

Tom Green County, Texas

Postemployment Benefits Other than Pension

Actuarial Valuations

Fiscal Years: FY2013 - FY2018

Engagement: February 11, 2013

(Valid as proposed 90 days from date shown)

February 11, 2013

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Nathan P. Craddock, CIO
County Auditor
County of Tom Green
112 West Beauregard
San Angelo, Texas 76903

**RE: GASB STATEMENT NO. 45 - OPEB REPORTING
ENGAGEMENT FOR THE ACTUARIAL VALUATIONS FY2013 - FY2018**

Dear Mr. Craddock,

Thank you for your consideration of our proposed engagement for CapRisk Consulting Group (CapRisk) to provide actuarial services for Tom Green County (the County). The overall purpose of our consulting efforts will be to assist the County and its representatives in the management of its retirement plan for “other (than pension) postemployment benefits” (OPEB). The scope of this assignment, providing the Actuarial Valuation in support of the GASB Statement No. 45 reporting, will consider expense obligations specific to these benefits.

The assistance shall include:

1. Submission of a ready-to-file document addressing the actuarial valuation of OPEB expense obligations, signed by a fully-credentialed Fellow of the Society of Actuaries.
2. Personal presentation and explanation of study results and conclusions.
3. Ongoing consultation, as necessary, with regard to interpretation of values presented and the implementation of recommendations.

Teamwork and quality communication are considered key to the services being requested. CapRisk colleagues offer a true partnership approach to our consulting efforts founded on these considerations. We are prepared to dedicate sufficient resources, tailored to accommodate the specific needs and scheduling requirements of the County. We are an independent consultancy, value long-term relationships, and thus offer a level of commitment toward serving the needs of our clients that may not be found in other consulting practices.

It is CapRisk's position that actuarial models should reflect the unique characteristics of the plan and client operational procedures to the greatest extent possible. CapRisk actuaries have particular expertise working with retiree pension plans and other postemployment benefits (OPEB) and are accordingly well-prepared to address the needs for this assignment and any future studies for the County.

1. CAPRISK EXPERIENCE

Our firm's actuaries and consultants offer a combined one hundred plus years experience. One of our strongest and growing practice areas is providing actuarial and related consulting services for retiree medical plans to a wide range of client employers and plan consultants. Since the implementation of FAS No. 106 (the private sector equivalent of GASB No. 45) our actuaries have provided **audit support and actuarial valuations** for many of our clients that are exposed to these accounting standards. For our public sector clients we are additionally working with those interested in evaluating the impact of various plan changes under GASB No. 45 on their financial statements.

The following are offered as representative of our actuaries' current and completed work:

- ◆ Eastland County (Texas)
- ◆ Grimes County (Texas)
- ◆ Hardin County (Texas)
- ◆ Jackson County (Texas)
- ◆ Medina County (Texas)
- ◆ Walker County (Texas)
- ◆ Wilbarger County (Texas)
- ◆ Val Verde County (Texas)
- ◆ Young County (Texas)
- ◆ City of Bay City (Texas)
- ◆ City of Deer Park (Texas)
- ◆ City of Graham (Texas)
- ◆ City of Midlothian (Texas)
- ◆ Cherokee County (Alabama)
- ◆ Chilton County (Alabama)
- ◆ Jefferson County Health Dept. (Alabama)
- ◆ Morgan County (Alabama)
- ◆ Enterprise Water Works (Alabama)
- ◆ City of Homewood (Alabama)
- ◆ Oklahoma County (Oklahoma)
- ◆ Tulsa County (Oklahoma)
- ◆ City of Broken Arrow (Oklahoma)
- ◆ City of Springfield (Tennessee)
- ◆ Montgomery County (Tennessee)
- ◆ Putnam County (Tennessee)
- ◆ Wilson County (Tennessee)

2. ACTUARIAL QUALIFICATIONS

Wilfred L. Thornthwaite, FSA, MAAA, EA, Consulting Actuary with 25 years professional experience is presented as our lead consultant for this project. Mr. Thornthwaite is a **fully-credentialed Fellow** of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries.

3. PROPOSED METHODOLOGY

Our valuation methodology will follow GASB No. 45 in consultation with the County regarding assumptions. The valuation system we employ is widely used in the public sector for valuation of both pension plans and welfare plans. We have utilized this **state-of-the-art valuation system** for the past eight years.

We have attached the 'Executive Summary' and 'Accounting Information' sections from a sample report for your reference. These cover our approach to the valuation as well as providing the County an illustration of the summary detail provided. The remainder of the report, not included, contains supporting detail on the actuarial development of various GASB No. 45 cost and liability components. Since the projected impact of the current plan may result in changes in the existing medical plan for retirees, we can also calculate alternative valuations reflecting these plan changes where requested.

4. PRESENTATION OVERVIEW

The results of the analysis will be presented first in draft form for review, followed by an opportunity for discussion before issuing the final written report. Our written report will contain a **Statement of Actuarial Opinion** outlining the assumptions on which the analysis is based and the conclusions reached. The balance of the report will document sources of data, material considerations, and methods used in sufficient detail for regulators or an auditor to evaluate the work performed and the conclusions reached.

5. VALUATION TIMELINE

As outlined here in our proposed engagement and dependent upon receiving complete data in a timely manner, we will develop our report for review within 30 days (flexible). We will then schedule a meeting with the County and its representatives to go over the results to ensure we have properly reflected applicable information. Barring any major changes arising from discussion, final signed reports will be delivered within a week after that meeting.

6. FEE SCHEDULE

Our fee includes development of claims costs and other assumptions for the actuarial valuation as well as preparation of the data file to be used in the valuation. The fee includes the consultation to prepare the initial report and the actual preparation of the report. Based on our current understanding of the plan*, the total cost for the full valuation study will not exceed \$5,250, and will be performed biennially with the initial actuarial valuation for Fiscal Year Ending September 30, 2013. Actuarial projections** will be provided in the "interim years" for a fee not to exceed \$750, making the County's anticipated two-year total cost \$6,000. As further evidence of our better value proposition, we will commit to this **all-inclusive flat fee schedule through FY2018** for the valuation reports to be provided during that extended timeframe.

[* The fee indicated is for a number of participants *fewer than 600*, where we will utilize the appropriate measurement method in accordance with the Actuarial Standards of Practice and the Governmental Accounting Standards Board to provide the Actuarial Valuation of Major Medical with additional benefits or options specified.

** The interim approach to reporting is only permitted under GASB 45 if there are no significant changes in the plan regarding benefits, funding, or demographics. If this occurs a new full valuation study is required.]

Additional consulting services can be provided for the County's consideration, such as a review of the likely impact of potential changes to the retiree plan benefits under GASB No. 45 reporting. Associated fees will be discussed and confirmed in writing before any additional projects are undertaken.

Our services are generally invoiced only once in total, presented with the completed report, or at some otherwise agreed upon preferred point of completion of our study. This fee reflects the understanding that the County and its representatives will be available to assist in efforts to gather and compile available data as may be required for the purpose of our analysis. Unless otherwise previously agreed to in writing, the total cost to the County for all services and expenses associated with performance hereunder shall not exceed the amount(s) quoted.

Two meetings (one, as a new CapRisk client, to discuss the plan in greater detail and gather available data at that time, and the other to present the results of our study) are offered as part of our commitment to local personalized service **at no additional cost** to the County.

Draft reports and personal presentations prior to the delivery of the final documents should provide assurance that our selected assumptions conform to your knowledge of the plan and that all of your questions have been addressed. Follow-up consultations can be provided to address any concerns that arise after the reports have been completed, and we will remain available to confer with the County and its representatives.

We appreciate the opportunity to offer these services to Tom Green County, and look forward to working with you on this assignment.

Respectfully submitted,

CAPRISK CONSULTING GROUP:



James M. Owen, Managing Principal
877.747.5238, Ext. 411 / JOwen@CapRiskGroup.com

Enclosure: Sample Report Summary

Cc: Wilfred L. Thornthwaite, Consulting Actuary

The undersigned hereby authorizes CapRisk Consulting Group to commence work under this engagement with Tom Green County to provide the actuarial services outlined above.

Name/Title

Date