



**OSEEGIB**  
Oklahoma State and Education  
Employees Group Insurance Board

# HealthChoice

*A Component Unit of the State of Oklahoma*



## Comprehensive Annual Financial Report

**Year Ended December 31, 2010**



**Oklahoma**  
**State and Education Employees**  
**Group Insurance Board**

*A Component Unit of the State of Oklahoma*

*Comprehensive*  
*Annual*  
*Financial*  
*Report*

**Year Ended**  
**December 31, 2010**

**Prepared by the Finance Division**



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# Introductory Section



*Scissortail Flycatcher*





OKLAHOMA STATE AND EDUCATION EMPLOYEES GROUP INSURANCE BOARD

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June 30, 2011

**To the citizens of the State of Oklahoma:**

The comprehensive annual financial report for the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) for the fiscal year ended December 31, 2010 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Oklahoma State and Education Employees Group Insurance Board. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of OSEEGIB. All disclosures necessary to enable the reader to gain an understanding of OSEEGIB's financial activities have been included.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, OSEEGIB's executive organizational chart, and a list of principal officials. The financial section includes the independent auditors' report, Management's Discussion and Analysis (MD&A), and the basic financial statements. The statistical section includes selected financial and demographic information, presented on a multiyear basis.

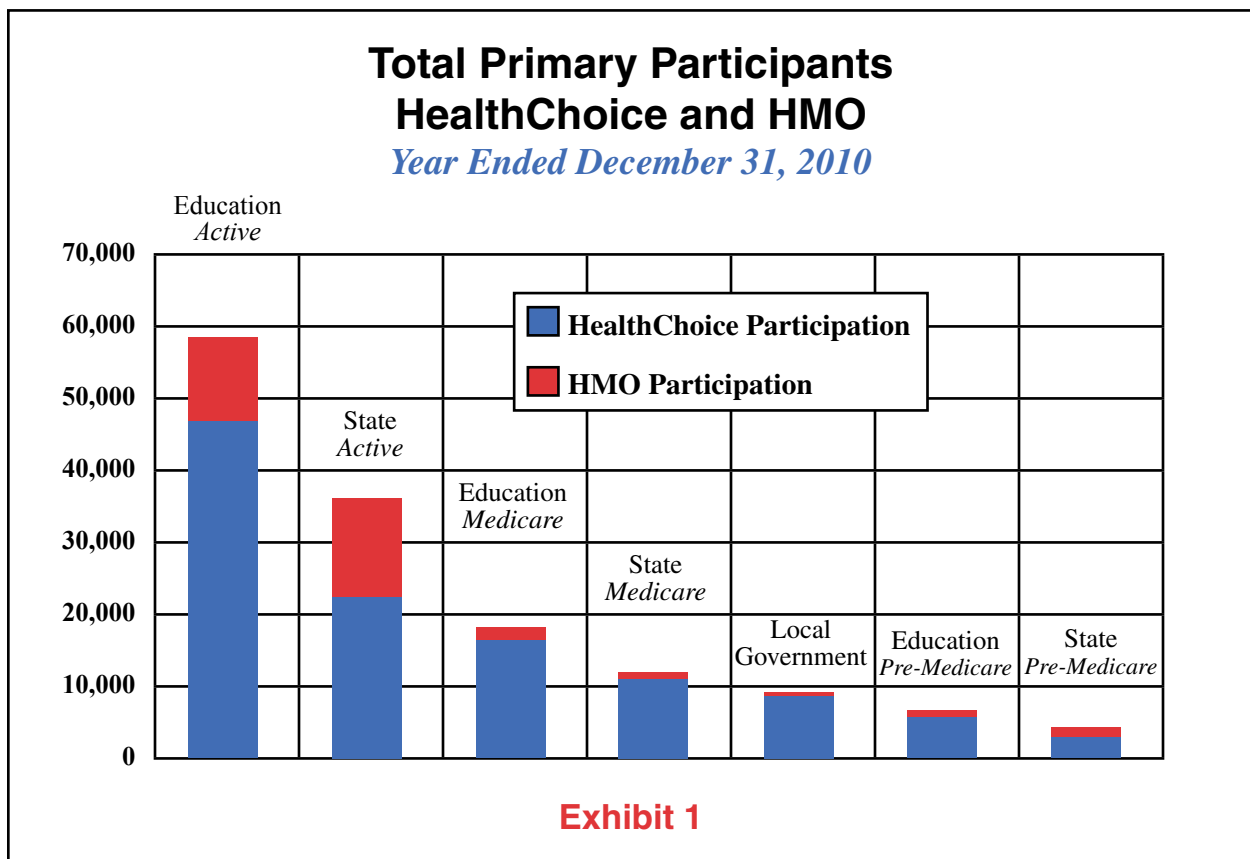
OSEEGIB is a special-purpose government entity engaged solely in business-type activities. OSEEGIB is a legal trust which administers, manages and provides group health, dental, life, and disability insurance for active employees and retirees of state agencies, school districts, and other governmental units of the State of Oklahoma. OSEEGIB provides insurance solely to eligible employees, dependents and retirees.

It is OSEEGIB's mission to serve Oklahoma by providing, with the highest degree of efficiency, a wide range of quality insurance benefits that are competitively priced and uniquely designed to meet the needs of participants.

OSEEGIB provides a self-insured health, dental, life, and disability program (HealthChoice), which is actuarially rated to provide premiums adequate to meet the payment of all claims, administrative expenses, and any change in reserve estimates. OSEEGIB maintains reserves to provide for current claim liabilities as required. At the present time, OSEEGIB has not transferred any risk of loss through reinsurance contracts.

During the year ended December 31, 2010, participants could choose between HealthChoice and four federally qualified health maintenance organizations (HMO) during their initial enrollment. Each HMO requires participants to reside or work within a designated service area, which consists primarily of the Oklahoma City and Tulsa metro areas, but is expanding to rural parts of Oklahoma as provider networks are established. HealthChoice has no such restriction and is thus available to all eligible participants statewide. After enrollment, members have the opportunity to change health carriers during an annual option period. Coverage elections may be changed during the year if the member experiences a change in family status event as defined by Internal Revenue Service Code Section 125.

The following chart illustrates total primary participation in coverage offered by HealthChoice and HMOs by type of entity as of December 31, 2010.



Among the active primary members, approximately 27% were covered by the HMO plans at December 31, 2010. For the Medicare and pre-Medicare population, approximately 8% were covered by the HMO plans at December 31, 2010.

Each year during the months of October and November, participants may change their coverage elections for the next year. All carrier changes and coverage elected during this period will be effective January 1 and remain in effect until December 31 of the same year.

OSEEGIB, by statute, provides insurance coverage to all employees and dependents that meet eligibility requirements. An employee's coverage begins the first day of the month following the month of employment. The employee has thirty days after beginning employment to acquire

health, dental, and/or life insurance for his dependents. If the employee elects dependent coverage, the employee must cover all eligible dependents, unless the dependent is covered by other group insurance. The employee also has thirty days after acquiring a new dependent in which to add that dependent. After this period, an employee may still add dependents during the aforementioned annual option period. Coverage could be delayed, however, if the dependent has been dropped in the past twelve (12) months.

An active employee who leaves employment may add or retain certain insurance coverage depending on his status at the end of his employment. The former employee may also add or continue dependent coverage that was in effect while he was an active employee. Retired employees may continue all health, dental, and life coverage. If the member has vested his retirement benefit but is not yet eligible to draw retirement benefits, he also retains the right to health, dental, and life coverage. In the event an employee terminates employment or a dependent loses eligibility due to divorce or by exceeding age limitations, health and dental coverage may be continued if the member and/or his dependent meet the requirements set forth under COBRA.

The following table illustrates the available coverage by participant group:

<b>Available Coverage by Participant Group</b>							
	<b>State Employees</b>	<b>Education Employees</b>	<b>Local Government Employees</b>	<b>OK Public Employees Retirement System</b>	<b>Teachers' Retirement System</b>	<b>Survivors</b>	<b>COBRA</b>
<b>Health</b>	✓	✓	✓	✓	✓	✓	✓
<b>Dental</b>	✓	✓	✓	✓	✓	✓	✓
<b>Life</b>	✓	✓	✓	✓	✓	✓	
<b>Disability</b>	✓		✓				
<b>Medicare Supplement</b>				✓	✓	✓	✓

## **ECONOMIC OUTLOOK**

The economic issues facing the state, its agencies and school districts, other participating groups, and their employees are a key consideration when OSEEGIB sets premium rates. The Board is very aware that increases in premiums affect the already tight budgets of participating groups, as well as individual members. Alternatives to rate increases such as changes in co-payments or deductibles must be considered, especially when groups are facing budget cuts. OSEEGIB's Board is faced with the daunting task of weighing the alternatives and making the difficult and sometimes unpopular decisions that are necessary to meet projected costs. OSEEGIB's goal is to keep premiums as low as possible and continue to provide quality and affordable healthcare to employees and retirees of state, education, and local government entities.

## Healthcare reform

The economy of healthcare is in a state of change, now more than ever in recent history. The Patient Protection and Affordable Care Act (ACA) signed by President Obama on March 23, 2010 has a significant economic effect on health insurers. The ACA contains wide-sweeping changes for individuals, employers, and insurers, some of which are expensive and will result in increases to health insurance premiums. OSEEGIB is closely monitoring all issues related to the ACA. The ACA is discussed further in the Legislative section of this letter.

## Healthcare trends

The insurance industry monitors healthcare costs by establishing a percentage of cost increases known as ‘trend’. The definition and factors affecting trend are discussed in Management’s Discussion and Analysis.

The 2011 Segal Survey indicates that while most 2011 forecasted health plan cost trends are expected to remain relatively similar to current levels, they continue to significantly outpace increases in both general inflation and average weekly earnings. Plan sponsors are focusing on cost-management strategies that both mitigate increases and improve the overall health and well-being of their plan’s population. The Survey indicates the impact on plan cost trend due to compliance with the Affordable Care Act would be an additional increase of 1.1 percent or more. According to the 2011 Segal Survey, projected trends for PPO plans for 2011 are as follows:

- Medical (Actives & Retirees < Age 65) 10.6%
- Medical (Retirees Age 65+) 7.0%
- Prescription Drug 9.2%
- Dental (Indemnity Plans) 6.6%

Projected trends for 2011 for medical costs for Actives and Retirees under age 65, prescription drug, and dental are slightly higher than those projected for 2010, while the medical trend for 2011 for retirees over age 65 is lower than that projected for 2010.

OSEEGIB’s actuaries used the following trends for setting rates for 2010:

- Medical (Actives & Retirees < Age 65) 8.25%
- Medical (Retirees Age 65+) 5.0%
- Prescription Drug 9.5%
- Dental 3.0%

The actual trends experienced by OSEEGIB for 2010 are discussed in Management’s Discussion and Analysis.

According to the Segal Survey, for the last several years, price inflation for services and supplies continues to be the biggest element of overall medical plan trend. In 2011, price inflation will account for nearly two-thirds of overall medical plan cost trend and it’s forecasted that hospital cost trends would exceed all other elements of medical benefit services.

## Investment outlook

OSEEGIB's investment portfolio experienced positive returns in 2010 and throughout the first quarter of 2011. The current debate over the national deficit has contributed to increased volatility in the investment market in the second quarter of 2011 and OSEEGIB's returns have been mixed, with an 7% return on equity investments and a 2.4% return on fixed income investments for the first half of 2011.

More information on how economic conditions affected OSEEGIB in 2010 as well as OSEEGIB's 2010 trend experience is included in Management's Discussion and Analysis.

## MAJOR INITIATIVES

OSEEGIB began enhancing benefits to encourage tobacco cessation in 2008 by allowing active and retired members and enrolled dependents to obtain all FDA-approved tobacco cessation drugs without prior authorization. OSEEGIB has taken this initiative much further in 2010, by reducing copays on tobacco cessation prescription drugs to \$5.00. Effective January 1, 2011, this same copayment benefit was extended to Medicare members. In addition, OSEEGIB entered into an agreement with the Tobacco Settlement Endowment Trust (TSET) to provide, at no cost to the member, counseling and up to two 12-week courses of over-the-counter nicotine replacement treatment (gum, patch, lozenge) to HealthChoice members who want to quit smoking. To reward and incentivize members for a healthy lifestyle, OSEEGIB intends to implement a deductible differential between tobacco users and tobacco free households for the January 1, 2012 plan year.

For plan year 2011, OSEEGIB increased its benefit for preventive visits for members and dependents. One preventive service visit per calendar year, including one metabolic panel and one lipid panel, will be covered at 100% with no copay through a Network Provider for members and dependents age 20 and older. Preventive service visits for members and dependents under age 20 will be available with no copay through a Network Provider according to the following schedule:

<u>Well Child Care Visits</u>	<u>Plan Year 2011</u>
Age 0 to 12 months	8 visits
Age 1 through 2 years	4 visits per age
Age 3 through 5 years	2 visits per age
Age 6 through 19 years	1 visit per age

OSEEGIB contracted with a vendor to administer a Health Risk Assessment (HRA) for the benefit of HealthChoice members. The program is intended to empower, educate and motivate members to take action and improve their health and safety. In addition, the HRA vendor will provide data that OSEEGIB can use to assess various risks of the group as a whole and act to reduce the risk.

The HealthChoice **H.E.L.P. ✓** program began in plan year 2011 and combines the results of certain free preventive services with the online, interactive HRA. Eligible members that complete program requirements will receive a \$100 incentive payment. The preventive services are covered at 100% of Allowed Charges with no cost to members when they are provided in an outpatient setting

by a HealthChoice Network Provider who bills using specific CPT codes. Eligible primary members are those age 20 and older and not eligible for Medicare who are enrolled in any HealthChoice plan.

In addition, OSEEGIB is enhancing the promotion of wellness and healthy lifestyles by working with participating employer groups to provide education on health, nutrition, exercise, and tobacco use through on-site visits to the employer location.

As a sponsor of an early retiree program (HealthChoice), in 2010 OSEEGIB submitted and was approved to participate in the Early Retiree Reinsurance Program of the ACA. This program allocates \$5 billion to reimburse plan sponsors 80% of the amount of an early retiree's medical and pharmacy claims between \$15,000 and \$90,000 in an eligible plan year. The ACA mandates the application include a description for the cost-savings programs and procedures currently in place for chronic and high cost claimants, a projection of the reinsurance amount, and a description of the intended uses of the funds. OSEEGIB received nearly \$5 million in December 2010 and anticipates receiving additional payments from Health and Human Services in 2011. OSEEGIB intends to use the proceeds to reduce premiums in 2012 and 2013.

OSEEGIB's actuaries are providing data analytics to better enable OSEEGIB to evaluate utilization and costs at a detail level that has not been readily available in the past. The data compares utilization and costs from year to year and to national norms. OSEEGIB will be using this data to evaluate fee schedules and trends and to promote wellness for members. Members will receive reminders for certain screenings when a member's demographics and utilization suggest the reminder is appropriate. OSEEGIB's third party claims administrator will also be providing additional data in 2011 based on claims data that will further enhance identification of trends in healthcare on the member and provider levels.

OSEEGIB is doing its part to encourage the preservation of the environment by eliminating paper wherever possible. Beginning June 2010, HealthChoice members can access their Explanation of Benefits (EOB) online and opt out of receiving paper EOBs. HealthChoice network providers also have online access to their Remittance Advices. Employer groups may access their bill online and may opt out of receiving a paper bill. Numerous reports are now being provided electronically. In addition, OSEEGIB's third party administrators are providing electronic information to the state's flexible spending plan that is reducing the paper documentation required for filing a flexible spending account claim.

## **LEGISLATION**

The following are recently passed laws that have an effect on OSEEGIB:

### **Federal**

The American Recovery and Reinvestment Act (ARRA) was a wide-sweeping act with limited but significant effect on OSEEGIB. The Act was signed and effective February 17, 2009. The Act provided for a federal subsidy towards the COBRA premium for any individual who was involuntarily terminated from employment. This Act required employers to facilitate this subsidy

by ensuring that the member was only billed 35% of the monthly premium. Employers were required to pay the other 65% and obtain reimbursement through a credit on the employer's payroll tax return. Since OSEEGIB directly bills members electing the COBRA benefit, this Act required a great amount of communication and coordination between OSEEGIB and participating groups. This provision ended for new enrollees effective May 31, 2010 and the last billing to occur for ARRA participants who were eligible prior to that date will be November 2011.

The ACA went into effect March 23, 2010. OSEEGIB has responded to the ACA by designating a primary committee and several subcommittees who are very involved in evaluating the Act and ensuring that OSEEGIB will be in compliance with every requirement. Fortunately, OSEEGIB already complies with many of the mandates. The ACA contains language exempting existing insurance plans from some of the mandates as long as they maintain 'grandfathered' status. OSEEGIB maintained grandfathered status for 2011 but may not retain that status in later years. Changes that will affect OSEEGIB are as follows:

- Plans are required to provide dependent coverage until an adult child (married or unmarried) reaches age 26. OSEEGIB covered dependent children up to age 25, but beginning January 1, 2011 is covering dependent children up to age 26.
- Plans are prohibited from applying annual and lifetime dollar limits. OSEEGIB currently does not have either type of limit for medical claims; however, the \$2 million cap on pharmacy claims was removed effective January 1, 2011.
- The ACA requires plans to provide a host of preventive services to members at no cost to the member, many of which are already covered by the plan at no cost to the member. This requirement is estimated to cost \$12 million annually. This will apply to OSEEGIB when grandfathered status is forfeited.
- Plans are required to provide members with a summary of benefits and coverage explanation that meets standards developed by Health and Human Services (HHS). Lengthy documentation mailed to members is required, reversing some of the paperless initiatives that OSEEGIB began in 2010.
- Plans are required to report loss ratios and make these reports available to HHS. Plans not meeting certain loss ratios must provide premium rebates to their members. This requirement does not apply to self-funded plans; however, it does apply to the HMOs that contract through OSEEGIB which will require coordination to ensure the rebates go back to the consumer.
- The ACA allocated \$5 billion to be used nationwide to subsidize the cost of coverage for retirees who are not yet Medicare eligible. OSEEGIB applied for the subsidy on June 29, 2010, the first day plans were allowed to send the application. Funds are available on a first come first serve basis in order of filing claims. The application was approved and in December 2010, the Plan received its first payment of nearly \$5 million. OSEEGIB intends to file claims for two additional payments during the summer of 2011 and anticipates receiving the reimbursement from HHS later this year. More information regarding this topic can be found in the Major Initiatives section.

- The ACA states employers must disclose the aggregate cost of benefits provided by employers for each employee's health insurance coverage on the employee's annual Form W-2 which will require increased communication between OSEEGIB and participating groups.
- The ACA requires employers with more than 200 full-time employees to automatically enroll full-time employees into one of the available health plans in accordance with Department of Labor (DOL) regulations. Employees must be provided with adequate opportunity and notice to opt-out of any automatic enrollment. This requirement becomes effective once DOL regulations are issued, which is speculated to be in 2014.

## **Oklahoma**

House Bill 1055 (2009) formally creates the State Employee Health Insurance Review Working Group.

House Bill 1170 (2009) creates the Oklahoma Information Services Act and creates a position of Chief Information Officer for the State who shall issue a plan to transfer, coordinate and modernize all information technology and communications systems for all state agencies.

Senate Bill 757 (2009) creates the Health Infrastructure Advisory Board that will look at the use of electronic medical information records and health information technologies. The OSEEGIB Chief Information Officer will serve on that Board.

Senate Bill 822 (2009) creates a legislative task force to review the state's current health insurance mandates and determine if any of them need to be recommend for further legislative changes.

House Bill 2363 (2010) creates a statewide voluntary buyout program for retirement-eligible state workers. The bill requires agencies that receive reimbursements for voluntary buyouts to agree that its number of full-time-equivalent employees shall be reduced by that number of positions for a period of not less than 36 months.

House Bill 2437 (2010) requires all health carriers to pay to the insurance commissioner an access payment of one percent (1%) on all claims paid beginning from the effective date of the act until January 1, 2015. It requires monthly payments to the Oklahoma Insurance Department on all claims paid and incurred beginning July 1, 2010. This bill was later judged to be unconstitutional and the fee was never assessed.

House Bill 2698 (2010) creates the Oklahoma Government Website Information Act, requiring public bodies on or before January 1, 2011, to make available on Internet web sites or on a general web site any administrative rules adopted by the public body; proposed administrative rules; statutes affecting the body and its operations; and any statutes the public may find useful in interacting with the body.

House Bill 1062 (2011) allows state employees to opt out of state-provided health, dental,

life, and disability insurance benefits and receive an in-lieu payment when the employee has proof of other group insurance. The bill also directs OSEEGIB and the Office of State Finance (OSF) to contract with a vendor to offer health savings accounts to members enrolled in the HealthChoice high deductible health plan. Further, the bill allows OSEEGIB to contract with providers using a “Centers of Excellence” approach. Lastly, the bill directs OSEEGIB to contract for 2012 with a vendor that offers a Web-based health care cost containment program that incorporates doctor-patient mutual accountability incentives for the purpose of conducting a pilot project to test the program’s value. The proposition offers financial incentives to both the health care provider and the patient.

House Bill 1086 (2011) requires all payments made by the Office of State Treasurer to be conveyed by an electronic payment mechanism unless specifically exempted. It directs the treasurer to post the names of vendors exempted and provide a reason for each on the treasurer’s website.

House Bill 1969 (2011) removes the requirement for participants to show proof of an established health savings account when enrolling in a high deductible health plan.

House Bill 2140 (2011) consolidates OSEEGIB, along with three other agencies, as separate divisions of OSF. Under this bill the Board of OSEEGIB remains intact.

## **FINANCIAL INFORMATION**

OSEEGIB’s management is responsible for establishing and maintaining an internal control structure designed to ensure that assets are protected and to provide accurate accounting data. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. The valuation of costs and benefits requires estimates and judgments by management.

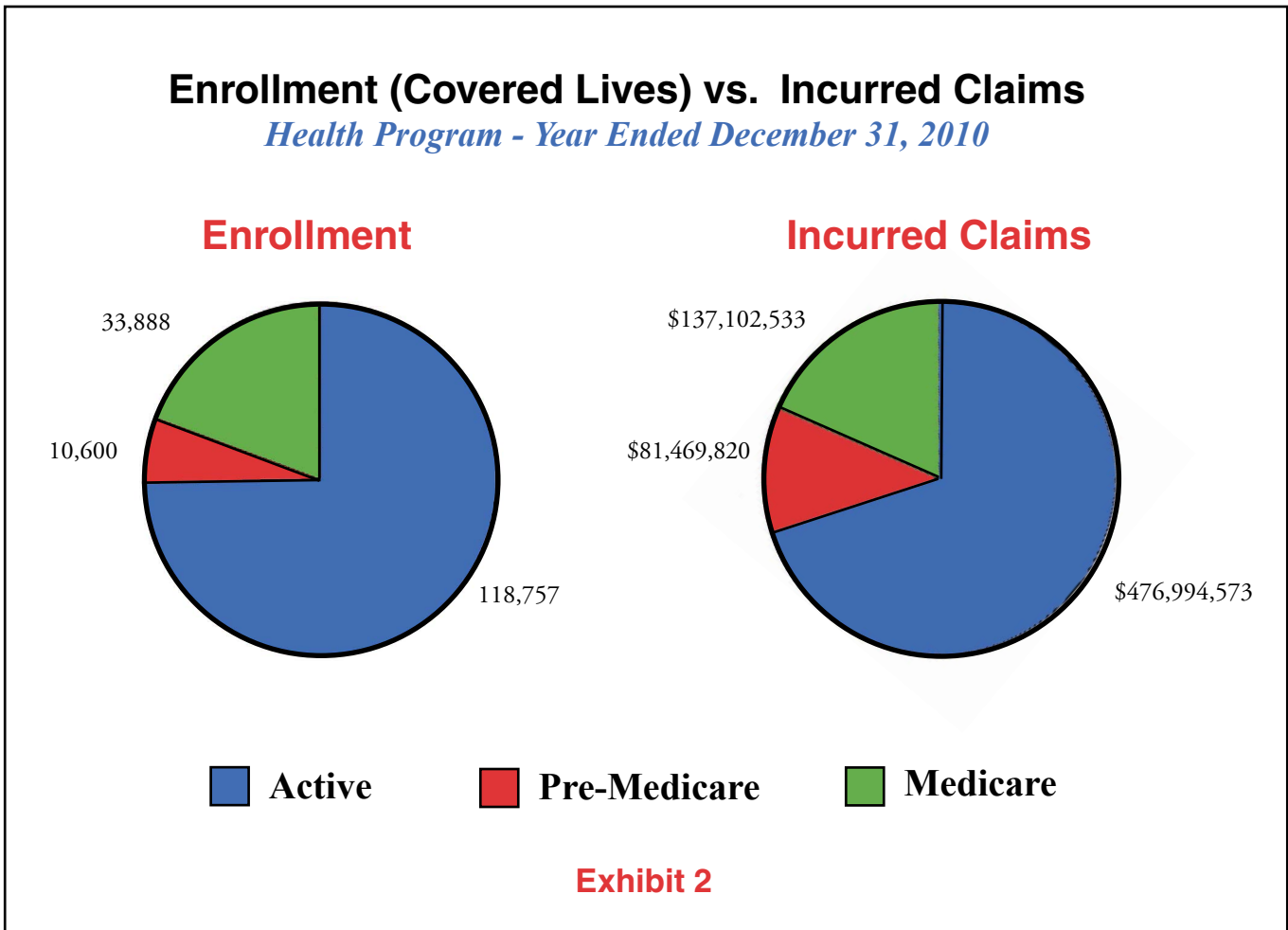
**Single Audit.** OSEEGIB does not receive federal funding and, therefore, is not required to undergo an annual single audit in conformity with the provisions of the Single Audit Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**Budgeting Controls.** All administrative expenses are funded from premiums. Funds needed for administrative expenses are transferred to a Revolving Fund, which is not subject to fiscal year limitations and is under the control of OSEEGIB. OSEEGIB maintains budgetary controls to ensure compliance with provisions embodied in the annual budget approved by the Board of Directors. The level of budgetary control (that is, the level at which expenditures cannot exceed the budgeted amount) is established by function and activity. OSEEGIB maintains an encumbrance accounting system as its primary technique for accomplishing budgetary control.

As demonstrated by the financial statements included in this report, OSEEGIB is meeting its responsibility for sound financial management.

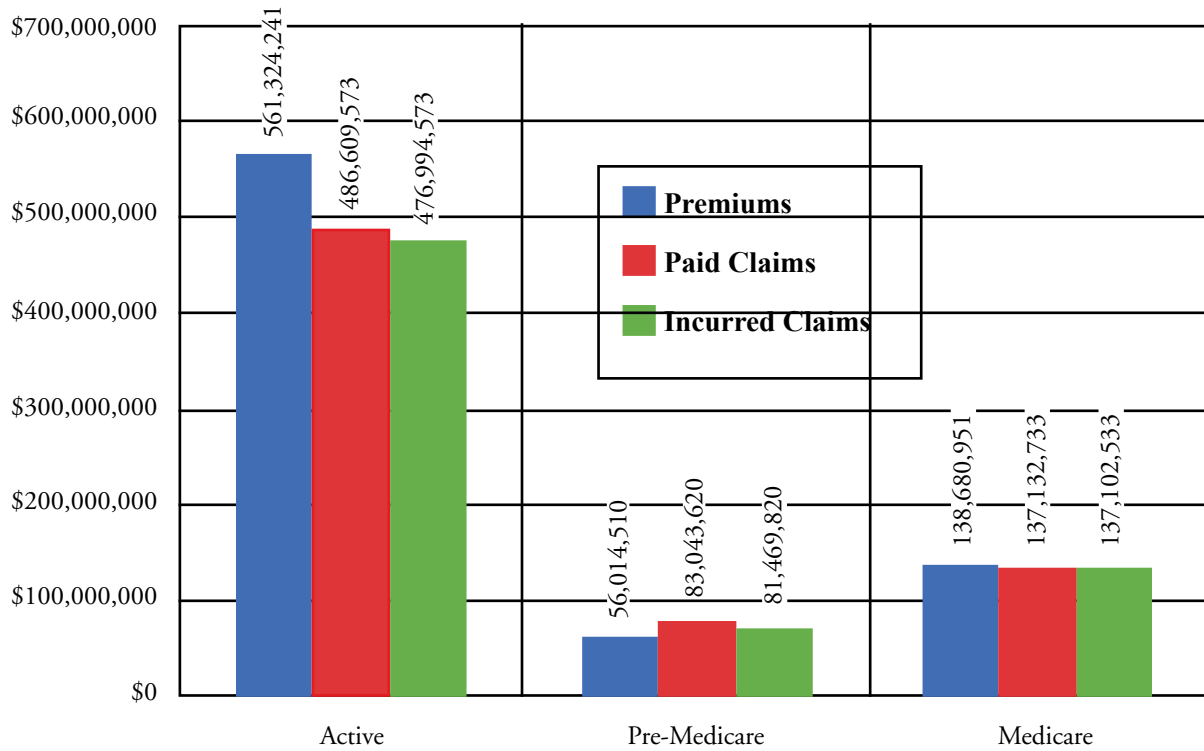
**Proprietary Operations.** OSEEGIB’s revenue from operations consists of health, dental, life, and disability premiums remitted by each participating entity for their employees, or directly by retirees

or participants under COBRA. Also included in premium revenue are premium subsidies received from the Centers for Medicare and Medicaid (CMS) Medicare Part D program. Other operating revenues consist of pharmacy rebates and a risk adjustment fee collected from HMOs. Operational expenses are primarily paid and incurred claims. The following charts illustrate enrollment, premiums and claims broken down between active participants, pre-Medicare retirees, and Medicare retirees.



Active employees comprise 73% of OSEEGIB’s primary member population and 68% of 2010 paid claims. Pre-Medicare retirees make up only 6% of OSEEGIB’s primary member population but account for 12% of paid claims and retirees over age 65 make up 21% of OSEEGIB’s primary member population and 20% of paid claims.

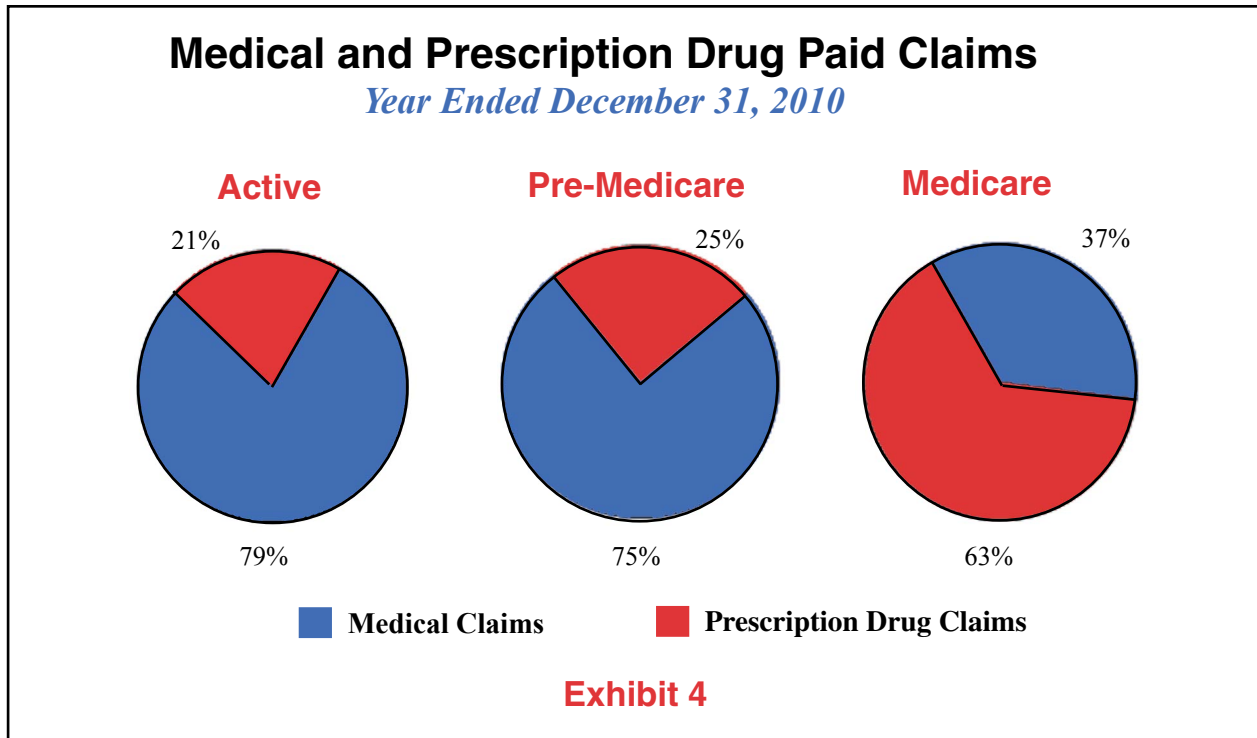
## Comparison of Premiums, Paid Claims, and Incurred Claims Health Program - Year Ended December 31, 2010



**Exhibit 3**

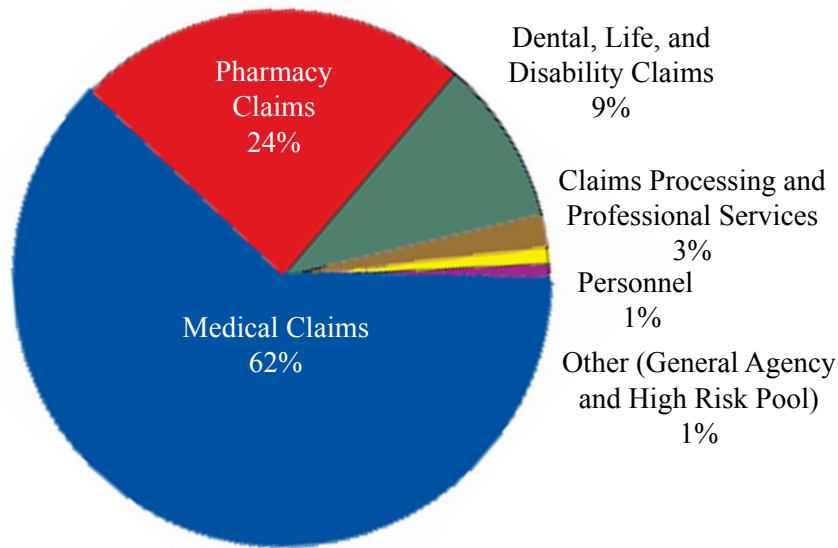
Pharmacy claims are included in total health claims. For active employees, health premiums for 2010 were \$84.3 million over incurred claims for the year, a difference of 18%. For pre-Medicare members health premiums fall short of covering incurred claims by \$25.5 million or 31%, primarily because premiums for active employees and pre-Medicare retirees are priced at a fully blended rate. For Medicare retirees, health premiums were \$1.6 million over incurred claims for a difference of 1%.

The following exhibit illustrates medical and prescription drug claims for each participant category.



For the active and pre-Medicare population less than one fourth of total paid claims are for prescription drugs. For the Medicare population the majority of paid claims are for prescription drugs.

**Total HealthChoice Expenses<sup>(1)(2)</sup>**  
*Year Ended December 31, 2010*



<sup>1)</sup> Chart does not include booking or amortization of premium deficiency reserve.

<sup>2)</sup> The HealthChoice expense for payment of health, pharmacy, dental, life, and disability claims was 96%. Only 4% of the agency's total expenses were for administrative costs. Of that 4%, 50% went directly to claims processing. These costs are per member and increase as plan membership grows.

**Exhibit 5**

The HealthChoice expense for payment of health, pharmacy, dental, life, and disability claims was 95%. Only 5% of the agency's total expenses were for administrative costs which compares favorably with industry averages.

**Cash and Investment Management.** OSEEGIB maintains minimum cash balances as required by statute to fund released warrants. All excess cash is deposited with a custodial bank, which in turn credits OSEEGIB's short-term cash money market account. In addition to the money market account, OSEEGIB has two fixed income money managers and three equity securities managers.

All invested funds are regulated by OSEEGIB's investment policy, set by the Board of Directors, and monitored by OSEEGIB administration.

The policy speaks specifically to liquidity, asset quality, maturity and duration of fixed income terms, and specific asset mix by statutory fund. In addition, the policy sets benchmark expectations for each type of money manager.

A more detailed summary of OSEEGIB's financial position and result of operations is included in Management's Discussion and Analysis.

**OTHER INFORMATION**

**Independent Audit.** The accounting firm of KPMG LLP has been retained to perform an annual audit. The independent auditors’ report on the basic financial statements is included in the financial section of this report.

**Acknowledgments.** The preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the accounting/finance department. In addition, we wish to acknowledge the contribution made by Mr. Gary Beebe, Comptroller.

In closing, without the leadership and support of the governing body of OSEEGIB, preparation of this report would not have been possible.

Respectfully submitted,

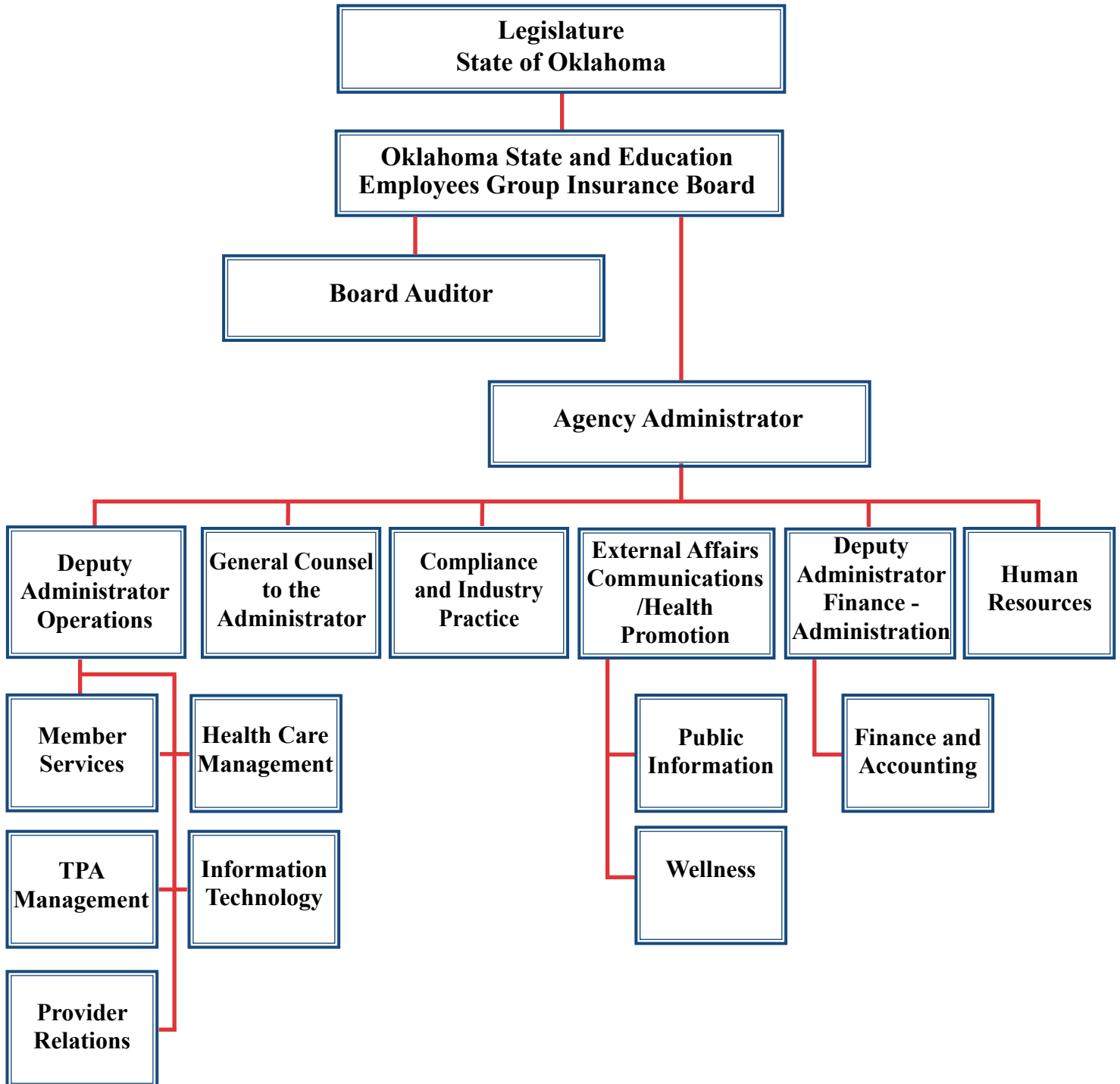


Lynne Bajema  
Deputy Administrator, Finance



Diana O’Neal  
Director of Finance

# Executive Organizational Chart



# **List of Principal Officials**

## **December 31, 2010**

### **BOARD**

Richard N. Womack, Chairman	Eugene P. Reding, Vice Chairman
Cody Graves	V. David Miller
Mark Liotta	Steven Mattachione
Preston Doerflinger	John Doak

### **ADMINISTRATOR**

Frank Wilson

### **DEPUTY ADMINISTRATORS**

Finance	Lynne Bajema
Operations	Bo Reese

### **DIVISION DIRECTORS**

General Counsel	Kathy Pendarvis
Policy Research	Paul King
Finance and Accounting	Diana O'Neal
Regulatory Affairs/Public Information	Dana Webb
Internal Audit	Joe McCoy
Health Care Management	Yasmine Barve
Human Resources	April Story
Information Technology	John Santos
Provider Relations	Teresa South
Member Services	Victoria Goodwin

# Financial Section



*Indian Blanket (Gaillardia)*





**KPMG LLP**  
210 Park Avenue, Suite 2850  
Oklahoma City, OK 73102-5683

## **Independent Auditors' Report**

Members of the Board  
Oklahoma State and Education Employees  
Group Insurance Board  
Oklahoma City, Oklahoma:

We have audited the accompanying balance sheets of the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB), a component unit of the State of Oklahoma, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of OSEEGIB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OSEEGIB's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma State and Education Employees Group Insurance Board as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2011, on our consideration of OSEEGIB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

April 27, 2011

**OKLAHOMA STATE AND EDUCATION EMPLOYEES  
GROUP INSURANCE BOARD**

(A Component Unit of the State of Oklahoma)

Management's Discussion and Analysis

December 31, 2010 and 2009

**Overview of the Financial Statements**

The Oklahoma State and Education Employees' Group Insurance Board's (OSEEGIB) basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The primary purpose of OSEEGIB is to provide group health, dental, life, and disability insurance for employees of state agencies, school districts, and other governmental units as set forth in Title 74 of the Oklahoma Statutes. OSEEGIB is a component unit of the State of Oklahoma.

The three financial statements presented within the basic financial statements are as follows:

**Balance Sheets** – This statement presents information reflecting OSEEGIB's assets, liabilities, and fund equity. Fund equity represents the amount of total assets less total liabilities. The balance sheet is classified as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within twelve months of the statement date. OSEEGIB's investment balances are considered current assets, as OSEEGIB has historically experienced a high portfolio turnover rate.

**Statements of Revenues, Expenses, and Changes in Fund Equity** – This statement reflects OSEEGIB's operating revenues and expenses, as well as nonoperating revenues during the year. The major source of operating revenue is premium income and the major sources of operating expenses are health, dental, life, and disability benefits. The change in fund equity for an enterprise fund is similar to net profit or loss for a private sector insurance company.

**Statements of Cash Flows** – The statements of cash flows are presented on the direct method of reporting which reflects cash flows from operating, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

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**OKLAHOMA STATE AND EDUCATION EMPLOYEES  
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(A Component Unit of the State of Oklahoma)

Management's Discussion and Analysis

December 31, 2010 and 2009

**Financial Highlights**

The management of the Oklahoma State and Education Employees' Group Insurance Board (OSEEGIB) offers readers of OSEEGIB's financial statements this narrative overview and analysis of the financial activities of the entity for the years ended December 31, 2010, 2009, and 2008.

	<b>December 31</b>			<b>2010 v. 2009</b>
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>Change Amount</b>
Cash and investments	\$ 306,453,926	259,205,958	217,007,595	47,247,968
Premiums receivable, net	44,250,802	30,454,967	24,966,549	13,795,835
Other current assets	10,085,146	13,809,260	8,091,122	(3,724,114)
Total current assets	360,789,874	303,470,185	250,065,266	57,319,689
Office equipment, net	631,066	609,442	710,218	21,624
Total assets	\$ 361,420,940	304,079,627	250,775,484	57,341,313
Policy and contract claim reserves	\$ 95,620,000	107,617,000	98,479,000	(11,997,000)
Disability reserves (current only)	2,921,000	2,846,000	2,747,000	75,000
Premium deficiency reserves	1,754,000	—	11,915,000	1,754,000
Other current liabilities	19,068,764	22,608,838	16,638,908	(3,540,074)
Total current liabilities	119,363,764	133,071,838	129,779,908	(13,708,074)
Total noncurrent liabilities	16,056,061	10,963,000	10,552,000	5,093,061
Total liabilities	135,419,825	144,034,838	140,331,908	(8,615,013)
Invested in capital assets	631,066	609,442	710,218	21,624
Unrestricted fund equity	225,370,049	159,435,347	109,733,358	65,934,702
Total fund equity	226,001,115	160,044,789	110,443,576	65,956,326
Total liabilities and fund equity	\$ 361,420,940	304,079,627	250,775,484	57,341,313

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	Year ended December 31,			2010 v. 2009
	2010	2009	2008	Change Amount
Premium revenue	\$ 844,510,757	861,781,691	761,944,652	(17,270,934)
Pass-through grant revenue	4,988,061	—	—	4,988,061
Other operating revenues	15,956,831	14,729,837	14,382,892	1,226,994
<b>Total operating revenues</b>	<b>865,455,649</b>	<b>876,511,528</b>	<b>776,327,544</b>	<b>(11,055,879)</b>
Incurring claims expense	773,896,816	820,375,131	789,028,273	(46,478,315)
Change in premium deficiency reserves	1,754,000	(11,915,000)	(12,712,000)	13,669,000
Pass-through grant expense	4,988,061	—	—	4,988,061
Administrative and claims processing expense	38,415,484	38,423,432	38,717,310	(7,948)
<b>Total operating expenses</b>	<b>819,054,361</b>	<b>846,883,563</b>	<b>815,033,583</b>	<b>(27,829,202)</b>
Operating income (loss)	46,401,288	29,627,964	(38,706,039)	16,773,324
Net investment income	19,555,038	19,973,249	(22,340,582)	(418,211)
<b>Change in fund equity</b>	<b>65,956,326</b>	<b>49,601,213</b>	<b>(61,046,621)</b>	<b>16,355,113</b>
Fund equity, beginning of year	160,044,789	110,443,576	171,490,197	49,601,213
Fund equity, end of year	\$ 226,001,115	160,044,789	110,443,576	65,956,326

OSEEGIB's total assets for the year ended December 31, 2010 increased by approximately 19% from the previous year, just slightly less than 2009, which showed an increase of 21%. Cash and investments increased by approximately \$47.2 million or 18% during 2010 due to favorable claims experience, very similar to the \$42.2 million increase or 19% during 2009.

During 2010, OSEEGIB earned approximately \$5.2 million in interest and dividend income. OSEEGIB realized investment gains of \$10.5 million and experienced \$4.4 million in unrealized gains. Investment expenses were approximately \$524,000 resulting in a total net gain on investments of \$19.6 million. In 2009, OSEEGIB earned approximately \$6.2 million in interest and dividend income, experienced \$2.9 million in realized losses and \$17.1 million in unrealized gains, and paid \$438,000 in investment expenses for a net investment gain of \$20.0 million. OSEEGIB's investment allocation at December 31, 2010 is comprised of approximately 46% fixed income securities, 33% equities, and 21% cash equivalents compared to approximately 53% fixed income securities, 24% equities, and 23% cash equivalents at December 31, 2009.

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Premiums receivable at December 31, 2010 increased by \$13.8 million over December 31, 2009, primarily due to an increase in the monthly premium for 2010. At December 31, 2009, premiums receivable had increased by \$5.5 million. The decrease in other current assets in 2010 of \$3.7 million is primarily due to a \$3.8 million decrease in the receivable for pending investment sales. The increase for other current assets in 2009 of \$5.7 million is primarily due to a \$3.2 million increase in the receivable for pharmacy rebates as well as an almost \$2.0 million increase in a receivable for pending investment sales.

Total liabilities as of December 31, 2010 decreased \$8.6 million from December 31, 2009. Policy and contract claim reserves including noncurrent disability reserves decreased by \$11.9 million from reserves reported at December 31, 2009. This was a result of an overall decrease in incurred claims partially due to a decrease in the number of participants in the plan and partially due to the effect of changes in benefits. In 2010, the office visit copayment was raised from \$25 to \$50 resulting in a significant decrease in utilization. At December 31, 2009, total claim reserves were \$9.1 million more than reserves at December 31, 2008 due to an overall increase in incurred claims in 2009. A pass-through grant liability of \$5.0 million for funds received from the Early Retiree Reinsurance Program was booked at December 31, 2010. These funds will be used to reduce premiums for the 2012 plan year. This liability will be amortized in 2012 as it is used. There was no pass-through grant liability in 2009.

Premium deficiency reserves are required to be recorded when the anticipated cost to settling claims plus policy maintenance costs for the following fiscal year are in excess of the anticipated premium receipts for the following fiscal year. The premium deficiency liability booked as of December 31, 2010 was \$1.8 million. There was no premium deficiency reserve liability at December 31, 2009.

Other current liabilities at December 31, 2010 decreased \$3.5 million from December 31, 2009 primarily due to a \$3.4 million decrease in payables for unsettled investment purchases. Other current liabilities increased \$6 million from December 31, 2008 due in part to a \$1.1 million increase in the payable to a Third Party Administrator as well as a \$2 million increase in the payable for unsettled investment purchases.

OSEEGIB saw a decrease in premium revenue for 2010 of approximately \$17.3 million. Thirteen regional universities moved to another carrier on January 1, 2010 and participation continued to decrease slightly throughout the year as participating employers reduced staff due to budget cuts. In contrast, OSEEGIB saw an increase in net premium revenue for 2009 of approximately \$99.8 million, primarily due to the rate increases necessary for 2009. Payments from the Centers for Medicare and Medicaid Services (CMS), which is included in premium revenue decreased by \$1.2 million in 2010 due to a change in the per member amount paid, after increasing by \$1.4 million in 2009. For the year ended December 31, 2010, OSEEGIB earned approximately \$16.0 million in other operating income, which consisted of \$2.2 million in risk adjustment fee income and \$13.3 million in pharmacy rebates. For the year ended December 31, 2009, OSEEGIB earned approximately \$14.7 million in other operating income, which consisted of \$1.7 million in risk adjustment fee income and \$13.0 million in pharmacy rebates.

Incurred claims comprised 95.3% of OSEEGIB's total expenses for 2010 and 95.5% of total expenses in 2009. Changes in premium deficiency reserves and pass-through grant expenses are not considered in the calculation. Total incurred claims for 2010 decreased by \$46.5 million, or 6% from the year ended December 31, 2009. For the year ended December 31, 2009, total incurred claims increased by \$31.3 million, or 4% over the prior year.

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Health and dental claim costs decreased by approximately \$43.1 million, or 3%, over the prior year, due to a decrease in office visit utilization combined with a decrease in the participating population. For the year ended December 31, 2009, health and dental claim costs increased by approximately \$27.1 million or 4% over the year ended December 31, 2008. The expense for life benefits decreased by approximately \$3.0 million or 13% during 2010. In 2009, life benefits expense increased by approximately \$2.8 million or 13% over the expense reported for 2008. Disability benefits for 2010 increased by \$95,000 or 3% after increasing by \$1.6 million or 7% in 2009.

Administrative expenses decreased slightly by \$8,000 in 2010. In 2009, administrative expenses decreased by \$300,000, or 0.8%, in 2009. Administrative expenses make up 5% of OSEEGIB's total expenses in 2010 and 4% in 2009.

OSEEGIB experienced an increase in fund equity of approximately \$66.0 million, for the year ended December 31, 2010. For 2009, there was an increase in fund equity of approximately \$49.6 million.

The Health and Dental program experienced an increase in fund equity of approximately \$57.8 million, for the year ended December 31, 2010 due to the increase in premiums, improvement in the investment markets, and favorable claims experience. During 2009, the Health and Dental program experienced an increase in fund equity of approximately \$49.0 million. The premium rates adopted for the Health and Dental Fund were based on assumptions that provided for no increase or decrease in fund equity.

The Life program experienced an increase in fund equity of approximately \$4.6 million in 2010 and a decrease of \$2.4 million in 2009. The premium rates adopted for the Life program were based on assumptions that provided for no increase or decrease in fund equity.

The Disability program experienced an increase in fund equity of \$3.6 million in 2010, while in 2009, the Disability program experienced a decrease in fund equity of \$3.0 million. The premium rates adopted for the Disability program were based on assumptions that provided for no increase or decrease in fund equity.

**Economic Conditions**

The insurance industry monitors healthcare costs by establishing a percentage of cost increases known as "trend." According to the Segal Health Plan Cost Trend Survey, trend is the forecast change in health plans' per-capita claims cost determined by insurance carriers, managed care organizations, and third-party administrators. Many factors influence trend, including:

- Price inflation,
- Deductibles and copayments,
- Cost-shifting,
- Utilization increases due to aging, product promotion, and improved diagnostic services,

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- The availability and use of more expensive drug therapies,
- Government mandated benefits and other legislative changes, and
- Technological changes.

For 2010, the overall nationwide health trend for employer sponsored plans, according to AON Consulting, OSEEGIB's actuarial firm, was 10.7% for PPO plans with pharmacy benefits. The national trend for Medicare supplement plans was 7.5% for 2010 and 7.6% for 2009. Historically, OSEEGIB's cost trends have tracked below national averages. As a large self-funded plan, OSEEGIB's cost trends are cyclical in nature, and can vary during a given plan year. OSEEGIB experienced an average medical trend of 7.5% - 8.5% during 2009 and 2010 for active members and retirees under age 65. OSEEGIB's trend for the Medicare supplement plan was a decrease of 1.5%. These figures measured OSEEGIB's paid claims and did not adjust for plan design or provider contracting changes during the measurement period.

Since premium rates are set in August, the rate setting process applies trends experienced through April. The medical trend applied by OSEEGIB's actuaries for calculating 2010 rates was 10.0% for active employees and pre-Medicare retirees and 7.0% for Medicare retirees. The prescription drug trend used for setting 2010 rates was 9.1% for active employees and pre-Medicare retirees and 9.1% for Medicare retirees. The dental trend used for setting 2010 rates was 6.0%. The medical trend applied by OSEEGIB's actuaries for calculating 2009 rates was 9.5% for active employees and pre-Medicare retirees and 7.0% for Medicare retirees. The prescription drug trend used for setting 2009 rates was 7.5% for active employees, pre-Medicare retirees, and Medicare retirees. The dental trend used for setting 2009 rates was 6.0%.

After a dismal year in 2008, OSEEGIB's investment portfolio rebounded in 2009 and continued to experience positive returns in 2010. The return on investment (ROI) on OSEEGIB's investment portfolio was 7.7% in 2010 and 8.5% in 2009.

The Patient Protection and Affordable Care Act (ACA) was signed by President Obama on March 23, 2010 and included wide-sweeping changes to many facets of the nation's healthcare system. ACA provides that plans existing at the time the act was signed may exempt themselves from some requirements as long as they maintain what is called 'grandfathered status.' Grandfathered status is lost by making certain changes to benefits, employer contributions, or premiums that increase the financial burden on the member. OSEEGIB maintained grandfathered status in 2010 because federal guidance on implementation of many ACA plan provisions did not exist, and to allow more time for a future successful implementation of the requirements.

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Although OSEEGIB continued to operate as a grandfathered plan into 2011, it used 2010 to prepare to implement some ACA provisions required for nongrandfathered plans. OSEEGIB already complied with most of the "patient protection" features of ACA, and many other changes will be comparatively minor. As applicable specifically to OSEEGIB, requirements included removing the lifetime pharmacy benefit maximum and increasing the age limit for dependent coverage of a primary member's children from age 25 to age 26. The most costly of the changes to be mandated by ACA is that nongrandfathered plans must provide a very large array of preventive services free of charge to members. OSEEGIB provides the majority of the preventive services free of charge, with others covered applying normal copayments and deductibles. ACA established an Early Retirement Reimbursement Program (ERRP) and allocated \$5 billion to be distributed nationwide to plan sponsors that provide coverage to retirees who are not yet eligible for Medicare. OSEEGIB applied for these funds on behalf of its participating groups and received approximately \$5 million in December 2010. The ERRP is discussed further in the notes to the financial statements.

In the commercial health insurance industry, "medical loss ratio" (MLR) measures how much of each premium dollar is spent on providing healthcare to their customers versus administrative costs. The medical loss ratio is a basic indicator of an insurer's efficiency in delivering services and of its financial condition. ACA establishes a minimum loss ratio of 80% for the individual and small group health insurance segments, and 85% for the large group segment. This requirement does not apply to self-insured plans such as those offered by OSEEGIB. However OSEEGIB is interested in operating at a MLR that is competitive with other plans, both fully insured and self-insured. OSEEGIB's MLR was 94% in 2009 and fell slightly to 92% for 2010 due to very favorable claims experience.

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Balance Sheets

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<b>Assets</b>	<b>2010</b>	<b>2009</b>
Current assets:		
Cash and cash equivalents	\$ 87,436,790	83,857,770
Investments	219,017,136	175,348,188
Receivables:		
Interest and dividends receivable	429,514	383,621
Unsettled investment sales	1,884	3,833,553
Premiums, net of allowance of \$240,000 and \$800,000 at December 31, 2010 and 2009, respectively	44,250,802	30,454,967
Pharmacy rebate	8,813,534	8,594,904
Other, net	840,214	997,182
Total current assets	360,789,874	303,470,185
Noncurrent assets:		
Office equipment	4,177,236	4,163,900
Less accumulated depreciation	(3,546,170)	(3,554,458)
Office equipment, net	631,066	609,442
Total assets	\$ 361,420,940	304,079,627
<b>Liabilities</b>		
Current liabilities:		
Health and dental reserves	\$ 90,880,000	102,804,000
Life reserves	4,740,000	4,813,000
Disability reserves	2,921,000	2,846,000
Premium deficiency reserve	1,754,000	—
Premiums due to health maintenance organizations and other insurers	9,561,017	9,246,824
Payable for investment purchases	514,640	3,878,548
Other accrued liabilities	8,993,107	9,483,466
Total current liabilities	119,363,764	133,071,838
Noncurrent liabilities:		
Disability reserves	11,068,000	10,963,000
Prepaid premiums	4,988,061	—
Total liabilities	135,419,825	144,034,838
Commitments and contingencies (note 14)		
<b>Fund Equity</b>		
Invested in capital assets	631,066	609,442
Unrestricted	225,370,049	159,435,347
Total fund equity	226,001,115	160,044,789
Total liabilities and fund equity	\$ 361,420,940	304,079,627

See accompanying notes to basic financial statements.

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Statements of Revenues, Expenses and Changes in Fund Equity

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Premium revenue	\$ 844,510,757	861,781,691
Other operating revenues	15,956,831	14,729,837
Pass-through grant revenue	4,988,061	—
Total operating revenues	<u>865,455,649</u>	<u>876,511,528</u>
Operating expenses:		
Incurred claims expense	773,896,816	820,375,132
Change in premium deficiency reserve	1,754,000	(11,915,000)
Administrative and claim processing	38,415,484	38,423,432
Pass-through grant expense	4,988,061	—
Total operating expenses	<u>819,054,361</u>	<u>846,883,564</u>
Operating income	46,401,288	29,627,964
Nonoperating revenues:		
Net investment income	19,555,038	19,973,249
Change in fund equity	65,956,326	49,601,213
Fund equity, beginning of year	<u>160,044,789</u>	<u>110,443,576</u>
Fund equity, end of year	<u>\$ 226,001,115</u>	<u>160,044,789</u>

See accompanying notes to basic financial statements.

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Statements of Cash Flows

Years ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Premiums collected	\$ 808,577,793	830,462,048
Premiums collected on behalf of health maintenance organizations and other insurers	122,951,075	120,025,897
Pass-through grant revenue	4,988,061	—
Payments collected from Centers for Medicare and Medicaid Services	23,958,020	25,172,614
Risk adjustment premium collected	2,192,501	1,708,628
Pharmacy rebates collected	13,126,229	9,979,237
Benefits paid	(785,713,816)	(810,727,132)
Premiums paid to health maintenance organizations and other insurers	(124,457,773)	(118,826,141)
Payments to employees for services	(9,811,583)	(10,181,591)
Payments to suppliers for goods and services	(28,898,230)	(25,622,234)
Other operating cash received	576,439	265,515
Net cash provided by operating activities	<u>27,488,716</u>	<u>22,256,841</u>
Cash flows from capital and related financing activity:		
Acquisition of office equipment	(217,654)	(132,124)
Net cash used in capital and related financing activity	<u>(217,654)</u>	<u>(132,124)</u>
Cash flows from investing activities:		
Purchases of investments	(389,113,372)	(194,426,040)
Proceeds from sales and maturities of investments	360,792,118	187,166,476
Investment income received	4,629,212	5,752,146
Net cash used in investing activities	<u>(23,692,042)</u>	<u>(1,507,418)</u>
Net increase in cash and cash equivalents	3,579,020	20,617,299
Cash and cash equivalents, beginning of year	83,857,770	63,240,471
Cash and cash equivalents, end of year	<u>\$ 87,436,790</u>	<u>83,857,770</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 46,401,288	29,627,964
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	192,198	232,900
Loss on disposal of fixed assets	3,832	—
Change in operating assets and liabilities:		
Premium receivable	(13,795,835)	(5,488,418)
Prepaid premiums	4,988,061	—
Other receivables	(61,662)	(2,776,458)
Claim reserves	(11,997,000)	9,138,000
Disability reserves	180,000	510,000
Premium deficiency reserves	1,754,000	(11,915,000)
Premiums due to health maintenance organizations and other insurers	314,193	541,145
Other liabilities	(490,359)	2,386,708
Total adjustments	<u>(18,912,572)</u>	<u>(7,371,123)</u>
Net cash provided by operating activities	<u>\$ 27,488,716</u>	<u>22,256,841</u>

See accompanying notes to basic financial statements.

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Notes to Basic Financial Statements

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**(1) Description of OSEEGIB**

The Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) is a special purpose state and local government engaged solely in business-type activities. OSEEGIB is a legal trust, which administers, manages, and provides group health, dental, life, and disability insurance for active employees and retirees of state agencies, school districts, and other governmental units of the State of Oklahoma (the State). OSEEGIB is self-insured and is financed through premiums collected from employers and employees. OSEEGIB provides insurance solely to eligible employees, dependents, and retirees. OSEEGIB is a component unit of the State.

The following brief description of OSEEGIB is provided for general information purposes only. Participants should refer to Title 74 of the Oklahoma Statutes, Sections 1301 et seq. as amended, for more complete information.

In accordance with Title 74, OSEEGIB maintains three separate programs, the Health and Dental program, the Life program, and the Disability program. There is no statutory restriction that would prevent assets accumulated in one program from paying benefits due from another program.

The eight-member board which administers OSEEGIB (the Board) is comprised of two members appointed by the governor, two members appointed by the speaker of the House of Representatives, and two members appointed by the president pro tempore of the Senate, the commissioner of the Oklahoma Insurance Department, and the director of the Office of State Finance. The Board has a fiduciary responsibility to manage the funds and invest the assets of OSEEGIB. This moral and legal obligation establishes a trustee relationship whereby OSEEGIB's funds are held for the ultimate benefit of those who obtain insurance from OSEEGIB.

**(a) General**

In 1968, OSEEGIB was formed by the State Legislature to provide group health, dental, and life benefits to participants of the Oklahoma Public Employees Retirement System (OPERS) and active employees of the State. Subsequently, other groups became eligible for participation, including persons covered under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), survivors and certain local government employees. COBRA allows temporary continuance of insurance coverage under certain circumstances. Survivors are individuals who were covered eligible dependents of a participant in OSEEGIB at the time of the participant's death. OSEEGIB was created by the State Legislature and could be terminated by the same body.

In 1978, OSEEGIB became self-insured. Beginning in 1985, participants were given the option of electing health coverage from certain health maintenance organizations (HMOs). Plans similar to HMOs provide dental coverage for those participants who elect to participate in them (DMOs). In 1986, the State added a self-insured disability program to OSEEGIB.

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In 1989, participants of the Teachers' Retirement System of Oklahoma (TRS) and active employees of school districts became eligible to enroll in OSEEGIB (educational participants). House Bill No. 1731, which provided TRS participants the option to enroll in OSEEGIB, required the TRS to transfer \$39,600,000 to OSEEGIB. The educational participants receive the same health and dental coverage options provided to state and local governmental participants. Life coverage was made available to active educational participants beginning July 1, 1991. Disability coverage is not available to educational participants.

Effective July 1, 1993, the Oklahoma State Employee Benefit Council (EBC) began contracting with HMOs and DMOs on behalf of state employees to provide health and dental coverage for those participants who elect such coverage.

Effective January 1, 2006, OSEEGIB became a Medicare Part D Prescription Drug Plan pursuant to the *Medicare Prescription Drug Improvement and Modernization Act of 2003*.

**(b) Premiums and Participants**

The health, dental, life, and disability benefits for governmental participants are funded by monthly premiums paid by the State, local governmental units, OPERS, and individuals. The health, dental, and life benefits for educational participants are funded by monthly premiums paid by school districts, the TRS, and individuals. A participant may extend coverage to dependents for an additional monthly premium based on the coverage requested. Premiums for active state employees and their dependents are collected by EBC and remitted to OSEEGIB or other insurer elected by the employee.

Premiums remitted to OSEEGIB on behalf of active state employees and their dependents for the years ended December 31, 2010 and 2009 are reported gross of a fee retained by EBC, which is equal to 1.25% of premiums. This fee, which was approximately \$2,997,000 and \$3,062,000 for the years ended December 31, 2010 and 2009, respectively, is included in administrative expenses in the statements of revenues, expenses and changes in fund equity. For the years ended December 31, 2010 and 2009, premiums for local government, education, and inactive participants who have elected an HMO for health coverage or DMO for dental coverage are collected by OSEEGIB and remitted to the HMO or DMO carrier net of a fee retained by OSEEGIB of 1% of premiums. This fee, which was approximately \$1,243,000 and \$1,191,000 for the years ended December 31, 2010 and 2009, respectively, is included as an offset to administrative expenses in the statements of revenues, expenses and changes in fund equity. The premium related to HMOs, DMOs, and vision plans was approximately \$124,772,000 and \$119,367,000 for 2010 and 2009, respectively, and, as OSEEGIB only acts in an agency capacity, the premiums collected on behalf of HMOs, DMOs, and vision plans are not reflected in the statements of revenues, expenses and changes in fund equity.

Pursuant to the authority granted by Oklahoma Statute, the Board has the authority to establish and change premium rates for the members, employers, and other contributing entities each year. An outside consultant advises the Board regarding changes in premium rates. If premium rates are changed, they generally become effective at the beginning of the next calendar year. Each HMO and DMO determines its own premium rates.

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OSEEGIB participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to OSEEGIB. If the assets of OSEEGIB were to be exhausted, participants would not be responsible for OSEEGIB's liabilities.

At December 31, 2010, OSEEGIB provided health coverage to 134 state agency divisions with approximately 21,000 primary participants (not including dependents), 597 educational entities with approximately 47,000 primary participants, 300 local government entities with approximately 8,000 primary participants, and 33 other groups, which include the governmental and educational retirement systems, COBRA, and survivors, with approximately 38,000 primary participants. Approximately 50,000 dependents participated in OSEEGIB as well. In addition, OSEEGIB collected and remitted premiums for approximately 32,000 primary participants and 25,000 dependents who were covered by HMOs. These counts are provided for health coverage only.

At December 31, 2009, OSEEGIB provided health coverage to 133 state agency divisions with approximately 24,000 primary participants (not including dependents), 616 educational entities with approximately 54,000 primary participants, 303 local government entities with approximately 9,000 primary participants, and 33 other groups, which include the governmental and educational retirement systems, COBRA, and survivors, with approximately 39,000 primary participants. Approximately 57,000 dependents participated in OSEEGIB as well. In addition, OSEEGIB collected and remitted premiums for approximately 31,000 primary participants and 23,000 dependents who were covered by HMOs. These counts are provided for health coverage only.

All state agencies in Oklahoma are required to offer to their active employees the coverage selections offered by EBC. All eligible education or local government entities may elect to participate in OSEEGIB. Any education entity or local government entity which elects to withdraw from offering OSEEGIB as an insurance option may do so with 30 days, written notice and must withdraw both its active and inactive participants.

**(c) Benefits**

A provider network arrangement is available for health and dental benefits. According to this arrangement, network providers agree to accept amounts for covered services that do not exceed the charges allowed by OSEEGIB. Therefore, the network provider can only expect to receive payment from the participant for the charges allowed by the network agreement.

HealthChoice offers a high option and a basic option health benefit plan for non-Medicare participants. A member who elects the high option plan is responsible for a \$50 copayment and no deductible for office visits and preventive care services when using network providers. The same services when using nonnetwork providers are reimbursed at 50% after the member meets a \$500 calendar year deductible. For other services, network provider and nonnetwork provider benefits are generally reimbursed at 80% and 50%, respectively, after the appropriate deductibles of \$500 (\$1,500 per family). OSEEGIB reimburses allowed charges at 100% once the member has reached \$2,800 and \$3,300 per member out-of-pocket maximum for network providers and nonnetwork providers, respectively.

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The basic option plan pays 100% of the first \$500 of allowed charges for covered medical services. The member pays 100% of the next \$500 (\$1,000 per family) of allowed charges. The member and OSEEGIB each pay 50% of the next \$10,000 of allowed charges (\$20,000 per family). OSEEGIB reimburses allowed charges at 100% once the member has reached the out-of-pocket maximum of \$5,500 (\$11,000 per family).

In addition, for both plans, when using non-network providers, the member is responsible for the excess of billed charges over allowed charges.

The HealthChoice S-Account option is a qualified, high deductible health plan that must be used in combination with a Health Savings Account. A member who selects the high deductible plan must meet a deductible of \$1,500 (\$3,000 per family) before any benefits are paid by the plan. Additional deductibles of \$300 for each non-network hospital confinement and \$100 for each emergency room visit apply. After deductibles are met, the member is responsible for the same copayments and coinsurance percentages as the high option plan. There is a network out-of-pocket limit of \$4,000 per individual or \$8,000 per family, after which HealthChoice pays 100% of allowed charges for covered services from a network provider.

A HealthChoice USA option is offered to active participants who work outside Oklahoma and Arkansas for more than 90 consecutive days and to non-Medicare retired participants who live outside those two states. These members have the same benefits as the HealthChoice high option, but they access a nationwide provider network.

Pharmacy benefits are the same for the high option and the basic option plans. Medications are categorized as either preferred or nonpreferred. When purchasing preferred medications from a network provider, the member is responsible for a copayment of up to \$30 for medications costing \$100 or less and up to \$60 for medications costing more than \$100. The maximum copay doubles for nonpreferred medications. Certain prescription medications for smoking cessation are available at a \$5 copayment. In addition, there is a \$2,500 per person annual out-of-pocket maximum for preferred medications. There is no out-of-pocket maximum for nonpreferred medications. For nonnetwork providers, the member is responsible for a copay of up to \$75 for preferred medications and up to \$125 for nonpreferred medications plus a dispensing fee. There is a lifetime maximum pharmacy benefit of \$2,000,000 per covered person.

Allowed expenses for dental benefits are reimbursed at a percentage ranging from 60% to 100%, based on the class of the allowed expense, when using network providers. The same services when using a nonnetwork provider are reimbursed at a percentage ranging from 50% to 100%. There is a \$25 deductible (\$75 per family) when using either network or nonnetwork providers. There is a calendar year maximum dental benefit of \$2,000 per covered person.

Basic life benefits of \$20,000 are provided to active state, education, and local government employees. In addition to the basic life benefit of \$20,000, participants may elect additional coverage in increments of \$20,000 up to the lesser of \$300,000 or five times the participant's salary. Additional dependent life coverage is also available under three separate plans. The low option plan

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offers dependent life coverage of \$6,000 for spouses, \$3,000 for children, and \$1,000 for children less than six months of age. The standard option plan offers dependent life coverage of \$10,000 for spouses, \$5,000 for children, and \$1,000 for children less than six months of age. The premier option offers dependent life coverage of \$20,000 for spouses, \$10,000 for children, and \$1,000 for children less than six months of age.

Retirees may elect to retain the full coverage for basic life benefits held at the time of termination of employment. Coverage thereafter may be decreased in \$5,000 increments to a minimum of \$5,000 or totally terminated. Prior to July 1, 2002, no more than \$15,000 of basic life insurance could be retained after termination of employment. The retiree may retain dependent life coverage in force on eligible dependents in \$500 increments.

Disability benefits are based on the length of employment, base salary limited by a maximum allowable salary, and length of disability. There is a 30-day qualifying period for short-term disability. Long-term disability becomes effective 180 days after disablement. Income from other sources is used to reduce the benefit amount. The duration of the long-term benefit is determined based upon the age of the participant at disablement and length of employment.

A high option and low option Medicare supplement benefit plan is available to those retired participants and their dependents who are eligible to enroll in Medicare, where Medicare is the primary payor. This coverage provides for reimbursement of Medicare-eligible expenses which may not be fully covered by or which exceed the amount allowed by Medicare. Medicare Part A expenses are generally reimbursed at 100% of eligible Medicare expenses not reimbursed by Medicare. The Medicare Part A deductible is also fully reimbursed by OSEEGIB. Medicare Part B expenses are generally reimbursed at 20% of eligible Medicare expenses not reimbursed by Medicare.

OSEEGIB has adopted Plan "J" for medical benefits for both the high option and low option plans in accordance with the National Association of Insurance Commissioners' schedule of Medicare supplement plans, with the addition of a pharmacy prescription program, preventive care benefits, out-of-country benefits, and an at-home recovery benefit.

Pharmacy benefits for the high option Medicare supplement plan are the same as for the HealthChoice high option plan, with a few minor differences in the formulary. The low option Medicare supplement plan is modeled after the Center for Medicare and Medicaid Services (CMS) standard Part D plan design. Once a participant reaches catastrophic coverage, OSEEGIB pays 100% of the pharmacy cost rather than 95% per CMS' standard Part D plan design.

Health benefits and dental benefits are provided directly by the HMOs and DMOs for all participants who elect such coverage. For each participant who elects HMO or DMO coverage, excluding active state employees, OSEEGIB collects and pays the premiums to each HMO or DMO carrier. For each active state employee who elects HMO or DMO coverage, EBC collects and pays the premiums to each HMO or DMO carrier. The amounts paid by OSEEGIB to each HMO or DMO are in accordance with their respective contracts. Benefits are the responsibility of each HMO or DMO carrier and are subject to the provisions defined in their insurance policies. OSEEGIB has no liability

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for health benefits or dental benefits of participants who elect HMO or DMO coverage; therefore, activity related to HMO, DMO, and vision benefits are not reflected in the basic financial statements of OSEEGIB.

All benefits for OSEEGIB are processed and paid by third-party administrators (TPAs). The fees incurred by OSEEGIB for services performed by the TPAs totaled approximately \$17,700,000 and \$16,400,000 for the years ended December 31, 2010 and 2009, respectively. TPA fees are included in administrative expenses in the statements of revenues, expenses, and changes in fund equity.

A summary of available coverage and eligible groups for the years ended December 31, 2010 and 2009 is as follows:

	State employee	Education employee	Local government employee	OPERS	TRS	COBRA
Health	X	X	X	X	X	X
Dental	X	X	X	X	X	X
Life	X	X	X	X	X	
Disability	X		X			
Medicare supplement				X	X	X

**(2) Summary of Significant Accounting Policies**

**(a) Basis of Accounting**

OSEEGIB has prepared its financial statements in accordance with U.S. generally accepted accounting principles for state and local governments. The Governmental Accounting Standards Board (GASB) establishes the U.S. generally accepted accounting principles for state and local governments. GASB requires that proprietary activities apply all applicable GASB pronouncements and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not conflict with GASB pronouncements. The entity can elect, at its option, to apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. OSEEGIB has adopted this option.

**(b) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. OSEEGIB adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting

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from continuing changes in the economic environment will be reflected in the financial statements in future periods.

**(c) *Investments and Investment Income***

Investments are stated at fair value based on quoted prices with changes in fair value included in the statements of revenues, expenses and changes in fund equity. If quoted prices are not available from active exchanges for identical instruments, then fair values are estimated using quoted prices from less active markets, quoted prices of securities with similar characteristics, or by pricing models utilizing other significant observable inputs. Investments in external investment pools, such as commingled funds, are stated at fair value based on actual transaction values. There was no difference in the fair value and the net asset value in the pool of shares in the commingled fund at December 31, 2010 and 2009.

OSEEGIB records investment purchases and sales based upon the trade date. Therefore, OSEEGIB records either receivables or payables for unsettled sales or purchases, respectively. Such transactions are usually settled within a few days after the trade date.

Realized gains and losses are determined on the average-cost method. The calculation of realized gains and losses is independent of the calculation of the change in net unrealized gains and losses. Realized gains and losses on investments that had been held in more than one year and sold in the current year may have been recognized as unrealized gains and losses in prior years.

Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**(d) *Office Equipment***

Office equipment is recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the equipment, which range from 5 to 10 years. Purchases of equipment costing less than \$2,500 are considered to be immaterial and are expensed when purchased.

**(e) *Reserves***

OSEEGIB establishes health and dental and life reserves based on the ultimate estimated cost of settling claims that have been reported but not settled, and of claims that have been incurred but not yet reported. Disability reserves are also established based on the estimated ultimate cost of settling claims of participants currently receiving benefits and for disability claims incurred but not yet reported to OSEEGIB. Long-term disability reserves are carried at the present value of expected future benefits. The reserves are determined using OSEEGIB's historical benefit payment experience. These estimates are based on data available at the time of estimate and are reviewed by OSEEGIB's independent consulting actuaries. The health, dental, and life reserves and the disability reserves include liabilities for claim processing expenses associated with paying claims, which have been incurred, but not yet paid. The length of time for which costs must be estimated depends on the coverage involved.

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Although reserves reflect OSEEGIB's best estimates of the incurred claims to be paid, due to the complex nature of the factors involved in the calculation, the actual results may be more or less than the estimate. The claim reserves are recomputed on a periodic basis using actuarial and statistical techniques, which consider the effects of general economic conditions, such as inflation, and other factors of past experience, such as changes in participant counts. Adjustments to claim reserves are recorded in the periods in which they are made. Claims must be filed no later than the last day of the calendar year immediately following the calendar year in which the loss is sustained unless an extenuating circumstance can be shown to exist.

Premium deficiency reserves are required to be recorded when the anticipated costs of settling claims plus policy maintenance costs for the following fiscal year are in excess of the anticipated premium receipts for the following fiscal year.

**(f) Fund Equity**

At December 31, 2010 and 2009, OSEEGIB has no legally required minimum fund equity. However, the Board has elected to set a benchmark for minimum fund equity based upon the National Association of Insurance Commissioners (NAIC), the Managed Care Organizations Risk Based Capital Formula for the Health and Dental program, and the NAIC Life/Health Risk Based Capital Formula for the Life and Disability programs. OSEEGIB utilizes the NAIC Risk Based Capital methodology to establish the fund equity benchmark. The minimum fund equity benchmark by the Board at December 31, 2010 and 2009 is approximately \$149,920,000 and \$154,276,000, respectively.

The NAIC Risk Based Capital Formulas were selected as the basis for determining minimum fund equity primarily due to the following factors:

- Degree and nature of the risks undertaken
- Size of OSEEGIB
- Degree of conservatism inherent in the premium rates
- Degree of safety desired

The primary risks that would threaten OSEEGIB's solvency include the following:

- The risk that claims incurred will exceed premiums collected
- The risk of default or decline in value of OSEEGIB's assets
- The risk of large monetary judgments stemming from possible lawsuits against OSEEGIB

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A comparison of the minimum fund equity benchmark by the Board and unrestricted fund equity at December 31, 2010 as reported in the basic financial statements is as follows (in thousands):

	<b>2010</b>			
	<b>Health and Dental Program</b>	<b>Life Program</b>	<b>Disability Program</b>	<b>Total</b>
Minimum fund equity	\$ 133,154	11,311	5,455	149,920
Unrestricted fund equity	174,687	22,446	28,237	225,370

A comparison of the minimum fund equity benchmark by the Board and unrestricted fund equity at December 31, 2009 as reported in the basic financial statements is as follows (in thousands):

	<b>2009</b>			
	<b>Health and Dental Program</b>	<b>Life Program</b>	<b>Disability Program</b>	<b>Total</b>
Minimum fund equity	\$ 138,818	10,370	5,088	154,276
Unrestricted fund equity	116,886	17,892	24,657	159,435

As part of the rate setting process, the Board considers OSEEGIB's total fund equity in comparison with the minimum fund equity benchmark in setting rates towards achieving the minimum fund equity benchmark. Title 74 of the Oklahoma Statutes, Section 1321C allows that OSEEGIB may adjust rates mid-year if the need is substantiated by an actuarial determination. Consistent with prior years, OSEEGIB does not anticipate the need for a mid-year rate adjustment for 2011.

**(g) Premiums**

Premiums are recognized in the period when the insurance coverage is provided. Premiums are due monthly from the employers or participants based on the rates adopted by the Board.

**(h) Medicare Part D Subsidy**

As a Medicare Part D Prescription Drug Plan (PDP), OSEEGIB receives a monthly payment from Medicare. The effect of these payments is to subsidize premiums for the individuals enrolled in the PDP since they pay a reduced premium rate. This amount is approximately \$23,958,000 and \$25,173,000 for the years ended December 31, 2010 and 2009, respectively, and is included in premium revenue within the statements of revenues, expenses, and changes in fund equity.

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**(i) Pharmacy Rebate**

Effective January 1, 1999, under OSEEGIB's agreement with its pharmacy benefit manager, OSEEGIB receives a guaranteed rebate for each non-Medicare Part D prescription. Effective January 1, 2006, OSEEGIB also receives a specified percentage of manufacturers' rebates received by the pharmacy benefit manager related to Medicare Part D prescriptions. This amount is approximately \$13,345,000 and \$13,060,000 for the years ended December 31, 2010 and 2009, respectively, and is included in other operating revenue within the statements of revenues, expenses and changes in fund equity.

**(j) Risk Adjustment Premiums**

Risk adjustment premiums are received from HMOs based on factors which are applied to premiums remitted to HMOs for all non-Medicare primary members during the plan year; the factors are intended to offset any adverse selection that may occur to OSEEGIB as a result of younger, healthier members electing HMO coverage. This amount is approximately \$2,245,000 and \$1,670,000 for the years ended December 31, 2010 and 2009, respectively, and is included in other operating revenue within the statements of revenues, expenses and changes in fund equity.

**(k) Administrative Expenses**

Administrative expenses are primarily related to employees of OSEEGIB and professional services, including fees paid to TPAs to process and pay benefits.

OSEEGIB does not record deferred acquisition costs since administrative expenses are primarily maintenance expenses and not acquisition expenses. OSEEGIB maintains a budget approved by the Board; however, it is not a legally adopted annual budget.

**(l) Income Taxes**

OSEEGIB obtained its latest determination letter dated March 30, 2005, in which the Internal Revenue Service stated that income from the exercise of the essential governmental functions of OSEEGIB is exempt from federal income taxes under Section 115 of the Internal Revenue Code (the Code).

**(m) Operating Revenues and Expenses**

Balances classified as operating revenues and expenses are those which comprise the OSEEGIB's principal ongoing operations. Since OSEEGIB's operations are similar to those of any other insurance company, most revenues and expenses are considered operating.

**(n) Pass-Through Grant Revenue and Expense**

As part of the Patient Protection and Affordable Care Act, the Early Retiree Reinsurance Program (ERRP) provides reimbursement to participating employment-based plans for a portion of the costs of health benefits for early retirees and early retirees' spouses, surviving spouses, and dependents. All employment-based plans who are accepted into the Early Retiree Reinsurance Program are

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eligible to receive reimbursement for certain incurred claims on or after June 1, 2010, regardless of the date on which the employment-based plan was accepted into the program. The employment-based plan must be able to demonstrate that it used program funds exclusively to reduce or offset increases in plan participants' health benefit premium contributions, copayments, deductibles, coinsurance, or a combination of these costs. OSEEGIB has filed the ERRP application on behalf of the State and participating employers that are the plan sponsors. In the ERRP application, OSEEGIB indicated that the planned use of the reimbursements from the ERRP program received in calendar year 2010 and 2011 would be to lower the premiums beginning in fiscal year 2012. OSEEGIB acting in its capacity is receiving the reimbursement funds on behalf of the plan sponsors, which represents a pass-through grant from the federal government to the State and is recognized as revenue and expense in the period received. OSEEGIB received approximately \$4,988,000 of reimbursement under the program in 2010 and recorded a liability for prepaid premiums in the balance sheet. The prepaid premium will be recognized as premium income monthly in 2012 when the premium reductions are applied to the participant's premium.

**(3) Fair Values of Financial Instruments**

Accounting Standards Codification Topic 820, *Fair Value of Measurements and Disclosures*, requires OSEEGIB to disclose estimated fair values for its financial instruments. Fair value estimates are made at a point in time, based on relevant market data as well as the best information available about the financial instruments. Fair value estimates for financial instruments for which no or limited observable market data is available are based on judgments regarding current economic conditions, credit and interest rate risk, and loss experience. These estimates involve significant uncertainties and judgments and cannot be determined with precision. As a result, such calculated fair value estimates may not be realizable in a current sale or immediate settlement of the instrument. In addition, changes in the underlying assumptions used in the fair value measurement technique, including discount rate and estimates of future cash flows, could significantly affect these fair values. Fair value estimates, methods, and assumptions at December 31, 2010 and 2009 are described below for OSEEGIB's financial instruments. The carrying value of all OSEEGIB's financial instruments approximates fair value.

The carrying amounts reported in the balance sheets are at fair value for investment securities. Fair values for debt securities are based on quoted market prices, where available. If quoted prices are not available from active exchanges for identical instruments, the fair values are estimated using quoted prices from less active markets, quoted prices of securities with similar characteristics, or by pricing models utilizing other significant observable inputs. The fair values for equity securities are based on quoted market prices.

The carrying values of the receivable for unsettled investment sales, premiums receivable, interest and dividends receivable, pharmacy rebate receivable, other receivables, premiums due to HMOs and other insurers, payable for investment purchases, and other accrued liabilities approximate fair value due to the short maturity of these financial instruments and the fact that they do not present undue credit concerns.

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**(4) Cash and Cash Equivalents**

Cash includes amounts on deposit with the Office of State Treasurer (State Treasurer) in a pooled account, which is required by the Oklahoma Statutes to be insured or collateralized. The amount of collateral securities required to be pledged to secure public deposits is established by rules and regulations promulgated by the State Treasurer. In accordance with the State Treasurer's policies, the market value of collateral securities to be pledged by financial institutions through the State Treasurer's Office must be 110% of the carrying value of the amount on deposit, less any federal insurance coverage.

At December 31, 2010 and 2009, cash totaling \$21,913,079 and \$27,219,862, respectively, was deposited with and collateralized by the official bond of the State Treasurer of Oklahoma.

The carrying amount and bank balance of the cash equivalents totaled \$65,523,711 and \$56,637,908 at December 31, 2010 and 2009, respectively, and consists of an investment in a mutual fund composed of short-term investments with an original maturity date of three months or less, which are readily convertible into cash. The duration of the underlying investments in the money market mutual fund at December 31, 2010 and 2009 is approximately 53 and 50 days, respectively.

***Custodial Credit Risk***

Custodial credit risk for deposits is the risk that in the event of a bank failure, OSEEGIB's deposits may not be returned or OSEEGIB may not be able to recover collateral securities in the possession of an outside party. OSEEGIB's cash and cash equivalents include deposits that are insured, registered, or for which the securities are held by a custodian in OSEEGIB's name.

**(5) Investments**

OSEEGIB's investment policy is predicated on a multiple manager structure to provide the benefits of more than one manager's special skills and a diversity of investment styles. Upon approval of OSEEGIB's Board, external managers are appointed to assume the investment management function. The managers, within guidelines determined by OSEEGIB's Board, have full discretion to buy and sell investment assets of OSEEGIB. Authorized investments are defined in Title 36 of the Oklahoma Statutes, as amended, and OSEEGIB's investment policy, and include U.S. government obligations, state and district obligations, corporate obligations, mortgage-backed and assets-backed debt securities, and preferred and common stock. All investments held by OSEEGIB are in compliance with statutes and the investment policy.

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As of December 31, 2010 and 2009, OSEEGIB had the following investments:

<u>Types of investments</u>	<u>2010</u>		<u>2009</u>	
	<u>Fair values</u>	<u>Duration <sup>(1)</sup></u>	<u>Fair values</u>	<u>Duration <sup>(1)</sup></u>
Debt securities:				
Commingled fund	\$ 67,595,887	3.90	\$ 63,935,654	3.85
Asset-backed securities <sup>(2)</sup>	1,298,398	1.44	2,081,509	1.89
Corporate	15,416,612	6.89	13,846,397	6.31
Mortgages	19,594,729	2.88	15,459,450	3.03
Collateralized mortgage obligations <sup>(2)</sup>	788,030	1.68	2,579,167	2.75
U.S. Treasuries	19,861,609	6.60	15,699,981	3.62
Municipals	769,548	16.50	1,189,688	13.51
Collateralized mortgage-backed securities (CMBS) <sup>(2)</sup>	<u>518,719</u>	1.58	<u>4,486,015</u>	2.52
Total debt securities	125,843,532		119,277,861	
Equities:				
Domestic	<u>93,173,604</u>		<u>56,070,327</u>	
Total investments	<u>\$ 219,017,136</u>		<u>\$ 175,348,188</u>	

(1) Interest rate risk is estimated using effective duration (in years).

(2) These include investments highly sensitive to interest rate changes.

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**Credit Risk**

The credit risk profile as listed by Moody's or Standards & Poor's for debt securities and money market mutual funds at December 31, 2010 and 2009 is as follows:

		<b>2010</b>					
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa/Ba</u>	<u>Not rated</u>	<u>Total</u>
Debt Securities:							
Commingled fund <sup>(1)</sup>	\$	—	—	—	—	67,595,887	67,595,887
Asset-backed securities		1,298,398	—	—	—	—	1,298,398
Corporate		1,684,723	3,579,112	7,667,468	2,485,309	—	15,416,612
Mortgages		19,594,729	—	—	—	—	19,594,729
Collateralized mortgage obligations		332,449	—	455,581	—	—	788,030
U.S. Treasuries		19,861,609	—	—	—	—	19,861,609
Municipals		—	769,548	—	—	—	769,548
CMBS		373,423	—	145,296	—	—	518,719
Total debt securities	\$	<u>43,145,331</u>	<u>4,348,660</u>	<u>8,268,345</u>	<u>2,485,309</u>	<u>67,595,887</u>	<u>125,843,532</u>
Money market mutual funds	\$	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>65,523,711</u>	<u>65,523,711</u>
		<b>2009</b>					
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa/Ba</u>	<u>Not rated</u>	<u>Total</u>
Debt Securities:							
Commingled fund <sup>(1)</sup>	\$	—	—	—	—	63,935,654	63,935,654
Asset-backed securities		2,081,509	—	—	—	—	2,081,509
Corporate		1,190,296	1,046,102	5,066,575	6,543,424	—	13,846,397
Mortgages		15,459,450	—	—	—	—	15,459,450
Collateralized mortgage obligations		2,509,541	—	69,626	—	—	2,579,167
U.S. Treasuries		15,699,981	—	—	—	—	15,699,981
Municipals		—	1,189,688	—	—	—	1,189,688
CMBS		3,843,098	—	574,175	68,742	—	4,486,015
Total debt securities	\$	<u>40,783,875</u>	<u>2,235,790</u>	<u>5,710,376</u>	<u>6,612,166</u>	<u>63,935,654</u>	<u>119,277,861</u>
Money market mutual funds	\$	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>56,637,908</u>	<u>56,637,908</u>

(1) There is no rating to the commingled fund; however, the average rating of the underlying investments in the commingled fund as provided by the fund manager is Aa at both December 31, 2010 and 2009.

Credit Risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policy authorizes OSEEGIB to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances rated AA or better, commercial paper rated A-1 or P-1 and A-2 or

(Continued)

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P-2, fixed income investments rated investment grade and stocks of companies with a minimum capitalization of \$50,000,000, and other investments of similar risk.

Investments in “restricted securities,” including fixed income securities, preferred stock, common stock, or any common stock acquired upon conversion thereof are prohibited. “Restricted securities” are securities which have not been registered under the Securities Act of 1933 and are subject to restrictions on sale. Engagements in short sales, purchases on margin, or investments in commodities or transactions of a similar or speculative nature are prohibited.

**Custodial Credit Risk**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, OSEEGIB will not be able to recover the value of its investments or collateral securities in the possession of an outside party. The current master custodian has been approved by OSEEGIB’s Board. OSEEGIB’s investments include investments that are insured or registered or for which the securities are held by a custodian in OSEEGIB’s name. They may also include investments held for the custodian by the Federal Reserve Bank or Depository Trust Corporation in OSEEGIB’s name.

**Concentration of Credit Risk**

An increased risk of loss occurs as more investments are acquired from one issuer. No issuer represents 5% or more of OSEEGIB’s total investments. OSEEGIB’s policy states investments in one issuer shall not exceed 2.5% of the fair value of each manager’s assets, except for obligations of the U.S. government or of any state of the U.S. The policy also restricts investments in the common stock of any U.S. corporation to no more than 5% of each manager’s assets valued at the lower of cost or market value, except where the manager’s benchmark holds more than 5% in a single issue or with prior consent of OSEEGIB’s Board.

**Interest Rate Risk**

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. Fixed income investments held for longer periods are subject to increased risk of adverse interest rate changes. OSEEGIB’s policy requires that the total fixed income portfolio maintain an average effective maturity of 10 years or less and for average duration to be plus or minus 1 year from the benchmark, which has been identified by management to assess the performance of each manager.

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**Investment Income**

Net investment income for the years ended December 31, 2010 and 2009, is comprised of the following:

	<u>2010</u>	<u>2009</u>
Fixed income securities	\$ 2,010,577	5,094,578
Equity securities	3,183,840	1,091,041
Realized gains (losses)	10,521,049	(2,876,954)
Unrealized gains	4,363,158	17,102,790
Less investment expenses	<u>(523,586)</u>	<u>(438,206)</u>
Net investment income	<u>\$ 19,555,038</u>	<u>19,973,249</u>

**(6) Office Equipment**

The changes in office equipment for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Office equipment, at cost:		
Balance, beginning of year	\$ 4,163,900	4,438,752
Additions	217,654	132,124
Retirements	<u>(204,318)</u>	<u>(406,976)</u>
Balance, end of year	<u>4,177,236</u>	<u>4,163,900</u>
Accumulated depreciation:		
Balance, beginning of year	3,554,458	3,728,534
Depreciation expense	192,198	232,900
Retirements	<u>(200,486)</u>	<u>(406,976)</u>
Balance, end of year	<u>3,546,170</u>	<u>3,554,458</u>
Office equipment, net	<u>\$ 631,066</u>	<u>609,442</u>

(Continued)

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**(7) Health and Dental and Life Reserves**

The following represents changes in the Health and Dental and Life Reserves during the year ended December 31, 2010 (in thousands):

	<u>Health and Dental</u>	<u>Life</u>	<u>Total</u>
Reserves, beginning of year	\$ 102,804	4,813	107,617
Incurred claims expense provisions for insured events of the current year	746,466	21,083	767,549
Changes in provisions for insured events of prior years	3,362	(451)	2,911
	<u>749,828</u>	<u>20,632</u>	<u>770,460</u>
Less payments:			
Claims expense insured events of the current year	659,895	17,393	677,288
Claims expense insured events of prior years	101,857	3,312	105,169
	<u>761,752</u>	<u>20,705</u>	<u>782,457</u>
Reserves, end of year	<u>\$ 90,880</u>	<u>4,740</u>	<u>95,620</u>

As a result of changes in estimates of insured events in prior years, the provision for claims increased by approximately \$3,691,000 in the year ended December 31, 2010, due primarily to less favorable than anticipated claims experience.

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The following represents changes in the Health and Dental and Life Reserves during the year ended December 31, 2009 (in thousands):

	<b>Health and Dental</b>	<b>Life</b>	<b>Total</b>
Reserves, beginning of year	\$ 93,771	4,708	98,479
Incurred claims expense provisions for insured events of the current year	782,521	23,219	805,740
Changes in provisions for insured events of prior years	10,425	555	10,980
	<u>792,946</u>	<u>23,774</u>	<u>816,720</u>
Less payments:			
Claims expense insured events of the current year	684,927	19,476	704,403
Claims expense insured events of prior years	98,986	4,193	103,179
	<u>783,913</u>	<u>23,669</u>	<u>807,582</u>
Reserves, end of year	<u>\$ 102,804</u>	<u>4,813</u>	<u>107,617</u>

As a result of changes in estimates of insured events in prior years, the provision for claims increased by approximately \$11,725,000 in the year ended December 31, 2009, due primarily to less favorable than anticipated claims experience.

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**(8) Disability Reserves**

The following represents changes in the disability reserves during the years ended December 31, 2010 and 2009 (in thousands):

	<b>2010</b>	<b>2009</b>
Reserves, beginning of year	\$ 13,809	13,299
Incurred claims:		
Provisions for insured events of the current year	5,348	4,782
Changes in provisions for insured events of prior years	(1,911)	(1,127)
	3,437	3,655
Payments:		
Claims attributable to insured events of the current year	749	584
Claims attributable to insured events of prior years	2,508	2,561
	3,257	3,145
Reserves, end of year	\$ 13,989	13,809

OSEEGIB estimates current and noncurrent reserves for disability reserves based on historical claim experience.

As a result of changes in estimates of insured events in prior years, the provision for disability reserves decreased by approximately \$1,911,000 and \$1,127,000 in the years ended December 31, 2010 and 2009, respectively, due primarily to favorable claims development.

The following is a brief description of the significant assumptions used for disability reserves:

- Actual claim experience for the group, based upon claim lag studies, was used for males and females for short-term disability.
- The 1987 Commissioner's Group Disability Table was used.
- The discount rate was 3.5% for the years ended December 31, 2010 and 2009.

**(9) Premium Deficiency Reserve**

A premium deficiency reserve is recorded at the end of the year when the anticipated costs of settling claims plus policy maintenance costs for the following year are in excess of the anticipated premium receipts for the following year. Anticipated premium receipts are projected based on the premium rates adopted by the Board for the following plan year and current enrollment levels. Incurred claims for subsequent years are projected based on current year incurred claims, increased for anticipated inflation

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rates and benefit design changes. The Board does not have the intention to change the adopted premium rates after the fiscal year has begun. OSEEGIB determined that reserves for premium deficiency were necessary as of December 31, 2010 in the amount of \$1,754,000, and no premium deficiency reserve was necessary as of December 31, 2009.

**(10) Employee Benefit Plans**

For the fiscal year ended December 31, 2008, OSEEGIB implemented GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*.

GASB Statement No. 50 amends GASB Statement No. 27 to require employers participating in a cost-sharing plan to include the following in the note disclosure: the required contribution rates and the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, and how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis.

GASB Statement No. 50 also amends GASB Statement No. 27 to require that if a cost-sharing plan does not issue a publicly available stand-alone plan financial report prepared in accordance with the requirements of GASB Statement No. 25, as amended, and the plan is not included in the financial report of another entity, each employer in that plan should present, as required supplementary information, the schedules of funding progress and employer contributions for the plan (and notes to their schedules). Also, each employer should disclose that the information presented relates to the cost-sharing plan as a whole, of which the employer is one participating employer, and should provide information helpful for understanding the scale of the information presented relative to the employer. OSEEGIB has made all required disclosures under GASB Statement No. 50.

**(a) Retirement Plan**

OSEEGIB contributes to the Oklahoma Public Employees Retirement Plan (the Retirement Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (OPERS). The Retirement Plan provides retirement, disability, and life benefits to Retirement Plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the state of Oklahoma. Title 74 of the Oklahoma Statutes, Sections 901-943, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of OPERS. OPERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to OPERS, 6601 N. Broadway Extension, Suite 129, Oklahoma City, Oklahoma, 73116 or by calling 800.733.9008.

Retirement Plan members, state employees and OSEEGIB are required to contribute at a rate set by statute. The contribution requirements of Retirement Plan members and OSEEGIB are established and may be amended by the legislature of the state of Oklahoma. Each member participates based on his or her gross salary earned (excluding overtime).

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The contribution rate for OSEEGIB and employees for 2010, 2009, and 2008 is as follows:

	<b>Employee rate</b>		<b>Employer rate</b>
	<b>Salaries \$25,000 or less</b>	<b>Salaries greater than 25,000</b>	
July 1, 2010 – December 31, 2010	3.5%	3.5%	15.5%
July 1, 2009 – June 30, 2010	3.5	3.5	15.5
July 1, 2008 – June 30, 2009	3.5	3.5	14.5
July 1, 2007 – June 30, 2008	3.5	3.5	13.5

OSEEGIB's contributions to the Retirement Plan for the years ended December 31, 2010, 2009, and 2008 were approximately \$1,192,000, \$1,224,000, \$1,140,000, respectively, and were equal to OSEEGIB's required contributions for the year. Contributions are included in administrative expenses in the statements of revenues, expenses and changes in fund equity.

**(b) *Deferred Compensation Plan***

The State offers to its own employees, state agency employees, and other duly constituted authority or instrumentality employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and Chapter 45 of Title 74, Oklahoma Statutes. The Oklahoma State Employees Deferred Compensation Plan (SoonerSave) is a voluntary plan that allows participants to defer a portion of their salary into SoonerSave. Participation allows a person to shelter the portion of their salary that they defer from current federal and state income tax. Taxes on the interest or investment gains on this money, while in SoonerSave, are also deferred. The deferred compensation is not available to employees until termination, retirement, death, or approved unforeseeable emergency.

Under SoonerSave, the untaxed deferred amounts are invested as directed by the participant among various investment options. Effective January 1, 1998, a Trust and Trust Fund covering SoonerSave assets was established pursuant to federal legislation enacted in 1996, requiring public employers to establish such trusts for plans meeting the requirements of Section 457 of the Internal Revenue Code. Under terms of the Trust, the corpus or income of the Trust Fund may be used only for the exclusive benefit of SoonerSave participants and their beneficiaries. Further information may be obtained from the Oklahoma State Employees Deferred Compensation Plan audited financial statements for the year ended June 30, 2010. OSEEGIB believes it has no liabilities with respect to SoonerSave.

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**(11) Compensated Absences**

It is OSEEGIB's policy to accrue compensated absences for annual leave, including the related employer's share of social security and Medicare taxes, in accordance with state statute, not to exceed:

- 240 hours for employees with continuous service of less than five years, or
- 480 hours for employees with continuous service of five years or more.

During 2010, OSEEGIB's liability for compensated absences increased by approximately \$107,000 for 104 employees, decreased by approximately \$133,000 for 59 employees, and did not change for 12 employees.

During 2009, OSEEGIB's liability for compensated absences increased by approximately \$94,000 for 99 employees, decreased by approximately \$85,000 for 65 employees, and did not change for 14 employees.

OSEEGIB's liability for compensated absences at December 31, 2010 and 2009 amounted to approximately \$898,000 and \$924,000, respectively, and is included in other accrued liabilities in the balance sheets.

**(12) Operating Leases**

OSEEGIB has agreements for one-year commitments to lease office space and equipment with options to renew for additional periods. If the leases are renewed in accordance with the options in the agreements, the future minimum rentals for operating leases as of December 31, 2010 are as follows:

2011	\$	568,390
2012		231,807
2013		<u>112,548</u>
	\$	<u><u>912,745</u></u>

Rent expense for office space and equipment for the years ended December 31, 2010 and 2009 was approximately \$606,000 and \$616,000, respectively, and is included in administrative expenses in the statements of revenues, expenses and changes in fund equity.

**(13) Risks and Uncertainties**

OSEEGIB invests in various investment securities. As described in note 5, investment securities are exposed to various risks such as interest rate, market, and credit risks. It is at least reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the balance sheets.

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As described in note 2, the estimates of reserves are determined based on actuarial and statistical techniques, which considers the effects of general economic conditions, such as inflation, and other factors of past experience, such as changes in participant counts, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

**(14) Commitments and Contingencies**

OSEEGIB's legal counsel has determined that the statute of limitations for claims denied or paid improperly is three years. Typically, all claims are reported within a 24-month period. Currently, OSEEGIB is not aware of any material claims that were denied or paid improperly that should be reserved for in the basic financial statements. To the extent such claims exist, OSEEGIB may be responsible for payment.

During 2003, the Oklahoma Legislature created the Medical Expense Liability Revolving Fund (the Fund), which enacted a fee to cover inmate medical costs. By law, OSEEGIB is the administrator of the Fund. Any person convicted of certain offenses is required to pay a fine of \$10, which goes into the Fund. The monies from the Fund are used when an inmate's medical costs exceed \$8,000 up to a maximum of \$100,000. As of December 31, 2010 and 2009, the Fund has assets and liabilities of approximately \$1,610,000 and \$1,071,000, respectively, which are included in the balance sheets.

During 1995, the Oklahoma Legislature created the Health Insurance High Risk Pool (the Pool), which was designed to provide health insurance for certain state residents who are unable to obtain coverage through other insurers. All insurers and reinsurers providing health insurance or reinsurance in the state of Oklahoma are required to participate in the Pool. With the exception of OSEEGIB, all self-insured plans are exempted from participation. Participating insurers are assessed periodically. OSEEGIB has recorded assessments totaling approximately \$3,569,000 and \$2,101,000 during the years ended December 31, 2010 and 2009, respectively, which is included in administrative expense in the statements of revenues, expenses and changes in fund equity. Participating insurers may also be assessed additional amounts if the Pool experiences adverse claim development.

In the normal course of operations, there are various legal actions and proceedings pending against OSEEGIB. In management's opinion, the ultimate liability, if any, resulting from these legal actions will not have a material adverse effect on OSEEGIB's financial position, results of operations, or liquidity.



# Statistical Section



*Buffalo*



# Fund Equity Over the Last Ten Years

(Accrual basis of accounting) • (Amounts expressed in thousands)

Table 1

	2010	2009	2008	2007 <sup>(2)</sup>	2006 <sup>(2)</sup>	2005	2004	2003	2002	2001	2001 Short <sup>(1)</sup>
<b>Health &amp; Dental Program</b>											
Minimum fund equity	\$ 133,154	\$ 138,818	125,046	120,344	116,936	106,302	93,482	84,064	72,050	67,070	59,022
Fixed assets net of accumulated depreciation	631	609	710	856	1,340	1,838	2,344	2,777	2,253	1,791	813
Other fund equity	41,533	(21,931)	(57,214)	(372)	(2,831)	12,231	20,738	(4,702)	(23,530)	(13,334)	39
Total fund equity	175,318	117,496	68,542	120,828	115,445	120,371	116,564	82,139	50,773	55,527	59,874
<b>Life Program</b>											
Minimum fund equity	11,311	10,370	10,086	10,106	9,399	8,293	6,271	6,111	5,375	5,728	5,177
Other fund equity	11,135	7,522	10,196	14,670	11,060	11,530	13,565	12,552	12,933	15,791	15,200
Total fund equity	22,446	17,892	20,282	24,776	20,459	19,823	19,836	18,663	18,308	21,519	20,377
<b>Disability Program</b>											
Minimum fund equity	5,455	5,088	4,793	5,083	4,485	4,061	4,421	3,971	2,944	3,128	3,434
Other fund equity	22,782	19,569	16,826	20,803	22,399	21,698	21,332	21,397	19,896	24,008	25,222
Total fund equity	28,237	24,657	21,619	25,886	26,884	25,759	25,753	25,368	22,840	27,136	28,656
<b>Combined Programs</b>											
Minimum fund equity	149,920	154,276	139,925	135,533	130,820	118,656	104,174	94,146	80,369	75,926	67,633
Fixed assets net of accumulated depreciation	631	609	710	856	1,340	1,838	2,344	2,777	2,253	1,791	813
Other fund equity	75,450	5,160	(30,192)	35,101	30,628	45,459	55,635	29,247	9,299	26,465	40,461
Total fund equity	\$ 226,001	160,045	110,443	171,490	162,788	165,953	162,153	126,170	91,921	104,182	108,907

(1) OSEEGIB moved to a calendar year on January 1, 2002 from a June 30 fiscal year.

(2) The 2007 and 2006 financial information has been adjusted to reflect the change in accounting principle and reporting presentation for comparability purposes.

## Change in Fund Equity Over the Last Ten Years

(Accrual basis of accounting) • (Amounts expressed in thousands)

**Table 2**

	2010	2009	2008	2007 <sup>(4)</sup>	2006 <sup>(4)</sup>	2005	2004 <sup>(2)</sup>	2003 <sup>(2)</sup>	2002	2001	2001
											Short <sup>(3)</sup>
<b>Expenses</b>											
<b>Health and Dental Program</b>											
Incurrd claims expense	\$ 749,849	792,950	765,931	731,807	700,005	657,653	576,243	521,914	440,794	200,799	362,374
Pass-through grant expense	4,988										
Change in premium deficiency reserves	1,754	(11,915)	(12,712)	24,627	(9,065)	9,065	-	-	-	-	-
Administrative and claim processing expense	36,361	36,125	36,830	39,807	38,091	33,465	29,311	29,307	26,872	13,077	26,771
Total Health and Dental Program expense	792,952	817,160	790,049	796,241	729,031	700,183	605,554	551,221	467,666	213,876	389,145
<b>Life Program</b>											
Incurrd claims expense	20,632	23,774	21,005	15,278	17,305	16,097	14,433	14,042	13,215	4,497	10,917
Change in premium deficiency reserves	-	-	-	-	-	-	-	-	(2,068)	(1,100)	800
Administrative and claim processing expense	818	897	726	811	757	693	719	774	786	358	719
Total Life Program expense	21,450	24,671	21,731	16,089	18,062	16,790	15,152	14,816	11,933	3,755	12,436
<b>Disability Program</b>											
Incurrd claims expense	3,416	3,652	2,093	6,052	3,702	3,234	3,962	2,555	2,947	1,549	953
Administrative and claim processing expense	1,236	1,401	1,161	604	956	831	687	636	696	297	721
Total Disability Program expense	4,652	5,053	3,254	6,656	4,658	4,065	4,649	3,191	3,643	1,846	1,674
<b>Combined Programs</b>											
Incurrd claims expense	773,897	820,376	789,029	753,137	721,012	676,984	594,638	538,511	456,956	206,845	374,244
Pass-through grant expense	4,988										
Change in premium deficiency reserves	1,754	(11,915)	(12,712)	24,627	(9,065)	9,065	-	-	(2,068)	(1,100)	800
Administrative and claim processing expense	38,415	38,423	38,717	41,222	39,804	34,989	30,717	30,717	28,354	13,732	28,211
Total Combined Programs expense	\$ 819,054	846,884	815,034	818,986	751,751	721,038	625,355	569,228	483,242	219,477	403,255

# Change in Fund Equity Over the Last Ten Years

(Accrual basis of accounting) • (Amounts expressed in thousands)

Table 2 cont.

	2010	2009	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	2005	2004 <sup>(2)</sup>	2003 <sup>(2)</sup>	2002	2001 <sup>(3)</sup>	2001 Short
<b>Revenue</b>											
<b>Health and Dental Program</b>											
Premiums	\$ 792,495	812,996	714,236	749,855	674,949	687,334	623,363	563,516	451,969	203,960	373,827
Pass-through grant revenue	4,988	-	-	-	-	-	-	-	-	-	-
Medicare Part D Subsidy	23,958	25,173	23,817	26,688	25,599	-	-	-	-	-	-
Pharmacy rebates	13,345	13,060	12,145	12,885	11,490	9,820	8,841	8,297	7,515	2,444	4,709
Risk adjustment	2,245	1,670	2,147	2,218	1,564	2,258	2,277	2,644	4,207	2,334	5,307
Other	367	-	91	30	-	81	108	-	188	790	-
Net investment income (loss)	13,376	13,215	(14,673)	9,455	10,504	4,496	5,390	8,131	(968)	-	3,757
Total Health and Dental Program revenue	850,774	866,114	737,763	801,131	724,106	703,989	639,979	582,588	462,911	209,528	387,600
<b>Life Program</b>											
Premiums	23,830	19,887	20,241	18,784	16,909	16,067	14,901	12,452	9,946	4,972	9,275
Net investment income (loss)	2,174	2,393	(3,004)	1,623	1,788	710	1,425	2,718	(1,224)	(74)	391
Total Life Program revenue	26,004	22,280	17,237	20,407	18,697	16,777	16,326	15,170	8,722	4,898	9,666
<b>Disability Program</b>											
Premiums	4,227	3,726	3,651	3,635	3,002	2,937	2,886	2,005	598	303	1,418
Other	-	-	-	3	-	-	-	-	-	-	-
Net investment income (loss)	4,005	4,365	(4,664)	2,512	2,781	1,135	2,147	3,714	(1,250)	23	742
Total Disability Program revenue	8,232	8,091	(1,013)	6,150	5,783	4,072	5,033	5,719	(652)	326	2,160
<b>Combined Programs</b>											
Premiums	820,552	836,609	738,128	772,274	694,860	706,338	641,150	577,973	462,513	209,235	384,520
Pass-through grant revenue	4,988	-	-	-	-	-	-	-	-	-	-
Medicare Part D subsidy	23,958	25,173	23,817	26,688	25,599	-	-	-	-	-	-
Pharmacy rebates	13,345	13,060	12,145	12,885	11,490	9,820	8,841	8,297	7,515	2,444	4,709
Risk adjustment	2,245	1,670	2,147	2,218	1,564	2,258	2,277	2,644	4,207	2,334	5,307
Other	367	-	91	33	-	81	108	-	188	-	-
Net investment income (loss)	19,555	19,973	(22,341)	13,590	15,073	6,341	8,962	14,563	(3,442)	739	4,890
Total Combined Programs revenue	885,010	896,485	753,987	827,688	748,586	724,838	661,338	603,477	470,981	214,752	399,426
<b>Change in fund equity</b>											
Health and Dental Program	57,822	48,954	(52,286)	4,890	(4,925)	3,806	34,425	31,367	(4,755)	(4,348)	(1,545)
Life Program	4,554	(2,391)	(4,494)	4,318	635	(13)	1,174	354	(3,211)	1,143	(2,770)
Disability Program	3,580	3,038	(4,267)	(506)	1,125	7	384	2,528	(4,295)	(1,520)	486
Total Combined Programs change in fund equity	\$ 65,956	49,601	(61,047)	8,702	(3,165)	3,800	35,983	34,249	(12,261)	(4,725)	(3,829)

(1) OSEEGIB set 2008, 2007, and 2006 premium rates at a level expected to use \$22.8 million, \$26.8 million and \$13.6 million in fund equity, respectively.

(2) The large increase in fund equity in 2003 and 2004 is due to favorable claims experience. In 2003, health and dental claims were 5% less than budgeted and in 2004 health claims were 7% less than budgeted while dental claims were slightly under budget.

(3) OSEEGIB moved to a calendar year on January 1, 2002 from a June 30 fiscal year.

(4) The 2007 and 2006 financial information has been adjusted to reflect the change in accounting principle and reporting presentation for comparability purposes.

# Operating Revenues by Type of Entity Over the Last Ten Years

(Accrual basis of accounting) • (Amounts expressed in thousands)

**Table 3**

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
<b>State and Local Government Entities</b>										
Health and Dental Program	\$ 374,072	375,638	332,794	328,925	296,877	293,256	249,887	233,092	190,638	157,655
Life Program	17,613	13,597	14,111	13,217	12,096	11,754	11,202	9,548	7,922	7,608
Disability Program	4,227	3,726	3,651	3,638	3,002	2,937	2,886	2,005	598	1,418
Total	395,912	392,961	350,556	345,779	311,975	307,947	263,975	244,644	199,158	166,681
<b>Education Entities</b>										
Health and Dental Program	534,690	477,261	419,642	462,751	416,724	406,237	384,702	341,365	273,241	226,188
Life Program	6,217	6,290	6,130	5,567	4,813	4,313	3,699	2,904	2,024	1,667
Total	540,907	483,551	425,772	468,319	421,537	410,550	388,401	344,270	275,265	227,855
<b>All Entities</b>										
Health and Dental Program	908,762	852,899	752,436	791,676	713,601	699,493	634,589	574,457	463,879	383,843
Life Program	23,830	19,887	20,241	18,784	16,909	16,067	14,901	12,452	9,946	9,275
Disability Program	4,227	3,726	3,651	3,638	3,002	2,937	2,886	2,005	598	1,418
Total	\$ 936,819	876,512	776,328	814,098	733,512	718,497	652,376	588,914	474,423	394,536

Note: OSEEGIB moved to a calendar year on January 1, 2002 after a June 30 fiscal year. Revenues for the short year ended December 31, 2001 are not reported.

# Top Ten Sources of Premium Revenue Premiums Received During the Plan Year for the Last Six Years

(Amounts expressed in thousands)

**Table 4**

2010		2007	
Group	Receipts	Group	Receipts
Employees Benefits Council	\$226,454	Employees Benefits Council	\$206,600
Teachers Retirement System	\$114,836	Teachers Retirement System	\$105,496
Oklahoma Public Employees Retirement System	\$68,198	Oklahoma Public Employees Retirement System	\$59,950
Tulsa Public Schools	\$28,480	Oklahoma State University	\$32,792
Oklahoma City Public Schools	\$21,957	Tulsa Public Schools	\$25,130
Lawton Public Schools	\$11,418	Oklahoma City Public Schools	\$17,674
Moore Public Schools	\$10,816	Lawton Public Schools	\$9,923
Edmond Public Schools	\$10,737	Edmond Public Schools	\$8,676
Putnam City Public Schools	\$9,639	Putnam City Public Schools	\$8,477
Norman Public Schools	\$8,500	Moore Public Schools	\$8,315

2009		2006	
Group	Receipts	Group	Receipts
Employees Benefits Council	\$241,480	Employees Benefits Council	\$179,838
Teachers Retirement System	\$115,714	Teachers Retirement System	\$145,118
Oklahoma Public Employees Retirement System	\$68,019	Oklahoma Public Employees Retirement System	\$63,908
Tulsa Public Schools	\$25,011	Oklahoma State University	\$31,108
Oklahoma City Public Schools	\$20,204	Tulsa Public Schools	\$22,379
Lawton Public Schools	\$10,663	Oklahoma City Public Schools	\$15,565
Putnam City Public Schools	\$9,167	Lawton Public Schools	\$8,775
Edmond Public Schools	\$9,132	Putnam City Public Schools	\$7,287
Tulsa Community College	\$8,770	Edmond Public Schools	\$7,031
Moore Public Schools	\$8,470	Moore Public Schools	\$6,636

2008		2005	
Group	Receipts	Group	Receipts
Employees Benefits Council	\$212,022	Employees Benefits Council	\$189,035
Teachers Retirement System	\$103,293	Teachers Retirement System	\$117,871
Oklahoma Public Employees Retirement System	\$61,151	Oklahoma Public Employees Retirement System	\$67,241
Tulsa Public Schools	\$24,943	Oklahoma State University	\$26,740
Oklahoma City Public Schools	\$18,258	Tulsa Public Schools	\$24,483
Lawton Public Schools	\$9,636	Oklahoma City Public Schools	\$16,584
Edmond Public Schools	\$8,799	Lawton Public Schools	\$9,367
Putnam City Public Schools	\$8,449	Putnam City Public Schools	\$7,394
Moore Public Schools	\$7,995	Edmond Public Schools	\$7,175
Tulsa Community College	\$7,305	Moore Public Schools	\$6,267

# HealthChoice Medical Participation

Last Ten Years

Table 5A

Year Ended	State Entities				Local Government Entities				Education Entities			
	Active		Inactive		Active		Inactive		Active		Inactive	
	Employees	Dependents	Employees	Dependents	Employees	Dependents	Employees	Dependents	Employees	Dependents	Employees	Dependents
2010	21,006	25,001	14,678	3,054	7,939	1,889	129	25	46,503	16,419	22,992	3,610
2009	23,702	27,373	14,622	3,117	8,751	2,206	171	49	53,294	19,934	24,665	4,095
2008	24,362	26,508	14,445	3,103	9,125	2,471	126	37	52,180	20,798	24,055	4,067
2007	24,349	23,567	14,357	3,056	8,979	2,409	103	32	56,622	22,588	24,637	4,273
2006	26,021	23,829	14,281	3,114	8,394	2,618	87	30	56,758	24,661	24,279	4,315
2005	27,082	23,236	14,799	3,303	7,891	2,729	68	22	55,375	24,926	24,825	4,490
2004	24,457	20,558	14,137	3,318	8,053	3,091	65	22	55,953	27,976	24,864	4,670
2003	24,868	20,336	14,043	3,385	8,085	3,516	67	28	50,987	28,854	24,292	4,721
2002	22,768	17,015	13,824	3,418	7,953	3,610	59	23	43,989	25,199	22,928	4,452
2001	19,333	13,600	13,915	3,593	6,500	3,101	45	19	37,758	23,843	22,458	4,582

# HMO Participation

Year Ended	State Entities (1)				Local Government Entities				Education Entities			
	Active		Inactive		Active		Inactive		Active		Inactive	
	Employees	Dependents	Employees	Dependents	Employees	Dependents	Employees	Dependents	Employees	Dependents	Employees	Dependents
2010	14,229	17,941	1,876	421	626	374	5	3	12,903	5,421	2,165	387
2009	13,742	16,716	1,702	386	799	382	12	6	12,348	5,373	2,122	405
2008	13,606	16,017	1,644	374	939	420	4	3	11,877	5,138	2,106	434
2007	13,408	15,337	1,560	394	927	463	7	3	12,697	6,551	2,077	465
2006	11,850	12,677	1,342	354	768	400	3	2	11,652	6,367	1,863	427
2005	10,151	10,513	1,089	290	813	369	2	2	10,801	6,382	1,644	395
2004	11,928	11,700	1,927	502	1,074	554	7	4	14,661	9,278	2,609	595
2003	11,334	10,836	1,838	493	1,131	664	9	4	14,020	9,458	2,516	610
2002	12,118	11,705	1,788	489	1,151	844	7	2	13,916	9,870	2,303	572
2001	18,066	15,917	2,071	608	1,965	1,546	20	11	18,560	15,357	2,419	621

(1) HMO premiums for active state employees and their dependents are collected by the Employees Benefits Council and remitted to the HMO.

# HealthChoice Dental Participation

Last Ten Years

Table 5B

Year Ended	State Entities		Local Government		Education Entities		Total
	Employees	Dependents	Employees	Dependents	Employees	Dependents	
2010	36,122	30,916	5,954	2,897	59,081	31,044	166,014
2009	38,587	33,105	6,756	3,425	64,890	34,459	181,222
2008	39,108	32,626	7,114	3,597	63,566	33,885	179,896
2007	39,023	30,845	6,964	3,492	62,205	33,124	175,653
2006	38,953	29,298	6,736	3,457	61,536	33,346	173,326
2005	39,912	29,157	6,871	3,660	62,042	34,315	175,957
2004	42,089	30,758	7,233	3,949	62,849	35,468	182,346
2003	41,735	29,837	7,199	4,283	59,659	35,043	177,756
2002	42,341	29,863	7,226	4,528	60,368	36,576	180,902
2001	39,279	26,301	6,578	4,076	54,961	33,846	165,041

## DMO Participation

Year Ended	State Entities <sup>(1)</sup>		Local Government		Education Entities		Total
	Employees	Dependents	Employees	Dependents	Employees	Dependents	
2010	11,923	12,849	942	539	16,721	10,424	53,398
2009	11,574	12,313	1,230	681	16,785	10,774	53,357
2008	11,061	11,493	1,181	674	15,617	10,212	50,238
2007	10,452	10,342	1,124	668	14,045	9,399	46,030
2006	10,096	9,852	950	604	12,634	8,903	43,039
2005	8,488	7,800	450	353	9,600	6,907	33,598
2004	5,303	4,926	243	225	4,456	3,740	18,893
2003	5,036	4,784	226	237	4,109	3,620	18,012
2002	5,332	5,243	180	200	4,287	4,108	19,350
2001	7,652	7,486	316	356	6,176	6,345	28,331

**Note:** Dental participation is not tracked separately for active employees or retirees.

<sup>(1)</sup> DMO premiums for active state employees and their dependents are collected by the Employees Benefits Council and remitted to the DMO.

# Monthly Premiums by Coverage Type and Billing Categories

Last Ten Years

Table 6A

## HealthChoice High Active Employees

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$442.80	\$625.88	\$228.32	\$342.44
CY2009	409.12	587.92	199.98	343.10
CY2008	364.24	496.61	181.44	290.22
CY2007	364.24	554.18	189.04	298.60
CY2006	310.46	450.22	157.10	250.40
CY2005	313.86	450.22	157.10	250.40
CY2004	292.54	397.12	139.62	226.02
CY2003	267.68	348.62	125.38	198.96
CY2002	227.82	295.80	103.30	181.64
SY2001	211.24	284.58	107.10	188.66
FY2001	198.42	248.90	92.94	154.62

## HealthChoice High Retirees Under Age 65

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$442.80	\$625.88	\$228.32	\$342.44
CY2009	409.12	587.92	199.98	343.10
CY2008	364.24	496.61	181.44	290.22
CY2007	364.24	554.18	189.04	298.60
CY2006	400.46	583.68	157.10	250.40
CY2005	403.86	583.68	157.10	250.40
CY2004	382.54	507.52	139.62	226.02
CY2003	357.68	458.76	125.38	198.96
CY2002	317.82	401.76	103.30	181.64
SY2001	301.24	377.96	107.10	188.66
FY2001	288.42	354.12	92.94	154.62

## HealthChoice High Retirees Age 65 and Over

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$289.42	\$289.42	\$289.42	\$578.84
CY2009	279.28	279.28	279.28	558.56
CY2008	245.80	245.80	245.80	491.60
CY2007	245.80	245.80	245.80	491.60
CY2006	245.80	245.80	245.80	491.60
CY2005	288.16	284.80	157.10	250.40
CY2004	251.84	261.40	139.62	226.02
CY2003	247.96	255.02	125.38	198.96
CY2002	221.28	226.58	103.30	181.64
SY2001	238.62	247.74	107.10	188.66
FY2001	198.98	205.40	92.94	154.62

CY - Calendar Year

SY - Short Year

FY - Fiscal Year

# Monthly Premiums by Coverage Type and Billing Categories

Last Ten Years

Table 6B

## HealthChoice Basic/Low

### Active Employees

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$384.22	\$546.84	\$200.36	\$300.88
CY2009	347.96	503.74	171.56	586.88
CY2008	318.18	425.65	155.32	248.88
CY2007	318.18	491.20	165.14	262.08
CY2006	269.22	388.18	135.18	215.46
CY2005	271.12	388.18	135.18	215.46
CY2004	256.16	347.18	121.58	197.66
CY2003	238.50	310.24	111.50	177.46
CY2002	200.40	260.22	89.50	158.80
SY2001	189.62	253.82	95.80	163.96
FY2001	175.64	219.80	81.84	132.02

## HealthChoice Basic/Low

### Retirees Under Age 65

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$384.22	\$546.84	\$200.36	\$300.88
CY2009	347.96	503.74	171.56	586.88
CY2008	318.18	425.65	155.32	248.88
CY2007	318.18	491.20	165.14	262.08
CY2006	359.22	504.90	135.18	215.46
CY2005	361.12	504.90	135.18	215.46
CY2004	346.16	445.44	121.58	197.66
CY2003	328.50	409.18	111.50	177.46
CY2002	290.40	355.32	89.50	158.80
SY2001	279.62	339.14	95.80	163.96
FY2001	265.64	306.66	81.84	132.02

## HealthChoice Basic/Low

### Retirees Age 65 & Over

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$236.10	\$236.10	\$236.10	\$472.20
CY2009	222.92	222.92	222.92	445.84
CY2008	197.32	197.32	197.32	394.64
CY2007	197.32	197.32	197.32	394.64
CY2006	197.32	197.32	197.32	394.64
CY2005	188.42	183.20	138.86	221.28
CY2004	166.02	171.36	124.98	203.00
CY2003	164.22	166.00	111.50	177.46
CY2002	156.18	158.58	89.50	158.80
SY2001	163.44	168.48	107.10	188.66
FY2001	132.72	131.74	92.94	154.62

CY - Calendar Year

SY - Short Year

FY - Fiscal Year

# Monthly Premiums by Coverage Type and Billing Categories

*Last Ten Years*

**Table 6C**

## HealthChoice Dental

Year	Employee	Spouse	One Child	Two or More Children
CY2010	\$30.28	\$30.28	\$25.24	\$65.50
CY2009	28.58	28.58	23.82	61.84
CY2008	26.80	26.80	22.34	57.98
CY2007	26.80	26.80	26.80	57.98
CY2006	26.80	26.80	22.34	57.98
CY2005	21.96	21.96	17.52	45.46
CY2004	21.96	21.96	17.52	45.46
CY2003	19.78	19.78	14.84	39.88
CY2002	19.78	19.78	14.84	39.88
SY2001	19.78	19.78	14.84	39.88
FY2001	19.78	19.78	14.84	39.88

## HealthChoice Basic Life

Year	Employee
CY2010	\$4.56
CY2009	3.50
CY2008	3.90
CY2007	3.90
CY2006	3.90
CY2005	3.90
CY2004	3.90
CY2003	2.80
CY2002	2.50
SY2001	2.68
FY2001	2.68

## HealthChoice Disability

Year	Employee
CY2010	\$9.10
CY2009	7.62
CY2008	7.54
CY2007	7.54
CY2006	6.28
CY2005	6.28
CY2004	6.28
CY2003	4.10
CY2002	1.24
SY2001	1.24
FY2001	3.02

CY - Calendar Year

SY - Short Year

FY - Fiscal Year

## Outside Insurance Carriers - Health

(Offered in Addition to the HealthChoice Self-insured Plan)

**Table 7A**

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<u>CY 2010</u> Aetna CommunityCare GlobalHealth PacifiCare	<u>CY 2009</u> Aetna CommunityCare GlobalHealth PacifiCare	<u>CY 2008</u> Aetna CommunityCare GlobalHealth PacifiCare
<u>CY 2007</u> Aetna ASITricare Supplement CommunityCare GlobalHealth PacifiCare	<u>CY 2006</u> Aetna ASITricare Supplement CommunityCare GlobalHealth PacifiCare	<u>CY 2005</u> CommunityCare GlobalHealth
<u>CY 2004</u> CommunityCare PacifiCare	<u>CY 2003</u> CommunityCare PacifiCare	<u>CY 2002</u> AmCare CommunityCare PacifiCare
	<u>FY &amp; SY 2001*</u> AmCare CommunityCare HealthCare Oklahoma PacifiCare	

\*OSEEGIB switched to a calendar year effective January 1, 2002 from a June 30 fiscal year.

**CY** - Calendar Year    **SY** - Short Year    **FY** - Fiscal Year

## Outside Insurance Carriers - Dental

(Offered in Addition to the HealthChoice Self-insured Plan)

**Table 7B**

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<u>CY 2010</u> Assurant Dental CIGNA Dental Delta Dental	<u>CY 2009</u> Assurant Dental CIGNA Dental Delta Dental	<u>CY 2008</u> Assurant Dental CIGNA Dental Delta Dental
<u>CY 2007</u> Assurant Dental CIGNA Dental Delta Dental	<u>CY 2006</u> Assurant Dental CIGNA Dental Delta Dental	<u>CY 2005</u> Assurant Dental CIGNA Dental Delta Dental
<u>CY 2004</u> Fortis Dental	<u>CY 2003</u> UDC/Fortis Dental	<u>CY 2002</u> UDC/Protective Dental Care
	<u>FY &amp; SY 2001*</u> Prudential Healthcare DMO UDC/Denticare	

\*OSEEGIB switched to a calendar year effective January 1, 2002 from a June 30 fiscal year.

**CY** - Calendar Year      **SY** - Short Year      **FY** - Fiscal Year

## Outside Insurance Carriers - Vision

**Table 7C**

<u>CY 2010</u>	<u>CY 2009</u>	<u>CY 2008</u>
Humana/CompBenefits VisionCare Primary Vision Care Services UnitedHealthcare Vision Superior Vision Plan Vision Service Plan	Humana/CompBenefits VisionCare Primary Vision Care Services UnitedHealthcare Vision Superior Vision Plan Vision Service Plan	CompBenefits VisionCare Primary Vision Care Services Spectera Vision Superior Vision Plan Vision Service Plan
<u>CY 2007</u>	<u>CY 2006</u>	<u>CY 2005</u>
CompBenefits VisionCare Primary Vision Care Services Spectera Vision Superior Vision Plan Vision Service Plan	CompBenefits VisionCare Primary Vision Care Services Spectera Vision Superior Vision Plan Vision Service Plan	CompBenefits Primary Vision Care Services Spectera Vision Superior Vision Plan Vision Service Plan
<u>CY 2004</u>	<u>CY 2003</u>	<u>CY 2002</u>
Ameritas CompBenefits Primary Vision Care Services Spectera Vision Superior Vision Plan Vision Service Plan	CompBenefits Fidelity Security Eye Med Primary Vision Care Services Spectera Vision Vision Service Plan	Spectera Vision <sup>(1)</sup> Vision Service Plan
	<u>FY &amp; SY 2001*</u>	
	Spectera Vision <sup>(1)</sup> Vision Service Plan	

\*OSEEGIB switched to a calendar year effective January 1, 2002 from a June 30 fiscal year.

CY - Calendar Year      SY - Short Year      FY - Fiscal Year

(1) Offered only to active education and local government employees and retirees.

