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May 31, 2016

Re: GASB 45/75 Compliance through Citycounty Insurance Services

In 2008, most Employers with community-rated health care coverage through Citycounty Insurance Services (CIS) received a letter regarding the Employer's "Other Postemployment Benefits" (OPEB). The letter expressed an opinion that the Employer had no OPEB liability under GASB 45, and therefore did not require an actuarial valuation. A sample of that "no valuation" letter is enclosed.

Summary

The purpose of this update letter is to advise Employers that the previously issued "no valuation" letter will cease to apply by the fiscal year ending (FYE) June 30, 2018.

Our advisory recommendation is that Employers covered by this update letter should receive an August 1, 2016 actuarial valuation. CIS has offered to pay for this valuation for Employers with CIS-sponsored medical and dental coverages. The valuation would cover initial GASB 75 implementation for financial reporting in FYE 2018.

If you have any questions about this update letter, or would like to respond to any of the points herein, please contact our office at GASB45Oregon@milliman.com. *We ask that entities or their auditors communicate with us if they do not intend to comply with the advisory recommendation in this update letter.*

A separate invitation will be provided to the Employer when work commences on the August 1, 2016 actuarial valuation. No further action is anticipated from the Employer at this time.

Background

The enclosed "no valuation" letter rested upon an "exemption" from implicit subsidy measurements under GASB 45 for community rated coverages, such as those offered by CIS to entities with fewer than 100 covered active plus retired members. That GASB 45 exemption in turn was based upon the related Actuarial Standard of Practice known as ASOP 6.

The "no valuation" letter was written to remain relevant so long as the basis for conclusions were unchanged. We understand that most entities that received these letters have never reported under GASB 45.



This work product was prepared solely for Citycounty Insurance Services to entities which received the referenced "no valuation" letter, and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

About 40 Employers with rated health care coverage premiums currently contract through CIS to receive biennial actuarial valuations prepared by Milliman. The most recent valuation date was August 1, 2014, and the next scheduled valuation date is August 1, 2016.

Changes to Standards

The relevant actuarial standard, ASOP 6, changed recently. Under the new ASOP 6, the biggest change for smaller entities in Oregon is that the community rating exemption no longer applies. Similarly, GASB recently updated its OPEB accounting standards by issuing GASB 75. GASB 75 also removes the community rating exemption. As a result of these changes, an implicit subsidy liability should be measured and reported.

The new ASOP 6 was effective for valuation dates on or after March 31, 2015 and GASB 75 must be implemented by FYE 2018. Earlier implementation of GASB 75 is encouraged, but not required.

Potential Implementation Timing

The combination of these facts suggests that entities with community-rated coverage through CIS could comply with the new ASOP 6 by receiving an August 1, 2016 actuarial valuation, which would be used for initial implementation of GASB 75 in FYE 2018. Such entities would not report under GASB 45 prior to that date.

We have corresponded with a few Employers and auditors on this implementation timing, and have not yet received any objections.

Other approaches could be taken. For example, Employers could request measurements under GASB 45 presently. However, a brief reporting period under GASB 45, followed by a transition to GASB 75, may cause more cost and confusion than a single implementation in FYE 2018.

Certification and Limitations

Milliman has prepared this letter based on our understanding of Statement No. 75 of the Governmental Accounting Standards Board (GASB 75) and Actuarial Standard of Practice No. 6 (ASOP 6). Under the current ASOP 6 and GASB 75, we believe that substantially all Employers receiving health care coverages through CIS should be subject to an implicit subsidy valuation. We can no longer provide an advisory recommendation of “no valuation”, nor can we resolve a question of immateriality.

The advisory recommendation in this letter is not binding on the Employer. The Employer and its auditor are ultimately responsible for fulfilling the Employer’s reporting requirements. No attempt is being made to offer any accounting opinion or advice.



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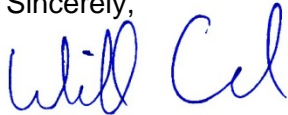
In preparing this letter, we relied without audit on information previously furnished by the Employer and relayed by CIS, and on information about community-rated premiums provided by CIS. If our understanding of these OPEB is inaccurate or incomplete, this advisory recommendation may likewise be inaccurate or incomplete and our determination may need to be revised. Additional determinations may be needed for purposes other than meeting accounting requirements.

If this letter is distributed to other parties, it must be copied in its entirety, including this section. We understand that the plan sponsor may distribute this report to its auditor in connection with its audit. Milliman does not intend to benefit any third party recipient of its work product, including the auditor, and does not intend to create any legal duty from Milliman to the auditor or any other party. In the event that the auditor's or Employer's review reveals any error or inaccuracy in the information used in this letter, Milliman requests that the auditor or the Employer notify Milliman as soon as possible.

The certification of the contents in this letter is conditioned upon a duly executed contract between CIS and the Employer covering Milliman's GASB 45 services. If no such contract has been executed, or if a "no valuation" letter had not been issued to the Employer, the contents of this letter are not certified, and should not be relied upon for any purpose.

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

Sincerely,



William H. Clark-Shim, FSA, EA, MAAA
Principal and Consulting Actuary



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milliman.com

April 28, 2008

To: Rhonda Place

E-mail address: placer@westsample.or.gov

Employer Name: City of West Sample

Re: GASB 45 Valuation through City County Insurance Services

You filled out a survey sponsored by City County Insurance Services (CIS) regarding "Other Postemployment Benefits" (OPEB) sponsored by the above-named Employer.

Based on the information provided to Milliman, and subject to all the discussion and conditions below, we are not aware of any OPEB provided by the Employer which should result in liability under GASB 45. In other words, based on the information provided to our office, we have concluded that the Employer has no OPEB liability under GASB 45.

We recommend you retain this letter for your records. This letter will serve as evidence for your auditors that the Employer reviewed its OPEB for liability under GASB 45, and that an independent expert determined there is no OPEB liability under GASB 45 based on the information provided. However, since the Employer and its auditor are ultimately responsible for meeting financial reporting requirements, we suggest you review this letter with your auditor to verify the accuracy of the information contained herein and to validate our findings.

If you have any questions about this letter, or would like to respond to any of the points below, please contact our office at GASB45Oregon@milliman.com. *Please include the name of the Employer in the subject line of your e-mail.*

Summary of Known OPEB

Based on the survey response and information provided by CIS, we noted the following important conclusions:

- All medical or dental coverages offered by the Employer to its employees and retirees are community rated. This means that, to our understanding, the medical and dental coverage premiums paid by the Employer and its employees and retirees are not determined with regard to claims experience or demographic characteristics of the Employer's covered population.



This work product was prepared solely for City County Insurance Services and City of West Sample and may not be appropriate to use for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work.

- The Employer does not pay for any portion of the premiums for its retirees' medical and dental coverage.
- The Employer does not pay for any portion of the premiums for its retirees' life insurance coverage.

Additional Information about OPEB

Please note that OPEB liability under GASB 45 can result from a wide variety of retirement benefits. Retiree medical and dental coverages are the most widely reported source of OPEB liability, but they are not the only sources. OPEB liability can also result from other OPEB extended to retired members – including life insurance, long-term disability insurance, and long-term care insurance. Following are some guidelines in recognizing sources of GASB 45 liability:

- If the employer pays for any portion of a retiree OPEB, an OPEB liability should generally be recognized under GASB 45.
- If the retired member pays for the full cost of an OPEB, that OPEB generally does not result in GASB 45 liability.
- If the retiree's payments for an OPEB do not cover the full cost of the OPEB, an OPEB liability could be recognized under GASB 45. For example, if the Employer offers retiree life insurance or long-term care insurance, and the premiums for such coverage are not based upon the retiree's age, the coverage could result in OPEB liability under GASB 45.
- If the Employer has a self-funded (i.e. not insured) long-term disability plan outside of any pension plan, that long-term disability plan may result in GASB 45 liability.

We are not aware of any such OPEB offered by the Employer to its retirees. If you believe the Employer offers a retiree OPEB not discussed herein which you believe may result in OPEB liability under GASB 45, please send written comments to the e-mail address noted above.

Immateriality or Alternative Valuation

In some cases, an employer may offer an OPEB whose cost may be deemed immaterial. Examples may include benefits arranged for individual employees or benefits where the retiree's payment for the OPEB comes "close" to matching the full cost of the OPEB. If the Employer believes any or all of its OPEB have immaterial cost, it is responsible for confirming that immateriality with its auditors.

If the Employer offers an OPEB of small, but not immaterial, value, it may wish to approximate the value of that OPEB on its own. The Employer is responsible for confirming its calculation with its auditors, and Milliman assumes no liability or duty to any party on behalf of any such calculation.

Finally, if the Employer offers an OPEB which it feels is reflected more appropriately under a different means than GASB 45, it may wish to propose that approach to its auditors. However, the Employer is responsible for confirming its approach with its auditors, and Milliman assumes no liability or duty to any party on behalf of any such approach.

Milliman may be able to assist with guidance on the issues noted above. However, any such assistance may be billed to the Employer at our regular hourly rates, which are approximately \$200 - \$400 per hour for consultants, and \$75 - \$200 per hour for staff.

Certification and Limitations

Milliman has prepared this letter based on our understanding of Statement No. 45 of the Governmental Accounting Standards Board (GASB 45). No attempt is being made to offer any accounting opinion or advice. In preparing this letter, we relied without audit on the survey response and any related information furnished by the Employer and relayed by CIS, and on information about community-rated premiums provided by CIS. The determination reported herein has been made on a basis consistent with our understanding of the OPEB offered by the Employer. If our understanding of these OPEB is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete and our determination may need to be revised. Additional determinations may be needed for purposes other than meeting accounting requirements.

If there are material defects in the Employer's survey response, it is possible that they would be uncovered by a detailed, systematic review and comparison of the responses and available employee or retiree data to search for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

If this letter is distributed to other parties, it must be copied in its entirety, including this section. We understand that the plan sponsor may distribute this report to its auditor in connection with its audit. Milliman does not intend to benefit any third party recipient of its work product, including the auditor, and does not intend to create any legal duty from Milliman to the auditor or any other party. In the event that the auditor's or Employer's

review reveals any error or inaccuracy in the information used in this letter, Milliman requests that the auditor or the Employer notify Milliman as soon as possible.

The certification of the contents in this letter is conditioned upon a duly executed contract between CIS and the Employer, as reviewed by Milliman in conjunction with this GASB 45 valuation. If no such contract has been executed, the contents of this letter are not certified, and should not be relied upon for any purpose.

The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

Peter R. Sturdivan, FSA, EA, MAAA
Principal and Consulting Actuary

William H. Clark-Shim, FSA, EA, MAAA
Consulting Actuary