EMPLOYEES GROUP INSURANCE DIVISION

(A Division of the Office of Management and Enterprise Services)

Basic Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

EMPLOYEES GROUP INSURANCE DIVISION
(A Division of the Office of Management and Enterprise Services)

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KPMG LLP
210 Park Avenue, Suite 2650
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Independent Auditors' Report

Members of the Board
Oklahoma Employees Insurance and Benefits Board:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Employees Group Insurance Division (EGID), a division of the Office of Management and Enterprise Services, as of and for the years ended December 31, 2017 and 2016, and the related notes to the basic financial statements, which collectively comprise EGID's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Employees Group Insurance Division, as of December 31, 2017 and 2016, and the change in its financial position and its cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 3–8 and the schedules of EGID's proportionate share of the net pension liability and contributions on pages 40–42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018 on our consideration of EGID's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of EGID's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EGID's internal control over financial reporting and compliance.

KPMG LLP

Oklahoma City, Oklahoma
June 5, 2018

Overview of the Financial Statements

The EGID 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 EGID 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. EGID is a division of the Office of Management and Enterprise Services (OMES).

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

Statement of Net Position – This statement presents information reflecting EGID's assets, liabilities, and net position. Net position represents the amount of total assets less total liabilities. The statement of net position is classified as to current and noncurrent assets and liabilities. For purposes of the basic 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. EGID's investment balances are considered current assets, as EGID has historically experienced a high portfolio turnover rate.

Statement of Revenues, Expenses, and Changes in Net Position – This statement reflects EGID's operating revenues and expenses, as well as nonoperating revenue 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 net position for an enterprise fund is similar to net profit or loss for a private sector insurance company.

Statement of Cash Flows – The statement of cash flows is 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.

Financial Highlights

The management of EGID offers readers of EGID's basic financial statements this narrative overview and analysis of the financial activities of the entity for the years ended December 31, 2017, 2016, and 2015.

	December 31			2017 vs. 2016 Change
	2017	2016	2015	Amount
Cash and investments	$ 265,621,984	230,511,694	334,006,622	35,110,290
Premiums receivable, net	26,066,847	37,798,168	25,933,023	(11,731,321)
Other current assets	85,628,963	103,024,012	38,186,542	(17,395,049)
Total current assets	377,317,794	371,333,874	398,126,187	5,983,920
Office equipment, net	1,568,771	2,196,299	2,697,956	(627,528)
Total assets	378,886,565	373,530,173	400,824,143	5,356,392
Deferred outflows of resources	1,359,009	3,521,877	1,645,058	(2,162,868)
Total assets and deferred outflows	$ 380,245,574	377,052,050	402,469,201	3,193,524

(Continued)

	December 31			2017 vs. 2016 Change
	2017	2016	2015	Amount
Claims liabilities	$ 107,935,000	122,989,000	118,001,000	(15,054,000)
Disability liabilities (current only)	2,783,000	2,831,000	3,004,000	(48,000)
Premium deficiency reserves	—	5,733,000	43,966,000	(5,733,000)
Other current liabilities	31,236,283	37,264,528	25,682,486	(6,028,245)
Total current liabilities	141,954,283	168,817,528	190,653,486	(26,863,245)
Total noncurrent liabilities	11,636,049	12,833,815	10,477,338	(1,197,766)
Total liabilities	153,590,332	181,651,343	201,130,824	(28,061,011)
Deferred inflows of resources	340,677	1,213,816	1,880,237	(873,139)
Invested in capital assets	1,568,771	2,196,299	2,697,956	(627,528)
Unrestricted	224,745,794	191,990,592	196,760,184	32,755,202
Total net position	226,314,565	194,186,891	199,458,140	32,127,674
Total liabilities, deferred inflows, and net position	$ 380,245,574	377,052,050	402,469,201	3,193,524

	Year ended December 31			2017 vs. 2016 Change
	2017	2016	2015	Amount
Premium revenue	$ 1,062,958,001	1,010,381,191	979,663,600	52,576,810
Other operating revenue	3,710,677	2,733,314	123,231	977,363
Total operating revenues	1,066,668,678	1,013,114,505	979,786,831	53,554,173
Incurred claims expense	1,012,148,962	1,022,183,454	1,015,375,127	(10,034,492)
Change in premium deficiency reserves	(5,733,000)	(38,233,000)	(10,365,462)	32,500,000
Administrative and claims processing expense	44,885,815	47,802,052	46,955,893	(2,916,237)
Total operating expenses	1,051,301,777	1,031,752,506	1,051,965,558	19,549,271
Operating income (loss)	15,366,901	(18,638,001)	(72,178,727)	34,004,902
Net investment income	16,760,773	13,366,752	4,946,919	3,394,021
Change in net position	32,127,674	(5,271,249)	(67,231,808)	37,398,923
Net position, beginning of year	194,186,891	199,458,140	266,689,948	(5,271,249)
Net position, end of year	$ 226,314,565	194,186,891	199,458,140	32,127,674

(Continued)

EGID's total assets for the year ended December 31, 2017 increased by approximately 1.4% from the previous year, where there was a decrease of approximately 6.8% in 2016. Cash and investments increased by approximately $35.1 million or 15.2% during 2017 due to favorable claims experience while 2016 showed a decrease of approximately $103.5 million or 31.0%.

In 2017, EGID earned approximately $3.6 million in interest and dividend income, experienced $3.6 million in realized gains and $10.0 million in unrealized gains, and paid $454,000 in investment expenses for a net investment gain of $16.8 million. In 2016, EGID earned approximately $4.2 million in interest and dividend income, experienced $22.0 million in realized gains and $12.3 million in unrealized losses, and paid $535,000 in investment expenses for a net investment gain of $13.4 million. EGID's investment allocation at December 31, 2017 is comprised of approximately 46% fixed income securities, 33% equities, and 21% cash equivalents and comprised approximately 52% fixed income securities, 25% equities, and 23% cash equivalents at December 31, 2016.

For the year ended December 31, 2017, premiums receivable decreased from the prior year by approximately $11.7 million primarily due to the timing of premium payments received from the over 900 different employer groups that participate with EGID. In the prior year, premiums receivable increased approximately $11.9 million, also primarily due to the timing of payments.

The decrease in other current assets during 2017 of approximately $17.4 million is primarily due to a $25.8 million decrease in Medicare Part D Reinsurance Receivable. During 2017, CMS made a prospective monthly payment to plans so funds were received more evenly throughout the year. Additionally, there was an increase in pharmacy rebates of $10.4 million due to the pharmacy benefit managers (PBM) over-performance of rebates and contract changes in the PBM contract. The increase in other current assets in 2016 of approximately $64.8 million is primarily due to a $39.0 million improvement in contracted pharmacy rebates and a $23.7 million increase in the Medicare Part D reinsurance receivable for which approximately $20.2 million relates to 2015, but due to ending the direct contract with CMS the funds were held for reconciliation purposes and were received in 2017.

Total liabilities as of December 31, 2017 decreased approximately $28.1 million from December 31, 2016 as a result of a $15.1 million decrease in claim liabilities, $6.0 million decrease in administrative payable primarily due to the sunset of the transitional reinsurance fee, required by the Affordable Care Act (ACA), a $5.7 million decrease in premium deficiency reserves, and a $1.5 million decrease in pension obligation. Total liabilities as of December 31, 2016 decreased approximately $19.5 million from December 31, 2015 primarily due to a $38.2 million decrease in premium deficiency reserves booked at December 31, 2016 offset by a $5.0 million increase in claim liabilities, a $2.1 million increase in pension obligation, and a $1.1 million increase in administrative payable. There was also an increase of approximately $10.3 million in the HMO/DMO payable due to premiums for state employees now flowing through EGID to the commercial carriers as part of an additional efficiency created within the consolidated OMES structure.

A premium deficiency is required to be recognized if the sum of expected claims costs and all expected claim adjustment expenses exceeds related premiums and anticipated investment income. No premium deficiency was necessary at December 31, 2017 for the health and dental, life or disability plans. At December 31, 2016, a premium deficiency liability of approximately $4.9 million was recorded for the health plan and an $831,000 premium deficiency liability was booked for the dental plan. For the disability plan, no premium deficiency was necessary at December 31, 2016.

Premium revenue increased for 2017 by approximately $52.6 million primarily due to an 8.15% increase in premium rates. In 2016, EGID saw an overall increase in premium revenue of approximately $30.7 million due primarily to a 4.4% increase in rates and an increase in membership during plan year 2016. For the years ended December 31, 2017 and 2016, EGID earned approximately $3.7 million and $2.7 million, respectively, in other operating income, which consisted primarily of risk adjustment fee income.

Incurred claims comprise approximately 95.7% and 95.5% of EGID's total expenses in 2017 and 2016, respectively. Changes in premium deficiency reserves are not considered in the calculation. For the year ended December 31, 2017, total incurred claims decreased by approximately $10 million or 1.0% from the prior year. In 2016, total incurred claims increased by approximately $6.8 million or 0.7% over the prior year.

For the year ended December 31, 2017, health and dental claim costs decreased by approximately $14.1 million or 1.4% primarily due to the implementation of outpatient reimbursement changes. For 2016, health and dental claim costs increased by approximately $7.5 million or 0.8% over the prior year due to normal claim trend projections. In 2017, life benefits expense increased by approximately $3.9 million or 15% and decreased by $2.4 million or 9% in 2016. Disability benefits for 2017 increased approximately $200,000 or 6.0% from the prior year. Disability benefits for 2016 increased approximately $1.7 million or 95% from the prior year. Life and disability claims can be volatile from year to year.

Administrative expenses decreased by approximately $2.9 million in 2017 from 2016 primarily due to a $4.1 million decrease in the ACA transitional reinsurance fee offset by a $1.9 million increase in professional services and a refund of $409,000 from the Oklahoma Health Insurance High Risk Pool. Administrative expenses increased by approximately $846,000 in 2016 over 2015 primarily due to a $2.7 million increase in professional services offset by a $2.4 million decrease in transitional reinsurance fee. Administrative expenses make up approximately 4.3% and 4.5% of EGID's total expenses in 2017 and 2016, respectively.

EGID experienced an increase in total net position of approximately $32.1 million, or 16.5%, for the year ended December 31, 2017. For 2016, there was a decrease in net position of approximately $5.3 million, or 2.6%.

During 2017, the Health and Dental program experienced an increase in net position of approximately $30.7 million, or 17.4% from the prior year. The increase is a result of favorable claims experience and a decrease in claim costs due to reimbursement methodology changes implemented for outpatient facilities. For the year ended December 31, 2016, the Health and Dental program experienced a decrease in net position of approximately $12.8 million, or 9.5% from the prior year. The decrease is primarily due to an increase in incurred claims.

The Life program experienced an increase in net position of approximately $396,000 or 3.9% in 2017 and an increase of $4.3 million or 20% in 2016.

The Disability program experienced an increase in net position of approximately $1.0 million or 13.1% in 2017 and an increase in net position of $3.2 million or 8% in 2016.

Economic Conditions

As a large public employer plan, total annual claim costs are less volatile than those of small employer group plans. While various factors continue to apply upward pressure on medical and prescription drug costs, management of EGID is positioned to monitor the changing healthcare environment and implement initiatives to

minimize the impact of increased cost trends. Many factors such as the proliferation of expensive specialty medications and an aging population will continue to be significant drivers of healthcare costs.

The insurance industry monitors healthcare costs by establishing a percentage of cost increases known as "trend." 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 the following:

- Price inflation
- Deductibles and copayments
- Cost-shifting
- Utilization increases due to aging, product promotion, and improved diagnostic services
- The availability and use of more expensive drug therapies
- Government mandated benefits and other legislative changes
- Advances in medical technologies

According to Aon, EGID's consulting actuarial firm, the 2017 national healthcare trends for plans similar to the HealthChoice High plan was 5.8% for medical only, 7.8% for pharmacy only, or 6.3% combined. The national trend for Medicare supplement plans was 4.0% for medical only, 7.9% for pharmacy only, or 7.1% combined. In 2017, EGID's pharmacy only (before rebates) trend was 8.4%. EGID's active and pre-Medicare retiree medical only trend was 3.5% resulting in a 4.7% combined medical and pharmacy trend. The Medicare supplement plan increased to 2.4% for medical only resulting in a 6.6% combined medical and pharmacy trend. These trends are adjusted for plan design and provider contracting changes during the measurement period.

Since annual premium rates are set in August of the previous year, the rate setting process applies trend factors for claims incurred through April. The medical trend applied by EGID's actuaries for calculating 2017 rates was 5.5% for active employees and pre-Medicare retirees and 4.0% for Medicare retirees. The medical trend applied by EGID's actuaries for calculating 2016 rates was 3.5% for active employees and pre-Medicare retirees and 2.0% for Medicare retirees. The prescription drug trend used for setting 2017 rates was 9.0% for active employees and pre-Medicare retirees and 14% for Medicare retirees. For 2016 rates, the prescription drug trend used was 10.5% for active employees, pre-Medicare retirees, and Medicare retirees. The dental trend used for setting 2017 and 2016 rates was 0.0% and 2.0%.

EGID's investment portfolio experienced positive returns during 2017. Performance returns for EGID's total investment portfolio was 8.5% in 2017 and 5.8% in 2016.

In the commercial health insurance industry, "medical loss ratio" (MLR) measures the percentage of each premium dollar that 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. The ACA establishes a minimum loss ratio of 80% for the individual and small group health insurance segments, and 85% for the large group segment. EGID's MLR was 94.5% in 2017 and 100.9% in 2016.

EMPLOYEES GROUP INSURANCE DIVISION
(A Division of the Office of Management and Enterprise Services)

Statements of Net Position

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	$ 88,025,150	81,035,101
Investments	177,596,834	149,476,593
Receivables:		
Interest and dividends receivable	408,126	723,068
Unsettled investment sales	233,147	176,853
Premiums, net of allowance of $4,769,000 and $3,026,000 at December 31, 2017 and 2016, respectively	26,066,847	37,798,168
Pharmacy rebate receivable	61,093,657	50,646,855
Other, net	23,894,033	51,477,236
Total current assets	377,317,794	371,333,874
Noncurrent assets:		
Office equipment	4,023,826	4,116,558
Less accumulated depreciation	(2,455,055)	(1,920,259)
Office equipment, net	1,568,771	2,196,299
Total assets	378,886,565	373,530,173
Deferred Outflows of Resources		
Pension amounts	1,359,009	3,521,877
Total deferred outflows of resources	1,359,009	3,521,877
Total assets and deferred outflows of resources	$ 380,245,574	377,052,050
Liabilities		
Current liabilities:		
Health and dental reserves	$ 101,759,000	117,188,000
Life reserves	6,176,000	5,801,000
Disability reserves	2,783,000	2,831,000
Premium deficiency reserve	—	5,733,000
Premiums due to health maintenance organizations and other insurers	19,155,780	19,112,560
Payable for investment purchases	590,721	862,090
Other accrued liabilities	11,489,782	17,289,878
Total current liabilities	141,954,283	168,817,528
Noncurrent liabilities:		
Disability reserves	9,731,000	9,396,000
Net pension liability	1,905,049	3,437,815
Total liabilities	153,590,332	181,651,343
Commitments and contingencies (note 15)		
Deferred Inflows of Resources		
Pension amounts	340,677	1,213,816
Total deferred inflows of resources	340,677	1,213,816
Net Position		
Invested in capital assets	1,568,771	2,196,299
Unrestricted (note 2(f))	224,745,794	191,990,592
Total net position	226,314,565	194,186,891
Total liabilities, deferred inflows of resources, and net position	$ 380,245,574	377,052,050

See accompanying notes to basic financial statements.

EMPLOYEES GROUP INSURANCE DIVISION
(A Division of the Office of Management and Enterprise Services)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2017 and 2016

	2017	2016
Operating revenues:		
Premium revenue	$ 1,062,958,001	1,010,381,191
Other operating revenue	3,710,677	2,733,314
Total operating revenues	1,066,668,678	1,013,114,505
Operating expenses:		
Incurred claims expense	1,012,148,962	1,022,183,454
Change in premium deficiency reserve	(5,733,000)	(38,233,000)
Administrative and claim processing	44,885,815	47,802,052
Total operating expenses	1,051,301,777	1,031,752,506
Operating income (loss)	15,366,901	(18,638,001)
Nonoperating revenue:		
Net investment income	16,760,773	13,366,752
Change in net position	32,127,674	(5,271,249)
Net position, beginning of year	194,186,891	199,458,140
Net position, end of year	$ 226,314,565	194,186,891

See accompanying notes to basic financial statements.

EMPLOYEES GROUP INSURANCE DIVISION
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Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Premiums collected	$ 1,063,211,236	990,415,663
Premiums collected on behalf of health maintenance organizations and other insurers	248,448,483	247,034,397
Payments collected from Centers for Medicare and Medicaid Services	9,333,079	10,212,886
Risk adjustment premium collected	3,617,022	2,499,280
Benefits paid	(1,009,695,050)	(1,081,949,171)
Premiums paid to health maintenance organizations and other insurers	(246,183,040)	(239,109,189)
Payments to employees for services	(8,198,019)	(9,649,082)
Payments to suppliers for goods and services	(42,180,614)	(35,892,655)
Other operating cash received	9,141	4,241
Net cash provided by (used in) operating activities	18,362,238	(116,433,630)
Cash flows from capital and related financing activity:		
Acquisition of office equipment	—	(142,052)
Net cash used in capital and related financing activity	—	(142,052)
Cash flows from investing activities:		
Purchases of investments	(144,421,987)	(120,681,701)
Proceeds from sales and maturities of investments	129,544,639	223,878,571
Investment income received	3,505,159	4,064,834
Net cash provided by (used in) investing activities	(11,372,189)	107,261,704
Net change in cash and cash equivalents	6,990,049	(9,313,978)
Cash and cash equivalents, beginning of year	81,035,101	90,349,079
Cash and cash equivalents, end of year	$ 88,025,150	81,035,101
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 15,366,901	(18,638,001)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	627,528	643,709
Change in operating assets and liabilities:		
Premium receivable	11,731,321	(11,865,145)
Prepaid premiums	77,216	(255,668)
Net pension liability	(1,532,766)	2,085,477
Deferred inflows of resources	(873,139)	(666,421)
Deferred outflows of resources	2,162,868	(1,876,819)
Other receivables	17,136,401	(65,081,511)
Claim reserves	(15,054,000)	4,988,000
Disability reserves	287,000	98,000
Premium deficiency reserves	(5,733,000)	(38,233,000)
Premiums due to health maintenance organizations and other insurers	43,220	10,293,379
Other liabilities	(5,877,312)	2,074,370
Total adjustments	2,995,337	(97,795,629)
Net cash provided by (used in) operating activities	$ 18,362,238	(116,433,630)

See accompanying notes to basic financial statements.

(1) Description of EGID

The Employees Group Insurance Division (EGID) is a nonappropriated division of the Oklahoma Office of Management and Enterprise Services (OMES) and is a special-purpose state and local government body created by statute to engage solely in business-type activities. EGID manages 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). EGID is self-insured and is financed through premiums collected from employers and employees. EGID retains a legal obligation to establish a trustee relationship whereby EGID's funds are held for the ultimate benefit of those who obtain insurance from EGID. EGID provides insurance to all statutorily defined eligible employees, dependents, and retirees.

The following brief description of EGID 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, EGID 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.

EGID is overseen by a seven-member board, which comprises four members appointed by the governor, one member appointed by the speaker of the House of Representatives, one member appointed by the president pro tempore of the Senate, and the Oklahoma Insurance Commissioner or his designee.

(a) General

In 1968, EGID 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 EGID at the time of the participant's death. EGID was created by the State Legislature and could be abolished by the same body.

In 1978, EGID 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 administered by EGID.

In 1989, participants of the Teachers' Retirement System of Oklahoma (TRS) and active employees of school districts became eligible to enroll in EGID (educational participants). 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.

In 1994, EGID began using the trade name HealthChoice.

Effective January 1, 2006, EGID's self-funded plan HealthChoice became a Medicare Part D Prescription Drug Plan pursuant to the *Medicare Prescription Drug Improvement and Modernization Act of 2003*.

In 2012, pursuant to House Bill 3053 and House Bill 3079, various agencies including EGID (formerly, the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB)) were consolidated as divisions within the Office of Management and Enterprise Services (formerly, the Office of State Finance). EGID's duties were transferred to the Director of OMES and the newly created Oklahoma Employees Insurance and Benefits Board (OEIBB). Only the administrative functions of EGID were consolidated. The EGID funds continue to be held in trust and managed pursuant to state law for the benefit of its members.

Effective November 1, 2013, EGID and the Employee Benefits Department (formerly, EBC) were further consolidated under the Human Capital Management Division (HCM) of OMES and EGID became a department within OMES.

On January 17, 2017, EGID became a division of OMES. As a result, EGID assumed responsibility for managing commercial health, dental, vision, life, and disability benefit plans.

(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.

For years prior to January 1, 2016, eligibility and premiums for active state employees and their dependents were collected by Employee Benefits Department (EBD) and remitted to EGID for HealthChoice plans and directly to the commercial carriers for enrollment in their plans. To increase efficiency for OMES, effective January 1, 2016, all eligibility and premiums from all employer groups are now remitted to EGID for remittance to the proper carrier.

Premiums remitted to EGID on behalf of active state employees and their dependents for the years ended December 31, 2017 and 2016 are reported gross of a fee retained by EBD. This fee, which was approximately $4,959,000 and $4,765,000 for the years ended December 31, 2017 and 2016, respectively, is included in administrative expenses in the statements of revenues, expenses, and changes in net position. For the years ended December 31, 2017 and 2016, premiums for local government, education, and inactive participants who have elected an HMO for health coverage or DMO for dental coverage are collected by EGID and remitted to the HMO or DMO carrier net of an administration fee retained by EGID. This fee, which was approximately $2,523,000 and $2,653,000 for

(Continued)

the years ended December 31, 2017 and 2016, respectively, is included as an offset to administrative expenses in the statements of revenues, expenses, and changes in net position. The premium related to HMOs, DMOs, and vision plans was approximately $246,226,000 and $249,403,000 for 2017 and 2016, respectively, and, as EGID 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 net position.

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

At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to EGID. If the assets of EGID were to be exhausted, participants would not be responsible for EGID's liabilities.

At December 31, 2017, EGID's self-funded health plan HealthChoice provided health coverage to 133 state agency divisions with approximately 24,000 primary participants (not including dependents), 590 educational entities with approximately 54,000 primary participants, 317 local government entities with approximately 9,000 primary participants, and 36 other groups, which include the governmental and educational retirement systems, COBRA, and survivors, with approximately 38,000 primary participants. Approximately 61,000 dependents participated in HealthChoice as well. In addition, EGID collected and remitted premiums for approximately 23,000 primary participants and 14,000 dependents who were covered by HMOs. These counts are provided for health coverage only.

At December 31, 2016, EGID's self-funded health plan HealthChoice provided health coverage to 133 state agency divisions with approximately 24,000 primary participants (not including dependents), 593 educational entities with approximately 54,000 primary participants, 311 local government entities with approximately 9,000 primary participants, and 36 other groups, which include the governmental and educational retirement systems, COBRA, and survivors, with approximately 39,000 primary participants. Approximately 60,000 dependents participated in HealthChoice as well. In addition, EGID collected and remitted premiums for approximately 24,000 primary participants and 16,000 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 EBD. All eligible education or local government entities may elect to participate in EGID. Any education entity or local government entity, which elects to withdraw from offering EGID as an insurance option may do so with 30 days written notice and must withdraw both its current and former employee 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 EGID. 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, Basic, and High Deductible Health Plan (HDHP) option for non-Medicare participants. A member who elects the High option plan is responsible for a $30 copayment for primary care physician or $50 copayment for specialist and no deductible for office visits or preventive care services when using Network providers. The same services when using non-Network providers are reimbursed at 50% after the member meets a $500 calendar year deductible. For other services, Network provider and non-Network provider benefits are generally reimbursed at 80% and 50%, respectively, after the appropriate deductibles of $500 ($1,500 per family). HealthChoice reimburses allowed charges at 100% once the member has reached $3,300 for network charges and $3,800 for non-network per member The out-of-pocket maximum does not include charges for non-covered services, and balance billing charges from non-network providers.

The Basic option plan does not have copays. Preventive care services are covered at 100 percent of allowable fees and are not subject to the first dollar benefit of $500 when utilizing a network provider. The Basic option plan pays 100% of the first $500 of allowed charges for covered medical services. The member pays 100% of the next $1,000 ($1,500 per family) of allowed charges. The member and HealthChoice each pay 50% of the next $4,000 of allowed charges ($9,000 per family). HealthChoice reimburses allowed charges at 100% once the member has reached the out-of-pocket maximum of $4,000 ($9,000 per family). The out-of-pocket maximum does not include charges for non-covered services, and balance billing charges from non-network providers.

To enroll or remain enrolled in the HealthChoice High or Basic option, the member must attest that he and his covered dependents are tobacco-free by completing an attestation as part of the annual Option Period enrollment process. If the member cannot complete the tobacco-free attestation because he or his dependents are not tobacco-free, he can still qualify for the high or basic option. If they provide proof of an attempt to quit using tobacco by enrolling in the quit tobacco program available through the Oklahoma Tobacco Helpline and Alere Wellbeing and complete three coaching calls or provide a letter from his doctor indicating it is not medically advisable for him or his dependent to quit tobacco. If a member cannot complete the tobacco-free attestation or one of the reasonable alternatives described, he will automatically be enrolled in the HealthChoice High Alternative or Basic Alternative Plan and the annual deductible and out-of-pocket limit will be $250 higher.

In addition, for both plans, when using non-Network providers, the member is responsible for non-covered services, and balance billing charges. The HealthChoice HDHP option is a qualified, high deductible health plan that can be used in combination with a Health Savings Account. The HealthChoice HDHP has a combined medical and pharmacy deductible that must be met before any benefits are payable, excluding preventive charges, which are covered at 100 percent of allowable fees when utilizing a network provider. 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. Copays are $200 for each emergency room visit to a network or non-network emergency facility. The copay is waived if the patient is admitted or death occurs prior to admission. After the deductible is met, the member is responsible for the same copays and coinsurance percentages as the high option plan. There is a network out-of-pocket limit of $3,000 per individual or $6,000 per family, after which HealthChoice pays 100% of allowed charges for covered services from a network provider. The out-of-pocket maximum does not include charges for non-covered services, and balance billing charges from non-network providers.

Pharmacy benefits are the same for the high, high alternative, basic, and basic alternative plans. Medications are categorized as generic, Preferred, non-Preferred, Preferred Specialty, or non-Preferred Specialty. When purchasing generic medications from a Network provider, the member is responsible for up to a $10 copay for up to a 30-day supply or up to a $25 copay for a 31–90 day supply of medication. For up to a 30-day supply of Preferred medications, the member is responsible for up to $45. For a 31–90 day supply of Preferred medications, the member is responsible for up to $90. For up to a 30-day supply of non-Preferred medications, the member is responsible for up to $75. For a 31–90 day supply of non-Preferred medications, the member is responsible for up to $150. All Specialty medications are covered for up to a 30-day supply and only when ordered through CVS Specialty. The member is responsible for a $100 copay for Preferred Specialty medications, and $200 for non-Preferred Specialty medications. Generic Specialty medications price at the generic copay as outlined above. Members must meet any applicable pharmacy deductible for their plan before the copay structure outlined above applies. Certain prescription medications for smoking cessation are available at a $0 copayment. Additionally, medications listed on the HealthChoice Preventive Medication List bypass any pharmacy deductibles and any medications mandated by as preventive by the Affordable Care Act (ACA) are available for members at $0 copayment. There is an annual $2,500 individual/$4,000 family out-of-pocket maximum, for which only medications that are either generic or Preferred apply, and only when purchased at Network Pharmacies. There is no out-of-pocket maximum for non-Preferred medications or medications purchased at non-Network pharmacies.

Pharmacy benefits for the High Deductible Health Plan (HDHP) are slightly different, in that the HDHP has a combined medical and pharmacy deductible of $1,500 for an individual and $3,000 for a family and a maximum out-of-pocket of $3,000 for an individual and $6,000 for a family. Once the deductible is met for the HDHP, the plan functions the same as the other pharmacy plans outlined above. Additionally, medications on the HealthChoice Preventive Medication list bypass the HDHP deductible and tobacco cessation products and ACA mandated preventive medications are available for $0 copayment.

For purchases made at non-Network pharmacies, the member is responsible for 50% of the cost of the medication for Preferred medications, and 75% of the cost of the medication for non-Preferred medications.

If a brand-name medication is chosen when a generic is available, the member is responsible for the difference in cost between the brand-name medication and the generic, in addition to the applicable copay. This applies to all commercial plans, as well as all Medicare with and without Part D plans.

For the HealthChoice High, High Alternative, Basic and Basic Alternative plans, HealthChoice Select provides no out-of-pocket cost on the same day of a Select procedure when services are received at a Select facility. For the HealthChoice HDHP plan, deductible applies and must be met before no out-of-pocket.

Allowed expenses for HealthChoice 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 non-Network provider are reimbursed at a percentage ranging from 50% to 100%. There is a $25 deductible ($75 per family) when using either Network or non-Network providers. There is a calendar year maximum dental benefit of $2,500 per covered person.

HealthChoice 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 $500,000. Additional dependent life coverage is also available under three separate plans. The low option plan offers dependent life coverage of $6,000 for spouses and $3,000 for children. The standard option plan offers dependent life coverage of $10,000 for spouses and $5,000 for children. The premier option offers dependent life coverage of $20,000 for spouses and $10,000 for children.

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.

HealthChoice 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 HealthChoice 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 payer. 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 HealthChoice. Medicare Part B expenses are generally reimbursed at 20% of eligible Medicare expenses not reimbursed by Medicare.

EGID has adopted Plan “G modified” 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 HealthChoice High Option Medicare Supplement Plan are very similar to the HealthChoice High Option Plan. The High Option with Part D copay structure is the same as the copay structure for the High Option Plan, with the exception of Specialty medications. The High Option with Part D Plan does not have a non-Preferred Specialty medication copay and all Specialty medications have a $100 copay. The High Option with Part D plan has a maximum out-of-pocket amount of $4,950, after which members pay $0 for generic and Preferred medications Network pharmacies. The Low Option Medicare supplement plan is modeled after the Center for Medicare and Medicaid Services (CMS) standard Part D plan design. The one exception is that once a participant reaches catastrophic coverage, EGID pays 100% of the pharmacy costs for the members covered medications, rather than 95% per CMS’ standard Part D plan design. In addition, HealthChoice Low Option with Part D members who reach total drug costs of $3,700 receive a 60% discount on the cost of covered brand-name medications, and HealthChoice pays 49% of the cost of generic medications.

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, EGID collects and pays the premiums to each HMO or DMO carrier. The amounts paid by EGID 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. EGID has no liability 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 EGID.

All benefits for HealthChoice are processed and paid by third-party administrators (TPAs). The fees incurred by EGID for services performed by the TPAs totaled approximately $27,287,000 and $23,962,000 for the years ended December 31, 2017 and 2016, respectively. TPA fees are included in administrative expenses in the statements of revenues, expenses, and changes in net position.

A summary of available coverage and eligible groups for the years ended December 31, 2017 and 2016 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					
Medicare supplement			x	x	x	x

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

EGID's basic financial statements are prepared in accordance with U.S. generally accepted accounting principles as they apply to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

(b) Use of Estimates

The preparation of basic 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 basic financial statements and the reported amounts of revenue 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. EGID 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 from continuing changes in the economic environment will be reflected in the basic 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 net position. 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, 2017 and 2016.

EGID records investment purchases and sales based upon the trade date. Therefore, EGID 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

EGID establishes HealthChoice 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. HealthChoice 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 EGID. Long-term disability reserves are carried at the present value of expected future benefits. The reserves are determined using EGID's historical benefit payment experience. These estimates are based on data available at the time of estimate and are reviewed by EGID'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.

Although reserves reflect EGID'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 and investment income for the following fiscal year.

(f) Net Position

At December 31, 2017 and 2016, EGID has no legally required minimum net position. However, EGID has elected to implement the OEIBB policy which recommends the benchmark for minimum net position be based upon the National Association of Insurance Commissioners (NAIC) 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. The minimum net position benchmark at December 31, 2017 and 2016 is approximately $183,645,000 and $184,534,000, respectively.

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

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

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

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

A comparison of the minimum net position benchmark and unrestricted net position at December 31, 2017 and 2016 as reported in the basic financial statements is as follows (in thousands):

		2017 Total
Minimum net position	$	183,645
Unrestricted net position		224,746

		2016 Total
Minimum net position	$	184,534
Unrestricted net position		191,991

(Continued)

As part of the rate setting process, EGID considers total net position in comparison with the minimum net position benchmark in setting rates toward achieving the minimum net position benchmark. Title 74 of the Oklahoma Statutes, Section 1321C provides that EGID may adjust rates mid-year if the need is substantiated by an actuarial determination. Consistent with prior years, EGID does not anticipate the need for a mid-year rate adjustment for 2018.

(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 EGID.

(h) Medicare Part D Subsidies

As a Medicare Part D Prescription Drug Plan (PDP), EGID 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 $9,333,000 and $10,213,000 for the years ended December 31, 2017 and 2016, respectively, and is included in premium revenue within the statements of revenues, expenses, and changes in net position.

Additionally, Medicare pays EGID a catastrophic reinsurance subsidy as a cost reimbursement for 80% of the claim costs incurred by individuals in excess of the individual annual out-of-pocket maximum. A settlement is made based on actual cost experience subsequent to the end of the year. EGID recorded approximately $27,701,000 and $23,539,000 for the years ended December 31, 2017 and 2016, respectively, and is included as an offset to incurred claims expense within the statements of revenues, expenses, and changes in net position.

(i) Pharmacy Rebate

Effective January 1, 1999, under EGID's agreement with its pharmacy benefit manager, EGID receives a guaranteed rebate for each non-Medicare Part D prescription. Effective January 1, 2006, EGID also receives a specified percentage of manufacturers' rebates received by the pharmacy benefit manager related to Medicare Part D prescriptions. This amount is approximately $76,896,000 and $62,974,000 for the years ended December 31, 2017 and 2016, respectively, and is included as an offset to incurred claims expense within the statements of revenues, expenses, and changes in net position.

(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 EGID as a result of younger, healthier members electing HMO coverage. This amount is approximately $3,702,000 and $2,729,000 for the years ended December 31, 2017 and 2016, respectively, and is included in other operating revenue within the statements of revenues, expenses, and changes in net position.

(k) Administrative Expenses

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

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

(l) Transitional Reinsurance Fees

The Affordable Care Act (ACA) was signed into law on March 23, 2010. Several significant new provisions were enacted in 2014, including the Transitional Reinsurance Program. The federal government sponsors a Transitional Reinsurance Program designed to stabilize the Individual insurance marketplace during the first three years of the new ACA Exchange initiative. The transitional reinsurance fee expired under the Act on December 31, 2016. There were no transitional reinsurance fees incurred or due in 2017.

To fund this program, all commercial health insurance companies and employers providing self-insured plans were required to pay an annual per member fee ($27 in 2016), which decreased over a three-year transition period and ended in 2016. A portion of the annual funding (17%–25%) was apportioned to the Treasury Department. The remainder was used to fund covered claims.

EGID accrued the estimated amount of the annual fees based on projected membership, which was submitted to the federal government in November of each year. The claim funding portion of the fee was payable in January of the following year. The Treasury portion was payable in November of the following year. The transitional reinsurance fees were accounted for as federal assessment fees in administrative and claims processing in the statements of revenues, expenses, and changes in net position.

EGID accrued approximately $4,139,000 at December 31, 2016, for the payment of Transitional Reinsurance fees due and is included in other accrued liabilities in the statements of net position.

(m) Income Taxes

EGID 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 EGID is exempt from federal income taxes under Section 115 of the Internal Revenue Code (the Code).

(n) Operating Revenue and Expenses

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

(o) Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement Plan (the Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(p) Recently Issued Accounting Standards

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Report for Postemployment Benefits Other Than Pensions* (GASB 75). The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The new standard is effective for EGID for annual periods in fiscal years beginning after June 15, 2017. EGID does not expect GASB 75 to have a material effect on EGID's basic financial statements.

(3) Fair Value Measurement

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. GASB 72 is effective for fiscal year beginning after June 15, 2015. EGID adopted GASB 72 in 2016. This adoption impacted disclosures only and did not have an impact on EGID's basic financial statements.

In accordance with guidance on fair value measurements and disclosures, EGID groups its financial assets and liabilities measured at fair value in three levels, based on inputs and assumptions used to determine the fair value. An asset's or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The levels are as follows:

- Level 1 inputs are quoted prices in active markets for identical securities.
- Level 2 inputs are other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).
- Level 3 inputs are significant unobservable inputs (including the EGID's own assumptions used to determine the fair value of investments).

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 debt securities fair values are considered Level 2, except for the debt mutual fund, which is based on a quoted market price and is considered a Level 1. The fair values for

equity securities are based on quoted market prices and are considered Level 1. Cash and cash equivalents are carried at cost, which approximates fair value, and are considered Level 1.

(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, 2017 and 2016, cash totaling approximately $39,216,000 and $36,206,000, 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 approximately $48,809,000 and $44,829,000 at December 31, 2017 and 2016, 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 current duration of the underlying investments in the money market mutual fund is approximately 50 days.

Custodial Credit Risk

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

(5) Investments

EGID'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 recommendation of the OEIBB, external managers are appointed to assume the investment management function. The managers, within guidelines determined by EGID's Board, have full discretion to buy and sell investment assets of EGID. Authorized investments are defined in Title 36 of the Oklahoma Statutes, as amended, and EGID'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 EGID are in compliance with statutes and the investment policy.

As of December 31, 2017 and 2016, EGID had the following investments:

Types of investments	2017 Fair values	2017 Duration [1]	2016 Fair values	2016 Duration [1]
Debt securities:				
Mutual fund	$ 50,490,755	4.01	$ —	—
Asset-backed securities[2]	4,965,279	1.57	4,210,359	1.12
Agencies	3,920,746	5.19	3,428,041	4.78
Corporate	20,313,941	5.40	45,528,998	5.53
Mortgages	8,545,237	4.09	8,544,633	4.29
Collateralized mortgage obligations[2]	752,675	1.50	754,578	1.10
U.S. Treasuries	11,212,698	9.56	31,138,643	8.63
Municipals	424,001	14.33	400,435	14.27
USD denominated foreign government	956,727	8.79	441,394	5.29
Collateralized mortgage-backed securities (CMBS)[2]	2,728,105	3.76	5,271,554	4.55
Certificates of Deposit (CDs)	2,062,643	2.55	1,460,225	2.52
Total debt securities	106,372,807		101,178,860	
Equities:				
Domestic	71,224,027		48,297,733	
Total investments	$ 177,596,834		$ 149,476,593	

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

[2] These include investments highly sensitive to interest rate changes.

(Continued)

(a) Credit Risk

The credit risk profile as listed by Moody's or Standard & Poor's for debt securities and money market mutual funds at December 31, 2017 and 2016 is as follows:

	2017					
	Aaa	Aa/A	Baa/Ba	Ccc	Not rated	Total
Debt securities:						
Mutual fund[1]	$ —	—	—	—	50,490,755	50,490,755
Asset-backed securities	4,663,662	114,219	157,513	—	29,885	4,965,279
Agencies	3,895,808	—	24,938	—	—	3,920,746
Corporate	1,283,559	8,531,836	10,316,550	181,996	—	20,313,941
Mortgages	8,545,237	—	—	—	—	8,545,237
Collateralized mortgage obligations	602,342	—	150,333	—	—	752,675
U.S. Treasuries	11,212,698	—	—	—	—	11,212,698
Municipals	424,001	—	—	—	—	424,001
USD denominated foreign government	—	956,727	—	—	—	956,727
CMBS	2,224,800	143,900	206,223	—	153,182	2,728,105
CDs	2,062,643	—	—	—	—	2,062,643
Total debt securities	$ 34,914,750	9,746,682	10,855,557	181,996	50,673,822	106,372,807
Money market mutual funds	$ —	—	—	—	48,808,900	48,808,900

(1) There is no rating on the mutual fund; however, the average rating of the underlying investments in the mutual fund as provided by the fund manager is Aa at December 31, 2017.

	2016					
	Aaa	Aa/A	Baa/Ba	Ccc	Not rated	Total
Debt securities:						
Asset-backed securities	$ 3,576,592	61,590	572,177	—	—	4,210,359
Agencies	3,271,456	—	156,585	—	—	3,428,041
Corporate	6,625,296	12,871,158	25,965,019	67,525	—	45,528,998
Mortgages	8,544,633	—	—	—	—	8,544,633
Collateralized mortgage obligations	532,647	31,397	190,534	—	—	754,578
U.S. Treasuries	31,138,643	—	—	—	—	31,138,643
Municipals	—	400,435	—	—	—	400,435
USD denominated foreign government	177,845	263,549	—	—	—	441,394
CMBS	4,843,344	116,608	162,729	—	148,873	5,271,554
CDs	1,460,225	—	—	—	—	1,460,225
Total debt securities	$ 60,170,681	13,744,737	27,047,044	67,525	148,873	101,178,860
Money market mutual funds	$ —	—	—	—	44,828,680	44,828,680

(Continued)

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policy authorizes EGID 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 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. EGID is in compliance with its investment policy for the years ended December 31, 2017 and 2016.

(b) Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, EGID 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 EGID's Board. EGID's investments include investments that are insured or registered or for which the securities are held by a custodian in EGID's name. They may also include investments held for the custodian by the Federal Reserve Bank or Depository Trust Corporation in EGID's name.

(c) Concentration of Credit Risk

An increased risk of loss occurs as more investments are acquired from one issuer. EGID'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 EGID's Board.

(d) 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.

(Continued)

(e) Investment Income

Net investment income for the years ended December 31, 2017 and 2016 comprises the following:

		2017	2016
Fixed income securities	$	3,494,922	4,003,904
Equity securities		149,608	175,396
Realized gains		3,570,210	22,043,138
Unrealized gain		10,000,427	(12,338,046)
Other investment gain (loss)		(81)	17,720
Less investment expenses		(454,313)	(535,360)
Net investment income	$	16,760,773	13,366,752

(6) Office Equipment

The changes in office equipment for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Office equipment, at cost:		
Balance, beginning of year	$ 4,116,558	4,281,159
Additions	—	142,052
Retirements	(92,732)	(306,653)
Balance, end of year	4,023,826	4,116,558
Accumulated depreciation:		
Balance, beginning of year	1,920,259	1,583,203
Depreciation expense	627,528	643,709
Retirements	(92,732)	(306,653)
Balance, end of year	2,455,055	1,920,259
Office equipment, net	$ 1,568,771	2,196,299

(Continued)

(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, 2017 (in thousands):

	Health and dental	Life	Total
Reserves, beginning of year	$ 117,188	5,801	122,989
Incurred claims expense provisions for insured events of the current year	982,833	28,744	1,011,577
Changes in provisions for insured events of prior years	(4,082)	953	(3,129)
Total incurred	978,751	29,697	1,008,448
Less payments:			
Claims expense insured events of the current year	885,037	24,849	909,886
Claims expense insured events of prior years	109,143	4,473	113,616
Total paid	994,180	29,322	1,023,502
Reserves, end of year	$ 101,759	6,176	107,935

As a result of changes in estimates of insured events in prior years, the provision for claims decreased by approximately $3,129,000 in the year ended December 31, 2017, due primarily to favorable health and dental claims experience.

(Continued)

The following represents changes in the Health and Dental and Life Reserves during the year ended December 31, 2016 (in thousands):

	Health and dental	Life	Total
Reserves, beginning of year	$ 112,486	5,515	118,001
Incurred claims expense provisions for insured events of the current year	988,065	25,271	1,013,336
Changes in provisions for insured events of prior years	4,813	542	5,355
Total incurred	992,878	25,813	1,018,691
Less payments:			
Claims expense insured events of the current year	876,222	21,651	897,873
Claims expense insured events of prior years	111,954	3,876	115,830
Total paid	988,176	25,527	1,013,703
Reserves, end of year	$ 117,188	5,801	122,989

As a result of changes in estimates of insured events in prior years, the provision for claims increased by approximately $5,355,000 in the year ended December 31, 2016, due primarily to unfavorable health and dental claims experience.

Health and Dental Reserving Methodology

Completion Factor Approach: This method assumes that the historical claim patters will be an accurate representation of unpaid claim liabilities. An estimate of the unpaid claims is calculated by subtracting period-to-date paid claims from an estimate of the ultimate “complete” payment for all incurred claims in the period. Completion factors are calculated which “complete” the current period-to-date payment totals for each incurred month to estimate the ultimate expected payout.

There is no expected development on reported claims in the health and dental coverage. Claim frequency is determined by totaling the number of unique claim numbers during the period as each unique claim number represents a claim event for an individual claimant.

Health and Dental – Consists of primary health and dental insurance coverage. Health and dental has substantially all claims settled and paid in less than two years. Claims expenses are shown below (in thousands):

					As of December 31, 2017	
	Incurred claims expense for the years ended December 31,				IBNR plus expected	Cumulative number of reported
Accident year	2015 *	2016 *	2017		development	claims
2015	$ 986,857	991,057	991,919		$ —	6,516
2016		988,065	983,220		550	6,187
2017			982,833		101,209	6,085
			Total	2,957,972		

	Cumulative paid claims expense for the years ended December 31,		
Accident year	2015 *	2016 *	2017
2015	$ 878,231	988,989	991,919
2016		876,298	982,670
2017			884,574
		Total	2,859,163
		Claim Reserve	98,809
		Claim adjustment expense reserve	2,950
		Claims and claim adjustment expense reserve	$ 101,759

* Unaudited supplemental information

Life Reserving Methodology

Life claim reserves are projected based on actual paid claims through March 2018 and pending life claims as of March 31, 2018 plus a margin for adverse deviation. Life has substantially all claims settled and paid in less than one year.

(Continued)

(8) Disability Reserves

The following represents changes in the disability reserves during the years ended December 31, 2017 and 2016 (in thousands):

		2017	2016
Reserves, beginning of year	$	12,227	12,129
Incurred claims:			
Provisions for insured events of the current year		4,433	4,092
Changes in provisions for insured events of prior years		(733)	(600)
Total incurred		3,700	3,492
Payments:			
Claims attributable to insured events of the current year		566	530
Claims attributable to insured events of prior years		2,847	2,864
Total paid		3,413	3,394
Reserves, end of year	$	12,514	12,227

EGID 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 $733,000 and $600,000 in the years ended December 31, 2017 and 2016, 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 2012 Group Long-term Disability Valuation Table was used.
- The discount rate was 3.5% for the years ended December 31, 2017 and 2016.

(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 and investment income for the following year. Anticipated premium receipts are projected based on the premium rates adopted by EGID 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 rates and benefit design changes. EGID does not have the intention to change the adopted premium rates after the fiscal year has begun. For 2017, no premium deficiency was necessary for the health and dental plans. For 2016, a premium deficiency for the health and dental plans was booked in the

(Continued)

amount of approximately $4,902,000 and $831,000, respectively. For the disability plan, no premium deficiency was necessary at December 31, 2017 or 2016.

(10) General Information About the Pension Plan

(a) Plan Description

EGID contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (OPERS). The Plan provides retirement, disability, and death benefits to 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 Plan to the Board of Trustees of OPERS. OPERS issues a publicly available annual financial report that includes basic financial statements and required supplementary information for the Plan. That annual report may be obtained by writing to OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73152 or at www.opers.ok.gov/.

(b) Benefits Provided

Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction.

(c) Contributions

Plan members and EGID are required to contribute at a rate set by statute. The contribution requirements of plan members and EGID are established and may be amended by the legislature of the State of Oklahoma. The contribution rate for EGID and plan members is as follows:

	Employee rate	Employer rate
January 1, 2017−December 31, 2017	3.50 %	16.50 %
January 1, 2016−December 31, 2016	3.50	16.50
January 1, 2015−December 31, 2015	3.50	16.50

EGID's contributions to the Retirement Plan for the years ended December 31, 2017 and 2016 were approximately $905,000 and $991,000, respectively, and were equal to EGID's required contributions for the year.

(d) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and 2016, EGID reported a liability of approximately $1,905,000 and $3,438,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was based on the employer contributing entity's percentage of the total employer contributions for the years ended June 30, 2017 and 2016. At June 30, 2017 and 2016, EGID's proportion was approximately 0.352% and 0.346%, respectively.

For the years ended December 31, 2017 and 2016, EGID recognized pension expense of approximately $662,000 and $533,000, respectively. At December 31, 2017, EGID reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$	—	340,677
Changes of assumptions		845,731	—
Net difference between projected and actual earnings on pension plan investments		85,101	—
EGID contributions subsequent to the measurement date		428,177	—
	$	1,359,009	340,677

(Continued)

At December 31, 2016, EGID reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred outflows of resources	Deferred inflows of resources
Difference between expected and actual experience	$	—	151,072
Changes of assumptions		549,605	—
Net difference between projected and actual earnings on pension plan investments		2,501,219	1,062,744
EGID contributions subsequent to the measurement date		471,053	—
	$	3,521,877	1,213,816

Deferred outflows of resources related to pensions resulting from EGID contributions subsequent to the measurement date of $428,177 will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2018	$	206,001
2019		552,851
2020		135,521
2021		(304,218)

(e) Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.75%
Salary increases	3.50% to 9.50%, including inflation
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Blue Collar Active Healthy Mortality Table projected to 2025 using Scale MP-2016 (disabled members were set forward 12 years).

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of the most recent actuarial experience study, which covered the three-year period ended June 30, 2016.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
U.S. large cap equity	38.0 %	3.8 %
U.S. small cap equity	6.0	4.9
Non-U.S. Equity	24.0	9.2
U.S. fixed income	32.0	1.4
Total	100.0 %	

(f) Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 was 7.00%. The discount rate used to measure the total pension liability at June 30, 2016 was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

(g) Sensitivity of EGID's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents EGID's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00% and 7.25% for 2017 and 2016, respectively, as well as what EGID's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the discount rate:

	2017		
	1% Decrease (6.00%)	Discount rate (7.00%)	1% Increase (8.00%)
EGID's proportionate share of the net pension liability (asset)	$ 5,630,455	1,905,050	(1,249,494)

(Continued)

	2016		
	1% Decrease (6.25%)	Discount rate (7.25%)	1% Increase (8.25%)
EGID's proportionate share of the net pension liability	$ 7,037,730	3,437,815	382,100

(h) Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued OPERS financial report.

(11) 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 the 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 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, 2016. EGID believes it has no liabilities with respect to SoonerSave.

(12) Compensated Absences

It is EGID'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 one of the following:

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

During 2017, EGID's liability for compensated absences increased by approximately $79,000 for 67 employees, decreased by approximately $153,000 for 72 employees, and did not change for 12 employees.

During 2016, EGID's liability for compensated absences increased by approximately $82,000 for 76 employees, decreased by approximately $165,000 for 64 employees, and did not change for 21 employees.

EGID's liability for compensated absences at December 31, 2017 and 2016 amounted to approximately $590.000 and $665,000, respectively, and is included in other accrued liabilities in the statements of net position.

(13) Operating Leases

EGID 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, 2017 are as follows:

2018	$ 571,680
2019	456,645
2020	456,645
2021	456,645
2022	124,049
2023	5,493
	$ 2,071,157

Rent expense for office space and equipment for the years ended December 31, 2017 and 2016 was approximately $958,000 and $1,139,000, respectively, and is included in administrative expenses in the statements of revenues, expenses, and changes in net position.

(14) Risks and Uncertainties

EGID 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 statements of net position.

As described in note 2, the estimates of reserves are determined based on 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, 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 basic financial statements.

(15) Commitments and Contingencies

EGID'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, EGID 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, EGID 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, EGID 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 moneys from the Fund are used when an inmate's medical costs exceed $6,000 up to a maximum of $100,000. As of December 31, 2017 and 2016, the Fund has assets and liabilities of approximately $1,800,000 and $1,396,000, respectively, which are included in cash and other accrued liabilities in the statements of net position.

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 were unable to obtain coverage through other insurers. All insurers and reinsurers providing health insurance or reinsurance in the state of Oklahoma were required to participate in the Pool. With the exception of EGID, all self-insured plans were exempted from participation. Participating insurers were assessed periodically. Participating insurers were also assessed additional amounts in the Pool experienced adverse claim development. In 2014, this law was repealed with an effective date of January 1, 2017. No assessments were made in 2016 or 2017.

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

(16) Subsequent Events

EGID has evaluated subsequent events from the balance sheet date through June 5, 2018, the date at which the basic financial statements were available to be issued, and determined there are no other items to disclose.

EMPLOYEES GROUP INSURANCE DIVISION
(A Division of the Office of Management and Enterprise Services)

Schedules of Required Supplementary Information

Schedule of the Proportionate Share of the Net Pension Liability of the Oklahoma Public Employees Retirement Plan

Last 10 June 30 Fiscal Years*

	2017	2016	2015	2014
EGID's proportion of the net pension liability	0.35235434 %	0.34647336 %	0.37597945 %	0.41129259 %
EGID's proportionate share of the net pension liability	$ 1,905,049	3,437,815	1,352,338	754,986
EGID's covered-employee payroll	5,744,376	6,224,406	6,646,436	6,968,066
EGID's proportionate share of the net pension liability as a percentage of its covered-employee payroll	33.16 %	55.23 %	20.35 %	10.83 %
Plan fiduciary net position as a percentage of the total pension liability	94.28	89.48	96.00	97.90

* This schedule is required to show information for 10 years. However, only fiscal years 2017, 2016, 2015 and 2014 are presented as the information for prior years is not available.

See accompanying independent auditors' report.

EMPLOYEES GROUP INSURANCE DIVISION
(A Division of the Office of Management and Enterprise Services)

Schedules of Required Supplementary Information

Schedule of Contributions of the
Oklahoma Public Employees Retirement Plan

Last 10 June 30 Fiscal Years*

		2017	2016	2015	2014
Contractually required contribution	$	947,822	1,027,027	1,096,662	1,149,731
Contributions in relation to the contractually required contribution		(947,822)	(1,027,027)	(1,096,662)	(1,149,731)
Contribution deficiency (excess)	$	—	—	—	—
EGID's covered-employee payroll	$	5,744,376	6,224,406	6,646,436	6,968,066
Contributions as a percentage of cover-employee payroll		16.50 %	16.50 %	16.50 %	16.50 %

* This schedule is required to show information for 10 years. However, only fiscal years 2017, 2016, 2015 and 2014 are presented as the information for prior years is not available.

See accompanying independent auditors' report.

EMPLOYEES GROUP INSURANCE DIVISION
(A Division of the Office of Management and Enterprise Services)
Notes to Required Supplementary Information
Fiscal years ended June 30, 2017 and 2016

(1) Changes of Benefit Terms

The Plan has been amended by House Bill 2630 in 2014, which states that effective November 1, 2015, OPERS shall create a defined contribution plan for most people first employed by a participating employer. Exemptions from the new defined contribution plan include hazardous duty members and district attorneys, assistant district attorneys, and employees of the district attorney's office. Each employer shall send to OPERS the difference between the required employer contribution to OPERS and the amount required to match the participating employee's contributions in the defined contribution plan.

Senate Bill 2120, also enacted in 2014, amends House Bill 2630 to further exempt from the new defined contribution plan county elected officials and employees of a county, county hospital, city or town, conservation district, circuit engineering district, and any public or private trust in which a county, city, or town participates. Senate Bill 2120 also states that employees who participate in the defined contribution system are excluded from the $105 healthcare subsidy.

New employees specifically exempted from the defined contribution plan will participate in the existing defined benefit plan.

(2) Changes of Assumptions

As a result of the most recent experience study, the following assumptions for the Plan were revised.

- Withdrawal rates
- Disability rates
- Retirement rates
- Salary scale assumptions
- Decrease the investment return from 7.25% to 7.00%
- Decrease the price inflation from 3.00% to 2.75%
- Decrease the real wage growth from 1.00% to 0.75%
- Change mortality assumption to reflect recent mortality improvements

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board
Oklahoma Employees Insurance and Benefits Board:

We have audited, in accordance with the 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, the basic financial statements of the Employees Group Insurance Division (EGID), a division of the Office of Management and Enterprise Services, which comprise the statement of net position as of December 31, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered EGID's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of EGID's internal control. Accordingly, we do not express an opinion on the effectiveness of EGID's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether EGID's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of EGID's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering EGID's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Oklahoma City, Oklahoma
June 5, 2018