

Actuarial Work-Products, Inc.

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Carlton Harker, FSA, MAAA
Principal
www.self-fundhealth.com
www.actuarialworkproducts.com
www.ifebp.org/1harker
www.awpse.com

TO: Addressee No. 1	Addressee No. 2	Addressee No. 3
ABC Brokers, Inc.	Self-Funding Actuarial Svcs	Test Health Plan
PO Box 123	8025 North Point, Ste 207W	123 South Main Street
Winston-Salem, NC 27103	Winston-Salem, NC 27116	Baltimore, MD 21211
Tel. (336)777-7777	Tel. 336-759-2035	Tel. (410)777-7777
Fax (336)77-7777	Fax 336-896-0392	Fax (410)777-7777

RE: Health Care Plan: TESTPLAN

Benefits Include: Medical, Rx

Engager is Addressee No. 1

Eligible User is Addressee No. 2

This Certification provides an actuarial opinion with respect to the subject plan which consists of the following parts:

- Part 1 - Claims Fluctuations - Without Specific
- Part 2 - Claims Fluctuations - With Specific
- Part 3 - Economic Value of Stop-loss - Specific Only
- Part 4 - Economic Value of Stop-loss - Aggregate Only
- Part 5 - Economic Value of Stop-loss - Variable Aggregate

This certification consists of three sections:

- Statement of Actuarial Opinion
- Submitted Data and Computation Parameters
- Comments of the Actuary.

Sincerely,

Carlton Harker, FSA, MAAA
Actuarial Work-Products, Inc.

STATEMENT OF ACTUARIAL OPINION

OF THE PLAN BENEFIT CALCULATION FOR THE HEALTH CARE PLAN OF THE PLAN SPONSOR

I, Carlton Harker, am a principal of Actuarial Work-Products, Inc., am a Fellow of the Society of Actuaries and am a member of the American Academy of Actuaries. My firm has been retained by the Engager to provide calculations of certain actuarial items for the above-cited Health Care Plan.

I relied upon such Eligible User of the subject Health Care Plan as to the accuracy and completeness of underlying information used in the computation of such items.

In other aspects, my examination included such review of the actuarial assumptions and methods and such tests of actuarial calculations as I considered necessary under the circumstances.

Part 1 Opinion - Claims Fluctuations - Without Specific

Based upon the data and documentation set forth in this Work-Product, the projected plan sponsor-paid claims, including claims above the specific stop-loss limit for the indicated twelve month plan period and the statistical variance associated therewith are as follows:

- Projected claims \$1,439,623

• Statistical variance	<u>Degree of</u> <u>Confidence</u>	<u>Confidence Limits</u>	
		<u>Low</u>	<u>High</u>
	60%	\$1,293,608	\$1,585,639
	75%	\$1,239,721	\$1,639,526
	90%	\$1,152,807	\$1,726,440

Part 2 Opinion - Claims Fluctuations - With Specific

Based upon the data and documentation set forth in this Work-Product, the projected plan sponsor-paid claims, including claims above the specific stop-loss limit for the indicated twelve month plan period and the statistical variance associated therewith are as follows:

- Projected claims \$1,436,977

• Statistical variance	<u>Degree of</u> <u>Confidence</u>	<u>Confidence Limits</u>	
		<u>Low</u>	<u>High</u>
	60%	\$1,293,373	\$1,580,581
	75%	\$1,240,376	\$1,633,578
	90%	\$1,154,897	\$1,719,057

Actuarial Work-Products
Monte Carlo I Simulations
Claims Fluctuations and Economic
Value Stop-loss

Part 3 Opinion - Economic Value of Stop-loss - Specific-Only

Based upon the data and documentation set forth in this Work-Product, the economic value of the specific-only stop-loss when applied to the projected plan sponsor-paid claims, including claims above such specific stop-loss for the indicated twelve month plan period is as follows:

• Specific stop-loss limit	\$75,000
• Expected subject paid claims without specific-only stop-loss	\$1,439,623
• Expected subject paid claims with specific-only stop-loss	\$1,436,977
• Difference is the economic value of such specific-only stop-loss	\$2,646
• Estimated specific-only stop-loss gross premium	\$300,000

Part 4 Opinion - Economic Value of Stop-loss - Aggregate-Only

Based upon the data and documentation set forth in this Work-Product, the economic value of the aggregate stop-loss when applied to the projected plan sponsor-paid claims, excluding claims above such specific stop-loss for the indicated twelve month plan period is as follows:

• Aggregate stop-loss limit	\$1,380,000
• Expected subject paid claims with specific stop-loss	\$1,436,977
• Expected subject paid claims with specific and aggregate stop-loss	\$1,363,038
• Difference is the economic value of such aggregate stop-loss	\$73,939
• Estimated aggregate-only stop-loss gross premium	\$25,000

Part 5 Opinion - Economic Value of Stop-loss - Variable Aggregate

Based upon the data and documentation set forth in this Work-Product, the economic value of the aggregate-only stop-loss when applied to the projected plan sponsor-paid claims, excluding claims above the specific stop-loss (if any), for various corridor levels, are as follows:

<u>Aggregate Limit</u>		<u>Without</u>	<u>With</u>	<u>Economic</u>	<u>Monthly Cost</u>
<u>Percent</u>	<u>Amount</u>	<u>Aggregate</u>	<u>Aggregate</u>	<u>Value</u>	<u>for Covered</u>
		<u>Stop-loss</u>	<u>Stop-loss</u>	<u>Difference</u>	<u>Person</u>
90%	\$1,293,279	\$1,436,977	\$1,291,365	\$145,612	\$2
95	\$1,365,128	\$1,436,977	\$1,352,049	\$84,927	\$1
100	\$1,436,977	\$1,436,977	\$1,398,816	\$38,161	\$0
105	\$1,508,826	\$1,436,977	\$1,427,941	\$9,035	\$0
110	\$1,580,675	\$1,436,977	\$1,435,610	\$1,366	\$0
115	\$1,652,524	\$1,436,977	\$1,436,977	\$0	\$0
120	\$1,724,373	\$1,436,977	\$1,436,977	\$0	\$0
125	\$1,796,222	\$1,436,977	\$1,436,977	\$0	\$0
130	\$1,868,071	\$1,436,977	\$1,436,977	\$0	\$0

Conditions and Terms of Opinion

1. That this Work-Product is an actuarial opinion as contemplated by the American Academy of Actuaries.
2. That he is qualified to offer such opinion by reason of his meeting the requisite examination, experience and continuing education requirements of the American Academy of Actuaries.
3. That this Actuarial Work-Product is the result of a mathematical computer program processing inputted data and documentation as summarized herein.
4. That he is independent of and has no conflicted interest with any party with respects to this Work-Product.
5. That the Work-Product was prepared at the request of the Eligible User, who is identified herein, and who may or may not be the ultimate user of such Work-Product.
6. That he has been engaged, as contemplated by the relevant American Academy of Actuaries, by the Engager identified herein.
7. No specific audit/review of the accuracy of the submitted data was made.
8. The actuary intends to be a fiduciary with respect to this Work-Product and will act accordingly, striving to meet any and all standards of conduct necessary to meet this end.
9. The professional liability for this Work-Product is assumed by Self-Funding Actuarial Services, Inc. which has in place an appropriate professional liability insurance policy. A PDF of the summary page of this policy is available at: www.awpse.com/eando.pdf.

09/25/2008

Date

Carlton Harker, FSA, MAAA
Actuarial Work Products, Inc.
AAA Number 5293

SUBMITTED DATA AND COMPUTATION PARAMETERS

Addressee No. 1

ABC Brokers, Inc.
PO Box 123
Winston-Salem, NC 27103
Tel. (336)777-7777
Fax (336)77-7777
ID B0001
Contact John Smith
Email abc@xyz.com

Addressee No. 2

Self-Funding Actuarial Svcs
8025 North Point, Ste 207W
Winston-Salem, NC 27116
Tel. 336-759-2035
Fax 336-896-0392
ID E0001
Contact Carlton Harker
Email pgc512@yahoo.com

Addressee No. 3

Test Health Plan
123 South Main Street
Baltimore, MD 21211
Tel. (410)777-7777
Fax (410)777-7777
ID P0001
Contact Mary Smith
Email abc@xyz.com

Requested Work-Products

1. Claims Fluctuations - Without Specific
2. Claims Fluctuations - With Specific
3. Economic Value of Stop-loss - Specific Only
4. Economic Value of Stop-loss - Aggregate Only
5. Economic Value of Stop-loss - Variable Aggregate

General Information

Plan Name: TESTPLAN

No. 001

Plan Year: 01/01/2008 to 12/31/2008

Engager: ABC Brokers, Inc.

Eligible User: Self-Funding Actuarial Svcs

Plan Sponsor: Test Health Plan

Plan Parameters

Census	Individual	5,000	P/Children	0
	P/Child	0	P/Children	0
	P/Spouse	0	Family	0
	P/One	0	Total	5,000
	P/Two	0		

Benefits Included in Analyses (Aggregate Purposes Only)

Projected Claims	M yes	Rx yes	D no	Y no	STD no
Aggregate Stop-loss	M yes	Rx yes	D no	Y no	STD no

Annual Estimated/Projected Paid Benefits as Defined by the Plan

Payer	Claims Above Specific	
	Excluded	Included
Plan Sponsor	\$1,240,000	\$1,440,000
Plan Participant	\$0	\$0
Total	\$1,240,000	\$1,440,000

Stop-Loss Terms

Specific	Amount	\$75,000
	Annualized Premiums	\$300,000
	Terms:	Paid
Aggregate	Amount	\$1,380,000
	Annualized Premiums	\$25,000
	Terms:	Paid

Calculation Parameters

Number of Trials	100
Log normal Dispersal Index	4.5
Percent of Covered Persons Filing At least One Claim	83%
Economic Value of Stop-loss - Variable Aggregate (Part 5)	Requested

Notes

1. Individual includes child-only and surviving spouse.
2. Stop-loss paid includes 15/12, 12/15, e.g..
3. The ELIGIBLE USER is the party responsible for data input and report preparation.
4. The ENGAGER is the party responsible for the bill.
5. The PLAN SPONSOR is self-explanatory.
6. Aggregate, as a stand-alone benefit, is not contemplated.

COMMENTS OF THE ACTUARY

1. Elaborative explanatory comments may be found in this appropriate Sub-Site under these headings:

- Description of Work-Products
- Discussion of Manner of Production
- Fees and Terms
- Background Reading

2. This Work-Product is the property of the Engager who has the fee responsibility and is the party engaging the Actuary. Such Engager must be approved for such Work-Product module and retains such user rights solely at the pleasure/discretion of Actuarial Work-Products, Inc.

Plan Name: TESTPLAN

Valuation Date: 12/31/2007

Produced by: Actuarial Work Products, Inc.

USER CODE: 002 USER NAME: pcstevens COMPUTER: 648i main VERSION: v20080923a
VAL CODE: 00101 REQUESTED: 09/25/2008 09:51:16 AM PRINTED: 09/25/2008 09:53:51 AM NUMBER: 1
STATUS: TRANSFER COMPLE REQUEST: REQUESTXX BROWSER: Mozilla/4.0 (compati IP ADDRESS: 75.133.28.226

ADDRESSEE 1 ID: B0001
ADDRESSEE 2 ID: E0001
ADDRESSEE 3 ID: F0001

PLAN ID: 001

VAL NUMBER: 01
COMPUTATION DATE: 12/31/2007
PROJECTED RANGE: 01/01/2008 TO 12/31/2008