016:									
U.S. Treasuries	$ 40,961	$ 40,349	$ -	$ -	$ 612	$ -	$ -	$ -	$ -
U.S. Agencies	619	-	619	-	-	-	-	-	-
Corporate bonds	116,572	7,659	1,877	18,247	80,014	2,704	539	2,396	3,136
Gov't mortgage backed securities	86,364	157	86,207	-	-	-	-	-	-
Asset backed securities	9,834	8,819	208	-	-	-	-	373	434
Municipal bonds	8,824	172	4,723	-	3,929	-		-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool	2,993	-	-	-	-	-	-	-	2,993
Total investments	$ 266,167	$ 57,156	$ 93,634	$ 18,247	$ 84,555	$ 2,704	$ 539	$ 2,769	$ 6,563

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PEHP limits the amount that can be invested in any one issuer. The following limits apply to an Investment Manager's portfolio:

- U.S Government and Agency Securities – no restriction
- AAA/Aaa Securities – no more than 5% of an Investment Manager's assets at market with a single issuer
- AA-/Aa3 Securities or higher – no more than 4% of an Investment Manager's assets at market with a single issuer
- A-/A3 Securities or higher – no more than 3% of an Investment Manager's assets at market with a single issuer
- BBB-/Baa3 Securities or higher – no more than 2% of an Investment Manager's assets at market with a single issuer

If a security is downgraded within the investment grade categories listed above, the manager has 30 days to sell enough of the security to comply with the single issuer guideline applicable to the new rating.

No individual holding shall constitute more than 10% of the market value of the issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.

At the time of purchase, all issues shall be rated investment grade by at least two of the nationally recognized rating agencies. If the rating by the agencies is split rated, the lower rating will apply in determining investment grade status.

If a security is downgraded to below investment grade, the Investment Manager shall place the securities in a "basket" of securities downgraded below investment grade. The downgraded securities shall remain in the "basket" until the Investment Manager decides to sell them or until the securities are upgraded to investment grade. At no time shall downgraded securities placed in the basket exceed 5% of total portfolio value unless the basket is full when a security is downgraded. If the basket is full when a security is downgraded, the Investment Manager has 30 days to sell securities from the basket in order to bring it back to the 5% threshold. At no time should more than 1% of an Investment Manager's assets at market be with a single below investment grade issuer.

All investments are within Program limits.

2. CASH AND INVESTMENTS (Continued)

Securities Lending

PEHP participates in a securities lending program as authorized by Board policy, whereby securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102% of the market value of the domestic securities on loan with a simultaneous agreement to return the collateral for the same securities in the future.

PEHP's custodial agent is the agent for its securities lending program. Securities under loan are maintained in PEHP's financial records and are classified in the preceding summary of investments. A corresponding liability is recorded for the market value of the collateral received. Under provision of GASB statement No. 28, collateral which cannot be pledged or sold is not recorded as investments nor is the related liability recorded in the financial statements. At December 31, 2017 and 2016 PEHP did not have non-cash collateral.

As of December 31, 2017 and 2016, PEHP had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan as of December 31, 2017 and 2016 were **$16,777,370** and $2,915,232 respectively, and the cash and non-cash collateral received for those securities on loan was **$17,327,682** and $2,993,394, respectively. Under the terms of the lending agreement, PEHP is indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, PEHP is indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis.

All securities loaned can be terminated on demand by either PEHP or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral to be available each business day and the dollar weighted average maturity of holding should not exceed 60 days. The relationship between the maturities of the short-term investment pool and PEHP's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which PEHP cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, it was not necessary to report the total income and expenses of the security lending.

2. CASH AND INVESTMENTS (Continued)

Fair Value of Financial Instruments

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at December 31, 2017 (in millions):

Investments	Fair Value	Fair Value Measurements Using: Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Debt securities:				
U.S. Treasuries	$ 44,162	$ 43,543	$ 619	$ -
U.S Agencies	5,509	-	5,389	120
Corporate bonds	104,553	-	103,914	639
Gov't mortgage backed securities	95,879	-	94,680	1,199
Asset backed securities	15,974	-	15,821	153
Municipal bonds	8,098	-	8,098	-
Preferred stock	863	863	-	-
Securities lending cash collateral invested in the Northern Trust Co. short-term investment pool (excludes $0 value of non-cash collateral as of December 31, 2016)	17,328	-	17,328	-
Total investments	$ 292,366	$ 44,406	$ 245,849	$ 2,111

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using a matrix pricing technique that values securities based on their relationship to benchmark quoted prices. Mortgage-backed securities categorized as Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations categorized as Level 3 are valued using consensus pricing. Venture capital investments categorized as Level 3 are valued using either a discounted cash flow or market comparable companies technique. Investment derivative instruments categorized as Level 2 are valued using market approaches that consider, as applicable, benchmark interest rates or foreign exchange rates.

3. CLAIMS PAYABLE AND BENEFIT RESERVES

Claims payable represent claims which have been reported to PEHP as of the valuation date. A liability for the estimate of claims incurred but not reported to PEHP as of the valuation date has also been recorded.

The following schedule reflects changes in the total claims payable and benefit reserves for the years ended December 31:

	2017	2016
Total claims liabilities at beginning of year	**$ 148,268,394**	$ 137,792,036
Claims incurred (including change in benefit reserve)	**654,802,251**	585,782,709
Claims paid	**(653,463,954)**	(575,306,351)
Total claim liabilities at end of year	**$ 149,606,691**	$ 148,268,394

4. POLICYHOLDER EXPERIENCE DIVIDENDS

During the years ended December 31, 2017 and 2016 the Board authorized experience dividends to participating agencies and members of **$15,199,613** and $2,226,785 from claims contingency reserves accumulated by PEHP through the end of the prior fiscal period. Of these **$226,153** and $29,812 were payable as of December 31, 2017 and 2016, respectively. For medical and dental plans, the board relies on actuarially determined ranges to determine the amount of claims contingency reserves available for experience dividends. For life and long-term disability plans, the Board considers claims contingency reserves of more than twelve months premiums to be available for experience dividends. Such dividends are granted at the discretion of the Board and are made in accordance with Title 49 of the Utah Code.

5. RETIREMENT PLANS

Defined Benefit Plan

Plan Description – Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

- Public Employees Noncontributory Retirement System (Noncontributory System); is a multiple employer, cost sharing, public employee retirement system.

- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System); is a multiple employer, cost sharing, public employee retirement system.

5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

General Information About the Pension Plan

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S, Salt Lake City, Utah 84102 or visiting the website: www.urs.org.

Summary of Benefits

Benefits Provided – URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

System	Final Average Salary	Years of Service Required and or Age Eligible for Benefit	Benefit Percent Per Year of Service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employee System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

**With actuarial reductions.*

***All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.*

5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Contributions - As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of December 31, 2017 are as follows:

Utah Retirement Systems	Employee Paid	Paid by Employer for Employee	Employer Contributions Rates	Employer 401(k)
Contributory System				
112- State and School Division Tier 2	N/A	N/A	18.440%	1.580%
Noncontributory System				
16- State and School Division Tier 1	N/A	N/A	22.190%	1.500%
Tier 2 DC Only				
212 State and School	N/A	N/A	10.020%	10.000%

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial liability of the Tier 1 plans.

For the fiscal year ended December 31, 2017, the employer and employee contribution to the System were as follows:

System	Employer Contributions	Employee Contribution
Noncontributory System	$ 2,553,457	N/A
Tier 2 Public Employees System	535,310	$ -
Tier 2 DC Only System	138,302	N/A
Total Contributions	$ 3,227,069	$ -

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in Tier 1 Systems.

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5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and 2016, we reported a net pension asset of **$0** and $652, respectively and a net pension liability of **$13,917,002** and $113,012,267, respectively

	(Measurement Date): December 31, 2016				
	Net Pension Asset	**Net Pension Liability**	**Proportionate Share**	**Proportionate Share December 31, 2015.**	**Change (Decrease)**
Noncontributory System	$ -	$ 13,883,546	0.4283833%	0.4142337%	0.0141496%
Tier 2 Public Employees System	-	33,456	0.2999276%	0.2924375%	0.0074901%
Total net pension asset/liability	$ -	$ 13,917,002			

The net pension asset and liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the years ended December 31, 2017 and 2016, we recognized pension expense of **$3,353,869** and $2,512,503.

At December 31, 2017, we reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 776,729
Changes in assumptions	1,493,671	175,246
Net difference between projected and actual earnings on pension plan investments	2,613,363	750,212
Changes in proportion and differences between contributions and proportionate share of contributions	465,483	67,309
Contributions subsequent to the measurement date	3,227,068	-
Total	$ 7,799,585	$ 1,769,496

$3,227,068 was reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2016.

5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Deferred Outflows (Inflows) of Resources
2017	$ 840,026
2018	876,275
2019	1,145,470
2020	(69,964)
2021	942
Thereafter	10,274

Actuarial assumptions - The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 Percent
Salary increases	3.35 - 10.35 percent, average, including inflation
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2016, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

The long-term expected rate of return on pension 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.

5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	Expected Return Arithmetic Basis		
Asset class:	**Target Asset Allocation**	**Real Return Arithmetic Basis**	**Long-Term expected portfolio real rate of return**
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
	Inflation		2.60%
	Expected arithmetic nominal return		7.83%

The 7.20% assumed investment rate of return is comprised of an inflation rate of 2.60%, a real return of 4.60% that is net of investment expense.

Discount rate – The discount rate used to measure the total pension liability was 7.20%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced for 7.20% from 7.50% from the prior measurement period.

5. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate – The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.20%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.20%) or 1-percentage-point higher (8.20%) than the current rate:

System	1% Decrease (6.20)	Discount Rate (7.20)	1% Increase (8.20)
Noncontributory System	$ 48,524,153	$ 26,465,052	$ 7,977,372
Tier 2 Public Employees System	434,100	63,776	(217,948)
	$ 48,958,253	$ 26,528,828	$ 7,759,424

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

Defined Contribution Savings Plan

The Defined Contribution Savings Plans are administered by the Utah Retirement System Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems, but may also be used as primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

Utah Retirement Systems participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

- 401(k) Plan
- 457(b) Plan
- Roth IRA Plan
- Traditional IRA Plan

5. RETIREMENT PLANS (Continued)

Defined Contribution Savings Plan (Continued)

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for fiscal year ended December 31 were as follows:

	2017	2016
401(k) Plan		
Employer Contributions	**$ 587,598**	$ 478,785
Employee Contributions	**$ 562,663**	$ 429,573
457(b) Plan		
Employer Contributions	**$ -**	$ -
Employee Contributions	**$ 201,014**	$ 198,444
Roth IRA Plan		
Employer Contributions	**N/A**	N/A
Employee Contributions	**$ 71,505**	$ 64,190
Traditional IRA Plan		
Employer Contributions	**N/A**	N/A
Employee Contributions	**$ 6,124**	$ 7,267

6. RELATED PARTY TRANSACTIONS

In addition to the retirement benefits provided by the Systems, as described in Note 5, PEHP also makes payments to the Systems for certain rent and administrative expenses. Such expenses totaled **$10,082,208** and $9,089,540 during the years ended December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the cash held by the Systems for PEHP is **$31,393,283** and $28,937,822, respectively.

7. COMMITMENTS AND CONTINGENCIES

PEHP has been or may be named as a defendant in certain lawsuits. While PEHP cannot predict the results of such actions, management believes that the liability, if any, resulting from such claims will not have a material effect on PEHP's operations or financial position. Losses from the actual settlement of such unknown claims are taken into consideration in the computation of the estimated claims liabilities.

8. CAPITAL ASSETS

The capital assets of PEHP are:

	December 31, 2017			
	Equipment			
	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 79,309	$ -	$ 19,181	$ 60,128
Computer equipment	533,918	-	436,859	97,059
Vehicles	295,083	91,950	3,000	384,033
Leasehold improvements	653,786	-	653,786	-
Total	$ 1,562,096	$ 91,950	$ 1,112,826	541,220
	Accumulated Depreciation			
	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 79,309	$ -	$ 19,181	$ 60,128
Computer equipment	533,918	-	517,586	16,332
Vehicles	249,071	58,735	-	307,806
Leasehold improvements	604,283	-	604,283	-
Total	$ 1,466,581	$ 58,735	$ 1,141,050	384,266
Net capital assets				$ 156,954

	December 31, 2016			
	Equipment			
	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 86,559	$ 5,558	$ 12,808	$ 79,309
Computer equipment	643,462	5,924	115,468	533,918
Vehicles	274,733	20,350	-	295,083
Leasehold improvements	653,786	-	-	653,786
Total	$ 1,658,540	$ 31,832	$ 128,276	1,562,096
	Accumulated Depreciation			
	Beginning Balance	Additions	Deletions	Ending Balance
Furniture and equipment	$ 86,559	$ -	$ 7,250	$ 79,309
Computer equipment	643,462	-	109,544	533,918
Vehicles	210,390	38,681	-	249,071
Leasehold improvements	555,337	48,946	-	604,283
Total	$ 1,495,748	$ 87,627	$ 116,794	1,466,581
Net capital assets				$ 95,515

8. CAPITAL ASSETS (Continued)

Depreciation expense for the years ended December 31, 2017 and 2016 amounted to **$34,816** and $96,892, respectively.

9. COMPENSATED ABSENCES

The compensated absences liability represents the amount of unused leave to be paid to employees upon termination.

Program employees are granted leave in varying amounts, based on length of service. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement No 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the accompanying financial statements. The compensated absences liability is calculated based on the pay rates in effect at period end.

The compensated absences liability as of December 31, 2017 and 2016 was **$1,666,608** and $1,606,737, respectively.

10. NET INVESTMENT INCOME

Net investment income consisted of the following items for the years ended December 31:

	2017	2016
Interest income	**$ 10,648,641**	$ 10,406,494
Net investment income (loss)	**(826,336)**	645,639
Investment income	**9,822,305**	11,052,133
Less: investment expenses	**295,966**	226,275
Net investment income	**$ 9,526,339**	$ 10,825,858

11. REVIEW OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 8, 2018, which is the date the financial statements were available to be issued. No events have occurred subsequent to December 31, 2017 requiring recording or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC EMPLOYEES HEALTH PROGRAMS

10 Year Loss Development (Unaudited)
(Reported in Thousands)

Required Supplementary Information 10 Year Loss Development (Unaudited)

As noted in the "Other Matters" in the audit opinion, PEHP is transitioning into the ten year loss development schedule as required supplementary information. PEHP will begin with five years of data and build upon that data from year-to-year until a full ten years is presented in accordance with GASB No. 30, Risk Financing Omnibus an amendment of GASB Statement No. 10.

The following table compares the medical Program's earned revenues net of reinsurance and investment income to related costs of losses and loss adjustment expenses, net of reinsurance, assumed by PEHP. The table is defined as follows: (1) shows each year's net earned premium, other operating revenues and interest income, (2) shows each year's other operating expenses including overhead and loss adjustment expenses not allocable to specific claims, (3) shows incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred, (4) shows the cumulative amounts paid as of the end of successive years for each accident year, (5) shows the reestimated amount for loss assumed by excess insurers or reinsurers as of the end of the current year for each of the accident years, (6) shows how each coverage year's incurred losses increased or decreased as of the end of the successive years: this annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims, (7) compares the latest re-estimated incurred loss amounts to the amounts originally established. Information for PEHP is only available in the format shown on the next page for the years presented.

PUBLIC EMPLOYEES HEALTH PROGRAMS

10 Year Loss Development (Unaudited)
(Reported in Thousands)

(In thousands)	**2009-2010**	**2010-2011**	**2011-2012**	**2012-2013**	**2013**	**2014**	**2015**	**2016**	**2017**
(1) Required premiums, investment revenue, and interest income:									
Premiums earned	554,927	542,551	538,812	483,790	249,713	487,504	526,471	557,323	616,296
Premiums ceded	(542,593)	(514,064)	(552,778)	(472,838)	(235,065)	(490,359)	(562,878)	(509,884)	(578,996)
Net premiums earned	12,334	28,487	(13,966)	10,952	14,649	(2,855)	(36,407)	47,438	37,300
Interest income	9,555	5,695	7,498	2,496	2,848	7,349	1,318	5,597	5,505
(2) Unallocated expenses	5,246	6,925	5,172	4,942	5,846	8,863	8,757	11,615	15,413
(3) Estimated incurred losses and expenses, end of policy year:									
Incurred	501,591	472,218	478,176	443,285	214,766	467,419	498,908	539,617	598,659
Ceded									
Net incurred	501,591	472,218	478,176	443,285	214,766	467,419	498,908	539,617	598,659
(4) Paid (cumulative) as of:									
End of policy year	452,237	431,651	428,394	403,708	176,249	424,825	452,298	489,747	547,899
One year later	498,575	470,169	474,314	442,687	214,508	466,292	497,795	539,600	
Two years later	498,333	469,956	474,260	444,028	214,439	465,950	496,845		
Three years later	498,231	469,915	474,221	443,505	214,299	465,798	-		
Four years later	498,215	469,716	-	-	-	-	-		
Five years later	498,202	-	-	-	-	-	-		
Six years later	-	-	-	-	-	-	-		
Seven years later	-	-	-	-	-	-	-		
Eight years later	-	-	-	-	-	-	-		
Nine years later	-	-	-	-	-	-	-		
(5) Reestimated ceded loses and expense	498,202	469,716	474,221	444,028	214,587	467,419	498,908	539,617	598,659
(6) Reestimated incurred losses and expenses:									
End of policy year	501,591	472,218	478,176	443,285	214,766	467,419	498,908	539,617	598,659
One year later	498,744	470,218	474,369	443,799	214,587	466,329	497,686	539,523	
Two years later	498,333	469,956	474,260	444,028	214,313	465,935	496,790		
Three years later	498,231	469,915	474,221	443,505	214,174	465,798			
Four years later	498,215	469,716	-	-	-	-			
Five years later	498,202	-	-	-	-	-			
Six years later	-	-	-	-	-	-			
Seven years later	-	-	-	-	-	-			
Eight years later	-	-	-	-	-	-			
Nine years later	-	-	-	-	-	-			
(7) Increase (decrease) in estimated incurred losses and expenses from end of accident year	(3,390)	(2,502)	(3,955)	220	(591)	(1,622)	(2,118)	(94)	-

See Independent Auditor's Report

PUBLIC EMPLOYEES HEALTH PROGRAMS

Schedule of the Proportionate Share of the Net Pension Liability
For the Year Ended December 31, 2017
Last Ten Fiscal Years *

	Noncontributory System	Tier Public Employees System
Proportion of the net pension liability (asset)	0.4283833%	0.2999276%
Proportionate share of the net pension liability (asset)	$ 13,883,546	$ 33,456
Covered employee payroll	$ 11,217,836	$ 2,459,647
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll*	123.76%	1.36%
Plan fiduciary net position as a percentage of the total pension liability	84.9%	95.1%

* In accordance with paragraph 81.a of GASBS No. 68, employers will need to disclose a 10-year history of their proportionate share of the Net Pension Liability (Asset) in their RSI. The 10-year schedule will need to be built prospectively. The schedule above is only for the current year. Additional information will be added as it becomes available.

See Independent Auditor's Report

PUBLIC EMPLOYEES HEALTH PROGRAMS

Schedule of Contributions

For the Year Ended December 31, 2017 and 2016

	As of fiscal year ended December 31,	Actuarial determined contributions	Contributions in relations to the contractually required contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered-employee payroll
Noncontributory System	2015	$ -	$ -	$ -	$ -	0.00%
	2016	-	-	-	-	0.00%
	2017	2,553,457	2,553,457	-	11,586,198	22.04%
Tier 2 Public Employees System*	2015	$ -	$ -	$ -	$ -	0.00%
	2016	-	-	-	-	0.00%
	2017	535,310	535,310	-	2,920,596	18.33%
Tier 2 Public Employees DC Only System*	2015	$ -	$ -	$ -	$ -	0.00%
	2016	-	-	-	-	0.00%
	2017	535,310	535,310	-	2,920,596	18.33%

* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 system were created effective July 1, 2011.

Paragraph 81.b of GASB 68 requires employers to disclose a 10-year history of contributions in RSI. Contributions as a percentage of covered-payroll may be different than the board certified rate due to round and other administrative issues.

See Independent Auditor’s Report