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milliman.com

April 1, 2009

Via e-mail

Mr. Rey Salazar
Hidalgo County
100 E. Cano
Edinburg, Texas 78539

RE: Reserve Calculations for Hidalgo County's Health Plans

Dear Rey:

Thank you for asking us to review the reserves for Hidalgo County's (County) self-funded medical plans. Please let us know the valuation date for the reserve (i.e. the date at which you need to know the plan's liability for claims that have been incurred but not paid).

Scope

You have told us that the County has essentially one medical plan with a Low and High (Buy-up) Option. About 85% of the employees are in the Low Option plan. You will send us the claims information for both plans combined. We have been asked to develop a reserve estimate for the unpaid claim liability of the medical plan in total.

We have not been asked to review any other liabilities of the County's insurance program, such as due and unpaid administrative fees. We have also not been asked to estimate the liability the County may have for the cost of providing future coverage for retirees under its medical plan. In addition, we have not been asked to review liabilities relating to other employee benefit plans such as dental, life and disability insurance or accrued sick leave that Hidalgo may have.

Budget

We suggest a budget for this project in the range of \$7,500 and \$9,000. We will bill on a time and expenses basis. If the data is sent to us electronically, is complete, and consistent with the financials, our fee will likely be closer to the low end of this range.

Data

We have attached a data request list. We will complete our analysis and provide you with a written report within 10 working days after we receive all the data.



Mr. Rey Salazar
Hidalgo County

RE: Reserve Calculations for Hidalgo County's Health Plan

April 1, 2009

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If you agree to the scope and budget outlined in this letter, please sign this engagement letter and return to us. This engagement letter is subject to the terms and conditions in the attached Service Contract signed January 16, 2007. By signing this engagement letter, you are agreeing to renew the Service Contract for an additional year, as well as the costs associated with the scope of services described above. We look forward to working with you.

Sincerely,

Esther M. Blount, F.S.A.

EMB/cwq

Enclosures

Agreed to and accepted this _____ day of _____, 2009.

By: _____
Signature

Title: _____

**Hidalgo County
Initial Data Request for Actuarial Review**

Claims

1. Claim lag report for at least three years showing monthly paid claims sorted by incurral month.
2. Monthly count of eligible employees for the same period.
3. The most current count of eligible employees by tier (single employee, employee & spouse, etc.).
4. Paid claims not in the claim lag (e.g., Prescription Drug claims, hospital Income claims) reported by month for the same period.

Reinsurance

5. List of stop loss recoveries during the last three years.
6. List of any known "large" pending claims as of valuation date.
7. Description of the current stop loss contract and any changes in the stop loss contract over the last three years.

Financials

8. Copy of the most recent financial report showing paid claims for the plan (which tie to the claim lag studies) as well as other expenses.

THE STATE OF TEXAS §
§
COUNTY OF HIDALGO §

**SERVICE CONTRACT
C-06-231-01-16**

THIS CONTRACT is made and entered in this 16th day of **January, 2007** by and between the **County Of Hidalgo, TEXAS** ("County"), and **Milliman, Inc.**, a Texas Corporation ("Company").

WHEREAS, Company has offered to perform actuary services for Hidalgo County as more particularly prescribed on Exhibit "A" which is attached hereto and incorporated herein by reference (the "Service"); and

WHEREAS, in recognition of and in consideration of Company's agreement to perform the Services, the Commissioners Court of County desires to award a contract to Company to perform the Services.

NOW, THEREFORE, in mutual consideration of the foregoing and the further consideration of the following, the parties hereto agree as follows:

1. County and Company hereby agree that this Contract is entered into in order to provide the Actuary Services at the offices of Hidalgo County. This Contract does not extend to any third parties any duties or benefits conferred in any manner hereunder or otherwise.
2. Company hereby promises and agrees to render and provide, during the term of this Contract, and shall be obligated to render and provide the Services. Company agrees in performing the Services that it will use proper professional standards, comply with any and all appropriate laws and regulations in providing the Services, and devote such time as is necessary to safely and efficiently provide the Services.
3. This Contract shall be for a period of two (2) years beginning **January 16, 2007** with County's option to renew for an additional one (1) year, at the same rates, terms and conditions.
4. As a condition of this Contract, Company shall hold and maintain throughout the term of this Contract all licenses and permits required, of which may be required by any authority during the term hereof to provide the Services.
5. As consideration for rendering the Service provided for in this Contract, the County agrees to pay Company the amounts specified in Exhibit "B" attached hereto payable against written invoice submitted by Company.

6. Company shall provide, to the extent it deems necessary, insurance in force on all persons connected with providing services under this Contract naming County as an additional insured on the General Liability policy, and shall furnish to County certificates of such insurance coverage as described on Exhibit "C" attached hereto, notwithstanding anything to the contrary on RFP/Q No: 2006-231-11-15-VYG.

7. Subject to the limitations contained in Section 8 herein, Company shall indemnify and hold harmless County, its elected officials, employees and agents from any and all claims, damages, losses, and expenses including attorney's fees for the defense of any action against County arising out of, resulting from, or connected with the negligent provision of the Service by Company under this Contract. Said indemnity shall cover any negligent act or failure to act by the Company, its agents or employees.

8. Company will perform all services in accordance with applicable professional standards. The parties agree that Company, its officers, directors, agents and employees, shall not be liable to County, under any theory of law including negligence, tort, breach of contract or otherwise, for any damages which exceed One Million Dollars (\$1,000,000). In no event shall Company be liable for lost profits of County or any other type of incidental or consequential damages. The foregoing limitations shall not apply in the event of the gross negligence, intentional fraud or willful misconduct of Company.

9. This Contract shall not be assignable in whole or in part by either party without prior written consent of the other party.

10. Company's work is prepared solely for the use and benefit of County, in accordance with its statutory and regulatory requirements. Company recognizes that materials it delivers to County may be public records subject to disclosure to third parties, however, Company does not intend to benefit and assumes no duty or liability to any third parties who receive Company's work and may include disclaimer language on its work product so stating. County agrees not to remove any such disclaimer language from Company's work. To the extent that Company's work is not subject to disclosure under applicable public records laws, County agrees that it shall not disclose Company's work product to third parties without Company's prior written consent; provided, however, that County may distribute Company's work to (i) its professional service providers who are subject to a duty of confidentiality and who agree to not use Company's work product for any purpose other than to provide services to County, or (ii) any applicable or governmental agency, as required.

11. Any notice required or permitted to be given hereunder shall be in writing and shall be delivered personally or sent by certified mail, postage prepaid, as set forth below:

If to County:

The County of Hidalgo
Attn: County Judge
100 E. Cano
Edinburg, Texas 78539

If to Company:

Milliman, Inc.
Attn: James Tumlinson, Jr.
333 Clay Street, Ste. 4330
Houston, Texas 77002

12. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision thereof and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

13. This Contract shall not be assignable in whole or in part by either party without prior written consent of the other party.

14. It is expressly agreed that this Contract and the performance by the parties hereunder does not create any agency relationship or master-servant relationship, that the County has no supervision of the performance of the Services provided by Company, and that Company is an independent contractor under this Contract.

15. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision thereof and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

16. This Agreement may be terminated by either party without cause upon thirty (30) days written notice.

17. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective heirs, executors, administrators, legal representatives, successors, and assigns where permitted by this Agreement.

18. In the event that, during any term hereof, the Commissioners Court does not appropriate sufficient funds to meet the obligations of County under this Agreement, County may terminate this Agreement upon ninety (90) days written notice to Company. County agrees, however, to use reasonable efforts to secure funds necessary for the continued performance of this Agreement. The parties intend this provision to be a continuing right to terminate this Agreement at the expiration of each budget period of Buyer pursuant to the provisions of Tex. Loc. Govt. Code Ann. § 271.903 (Vernon Supp. 1996). The Company shall be entitled to compensation for satisfactory services rendered to County prior to the effective date of termination.

19. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas and shall be performable in Hidalgo County.

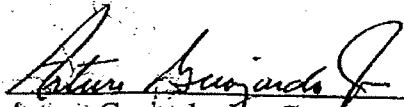
WITNESS our hands in duplicate originals this _____ day of _____ 2007

COUNTY OF HIDALGO

By: _____

Juan D. Salinas III, County Judge

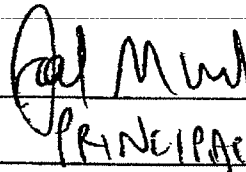
ATTEST:



Arturo Guajardo, County Clerk

COMPANY: Milliman Inc.

By: _____


PRINCIPAL

Approved on Commissioners' Court January 16, 2007

APPROVED AS TO FORM:

Atlas & Hall, L.L.P.

By: _____

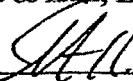


EXHIBIT "A"

HIDALGO COUNTY

For the purpose of providing Professional Actuary Consulting Services for the implementation of GASB 43 and/or 45 for Hidalgo County's Post-Employment Benefits Package (OPEB) for Health Benefits for Retired Employees.

RFP&Q NO: 2006-231-11-15-VYG-Hidalgo County-Actuarial Services For GASB 43 and/or 45.

TASKS AND/OR SERVICES SHALL INCLUDE, BUT NOT LIMITED TO:

- A. Conduct a complete needs assessment desired study completion date within six weeks of receipt of all data.
- B. Will be required to make a formal presentation of the "Actuarial Study" to Hidalgo County Commissioners Court.
- C. Analyze the data to access any inconsistencies and make recommendations for enhancing data quality.
- D. Prepare an actuarial evaluation following GASB 43 and/or 45 standards.
- E. Study must include the following:
 - The actuarial present value of total projected benefits.
 - Actuarial accrued liability.
 - Actuarial value of assets.
 - The unfunded actuarial accrued liability.
 - Normal Cost
 - Annual required contribution of the employer-as a level dollar amount and as a level percentage of covered payroll.
 - Net OPEB obligation (for employer disclosure under GASB statement 45 if necessary).
 - Prepare the necessary material for the Comprehensive Annual Financial Report to comply with GASB OPEB reporting and disclosure requirements.
 - Prepare the annual gain/loss analysis to determine reasons for changes in the unfunded actuarial accrued liability, whenever a prior actuarial valuation is available to support this.
 - Determine the implicit rate subsidy, if any, and the impact it would have on the OPEB liability.
 - Prepare an analysis to determine how establishing a trust or equivalent arrangement would affect the interest rate assumption. Timing considerations of establishing the trust should also be considered.
 - Prepare a cash flow analysis (the "pay-as-you-go-cost"). **Optional**
 - Prepare sensitivity analysis showing the impact of alternative assumptions on the employer's contributions (healthcare trend rates and investment rate

assumptions) **Optional**

- If there is not a trust established, determine the difference in liability based upon the investment returns under a diversified portfolio versus a short-term fixed income portfolio. **Optional**
- As appropriate, provide recommendations on managing the OPEB liability. This may include changes in plan design. **Optional**
- As appropriate, review and update plan documents and design. Make recommendations as to formalizing informal plans. **Optional**

EXHIBIT "B"

PAYMENT SCHEDULE

Fees for Services

Initial Valuation: \$25,000.00

Plan Design and Funding: Provided as needed and based on scope of services

Ongoing Valuation: \$25,000.00

(Best and Final Offer Clarification was presented to Commissioners Court on Tuesday, May 15, 2007 and it was approved as referenced above.

EXHIBIT "C"

INSURANCE REQUIREMENTS

The Bidder awarded the contract shall furnish proof of insurance, which will also include any subcontractor that is subcontracted by the bidder in at least the following limits, to be in place prior to providing any services under this Contract and to continue at all times in force in effect during the term of this Contract:

1. Professional liability insurance policy with limits of at least One Million Dollars (\$1,000,000) per claim.
2. Automobile liability insurance policy with limits of at least Three Hundred Thousand Dollars (\$300,000.00) per person and \$500,000.00 per occurrence, consistent with potential exposure to Hidalgo County under the Texas Tort Claims Act. Coverage should include injury to or death of persons and property damage claims (with limits up to \$500,000.00) arising out of the services provided to Hidalgo County hereunder;
3. Uninsured/Underinsured motorist coverage in an amount equal to the bodily injury limits set forth immediately above;
4. A Five Hundred Thousand Dollar (\$500,000.00) Comprehensive General Liability insurance policy providing additional coverage to Hidalgo County consistent with potential exposure of Hidalgo County under the Texas Tort Claims Act;
5. Workers compensation insurance in amounts established by Texas law, unless the Bidder is specifically exempted from the Texas Workers' Compensation Act, Texas Labor Code Chapter 401, et. seq.

Certificates of insurance naming Hidalgo County as an additional insured on the General Liability policy shall be submitted to Hidalgo County for approval prior to any services being performed by Contractor. Each policy of insurance required hereunder shall extend for a period equivalent to, or longer than the term of the Contract, and any insurer hereunder shall be required to give at least thirty (30) days written notice to Hidalgo County prior to the cancellation of any such coverage on the termination date, or otherwise. This Contract shall be automatically suspended upon the cancellation, or other termination, of any required policy of insurance hereunder, and such suspension shall continue until evidence of adequate replacement coverage is provided to Hidalgo County. If replacement coverage is not provided within thirty (30) days following suspension of the Contract, this Contract shall automatically terminate.