EMPLOYEES GROUP INSURANCE DIVISION

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

Basic Financial Statements

December 31, 2018 and 2017

(With Independent Auditors' Report Thereon)

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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 statement of net position of the Employees Group Insurance Division (A Division of the Office of Management and Enterprise Services and Department of the State of Oklahoma) ("EGID") as of December 31, 2018 and the related statements of revenue, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise EGID's basic financial statements ("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 financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of EGID, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2017 Financial Statements

The financial statements of EGID as of and for the year ended December 31, 2017 were audited by other auditors whose report, dated June 5, 2018, expressed an unmodified opinion on those statements.

Emphasis of Matter

As discussed in Note 1, the financial statements of EGID are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of Oklahoma that is attributable to the transactions of EGID. They do not purport to, and do not, present fairly the financial position of the State of Oklahoma as of December 31, 2018, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that required supplementary information including the management's discussion and analysis and required supplementary information related to pension and other post-employment benefits and claims development on pages 4-8 and 39–45 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 September 9, 2019 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.

Deloitte + Touche LLP

September 9, 2019

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

Management's Discussion and Analysis

December 31, 2018 and 2017

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.

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, 2018, 2017, and 2016.

	December 31			2018 vs. 2017 Change
	2018	**2017**	**2016**	**Amount**
Cash and investments	$ 304,563,469	$ 265,621,984	$ 230,511,694	$ 38,941,485
Premiums receivable, net	39,597,260	26,066,847	37,798,168	13,530,413
Other current assets	97,735,996	85,628,963	103,024,012	12,107,033
Total current assets	441,896,725	377,317,794	371,333,874	64,578,931
Office equipment, net	965,244	1,568,771	2,196,299	(603,527)
Net OPEB asset	43,200	-	-	43,200
Total assets	442,905,169	378,886,565	373,530,173	64,018,604
Deferred outflows of resources - Pension	711,440	1,359,009	3,521,877	(647,569)
Deferred outflows of resources - OPEB	46,289	-	-	
Total deferred outflows	757,729	1,359,009	3,521,877	(647,569)
Total assets and deferred outflows	$ 443,662,898	$ 380,245,574	$ 377,052,050	$ 63,417,324

EMPLOYEES GROUP INSURANCE DIVISION

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

Management's Discussion and Analysis

December 31, 2018 and 2017

	December 31			2018 vs. 2017 Change
	2018	2017	2016	Amount
Claims liabilities	$ 135,119,000	$ 107,935,000	$ 122,989,000	$ 27,184,000
Disability liabilities (current only)	2,905,000	2,783,000	2,831,000	122,000
Premium deficiency reserves	7,179,000	-	5,733,000	7,179,000
Other current liabilities	52,404,619	31,236,283	37,264,528	21,168,336
Total current liabilities	197,607,619	141,954,283	168,817,528	55,653,336
Total noncurrent liabilities	9,562,121	11,636,049	12,833,815	(2,073,928)
Total liabilities	207,169,740	153,590,332	181,651,343	53,579,408
Deferred inflows of resources - Pension	366,692	340,677	1,213,816	26,015
Deferred inflows of resources - OPEB	127,222	-	-	127,222
Total deferred inflows	493,914	340,677	1,213,816	153,237
Invested in capital assets	965,244	1,568,771	2,196,299	(603,527)
Unrestricted	235,034,000	224,745,794	191,990,592	10,288,206
Total net position	235,999,244	226,314,565	194,186,891	9,684,679
Total liabilities, deferred inflows, and net position	$ 443,619,698	$ 380,245,574	$ 377,052,050	$ 63,374,124

	Year Ended December 31			2018 vs. 2017 Change
	2018	2017	2016	Amount
Premium revenue	$ 1,100,034,809	$ 1,062,958,001	$1,010,381,191	$ 37,076,808
Other operating revenue	1,973,457	3,710,677	2,733,314	(1,737,220)
Total operating revenues	1,102,008,267	1,066,668,678	1,013,114,505	35,339,589
Incurred claims expense	1,031,516,120	1,012,148,962	1,022,183,454	19,367,158
Change in premium deficiency reserves	7,179,000	(5,733,000)	(38,233,000)	12,912,000
Administrative and claims processing expense	50,647,943	44,885,815	47,802,052	5,762,128
Total operating expenses	1,089,343,063	1,051,301,777	1,031,752,506	38,041,286
Operating income (loss)	12,665,204	15,366,901	(18,638,001)	(2,701,697)
Net investment income	(2,348,486)	16,760,773	13,366,752	(19,109,259)
Change in net position	10,316,718	32,127,674	(5,271,249)	(21,810,956)
Net position, beginning of year	226,314,565	194,186,891	199,458,140	32,127,674
Net position restatement due to OPEB	(632,039)			
Net position, beginning of year (restated)	225,682,526			
Net position, end of year	$ 235,999,244	$ 226,314,565	$ 194,186,891	$ 9,684,679

EGID's total assets for the year ended December 31, 2018 increased by approximately 16.9% from the previous year, where there was an increase of approximately 1.4% in 2017. Cash and investments increased by approximately $38.9 million or 14.7% during 2018 due to an increase in fund equity for the plan year while 2017 showed an increase of approximately $35.1 million or 15.2%.

In 2018, EGID earned approximately $4.8 million in interest and dividend income, experienced $202,000 in realized losses and $6.5 million in unrealized losses, and paid $474,000 in investment expenses for a net investment loss of $2.4 million. 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. EGID's investment allocation at December 31, 2018 is comprised of approximately 45% fixed income securities, 30% equities, and 25% cash equivalents and comprised approximately 46% fixed income securities, 33% equities, and 21% cash equivalents at December 31, 2017.

For the year ended December 31, 2018, premiums receivable increased from the prior year by approximately $13.5 million primarily due to the timing of premium payments received from EGID's largest employer group and an increase in 2018 premium rates. In the prior year, premiums receivable decreased approximately $11.7 million, also primarily due to the timing of premium receipts.

In 2018, other current assets increased approximately $12.1 million primarily due to an increase of $12.4 million in the pharmacy rebate receivable. 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 PBM's over-performance of rebates and contract changes in the PBM contract.

Total liabilities as of December 31, 2018 increased approximately $53.5 million or 34.9% from December 31, 2017 as a result of a $27.2 million increase in claim liabilities, a $7.2 million increase in premium deficiency reserves, an increase of $15.9 million in claims payable as a result of the timing in the actual payment of reported claims, and a $4.8 million increase in professional services (explained further on the next page). Total liabilities as of December 31, 2017 decreased approximately $28.1 million or 15.4% from the prior year 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. 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. At December 31, 2018, a premium deficiency liability of approximately $5.6 million was recorded for the life plan and $1.6 million was recorded for the disability plan. No premium deficiency was necessary for the health and dental plans. At December 31, 2017, no premium deficiency was necessary for the health and dental, life or disability plans.

Premium revenue increased for 2018 by approximately $37.1 million primarily due to an overall premium rate increase for all HealthChoice health plans of 4.1%. In 2017, EGID saw an overall increase in premium revenue of approximately $52.6 million primarily due to an 8.15% increase in premium rates during plan year 2017. For the years ended December 31, 2018 and 2017, EGID earned approximately $2.0 million and $3.7 million, respectively, in other operating income, which consisted primarily of risk adjustment fee income.

Incurred claims comprise approximately 95.3% and 95.7% of EGID's total expenses in 2018 and 2017, respectively. Changes in premium deficiency reserves are not considered in the calculation. For the year ended December 31, 2018, total incurred claims increased by approximately $19.4 million or 1.9% from the prior year. In 2017, total incurred claims decreased by approximately $10.0 million or 1.0% over the prior year.

For the year ended December 31, 2018, health and dental claim costs increased by approximately $15.5 million or 1.6% primarily due to the second year of the phased in outpatient reimbursement methodology changes and favorable claims experience. For 2017, health and dental claim costs decreased by approximately $14.1 million or 1.4% primarily due to the implementation of outpatient reimbursement changes.

In 2018 and 2017, life claim costs increased by approximately $5.7 million or 19.2% and $3.9 million or 15%, respectively. Disability claim costs for 2018 decreased approximately $1.8 million or 48.4% from the prior year. Disability benefits for 2017 increased approximately $200,000 or 6.0% from the prior year. Life and disability claims can be volatile from year to year.

Administrative expenses increased by approximately $5.8 million in 2018 from 2017 primarily due to a $4.8 million increase in professional services comprised of $1.8 million of run-in costs paid as a result of the TPA transition where the new TPA pays claims incurred prior to their effective date and $2.6 million for the expanded care management program, and a $1.0 million increase in administrative expense primarily due to timing of invoices. 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 make up approximately 4.7% and 4.3% of EGID's total expenses in 2018 and 2017, respectively.

EGID experienced an increase in total net position of approximately $10.3 million, or 4.6%, for the year ended December 31, 2018. For 2017, there was an increase in total net position of approximately $32.1 million, or 16.5%.

During 2018, the Health and Dental program experienced an increase in net position of approximately $23.4 million, or 11.3% from the prior year. The increase is a result of decreased claim costs due to the second year phase-in of reimbursement methodology changes, overall favorable medical claims experience and an over-performance of pharmacy rebates by the PBM. For the year ended December 31, 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.

The Life program experienced a decrease in net position of approximately $11.6 million or 110.1% in 2018 and an increase of $396,000 or 3.9% in 2017.

The Disability program experienced a decrease in net position of approximately $1.4 million or 16.2% in 2018 and an increase in net position of $1.0 million or 13.1% in 2017.

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 2018 national healthcare trends for plans similar to the HealthChoice High plan was 5.2% for medical only, 7.4% for pharmacy only, or 5.6% combined. The national trend for Medicare supplement plans was 4.0% for medical only, 7.4% for pharmacy only, or 6.5% combined. In 2018, EGID's pharmacy only (before rebates) trend was 9.6%. EGID's active and pre-Medicare retiree medical only trend was 3.4% resulting in a 5.0% combined medical and pharmacy trend. The Medicare supplement plan trend was 3.4% for medical only resulting in 8.4% 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 2018 rates was 6.5% for active employees and pre-Medicare retirees and 4.0% for Medicare retirees. 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 prescription drug trend used for setting 2018 rates was 9% for active employees and pre-Medicare retirees as well as 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. The dental trend used for setting 2018 rates was 3.5% and 0.0% in 2017.

EGID's investment portfolio experienced negative returns during 2018. Performance returns for EGID's total investment portfolio was -1.3% in 2018 due to a downturn in equity markets during the fourth quarter and 8.5% in 2017.

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 93.0% in 2018 and 94.5% in 2017.

EMPLOYEES GROUP INSURANCE DIVISION

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

Statements of Net Position

December 31, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 96,080,029	$ 88,025,150
Investments	208,483,440	177,596,834
Receivables:		
Interest and dividends receivable	932,167	408,126
Unsettled investment sales	17,997	233,147
Premiums, net of allowance of $4,705,000 and $4,769,000 at December 31, 2018 and 2017, respectively	39,597,260	26,066,847
Pharmacy rebate receivable	72,405,363	61,093,657
Other, net	24,380,469	23,894,033
Total current assets	441,896,725	377,317,794
Noncurrent assets:		
Office equipment	4,023,826	4,023,826
Less accumulated depreciation	(3,058,582)	(2,455,055)
Office equipment, net	965,244	1,568,771
Net OPEB Asset	43,200	
Total noncurrent assets	1,008,444	1,568,771
Total assets	442,905,169	378,886,565
Deferred Outflows of Resources		
Pension amounts	697,204	1,359,009
OPEB amounts	60,525	-
Total deferred outflows of resources	757,729	1,359,009
Total assets and deferred outflows of resources	$ 443,662,898	$ 380,245,574
Liabilities		
Current liabilities:		
Policy and contract claim liabilities	$ 135,119,000	$ 107,935,000
Disability	2,905,000	2,783,000
Premium deficiency reserve	7,179,000	-
Premiums due to health maintenance organizations and other insurers	18,863,822	19,155,780
Payable for investment purchases	1,024,513	590,721
Other accrued liabilities	32,516,284	11,489,782
Total current liabilities	197,607,619	141,954,283
Noncurrent liabilities:		
Disability	8,418,000	9,731,000
Net pension liability	651,105	1,905,049
Total OPEB liability	493,016	-
Total noncurrent liabilities	9,562,121	11,636,049
Total liabilities	207,169,740	153,590,332
Deferred Inflows of Resources		
Pension amounts	366,692	340,677
OPEB amounts	127,222	-
Total deferred inflows of resources	493,914	340,677
Net Position		
Invested in capital assets	965,244	1,568,771
Unrestricted (note 2(f))	235,034,000	224,745,794
Total net position	235,999,244	226,314,565
Total liabilities, deferred inflows of resources, and net position	$ 443,662,898	$ 380,245,574

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, 2018 and 2017

	2018	2017
Operating revenues:		
Premium revenue	$ 1,100,034,810	$ 1,062,958,001
Other operating revenue	1,973,457	3,710,677
Total operating revenues	1,102,008,267	1,066,668,678
Operating expenses:		
Incurred claims expense	1,031,516,120	1,012,148,962
Change in premium deficiency reserve	7,179,000	(5,733,000)
Administrative and claim processing	50,647,943	44,885,815
Total operating expenses	1,089,343,063	1,051,301,777
Operating income (loss)	12,665,204	15,366,901
Nonoperating revenue:		
Net investment income	(2,348,486)	16,760,773
Change in net position	10,316,718	32,127,674
Net position, beginning of year	226,314,565	194,186,891
Restatement - adoption of new accounting standard (Note 2(p))	(632,039)	-
Net position, as restated beginning of year	225,682,526	-
Net position, end of year	$ 235,999,244	$ 226,314,565

See accompanying notes to basic financial statements.

EMPLOYEES GROUP INSURANCE DIVISION
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Statement of Cash Flows

Years ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Premiums collected	$ 1,083,328,242	$ 1,063,211,236
Premiums collected on behalf of health maintenance organizations and other insurers	241,071,022	248,448,483
Payments collected from Centers for Medicare and Medicaid Services	6,473,445	9,333,079
Risk adjustment premium collected	2,108,707	3,617,022
Benefits paid	(1,017,471,398)	(1,009,695,050)
Premiums paid to health maintenance organizations and other insurers	(243,826,606)	(246,183,040)
Payments to employees for services	(8,933,939)	(8,198,019)
Payments to suppliers for goods and services	(20,967,156)	(42,180,614)
Other operating cash received	14,888	9,141
Net cash provided by (used in) operating activities	41,797,205	18,362,238
Cash flows from investing activities:		
Purchases of investments	(178,716,540)	(144,421,987)
Proceeds from sales and maturities of investments	141,157,604	129,544,639
Investment income received	3,816,610	3,505,159
Net cash provided by (used in) investing activities	(33,742,326)	(11,372,189)
Net change in cash and cash equivalents	8,054,879	6,990,049
Cash and cash equivalents, beginning of year	88,025,150	81,035,101
Cash and cash equivalents, end of year	$ 96,080,029	$ 88,025,150
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	$ 12,665,204	$ 15,366,901
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	603,527	627,528
Change in operating assets and liabilities:		
Premium receivable	(13,530,413)	11,731,321
Prepaid premiums	420,218	77,216
Net pension liability	(1,253,947)	(1,532,766)
Deferred inflows of resources	153,237	(873,139)
Deferred outflows of resources	601,280	2,162,868
Other receivables	(11,798,141)	17,136,401
Claim reserves	27,184,000	(15,054,000)
Disability reserves	(1,191,000)	287,000
Premium deficiency reserves	7,179,000	(5,733,000)
Premiums due to health maintenance organizations and other insurers	(291,958)	43,220
Other liabilities	21,056,198	(5,877,312)
Total adjustments	29,132,001	2,995,337
Net cash provided by (used in) operating activities	$ 41,797,205	$ 18,362,238

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. With this, EGID assumed responsibility for managing the commercial health, dental, and vision 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, 2018 and 2017 are reported gross of a fee retained by EBD. This fee, which was approximately $4,313,000 and $4,959,000 for the years ended December 31, 2018 and 2017, respectively, is included in administrative expenses in the statements of revenues, expenses, and changes in net position. For the years ended December 31, 2018 and 2017, 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 $2,317,000 and $2,523,000 for the years ended December 31, 2018 and 2017, 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 $243,535,000 and $246,226,000 for 2018 and 2017, 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, 2018, EGID's self-funded health plan HealthChoice provided health coverage to 133 state agency divisions with approximately 24,000 primary participants (not including dependents), 592 educational entities with approximately 56,000 primary participants, 320 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 37,000 primary participants. Approximately 61,000 dependents participated in HealthChoice as well. In addition, EGID collected and remitted premiums for approximately 22,000 primary participants and 11,000 dependents who were covered by HMOs. These counts are provided for health coverage only.

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, 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 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.

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 the following types of insurance coverages:

- High Option, Basic, and High Deductible Health Plan (HDHP) options for non-Medicare participants. High and Basic Plans have alternatives based upon tobacco-free attestations. If a member cannot complete the tobacco-free attestation or one of the reasonable alternatives described, the member will automatically be enrolled in the HealthChoice High Alternative Plan or Basic Alternative Plan, and the annual deductible and maximum out-of-pocket limit will be $250 higher;

- All of these plans include pharmacy benefits. There is also a Select Program that operates with each of these plans that provides no out-of-pocket costs when services are received at participating facilities (some exceptions apply with the HDHP option);

- High and Low Option Medicare Supplement plans;
- Dental coverage;
- Term life coverage; and
- Disability income protection coverage.

Non-Medicare Health Plans

The health plans for non-Medicare participants have the following features:

- Deductibles and maximum out-of-pocket (MOOP) costs;
- Copayments;
- Coinsurance; and
- Differences in costs for using network providers versus non-network providers.

High Option/High Option Alternative. A member who elects the High Option Plan is responsible for a $30 copayment for primary care physician or $50 copayment for a specialist. Copayment-related services received from a network provider are not subject to the deductible. The same services when using non-network providers are reimbursed at 50% after the member meets a calendar year deducible of $750/individual or $2,000/family of three or more. For other services, network provider and non-network provider benefits are generally reimbursed at 80% and 50%, respectively, after the appropriate deductibles are met. HealthChoice reimburses allowable fees at 100% for covered medical services for the remainder of the calendar year after the member pays $3,300/individual or $8,400/family of three or more for network services or $3,800/individual or $9,900/family of three or more for non-network services. The MOOP does not include charges for non-covered services and balance billing charges from non-network providers. For the High Option Alternative Plan, the deductible is $1,000/individual or $2,750/family of three or more.

Basic/Basic Alternative Plans. The Basic options do not have copayments except for pharmacy charges and for non-network inpatient hospital admissions. The Basic Option pays 100% of the first $500 of allowable fees for covered medical services (First Dollar Coverage). The member pays 100% of the next $1,000 ($1,500 per family) of allowable fees (the deductible). The member and HealthChoice each pay 50% of the next $4,000 of allowable fees ($9,000 per family). HealthChoice reimburses allowable fees at 100% once the member has reached the MOOP of $4,000 ($8,000 for a family of two, $9,000 per family of three or more). The MOOP does not include charges for non-covered services and balance billing charges from non-network providers. Preventive care services are covered at 100 percent of allowable fees and are not subject to the Plan's First Dollar Coverage. For the Basic Alternative Plan, the First Dollar Coverage is $250, and the annual deductible is $1,250 ($1,750 per family).

High Deductible Health Plan. 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 ($1,750 for an individual or $3,500 for a family of two or more) that must be met before any benefits are payable. That does not include preventive charges which are covered at 100% of allowable fees when utilizing a network provider. After the deductible is met, the member is responsible for the same copayments and coinsurance percentages as the High Option Plan. There is a network MOOP of $6,000 per individual or $12,000 per family of two or more after which HealthChoice pays 100% of allowable fees for covered services from a network provider. The MOOP does not include charges for non-covered services and balance billing charges from non-network providers.

Tobacco Free Attestation. To enroll or remain enrolled in the HealthChoice High Option Plan or Basic Plan, the member must attest that the member and any 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 the member or any covered dependent is not tobacco-free, the member can still qualify for the High Option or Basic Plans by providing proof of an attempt to quit using tobacco through a prescribed process involving the Oklahoma Tobacco Helpline and Alere Wellbeing, or by providing a letter from the participant's doctor indicating it is not medically advisable for the individual to quit tobacco.

Select Program. 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, the deductible applies and must be met before the no out-of-pocket cost applies.

Pharmacy Benefits. Medications are categorized as generic, preferred, non-preferred, preferred Specialty, or non-preferred Specialty.

High Option, High Alternative, Basic, and Basic Alternative Plans. There is a $100/individual or $300/family pharmacy deductible. After this deductible is met, and when purchasing generic medications from a network provider, the member is responsible for up to a $10 copayment for up to a 30-day supply or up to a $25 copayment 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 copayment for preferred Specialty medications, and $200 for non-preferred specialty medications. Generic specialty medications are $10. 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 as preventive by the Affordable Care Act (ACA) are available for members at $0 copayment. There is an annual $2,500/individual or $4,000/family MOOP for which only medications that are either generic or preferred apply, and only when purchased at network pharmacies. There is no MOOP for non-preferred medications or medications purchased at non-network pharmacies.

High Deductible Health Plan (HDHP). HDHP has a combined medical and pharmacy deductible of $1,750 for an individual and $3,500 for a family and a MOOP of $6,000 for an individual and $12,000 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 copayment.

Medicare Supplement Health Plans

HealthChoice provides high option and low option Medicare supplement benefit plans to retired Medicare-eligible participants and their dependents. These supplements are based upon a modified Plan G level of benefits and include a pharmacy prescription program, preventive care benefits, out-of-country benefits, and an at-home recovery benefit.

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.

Medicare Part D Pharmacy Benefits

HealthChoice High and Low Medicare Supplement Option Plans with or without Part D have a MOOP amount of $5,000. The Plans pay 100% of prescription Part D medications after this $5,000 is reached.

- HealthChoice Supplemental High Option with Part D is a 4-tier copayment structure and has a $100 pharmacy deductible.

- HealthChoice Supplemental High Option without Part D follows the same copayment structure as the HealthChoice High Option.

- HealthChoice Supplemental Low with or without Part D has the following four stages:

- Stage 1 (Deductible stage): member pays the full cost of medications until the annual deductible of $405 is met.

- Stage 2 (Initial Coverage stage): member pays their cost share until the year-to-date “total drug costs” reaches $3750. Member pays 25% ($836.26) and HealthChoice pays 75% ($2,508.75).

- Stage 3 (Coverage Gap): the member pays 100% of the prescription drug cost until the MOOP reaches $5,000. During this stage, the member gets a discounted rate of 44% of the cost on generics and 35% of the cost of brand-name medications.

- Stage 4 (Catastrophic coverage): HealthChoice pays 100% of prescription drug costs upon reaching MOOP of $5,000.

- 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 copayment.

Dental Plan

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.

Life Plan

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.

Disability Income Protection Plan

HealthChoice disability income 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 occurring due to the disability will reduce the HealthChoice disability benefit amount to be paid. The duration of the long-term benefit is determined based upon the age and length of employment of the participant at the time the disability occurs.

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 $32,976,000 and $27,287,000 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 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. As an enterprise fund, EGID presents financial statements on the accrual basis of accounting. 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 net asset value (NAV), which approximates fair value of the commingled fund at December 31, 2018 and 2017.

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, 2018 and 2017, 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, 2018 and 2017 is approximately $183,174,000 and $183,645,000, 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, 2018 and 2017 as reported in the basic financial statements is as follows (in thousands):

	2018 Total
Minimum net position	$ 183,174
Unrestricted net position	235,034

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

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 $6,060,000 and $9,333,000 for the years ended December 31, 2018 and 2017, 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 $28,835,000 and $27,701,000 for the years ended December 31, 2018 and 2017, 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 $92,827,000 and $76,896,000 for the years ended December 31, 2018 and 2017, 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 (or paid to) either the self-funded PPO or any HMO participating under the EGID umbrella based on factors, which are applied to premiums of all non-Medicare members and dependents during the plan year. The factors are intended to offset any adverse selection that may occur as a result of younger, healthier members electing coverage in one plan over another. This amount received by the self-funded PPO is approximately $1,959,000 and $3,702,000 for the years ended December 31, 2018 and 2017, 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) 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).

(m) 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.

(n) 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.

(o) Other Postemployment Benefits (OPEB)

EGID participates in two separate OPEB plans. For purposes of measuring the OPEB liability/asset, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans.

(p) Restatement

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). As a result of implementation of GASB 75 and changes of certain assumptions, a restatement is reflected on EGID's financial statements as of the beginning of fiscal year 2018. This restatement decreased beginning net position by $632,039. EGID did not restate prior years as information was not available.

(3) Fair Value Measurement

EGID applies GASB issued Statement No. 72, Fair Value Measurement and Application, which provides guidance for determining a fair value measurement for financial reporting purposes and also provides guidance for apply fair value to certain investments and disclosures related to all fair value measurements.

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 statement of net position 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, with the exception of the comingled fund, which is reported at net asset value and thus is not leveled. 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, 2018 and 2017, cash totaling approximately $21,911,000 and $39,216,000, 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 $74,169,000 and $48,809,000 at December 31, 2018 and 2017, 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, 2018 and 2017, EGID had the following investments:

	2018		2017	
Types of Investments	**Fair Values**	**Duration (1)**	**Fair Values**	**Duration (1)**
Debt securities:				
Mutual fund	$		$ 50,490,755	4.01
Asset-backed securities(2)	8,992,725	1.73	4,965,279	1.57
U.S Agencies	11,661,706	5.30	3,920,746	5.19
Corporate	46,064,008	5.40	20,313,941	5.40
Mortgages	12,370,131	5.11	8,545,237	4.09
Collateralized mortgage obligations(2)	613,446	3.33	752,675	1.50
U.S. Treasuries	37,189,495	6.46	11,212,698	9.56
Municipals	404,999	13.76	424,001	14.33
USD denominated foreign government			956,727	8.79
Collateralized mortgage-backed securities (CMBS)(2)	4,378,368	3.95	2,728,105	3.76
Certificates of Deposit (CDs)	2,481,715	2.55	2,062,643	2.55
Total debt securities	124,156,593		106,372,807	
Equities:				
Domestic	84,326,847		71,224,027	
Total investments	$ 208,483,440		$ 177,596,834	

(1) Interest rate risk is estimated using effective duration (in years).
(2) These include investments highly sensitive to interest rate changes.

(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, 2018 and 2017 is as follows:

	2018					
	Aaa	**Aa/A**	**Baa/Ba**	**Ccc**	**Not Rated**	**Total**
Debt securities:						
Asset-backed securities	$ 8,340,595	$ 286,434	$ 365,696			$ 8,992,725
Agencies	11,290,610	371,096				11,661,706
Corporate	652,373	13,708,022	31,455,018	248,595		46,064,008
Mortgages	12,370,131					12,370,131
Collateralized mortgage						-
obligations	613,446					613,446
U.S. Treasuries	37,189,495					37,189,495
Municipals		404,999				404,999
CMBS	4,188,080	60,681	117,846		11,761	4,378,368
CDs	2,481,715					2,481,715
Total debt securities	$ 77,126,445	$ 14,831,232	$ 31,938,560	$ 248,595	$ 11,761	$ 124,156,593

	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.

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, 2018 and 2017.

(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.

(e) Investment Income

Net investment income for the years ended December 31, 2018 and 2017 comprises the following:

	2018	2017
Fixed income securities	$ 4,624,514	$ 3,494,922
Equity securities	189,831	149,608
Realized gains	(202,168)	3,570,210
Unrealized gain	(6,486,904)	10,000,427
Other investment gain (loss)	(65)	(81)
Less investment expenses	(473,695)	(454,313)
Net investment income	$ (2,348,487)	$ 16,760,773

(6) Office Equipment

The changes in office equipment for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Office equipment, at cost:		
Balance, beginning of year	$ 4,023,826	$ 4,116,558
Additions		
Retirements	-	(92,732)
Balance, end of year	4,023,826	4,023,826
Accumulated depreciation:		
Balance, beginning of year	2,455,055	1,920,259
Depreciation expense	603,527	627,528
Retirements	-	(92,732)
Balance, end of year	3,058,582	2,455,055
Office equipment, net	$ 965,244	$ 1,568,771

(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, 2018 (in thousands):

	Health and Dental	Life	Total
Reserves, beginning of year	$ 101,759	$ 6,176	$ 107,935
Incurred claims expense provisions for insured events of the current year	999,691	33,513	1,033,204
Changes in provisions for insured events of prior years	(5,484)	1,888	(3,596)
Total incurred	994,207	35,401	1,029,608
Less payments:			
Claims expense insured events of the current year	864,369	29,768	894,137
Claims expense insured events of prior years	103,150	5,137	108,287
Total paid	967,519	34,905	1,002,424
Reserves, end of year	$ 128,447	$ 6,672	$ 135,119

As a result of changes in estimates of insured events in prior years, the provision for claims decreased by approximately $3,596,000 in the year ended December 31, 2018, due primarily to favorable health and dental claims experience which offset the unfavorable life claims experience.

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.

Health and Dental Reserving Methodology

Completion Factor Approach: This method assumes that the historical claim patterns 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.

Life Reserving Methodology

Life claim reserves are projected based on actual paid claims through March 2019 and pending life claims as of March 31, 2019 plus a margin for adverse deviation. Life has substantially all claims settled and paid in less than one year.

(8) Disability Reserves

The following represents changes in the disability reserves during the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Reserves, beginning of year	$ 12,514	$ 12,227
Incurred claims:		
Provisions for insured events of the current year	2,673	4,433
Changes in provisions for insured events of prior years	(766)	(733)
Total incurred	1,907	3,700
Payments:		
Claims attributable to insured events of the current year	505	566
Claims attributable to insured events of prior years	2,593	2,847
Total paid	3,098	3,413
Reserves, end of year	$ 11,323	$ 12,514

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 $766,000 and $733,000 in the years ended December 31, 2018 and 2017, 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, 2018 and 2017.

(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. At December 31, 2018, a premium deficiency liability of approximately $5.6 million was recorded for the life plan and a $1.6 million premium deficiency liability was booked for the disability plan. No premium deficiency was necessary for the health and dental plans. For 2017, no premium deficiency was necessary for the health and dental, life or disability plans.

(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, 2018–December 31, 2018	3.50 %	16.50 %
January 1, 2017–December 31, 2017	3.50	16.50
January 1, 2016–December 31, 2016	3.50	16.50

EGID's contributions to the Retirement Plan for the years ended December 31, 2018 and 2017 were approximately $848,000 and $905,000, 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, 2018 and 2017, EGID reported a liability of approximately $651,000 and $1,905,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2018 and 2017. At June 30, 2018 and 2017, EGID's proportion was approximately 0.334% and 0.352%, respectively.

For the years ended December 31, 2018 and 2017, EGID recognized pension expense of approximately $267,000 and $662,000, respectively. At December 31, 2018, 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	$ -	$ 366,692
Changes of assumptions	280,009	-
EGID contributions subsequent to the measurement date	417,195	-
	$ 697,204	$ 366,692

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

Deferred outflows of resources related to pensions resulting from EGID contributions subsequent to the measurement date of $431,432 will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. 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:	
2019	$ 552,851
2020	135,521
2021	(304,218)
2022	(80,724)

(e) Actuarial Assumptions

The total pension liability in the June 30, 2018 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 July 1, 2018 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	1.5
Total	100.0 %	

(f) Discount Rate

The discount rate used to measure the total pension liability at June 30, 2018 was 7%. The discount rate used to measure the total pension liability at June 30, 2017 was 7.00%. 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 7.00% for 2018 and 2017, 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:

	2018		
	1% Decrease (6%)	**Discount Rate (7%)**	**1% Increase (8%)**
EGID's proportionate share of the net pension liability (asset)	$ 4,177,617	$ 651,105	$ (2,337,424)

	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)

(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) Other Postemployment Benefits (OPEB)

(a) General Description of the Other Postemployment Benefits

EGID provides retirees with two other postemployment benefits upon retirement as discussed below:

The *Employees Group Insurance Division (EGID)*, as a multi-line insurance provider, allows for retirees that are not yet eligible for Medicare benefits to participate in the insurance plans available to active employees. Current and retired employees participate in the same plans with blended premium rates creating an implicit rate subsidy for the retirees in the plan. This plan is not administered through a trust, and as a result, there are no assets to net against the total liability. The plan functions as a cost-sharing multi-employer plan.

As mandated by statute, *Oklahoma Public Employees Retirement System (OPERS)* provides an OPEB benefit to retirees should a retiree make such an election at retirement to continue health coverage through the state's provider, EGID. This benefit is for a fixed amount of $105 and the contribution is included in the employer pension contribution. This plan is a cost-sharing multi-employer plan. The information for obtaining the separately issued independent audit report, a summary of significant accounting policies of the pension plan and the statutory authority under which OPEB benefits are required to be paid are discussed in Note 10(a).

(b) Employees Covered

The following employees were covered by the benefit terms:

	Plans Outside of Trusts as of July 1, 2017	**OPEB Trust Funds as of June 30, 2018**
	Employees Group Insurance Division	*Public Employees Retirement System*
Active employees	31,971	36,329
Terminated, vested	-	-
Inactive participants	3,038	20,022
Total	35,009	56,351

(c) OPEB Liability/Asset

At December 31, 2018, EGID reported a liability of approximately $493,016 (a proportionate share of .332%) for the *EGID* plan. For the *OPERS* plan, an asset of approximately $43,200 (a proportionate share of .334%) is reported. These amounts reflect EGID's proportionate share of the liability (asset) of the total plans.

The total OPEB liability in the actuarial valuations was determined using the following actuarial assumptions and other inputs applied to all periods included in the measurement unless otherwise specified. The plan valuation dates are as of July 1, 2017 and July 1, 2018 for *EGID* and *OPERS*, respectively.

	Employees Group Insurance Division	**Public Employees Retirement System**
Inflation	0%	2.75%
Salary Increases	3.00% - 11.25%	3.50% - 9.50%
Discount Rate	3.58%	7.00%
Healthcare cost trend	4.60% - 7.10%	NA
Retiree's share of benefit-related costs	0%	0%

(d) Discount Rates

Employees Group Insurance Division: The discount rate was determined using the Bond Buyer GO 20-Bond Municipal Bond Index.

Oklahoma Public Employees Retirement System: The discount rate is determined by the expected rate of return on assets as referenced in Note 10(f).

(e) Mortality Rates

Employees Group Insurance Division: Mortality rates were based on RP-2006 combined healthy mortality table with a fully generational projection using Scale MP-2017.

Oklahoma Public Employees Retirement System: OPERS uses RP-2014 mortality tables projected to 2025 by scale MP-2016. Disabled pensioner rates are set forward twelve years.

(f) Actuarial Assumptions

Employees Group Insurance Division: The EGID implicit rate subsidy valuation report dated July 1, 2017, is based on a measured date of July 1, 2017, with a measurement period of July 1, 2016, to July 1, 2017.

Oklahoma Public Employees Retirement System: The actuarial assumptions used in the July 1, 2017, valuation report measured on the same date by OPERS are based on the results of the most recent actuarial experience study, which covers the three-year period ending June 30, 2016. The experience study report is dated April 13, 2017.

(g) Changes in Assumptions and Other Inputs

Employees Group Insurance Division: The discount rate to calculate liabilities was changed from 2.85% as of July 1, 2016, to 3.58% as of July 1, 2017.

Oklahoma Public Employees Retirement System: Investment return was decreased from 7.25% to 7.00%; price inflation was decreased from 3.00% to 2.75%; real wage growth was decreased from 1.00% to 0.75%; mortality assumption was changed to reflect recent mortality improvements; salary scale assumptions, withdrawal rates, disability rates, and retirement rates were revised.

(h) Sensitivity of EGID's Proportionate Share of the OPEB Liability (Asset) to Changes in the Discount Rate

The following presents EGID's proportionate share of the OPEB liability, as well as what the projected OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

Employees Group Insurance Division

	2018		
	1% Decrease (2.58%)	**Discount Rate (3.58%)**	**1% Increase (4.58%)**
Total OPEB Liability	$ 526,227	$ 493,016	$ 462,091

Oklahoma Public Employees Retirement System

	2018		
	1% Decrease (6.00%)	**Discount Rate (7.00%)**	**1% Increase (8.00%)**
Net OPEB Liability (Asset)	$ 68,780	$ (43,200)	$ (139,516)

(i) Sensitivity of the Total OPEB Liability to Changes in the Healthcare Trend Rate

The following presents EGID's proportionate share of the net OPEB liability at June 30, 2018, calculated using the healthcare trend rate, as well as what the trend rate increasing or decreasing by 1-percentage-point. Of the OPEB plans, only the EGID implicit rate subsidy is affected by the healthcare trend rate.

Employees Group Insurance Divison

	2017		
	1% Decrease (6.10% - 3.60%)	**Discount Rate (7.10% - 4.60%)**	**1% Increase (8.10% - 5.60%)**
Total OPEB Liability	$ 510,159	$ 552,364	$ 601,207

	2018		
	1% Decrease (6.10% - 3.60%)	**Discount Rate (7.10% - 4.60%)**	**1% Increase (8.10% - 5.60%)**
Total OPEB Liability	$ 452,494	$ 493,016	$ 539,954

(j) OPEB Expense and Deferred Outflows and Deferred Inflows of resources Related to OPEB

For the year ended December 31, 2018, EGID recognized OPEB expense of $1,149 for the EGID plan and a net to expense of $61,324 for the OPERS plan. The following table illustrates the deferred inflows and outflows as of December 31, 2018, based on the requirements of Governmental Accounting Standards Board Statement 75:

	Employees Group Insurance Division	**Public Employees Retirement System**	**Total**
Deferred Outflows:			
Changes of assumptions or other inputs	$ -	$ 25,322.00	$ 25,322.00
Subsequent contributions	20,967.00	14,236.26	35,203.26
Total deferred outflows	$ 20,967.00	$ 39,558.26	$ 60,525.26
Deferred Inflows:			
Changes of assumptions or other inputs	$ 19,239.00	$ -	$ 19,239.00
Differences between expected and actual experience	-	67,921.00	67,921.00
Differences between projected and actual investment earnings	-	40,062.00	40,062.00
Total deferred inflows	$ 19,239.00	$ 107,983.00	$ 127,222.00
OPEB Expense	$ 1,149.00	$ (61,324.00)	$ (60,175.00)

Amounts reported as deferred outflows of resources and deferred inflows of resources are amortized in OPEB expense as follows:

	Employees Group Insurance Division	Public Employees Retirement System
Year ended June 30:		
2019	$ (5,344)	$ (21,364)
2020	(5,344)	(21,364)
2021	(5,344)	(21,364)
2022	(3,207)	(11,048)
2023	-	(6,827)
Total Thereafter	-	(694)
Total	$ (19,239)	$ (82,661)

(12) 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, 2018. EGID believes it has no liabilities with respect to SoonerSave.

(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, 2018 are as follows:

2019	$ 564,125
2020	561,185
2021	561,185
2022	231,043
2023	63,266
	$ 1,980,804

Rent expense for office space and equipment for the years ended December 31, 2018 and 2017 was approximately $934,000 and $958,000, 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, 2018 and 2017, the Fund has assets and liabilities of approximately $2,122,000 and $1,800,000, 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 2017 or 2018.

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 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*

	2018	**2017**	**2016**	**2015**	**2014**
EGID's proportion of the net pension liability	0.33382507 %	0.35235434 %	0.34647336 %	0.37597945 %	0.41129259 %
EGID's proportionate share of the net pension liability	$ 651,102	$ 1,905,049	$ 3,437,815	$ 1,352,338	$ 754,986
EGID's covered-employee payroll	5,636,532	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	11.55 %	33.16 %	55.23 %	20.35 %	10.83 %
Plan fiduciary net position as a percentage of the total pension liability	97.96	94.28	89.48	96.00	97.60

* This schedule is required to show information for 10 years. However, only fiscal years 2018, 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
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Schedules of Required Supplementary Information

Schedule of Contributions of the
Oklahoma Public Employees Retirement Plan

Last 10 December 31 Fiscal Years*

	2018	2017	2016	2015	2014
Contractually required contribution	$ 819,732	$ 947,822	$ 1,027,027	$ 1,096,662	$ 1,149,731
Contributions in relation to the contractually required contribution	(819,732)	(947,822)	(1,027,027)	(1,096,662)	(1,149,731)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
EGID's covered-employee payroll	$ 5,137,612	$ 5,744,376	$ 6,224,406	$ 6,646,436	$ 6,968,066
Contributions as a percentage of covered-employee payroll	15.96 %	16.50 %	16.50 %	16.50 %	16.50 %

* This schedule is required to show information for 10 years. However, only fiscal years 2018, 2017, 2016, 2015, and 2014 are presented as the information for prior years is not available.

See accompanying independent auditors' report.

(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

There were no changes in assumptions from 2017 to 2018.

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 Total OPEB Liability for the EGID plan

Last 10 June 30 Fiscal Years*

	2018
EGID's proportion of the OPEB liability	0.33200642 %
EGID's proportionate share of the OPEB liability	$ 493,016
EGID's covered-employee payroll	5,636,532
EGID's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	8.75 %

* This schedule is required to show information for 10 years. However, only fiscal years 2018, is presented as the information for prior years is not available.

EMPLOYEES GROUP INSURANCE DIVISION
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Schedules of Required Supplementary Information

Schedule of the Proportionate Share of the Net OPEB Asset for the OPERS plan

Last 10 June 30 Fiscal Years*

	2018
EGID's proportion of the OPEB asset	0.33382507 %
EGID's proportionate share of the OPEB asset	$ 43,200
EGID's covered-employee payroll	5,636,532
EGID's proportionate share of the net OPEB asset as a percentage of its covered-employee payroll	0.77 %
Plan fiduciary net position as a percentage of the total OPEB liability	103.94%

* This schedule is required to show information for 10 years. However, only fiscal years 2018, is presented as the information for prior years is not available.

EMPLOYEES GROUP INSURANCE DIVISION
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Schedules of Required Supplementary Information

Schedule of Contributions for the OPERS plan

Last 10 December 31 Fiscal Years*

	2018
Contractually required contribution	$ 27,974
Contributions in relation to the contractually required contribution	(27,974)
Contribution deficiency (excess)	$ -
EGID's covered-employee payroll	$ 5,137,612
Contributions as a percentage of covered-employee payroll	0.54 %

* This schedule is required to show information for 10 years. However, only fiscal years 2018, is presented as the information for prior years is not available.

EMPLOYEES GROUP INSURANCE DIVISION
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Schedules of Required Supplementary Information

Schedule of Ten-Year Development Information

		Fiscal and Policy Years Ended									
		2018	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
(1)	Earned premiums and Investment revenues	1,098,161	1,080,174	1,024,284	985,321	964,101	940,855	884,698	865,146	864,448	882,193
(2)	Administrative Expenses	51,121	45,340	48,337	47,667	51,709	41,412	39,492	38,690	38,939	38,861
(3)	Estimated incurred claims, both paid and accrued, end of policy year	1,040,974	1,020,522	1,017,831	1,022,524	935,870	878,842	826,098	803,039	775,245	813,373
(4)	Payments as of:										
	End of policy year	905,574	910,454	894,439	902,693	820,319	778,221	727,780	711,716	677,821	704,991
	One year later		1,006,239	1,006,157	1,018,240	927,284	867,136	818,632	799,710	754,418	808,558
	Two years later			1,008,583	1,021,953	928,794	869,158	820,175	800,250	755,694	810,080
	Three years later				1,022,436	929,055	869,506	820,463	800,324	755,818	810,065
	Four years later					929,189	869,370	820,687	800,321	755,996	810,171
	Five years later						869,416	820,855	800,415	756,011	810,305
	Six years later							820,958	800,506	756,216	810,436
	Seven years later								800,570	756,309	810,557
	Eight years later									756,394	810,658
	Nine years later										810,735
(5)	Reestimated incurred claims										
	End of policy year	1,040,974	1,020,522	1,017,831	1,022,524	935,870	878,842	826,098	803,039	775,245	813,373
	One year later		1,009,302	1,008,556	1,022,400	929,586	869,910	822,212	802,053	757,780	812,055
	Two years later			1,010,061	1,023,409	929,809	869,772	822,219	801,484	757,383	811,932
	Three years later				1,023,582	929,925	870,017	821,684	801,552	757,126	811,571
	Four years later					929,889	869,743	821,682	801,226	757,128	811,469
	Five years later						869,700	821,629	801,232	756,894	811,272
	Six years later							821,633	801,172	756,973	811,275
	Seven years later								801,176	757,009	811,280
	Eight years later									756,994	811,300
	Nine years later										811,144
(6)	Decrease (increase) in estimated incurred claims from end of policy year		11,220	7,770	(1,058)	5,981	9,142	4,465	1,863	18,251	2,229

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INDEPENDENT AUDITOR'S REPORT

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 financial statements of Employees Group Insurance Division (A Division of the Office of Management and Enterprise Services and Department of the State of Oklahoma) ("EGID"), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise EGID's basic financial statements ("financial statements"), and have issued our report thereon dated September 9, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 a 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 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte + Touche LLP

September 9, 2019