- **Review of Claims Operations** – Segal's evaluation of claims operations goes beyond the provider's ability to simply pay claims to members' satisfaction. In disability programs for example, our review identifies carriers' efforts to manage claims and rehabilitate claimants resulting in lower costs and increased satisfaction.

- **Rates and Renewals** – Credible information is often missing, or when available, not interpreted sufficiently to adequately manage the renewal process. For example, in low cost, but very complex excess major medical plans, costs often increase by general medical trend, which may not be appropriate.

- **Plan Design Evaluation** – Voluntary plans are frequently offered as "standard" plans. This approach may be in conflict with the sponsors' objectives or participants' needs. This is particularly true of hospital indemnity plans or dread disease plans that encourage a higher level of care than required. Segal's diagnostics will reveal the optimal plan designs for the desired price point that can provide meaningful protection and properly coordinate with the objectives of the basic health care plan.

- **Component Alliances** – Segal assists in un-bundling program services to take advantage of specialization by qualified providers. For example, long term care program may be properly priced and well administered but may not have appropriate care managers or enrollment services. Un-bundling optimizes the overall program and may lower costs.

- **Communication Services** – Voluntary benefits typically have basic communication needs associated with each product offering. Review and/or modification of such needs and corresponding materials may assist participants greatly in their understanding, purchase and utilization of the benefits.

3. Assisting in negotiations of healthcare contracts and review of draft contracts.

Segal will be prepared to review the County's benefit program administrators' service agreements and proposals, and assist County staff in determining administrators' ability to deliver quality service. We will review contract agreements at the outset of our work with the County and identify any issues or concerns for review and discussion either immediately or as part of the annual renewal activities.

We will also be available to review vendor proposals and assist the review team in their analysis of competing bids. We can provide both written analysis and participation in team meetings and discussion.

We will be prepared to recommend performance guarantees for benefit program administrators. We have experience in negotiating financial performance guarantees on the vendors that serve our clients. We maintain normative standards for contract performance that reflect general practices among large employers. These norms will be tailored to the specific needs of the County's benefit programs.

Additionally, Segal provides extensive claim audit services for health benefit, prescription drug and insurance programs. Through our work in conducting both on-site and electronic claims audits and analyses, we maintain extensive knowledge of performance standards commonly in use, as well as vendors' ability to meet those performance standards.

We will also be prepared to recommend performance guarantees for benefit program administrators. We have experience in negotiating financial performance guarantees on the vendors that serve our clients. We maintain normative standards for contract performance that reflect general practices among large employers. These norms will be tailored to the specific needs of the County and Schools

benefit programs. In addition to negotiation of performance guarantees during the bid and contracting process, we monitor achievement of the promised results from year to year.

4. Pricing healthcare program on an annual basis.

Developing annual premium rates is one of the most important tasks assigned to the actuary and consultant as premium rates are used to determine the participant share of the cost and therefore, the projected County budget. We view the rate setting cycle not as a routine process to be carried out each year, but as an opportunity for the County and your vendors to make course corrections, adjust inequities, focus on special needs and identify potential improvements to the program prior to the next full procurement process. This approach allows the County to maintain a high degree of knowledge about, and control over, its health benefit costs.

Actual utilization and cost data will be available that will allow analysis by plan, as well as across plans, if desired. Each year, we will assist the County in the development of monthly rates for its health benefit programs and other insurance coverage as requested, calculating employee rates based on the overall plan rates. Segal anticipates a process that is both timely and similar from year to year. By maintaining consistency in the process each year, the County will be better able to determine when vendors are straying from their contract terms.

After complete and correct data has been received, we will analyze that data for trends and unusual patterns. The ongoing monitoring of actual costs to initial projections means that this analysis will be a continual process. For the self-insured plans, the actuary must develop the premium rates based on historical claims data, administrative fees and capitation payments. Rate development involves an analysis of utilization, participation levels and trends for the trailing 12 to 24 months to project the likely experience for the next 12 months. Adjustments for population shifts, plan changes (including mandated benefits) and demographic differences need to be included. Based on historical cost and utilization trends as well as general health trend patterns, these costs are projected to the applicable plan year. To the extent that the plan designs are changing from year to year within the vendor's overall contract with the County, or that the County makes or anticipates changes in the premium subsidy levels for plan coverage, we will apply expected migration factors between the plans to determine the anticipated participation levels in each plan option.

Each of the self-insured health benefit contactors charge the County an administrative fee. If that fee has been established as part of the procurement process and cannot vary from those bids, we will confirm that the correct rates are being charged. If the procurement process specified a maximum allowed increase in administrative charges, then we will analyze the backup provided for any administrative cost increases and work with the County to mitigate or limit those increases.

The premium rate calculations and vendor negotiations will be completed in close cooperation with the County. Based on discussions with the County and other analyses prepared during the year, we will develop various rate scenarios to be presented. Segal will discuss the advantages and disadvantages of each rate scenario to assist the County in its decision process.

Annual Benefit and Cost Projections

Segal will calculate the projected changes in premium rates needed for the next three years as part of our overall rate setting actuarial process. These calculations will also provide comparative information of changes year over year and against overall health plan trends. Specific calculations will be made to provide the information outlined for the Rate Book below.

Reserve Calculations

As part of the annual rate renewal process, Segal's actuarial and benefit analysts staff will perform reserve computations for the State's self-funded health plans. Critical to the success of a self-funded program is the proper provision of reserves for incurred but not reported (IBNR) claims. We will review the County's self-funded health plans' experience data and perform risk analysis to estimate the liability of the programs, while identifying the risk factors involved with each plan. Under the direction of our actuary, we will calculate estimates of the IBNR claims amounts and report them as one component of the overall cost.

Annual Rate Book

We will develop an annual rate book that will be customized specifically for the County's program. Our rate book will reflect not only the overall cost for each plan, that compose the rate structure. Our report will include detailed bi-weekly employee rates (monthly for retirees) by plan, coverage tier and type of benefit. This report will include our findings and recommendations from the rate renewal process and carrier negotiations. We also raise issues that the County should be considering in its program design and funding strategy.

This report includes the information needed by the County to make decisions regarding the next year's rate setting options. The report will typically include:

- A discussion of the results and contributing factors for the three different mechanisms (PPO, POS and HMO) through which the County provides health coverage, including the major assumptions utilized in the analysis;
- Various rate scenarios that alter the County share of the program and resulting employee premium rates;
- Discussion of issues that arose during the rate renewal process and a summary of resolutions achieved on those issues;
- Estimated reserves for incurred but not reported (IBNR) claims;
- Enrollment counts by plan and by rate tier;
- Demographic analysis of the participant population;
- Summaries of results;
- Cost comparisons under the various rate scenarios;
- Total expected costs by coverage type;
- Cost growth by major category projected for the current and next two years (separately for active workers and for retired participants); and
- Comparison of the prior year's expected costs to actual costs and identification and analysis of significant differences.

As part of the rate setting process, we will prepare a summary report of the rate analysis, including the recommended rate changes needed for the next plan year. The summary will include the rate book report based on the recommendations and will be available for presentation and/or discussions regarding our summary report and all our rate calculations for the year.

5. Perform annual GASB-45 evaluations.

Segal's services related to GASB 45 include:

- Actuarial valuations of GASB 43 and 45 liability and Annual Required Contributions, in addition to other required reporting items;
- Plan design modeling relating to GASB liability; and
- Consulting on program design for retiree health benefits, funding and subsidy strategies.

We can work with the County to provide actuarial and consulting services for calculation of the County's retiree health liability and annual required contributions under GASB Statement 45 (as well as any plan reporting requirements that might be indicated or needed under GASB Statement 43). We will coordinate closely with both the County and your accountants to identify the specific reporting and calculation needs. We can then provide modeling of the liability and contribution requirements based on different funding methods, pre-funding levels, rate of return assumptions, actuarial assumptions and population changes.

We will also work closely with the County's retirement system actuary to maximize consistency on development of valid actuarial assumptions, and with the County's staff to identify ways that the program can be pre-funded. In addition, we will work with the County and benefits staff regarding how the current promise for retiree health coverage might be changed, if needed, to create more efficiency in funding for retiree health benefits.

The following sections describe our overall approach to providing GASB OPEB valuation and consulting services. Using our experience with similar projects and our working knowledge of the issues arising from GASB 45 implementation, we will tailor the tasks required for the valuation and consulting specifically to your needs.

Process Overview

We would begin our work with the County by developing a clear understanding of your current active and retiree health benefit programs, including any stated goals and objectives. We will gather data necessary to conduct the OPEB actuarial calculations and will provide a benchmark valuation based on current plans. The benchmark valuation will serve as a starting point for modeling of plan design and funding variations put forth for consideration. The initial benchmark valuation will also help to identify data sufficiency and ready availability to help smooth the calculation process for the first year the County will adopt the new accounting standards.

Segal's Approach

Segal's consulting approach emphasizes constructive dialogue with our clients to arrive at sensible long-term solutions. We want our clients to be comfortable with their decisions. This "comfort factor" extends throughout the relationship. We make a point of being responsive to your needs and of treating every question as an important one.

At Segal, we recognize the budgetary and social policy concerns surrounding benefit coverage for public employees and retirees carry an even greater weight than in the private sector, as economic pressures come into direct conflict with limited tax revenues. We are sensitive to the fact that benefits comprise a substantial portion of employees' total compensation and effective and efficient design, management and procurement of benefits affects not only the County, but your employees and retirees as well. We believe these factors and challenges must be met with a clear understanding of the forces at work, with the appropriate objectivity to take a fresh look, and with a mind open to change as new ideas are put forth.

GASB ACTUARIAL VALUATION

Segal will perform the actuarial calculations of the County's liability and annual required contribution for retiree health benefits. The following summarizes our proposed work plan for this engagement.

Project Initiation

Immediately upon approval of the engagement, Segal will establish a meeting with the County and staff to initiate the project. The purpose is to:

- Discuss and finalize the project scope and timing;
- Understand any special needs or interests;
- Establish parameters for keeping the County updated;
- Identify data required for the overall engagement; and
- Agree on the final deliverables for the project.

Following the initial discussion, we will summarize the discussion and decisions and provide a project outline and data request. Any open issues and questions will be identified for review as the project progresses.

Evaluate Plan Documentation and Data

The next phase of the project would consist of a review of all relevant plan documents, summary plan descriptions and any other related documents concerning the OPEB benefits provided to the County's retirees. Where needed, we will raise questions to assure that we fully understand all aspects of the program.

Our data requirements include four primary types of information:

1. Plan descriptions and documents, including clarification of the eligible groups;
2. Participant data for active and retired individuals;
3. Retiree claims experience data for recent years; and
4. Financial information about the program, including previous County financial statements to show how the cost for retiree health benefits has been reported in past years.

Data elements required for the OPEB valuation are described in our detailed data request, which will be provided under separate cover once awarded the contract.

Segal is capable of handling client data in any of a number of formats and on most forms of electronic media (electronic transfer, tape, diskette, etc.). To exchange data electronically, we use both the Internet and the firm's e-mail system. Data is imported into the Segal Data Handler, a proprietary Segal database system. The Segal Data Handler is fully customizable to accommodate the unique set of data elements particular to each client. We will provide feedback to the County on the data provided to assure that we have received all needed information to conduct the actuarial valuation and analysis.

We understand that some of the information and claims data we seek for the project may not be readily available. We are prepared to work with the County to arrive at the most expeditious way of obtaining useable data.

Develop assumptions for actuarial valuation process

Segal will work with the County in the development of an internally consistent set of actuarial assumptions to be used in the valuation process. In measuring the liability for OPEB, we must make

assumptions about future events including the amount and timing of medical benefit claims to be paid.

Significant assumptions for the OPEB valuation include at least the following:

- Health care trend rates (medical inflation and rising administrative costs);
- Changes in utilization or patterns of delivery;
- Discount rates;
- Mortality rates;
- Disability rates;
- Retirement rates;
- Age-related medical expense increases;
- Initial medical expense cost factors;
- Medicare reimbursement rates; and
- Dependent and spouse coverage assumptions.

The liabilities and expense for OPEB are sensitive to the assumptions selected and relatively minor changes in certain areas could result in substantial shifts in the cost projections. Moreover, it is difficult to accurately predict experience in some of the areas for which actuarial assumptions are required. The basic assumptions will be selected to represent the "most likely" projection of expected experience, understanding that significant variations in actual experience may occur. We will also apply the assumptions used in the pension valuation and our knowledge of County's population behavior.

We will prepare the actuarial study using a number of alternate health care trend assumptions as discussed and agreed with the County prior to the valuation. This approach allows more effective modeling of cost changes to test the sensitivity of the liability and annual cost to economic factors.

Perform actuarial valuation of the County's OPEB liability and annual required contribution under GASB 45 based on current benefit commitments.

Using participant and claims data provided by the County, we will perform an actuarial valuation of the County's retiree health liability and annual required contribution in accordance with the rules of the GASB Statement 45. Our analysis will include a projection of the OPEB cost based on the current population of active employees and retirees.

Segal will perform the following calculations:

- Project the total cost of providing postemployment benefits. The projection will be made on the basis of the current plan as communicated to participants.

- Discount the projected cost of benefits to the present value. The actuarial present value of total projected benefits is the amount that would have to be set aside today in an interest-earning account in order to provide enough capital to pay all expected costs of postemployment benefits for all current plan participants (both retirees and employees).

- Determine the **Actuarial Accrued Liability ("AAL")**. The AAL is the portion of the actuarial present value of total projected benefits allocated to years of employment prior to the measurement date. The AAL is calculated using the one of six acceptable actuarial cost methods (e.g. entry age normal, attained age, aggregate).

- Calculate the **Unfunded Actuarial Accrued Liability ("UAAL")**. The UAAL is the difference between the AAL and actuarial value of the plan's assets.

Additional relevant figures would be calculated and provided to the County, including annual expense (including any applicable transition calculations), accumulated postretirement benefit obligation, expected postretirement benefit obligation, and vested postretirement benefit obligation.

Our calculations will also include the following reporting requirements for the County required by GASB:

- **Annual Required Contribution ("ARC")** - The ARC is equal to the sum of the normal cost (NC) and the amortization of the UAAL.

- **Net OPEB Obligation ("NOO")** - The NOO is the cumulative difference between the ARC and the actual contributions made.

- **Required Supplementary Information ("RSI")** - The RSI will require historical trend information from the last three valuations, including disclosure information about the UAAL and the progress in funding the plan. At transition, the RSI may include only the first year's information.

Contents of Segal's Valuation Report

The OPEB valuation report will contain the following:

- Letter of certification;
- Executive summary of the valuation;
- Summary of the key results of the valuation.
- Financial disclosures and actuarial cost factors for the major groups of employees covered by the County, including:
  - Actuarial and market value of assets;
  - Actuarial liabilities and liabilities for accrued benefits;
  - Employer contribution rates, expressed as a dollar amount and as a percentage of covered payroll and split between normal cost and unfunded actuarial liability components; and
  - GASB basis accounting disclosures.

- Statistical disclosures for the County and relevant subgroupings, including:
  - Development of normal costs;
  - Summaries of participation data, including aggregate numbers of actives, covered salaries, numbers of retirees and beneficiaries, benefits paid and options selected, average age and numbers of vested former members;
  - Detailed participation and eligibility statistics; and
  - Participant distributions by age, salary and service.

- Disclosures of actuarial assumptions, cost methods and procedures;
- Summary of the principal plan provisions for each group of employees covered by the County;
- A glossary of terms used in the valuation report; and
- Recommendations to the County for changes based on findings and conclusions from the valuation.

Produce cash flow projections for the current eligible population

As part of Segal's valuation, we can prepare a ten (10) year cash flow projection to assist the County in budgeting future costs for the program.

Once the valuation is complete, we will meet with the County to review our actuarial report and findings. At that review meeting, we will assist in determination of additional variations of assumptions and plan design to be modeled from the primary reports.

VALUATION METHODOLOGY

Segal follows the following approach to preparing actuarial valuations.

1. **Do the initial preparation**. Prepare a summary of the current benefit plan for retirees using the current plan design(s), demographic information and trend assumptions to establish a picture of the County's current status.

2. **Prepare a data request** for the County, identifying all required information for the calculations. This will include updated census information on active, terminated and retired participants with their current health benefit elections.

3. **Have the initial preparation and data request reviewed** by the Supervising Actuary.

4. **Sent the data request** to the County. Work with the County as necessary to simplify data preparation and assure its completeness and accuracy of the County's retirees.

5. **Review the data** when received, to be sure it conforms to the data request. Run the data through standard reasonability checks for completeness and reasonableness. Discuss any problems with the County.

6. **Review assumptions** against the experience. The Supervising Actuary will assess developing trends and analyze demographic changes and themes related to the County's data. Discuss with the County, if necessary, to verify unusual results.

7. **Complete the calculations**. Using the County's experience, demographics, medical trend and current retiree plan design(s) prepare work sheets and tables detailing the County's liability related to retiree health insurance. Submit calculations to checker for verification of mathematical accuracy and reasonableness.

8. **Review the findings**. This review is conducted by one of the Supervising Actuaries, and encompasses the entire process including retiree data, calculations, and programs. The Supervising Actuary assumes responsibility for the completeness and correctness of the results.

9. **Draft the report** to be presented to the County.

10. **Final Review** by a second Actuary experienced in GASB OPEB calculations.

11. **Distribute the report** to the County.

12. **Meet with the County** to discuss the report, its findings, the reasons for changes, and any other relevant matters. This is included in our fee proposal shown below.

We have found that these procedures ensure a quality actuarial product and communicate the results in a clear manner.

Segal provides a broad range of other professional services to many retirement systems sponsored by states and political subdivisions. The range of services offered include:

- Actuarial funding requirements and related governmental certifications;
- Define benefit, defined contribution, and deferred compensation plan design;
- Retirement plan valuation audits;
- Post-retirement medical plan valuations and related plan design/cost modeling;
- Calculations and disclosures under accounting regulations;
- Asset/liability modeling and related projections;
- Defined contribution plan recordkeeping vendor searches and monitoring along with access to investment consulting services through Segal Advisers, Inc., the SEC-registered investment-consulting affiliate of Segal; and
- Comprehensive consulting advice on each of the above-mentioned areas.

RETIREE HEALTH CONSULTING

To support and enhance the usefulness of the primary GASB actuarial valuation, Segal can provide retiree health benefit consulting services such as the following:

Review impact and potential design changes based on valuation results

Segal proposes to assist the County in analyzing your OPEB funding and benefit design options, including the impact of the various scenarios on the County's overall budget projections and financial condition. The following are major areas for design consideration:

- Eligibility;
- Plan design including Medicare integration methods;
- Vendor Management; and
- Participant contributions and jurisdiction subsidies.

Segal can review and suggest possible vehicles for pre-funding retiree health benefit costs by the employer or employees during their active careers, or jointly by both. Pre-funding of future retiree health benefits will have an impact on the County's GASB liability. We will assist by determining the likely financial impact.

As part of our review of potential retiree health benefit program changes, we will identify key advantages and disadvantages of each proposed plan design change. In addition, we will provide cost estimates reflecting expected cash outlay should the program changes be enacted. As potential changes are considered and accepted, we will assist the County in developing an implementation plan for the new benefit features or changes.

STRATEGIC PLANNING

Review of the County's retiree health benefit program strategy and current design

Segal will assist the County in constructing a well-reasoned strategic plan for the benefits programs covering retirees and active employees.

At the onset of our engagement, Segal will review any current written benefits strategy statements and make comments on items and concepts we believe should have further consideration. If the County has no strategy statement for its benefit plans, we will assist in constructing a draft statement of apparent objectives based on our review of the current plans in place. We have found that by

providing a draft of the strategy implied through current program design, we can help the client challenge and assess each aspect of its current benefit program.

The draft strategy statement, whether updated from a previous client version or created as a draft by Segal based on actual programs in place, will become the focal point for discussion on possible benefit feature and program changes. Following the planning process and agreement on a clear retiree health benefit strategy, we will work with the County's benefit staff to begin implementation of changes necessary to achieve the agreed strategy.

We fully recognize that retiree health benefit design is often subject to the collective bargaining or discussion processes with active employee representatives. Segal's expertise with benefits that are the subject of collective bargaining or other employee agreements is valuable in the plan design process.

6. Provide other necessary technical and legal advice.

Segal takes a proactive role in keeping clients informed on federal legislative, judicial and regulatory changes and issues that may affect benefit plans. We actively bring issues to our clients before the opportunity for change has passed. Our involvement at the highest levels of the legislative and regulatory process allows us to identify emerging issues to our clients when there is still time to influence the outcome.

7. Provide unbiased and candid assessments.

The Segal Company is an independent organization, owned by our officers and employees with no ties to any insurers, brokers, administrators, investment managers or financial institutions. Our only interest is in providing unbiased solutions to clients' benefits and compensation concerns and needs.

EMPLOYEE ONLINE ENROLLMENT SYSTEM REQUEST FOR PROPOSAL PROCESS

Charting the right course for on-line benefits enrollment administration may be one of the most important human capital decisions you make in the coming year. Given the myriad of vendor options available in this marketplace, your role as plan sponsor can be quite challenging without the right business partner to help you make informed choices. As one of the nation's leading benefits and human capital consulting firms, Segal is well-suited to work with you on this engagement. Key differentiators that make us an ideal business partner for you on this project include:

- **Outsourcing Expertise** –The team that would be assigned brings a deep understanding of what employers should consider before moving to an outsourcing approach, knowledge of the current vendor marketplace, the process for evaluating vendors and how to manage the overall process for long-term success.

- **Benefit Plan Expertise** – Complementing our understanding of the marketplace and the alternatives, is our particular expertise in benefit plan issues. Through Segal's Health Practice, we would bring to this engagement a deep understanding of compliance matters and health plan design. Because we understand both the strategic and technical aspects of benefit programs, we will be better able to advise you on issues related to the outsourcing of your on-line enrollment program.

- **Comprehensiveness of Review** – Given the complexity of the benefits administration options and issues, and the importance of identifying the right long-term fit , we believe you will be well served by Segal's comprehensive review process. As outlined in the Suggested Process below, we