

Actuarial Work-Products, Inc.

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TO: Addressee No. 1

Self-Funding Actuarial Svcs
8025 North Point, Ste 207W
Winston-Salem, NC 27116
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Addressee No. 2

ABC Manufacturing Co.
PO Box 12134
Raleigh, NC 27611
Tel. (919) 856-1245
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Addressee No. 3

American Benefits Services
PO Box 987
Winston-Salem, NC 27103
Tel. (336) 759-9873
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RE: Health Care Plan:

Valuation Date:

Purpose of Valuation:

Engager is Addressee No. 1

Eligible User is Addressee No. 2

This Work-Product provides an actuarial opinion with respect to the subject Health Care Plan as of the Valuation Date for the purpose of enabling the Plan Sponsor to consider alternatives to FASB 106 Retiree Life Reserves.

Sincerely

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

STATEMENT OF ACTUARIAL OPINION

It is the opinion of the Certifying Actuary that the Plan Sponsor has three options that will serve as alternatives to FASB 106 retiree reserves.

Option A-Applicable Only to Early Retirees

Early retirees may be treated as COBRA participants thereby charging their classification from retirees to inactive plan participants under the following conditions:

1. Recognition that the COBRA 18-month period is only a statutory minimum period.
2. Appropriate plan amendment, invoking the full ERISA great of authority to Plan Sponsors with respect to plan design. This includes the right of former active plan participants on COBRA, to return to full-time employment without loss of eligibility of coverage.
3. Acceptance of the fact that such reclassification was anticipated by the AICPA in that FASB refers only to retiree and non-retiree status while GASB 43/45 refers to retiree and post-employment status.
4. Valid authority of the Actuary to hold, based upon demonstratable facts and circumstances, that for risk-pool management purposes a COBRA and a former active participant are the same.
5. Absence of a statutory, regulation, accounting or legal prohibition or contractual violation in such reclassification.

COBRA participants, who are not classed as retirees, are not subject FASB 106.

Option B-Benefit Funding

Retirees who pay the economic value of their plan benefits and fixed costs as supported by an appropriate actuarial opinion are not subject to FASB 106. Such appropriate actuarial opinion is attached hereto as Exhibit A. The certifying actuary is free to make suitable allowances for (a) benefits, (b) creditable claims and fixed cost experience, (c) manner of funding (fully insured, self-funded, HMO, prepaid medical plan; e.g.), (d) demographic patterns, etc. FASB 106 will apply under these circumstances:

1. Such is required by statute, regulation or contractual terms.
2. The economic value of such retiree benefits cannot be actuarially-determined.

Option C-Plan Amendment

Amend the health care plan to provide that to the extent not otherwise contrary to controlling state or federal laws or regulations or contractual terms (labor agreements, e.g.), no benefits shall be (a) encumbered, (b) vested or (c) deferred whether such attempt is direct (plan amendment, e.g.) or indirect (non-plan amendment).

Plan Sponsor Contributions

The opinions related early retirees and normal retirees presuppose that the cost of such retiree benefits are paid in total by the retiree. This opinion recognizes that such retiree costs may be shared between the retiree and the plan sponsor. Since the facts and circumstances of such arrangements are so many and so complex, no opinion as to the impact of such sharing on the determinations of any retiree reserve is offered.

Reducing Reserve Production Costs

Notwithstanding the compelling financial and fiduciary-related logic of alternatives to such retiree reserves, the Plan Sponsor may still elect to establish them anyway. In this event, a reduction in reserve production costs will be available by providing the *reserve actuary* with the Annual Actuarial Report (or its equivalent) prepared by the *health actuary*. This permits such *health actuary's* Report which shows (a) funding (b) COBRAs and (c) estimated reserves all trifurcated by risk pool (actives, early retirees and normal retirees) to do *double-duty* and thereby cut costs.

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 he is independent of and has no conflicted interest with any party with respects to this Work-Product.
4. 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.
5. That he has been engaged, as contemplated by the relevant American Academy of Actuaries, by the Engager identified herein.
6. No specific audit of the accuracy of any submitted data or documentation was made.

11/15/2007
Date

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