

Energy Insurance Services, Inc.  
Trust Owned Health Insurance



# EIS Company Profile

- Formed in 1992 in Hamilton, Bermuda
- Wholly owned subsidiary of Energy Insurance Mutual (EIM)
- Protected cell captive insurance company
- At December 31, 2005, EIS's policy assets totaled \$529.4 million and surplus totaled \$58.8 million



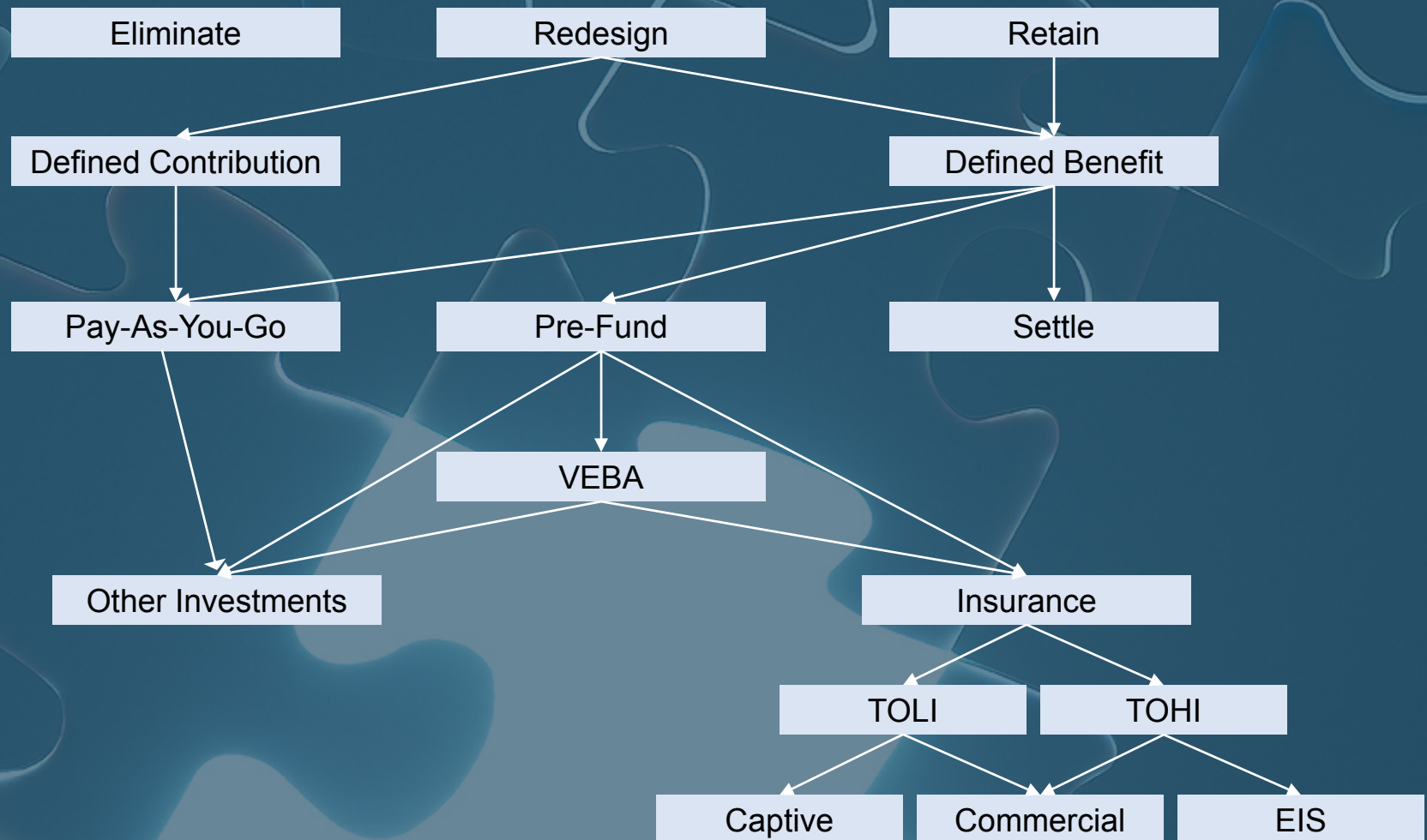
# EIS Company Profile

- In August 2006, EIS's Board authorized redomestication in the United States
- Filed formal application with the S.C. Dept. of Insurance on September 18, 2006
- Transition to South Carolina was completed December 1, 2006





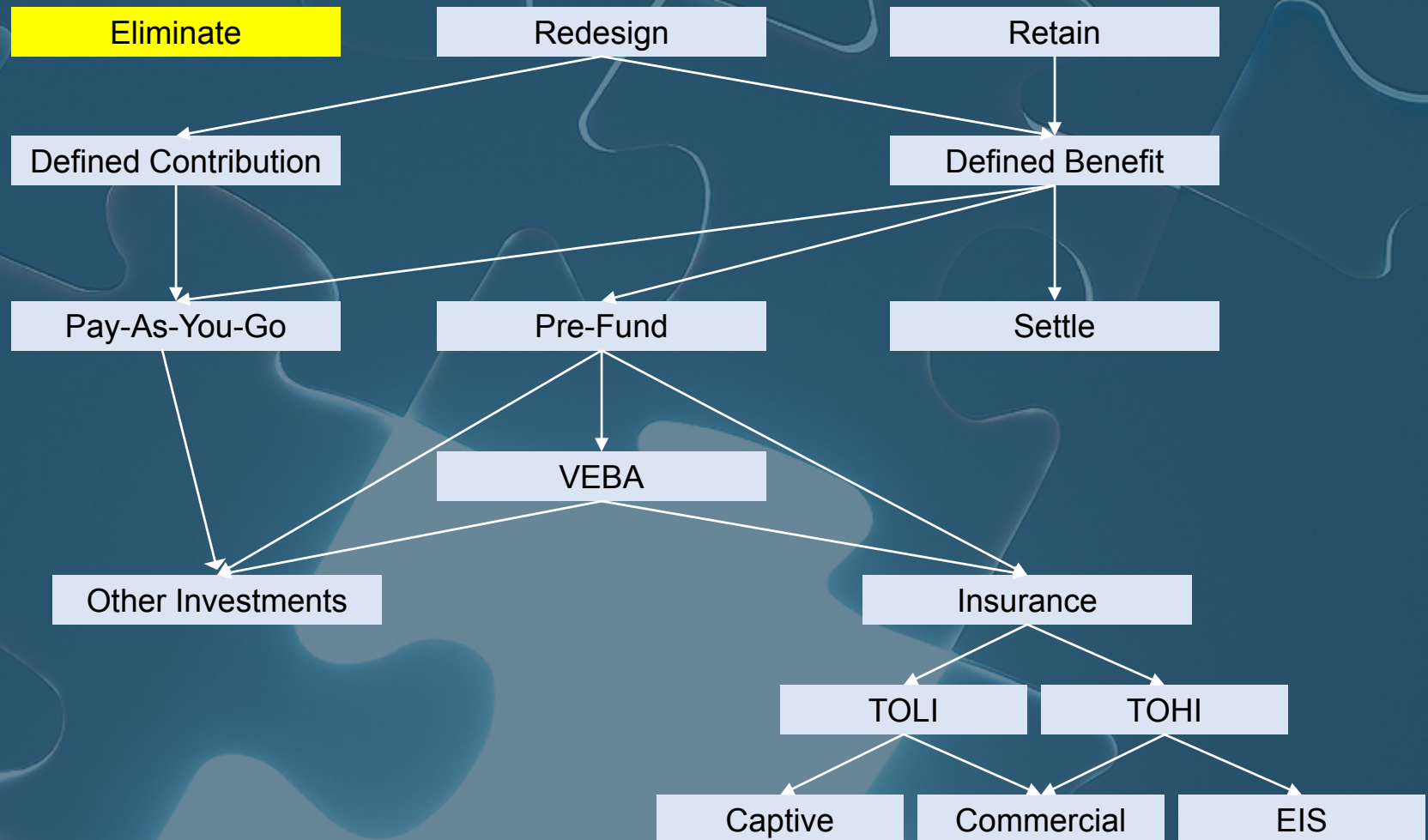
# Retiree Benefits Funding Options





# Retiree Benefits

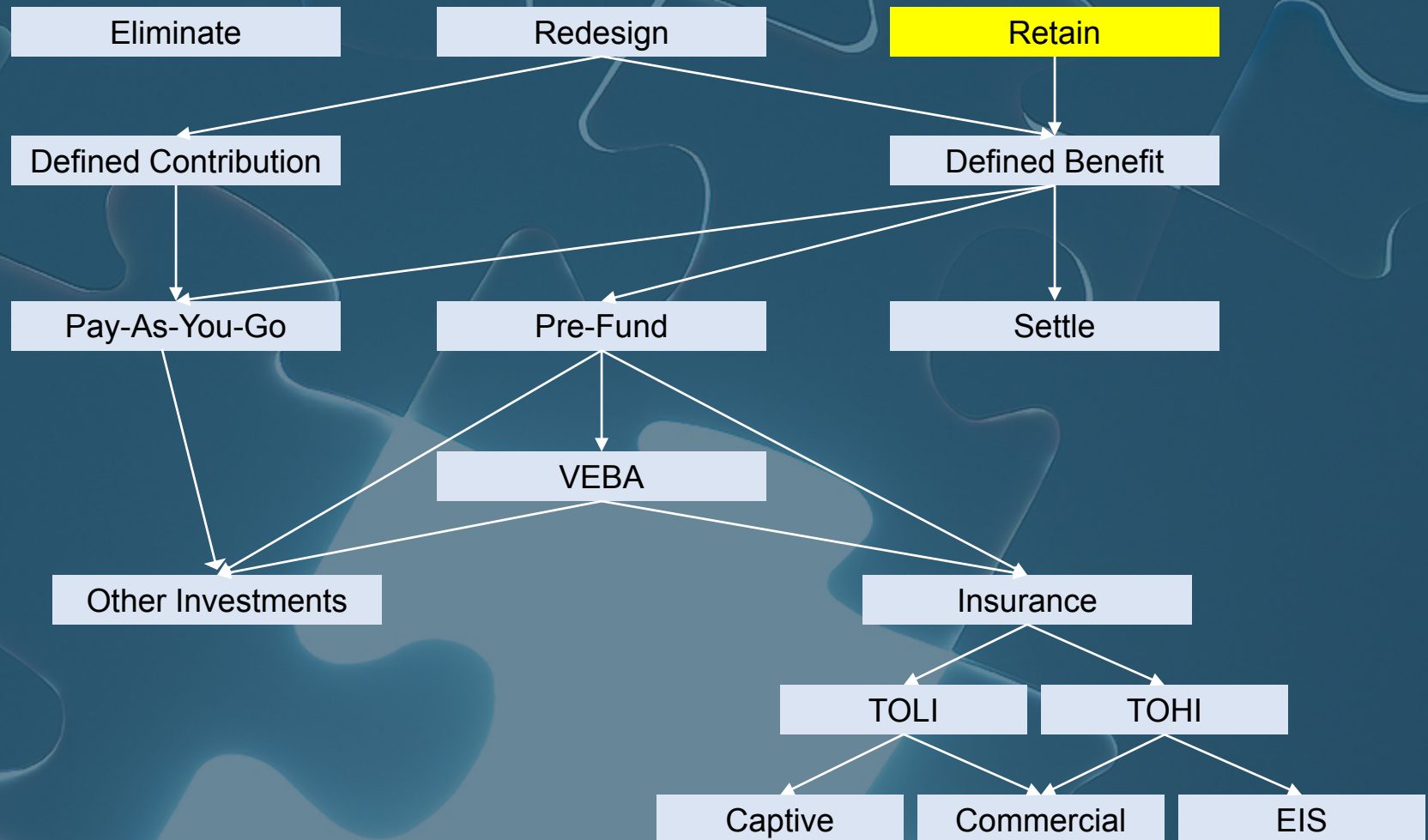
## Option: Eliminate





# Retiree Benefits

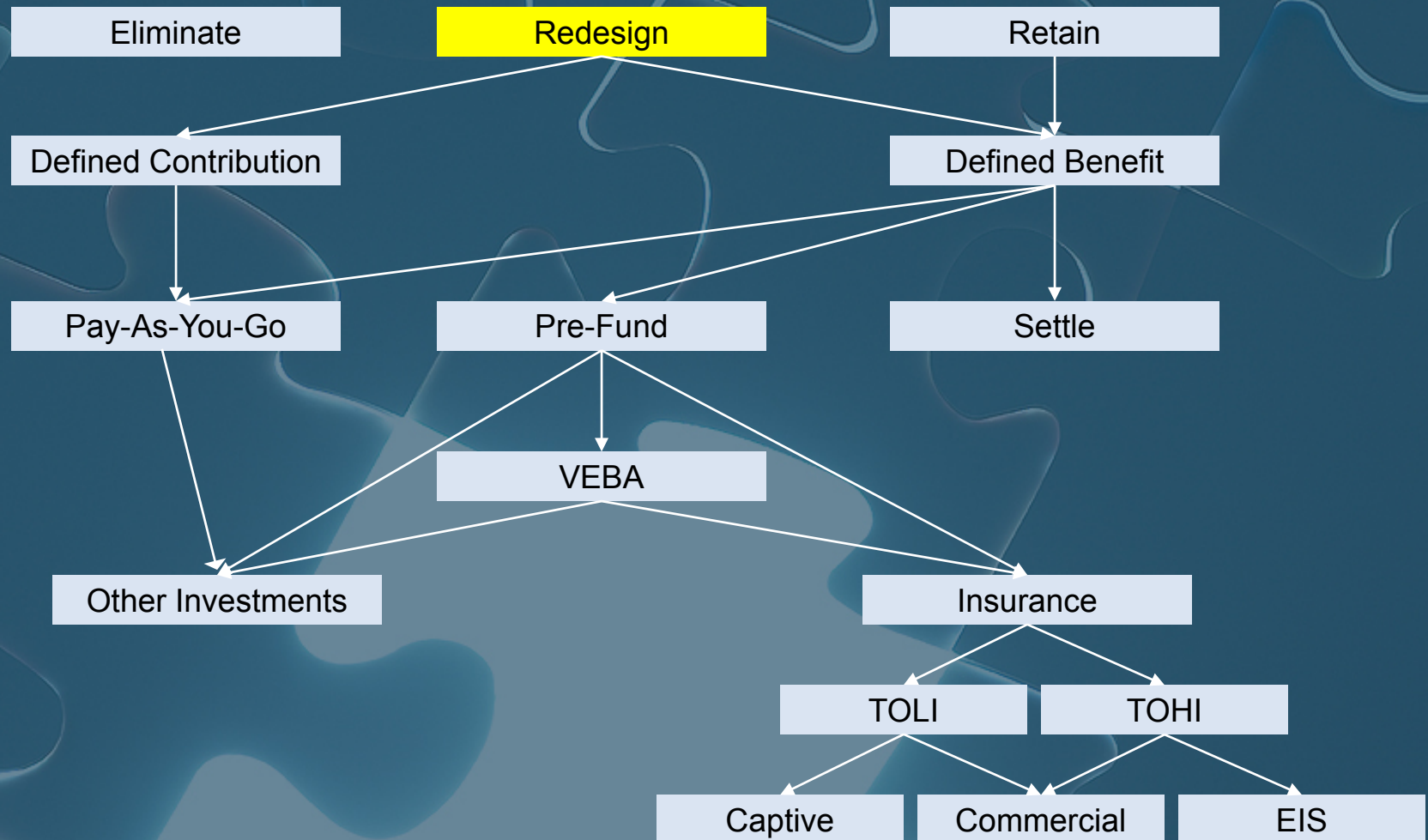
## Option: Retain





# Retiree Benefits

## Option: Redesign







# Plan Types

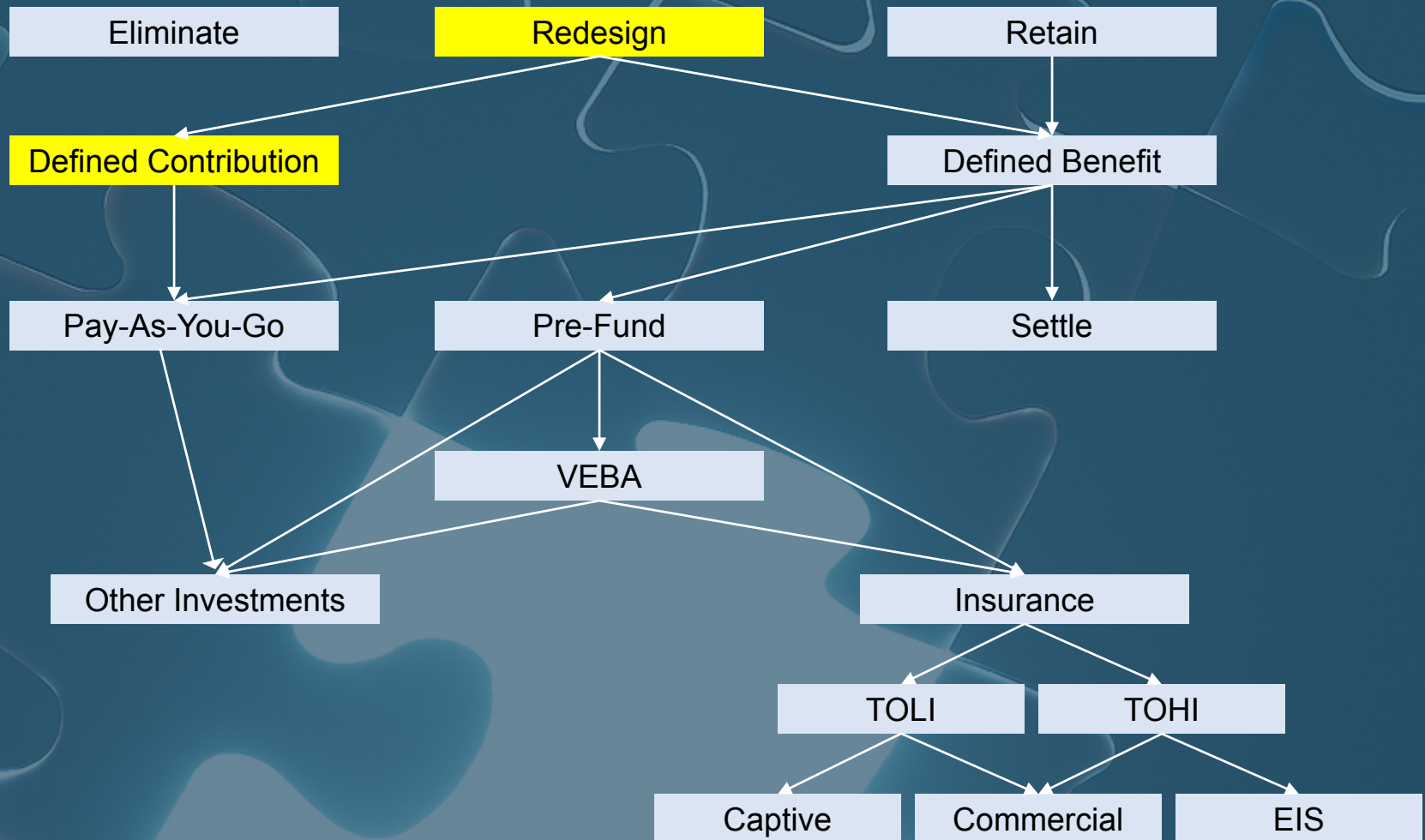
- **Defined Contribution Plans**
- **Defined Benefit Plans**





# Retiree Benefits

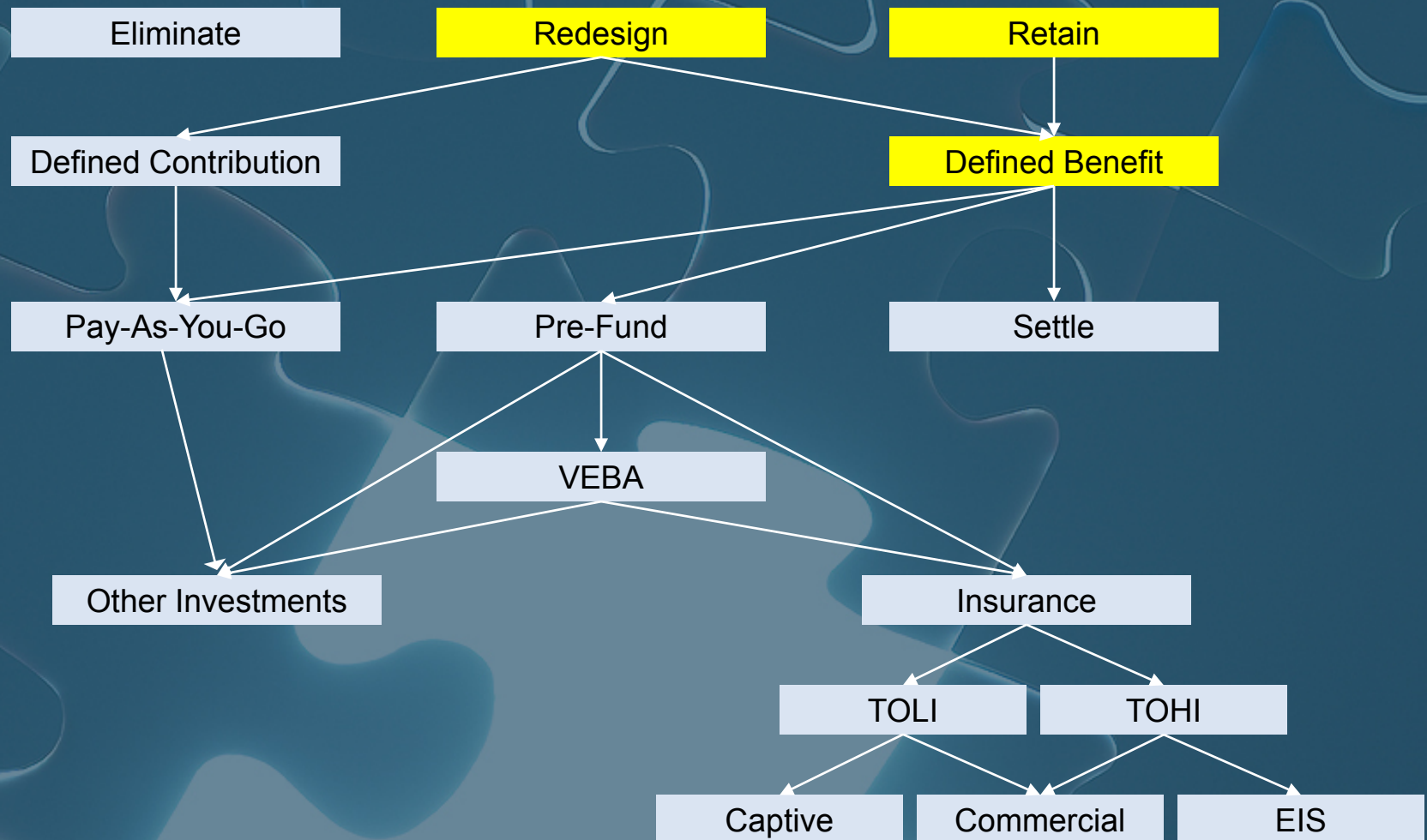
## Option: Defined Contribution





# Retiree Benefits

## Option: Defined Benefit





# Funding Options

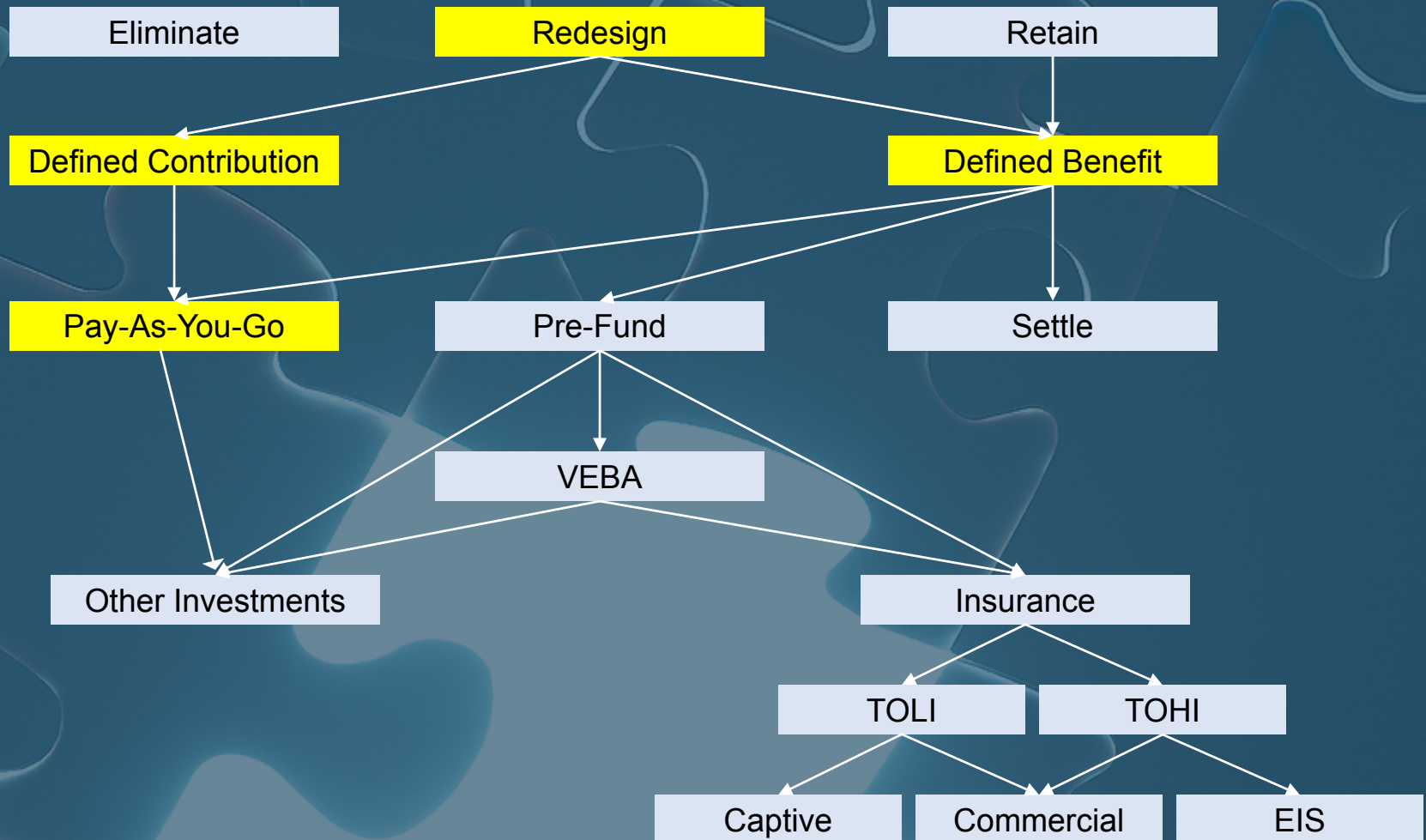
- Pay-As-You-Go
- Settle the Liability
- Pre-Fund the Liability





# Retiree Benefits

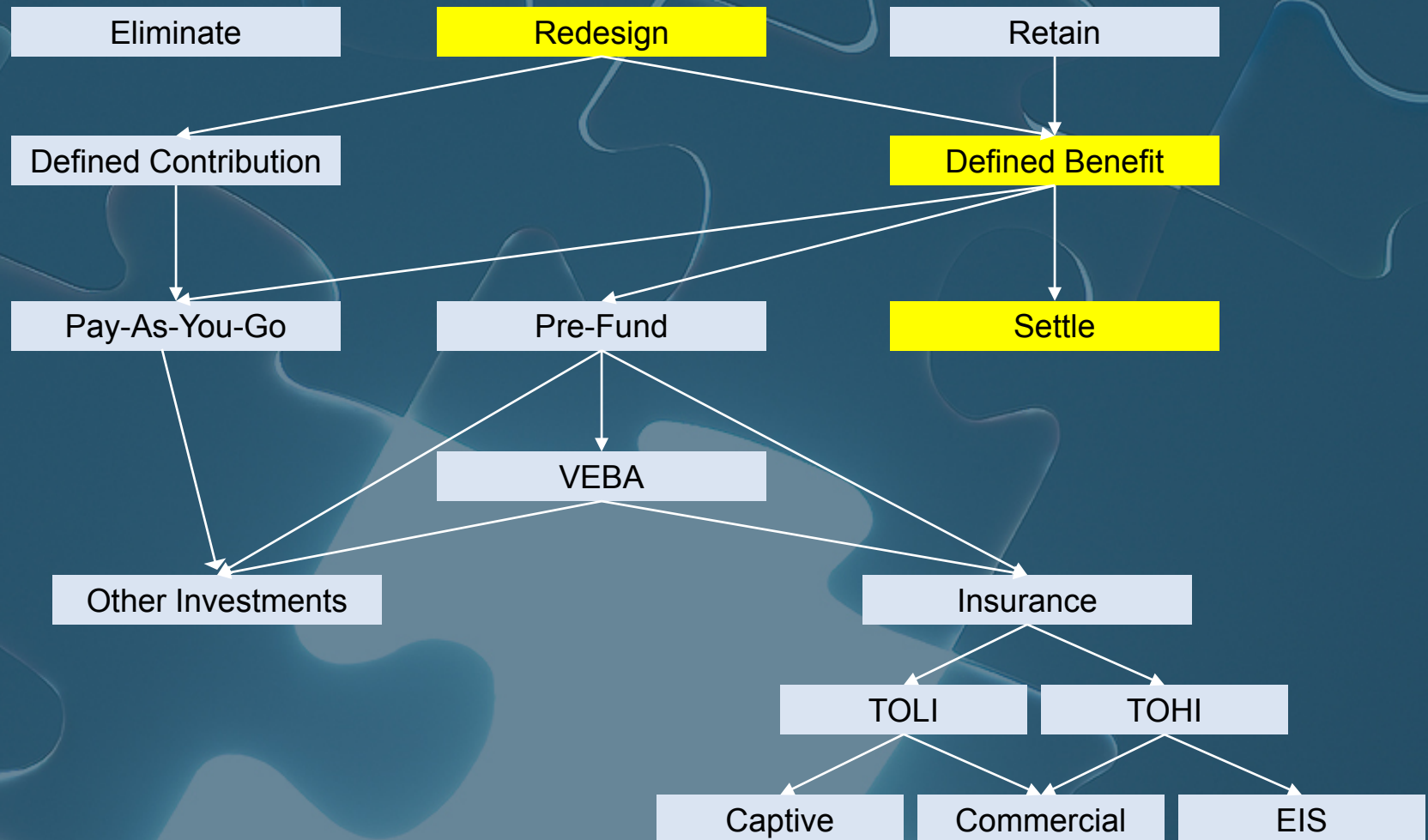
## Option: Pay-As-You-Go





# Retiree Benefits

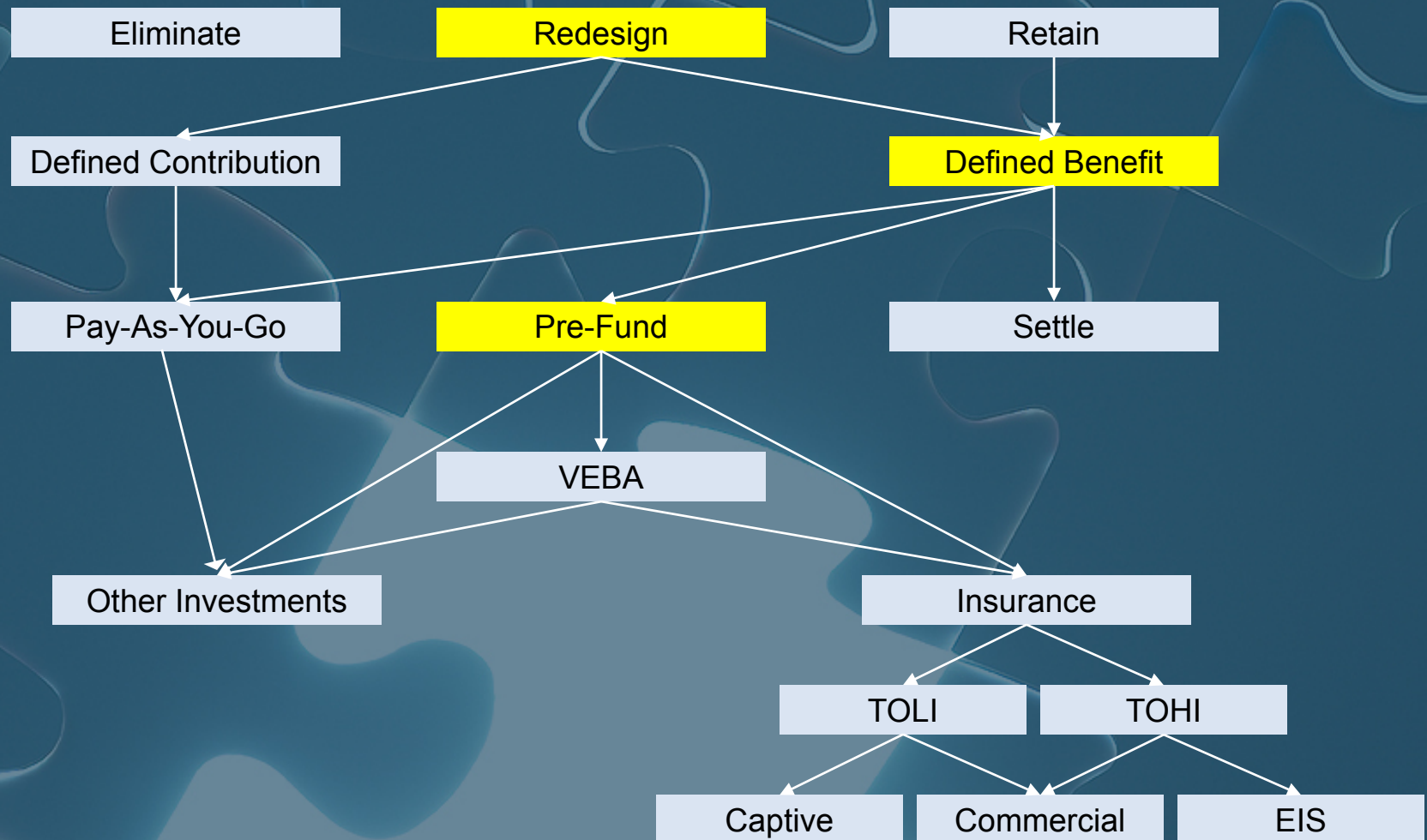
## Option: Settle





# Retiree Benefits

## Option: Pre-Fund

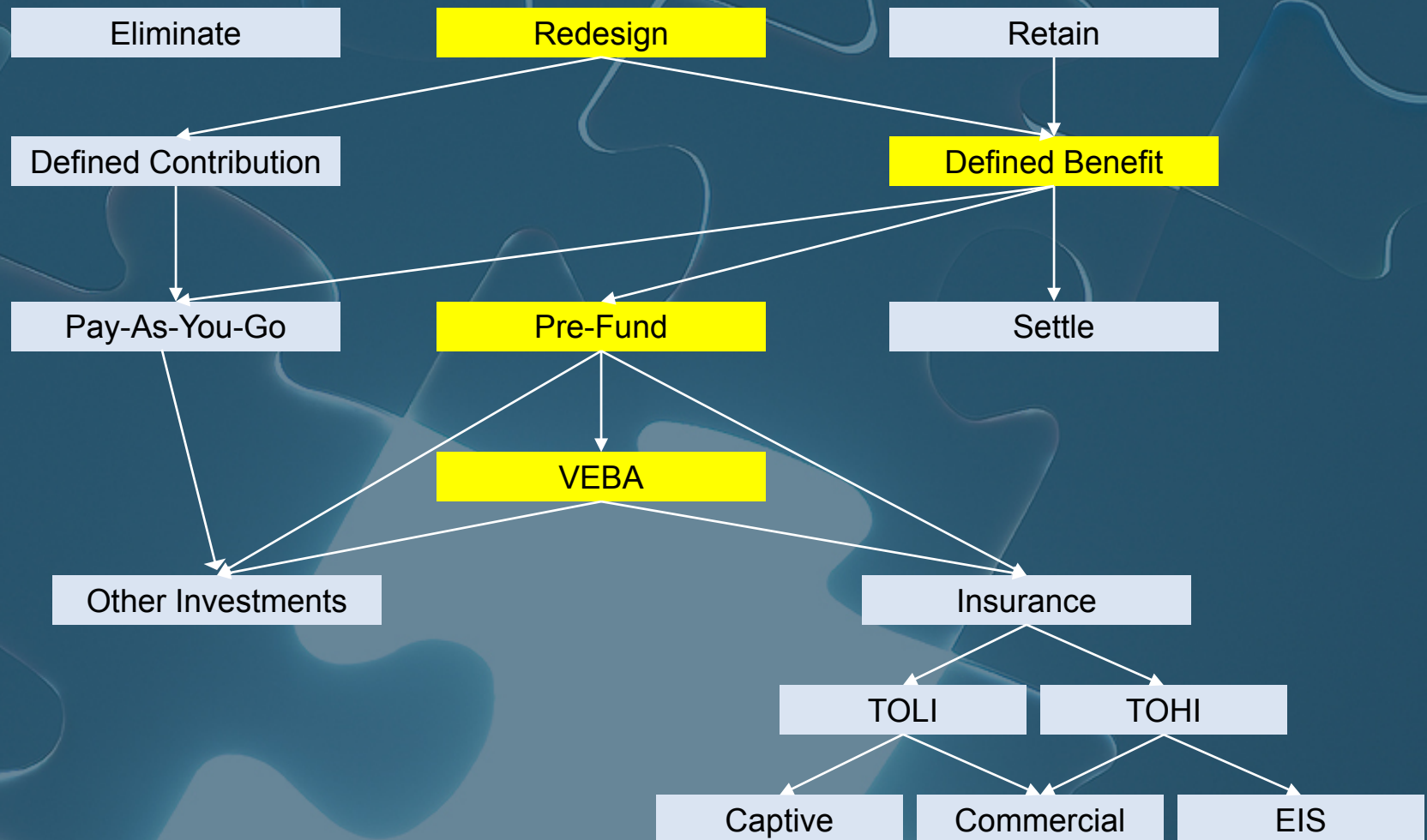






# Retiree Benefits

## Option: VEBA Trust





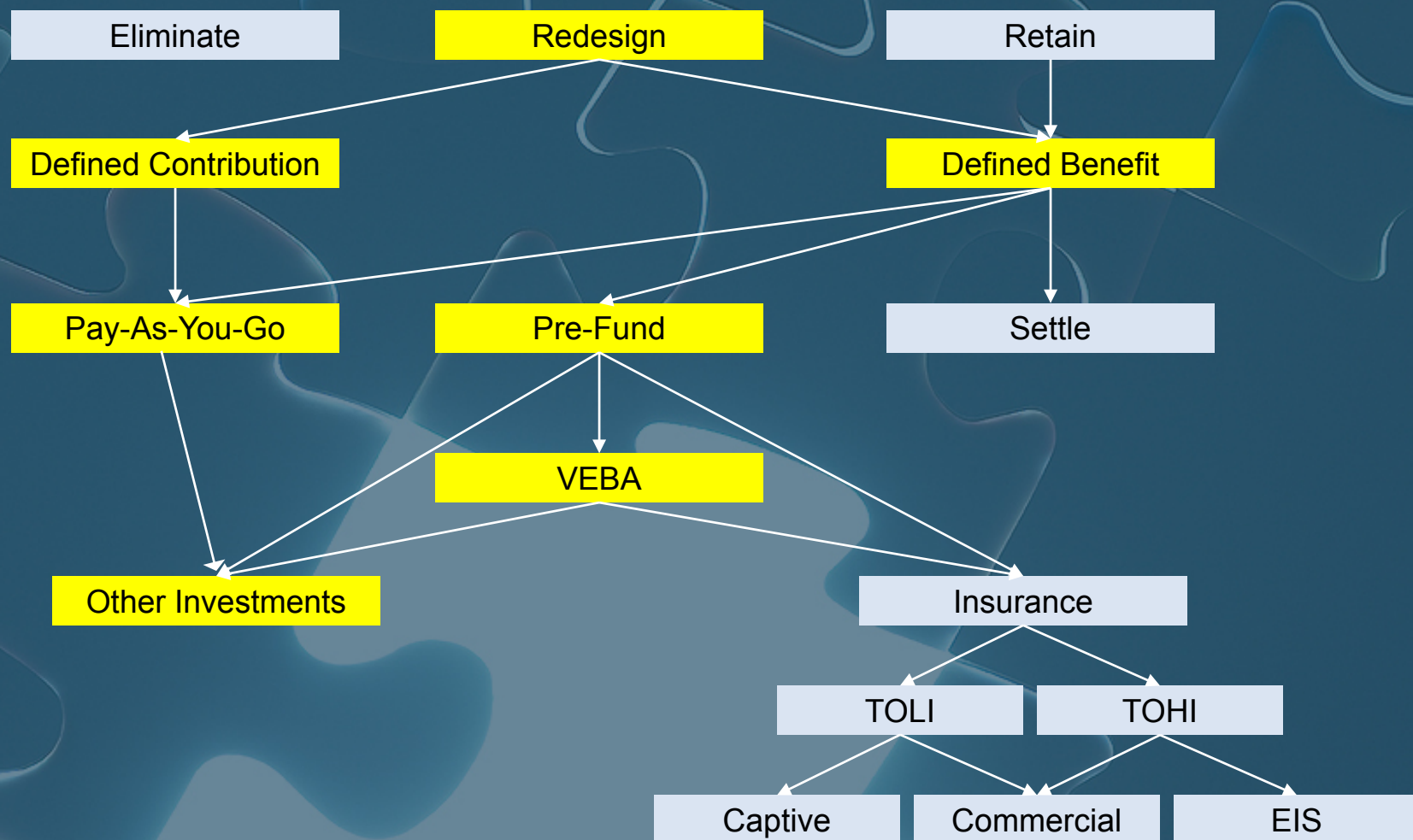
# Investment Options

- Traditional (Other) Investments
- Insurance



# Retiree Benefits

## Option: Traditional Investments

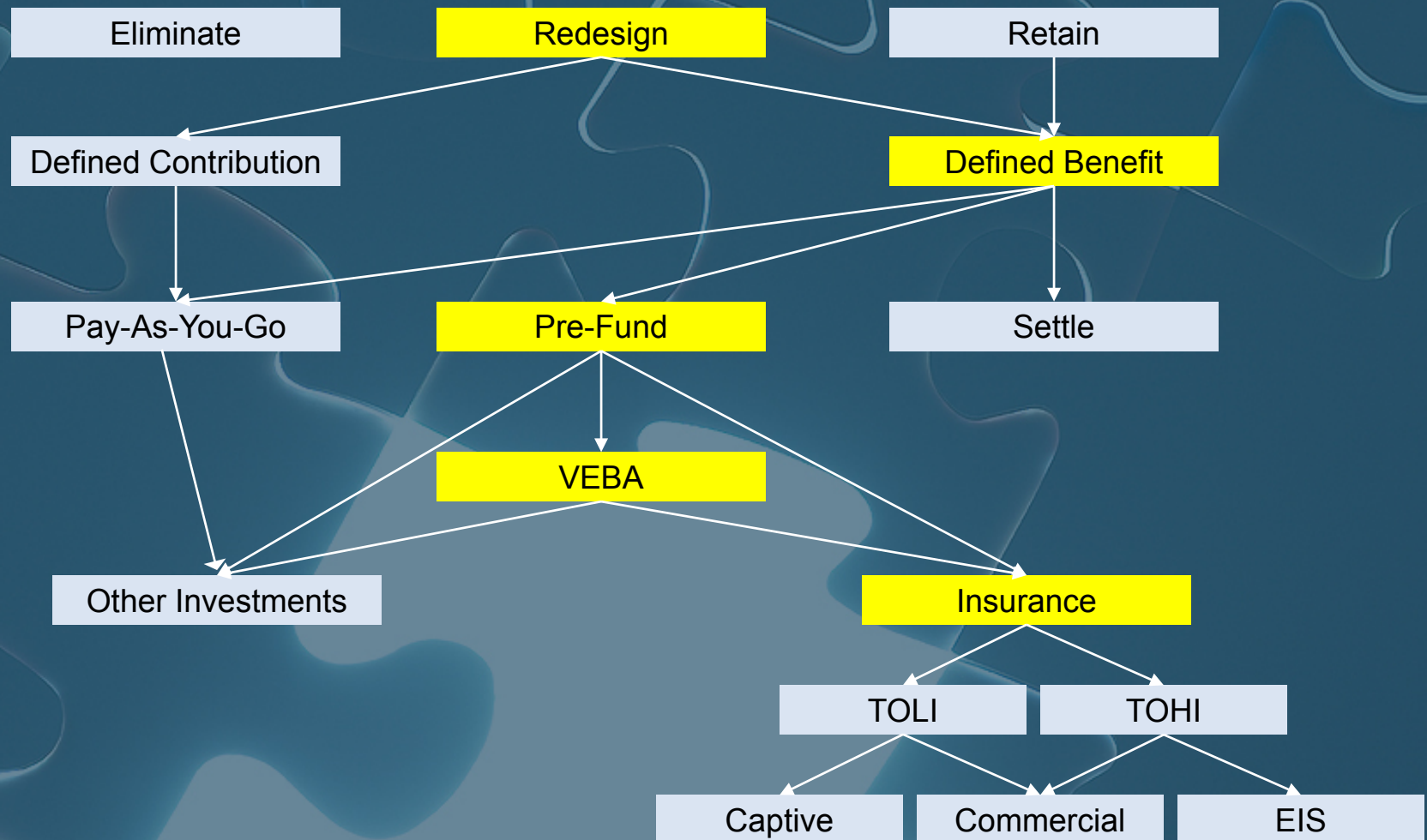






# Retiree Benefits

## Option: Insurance





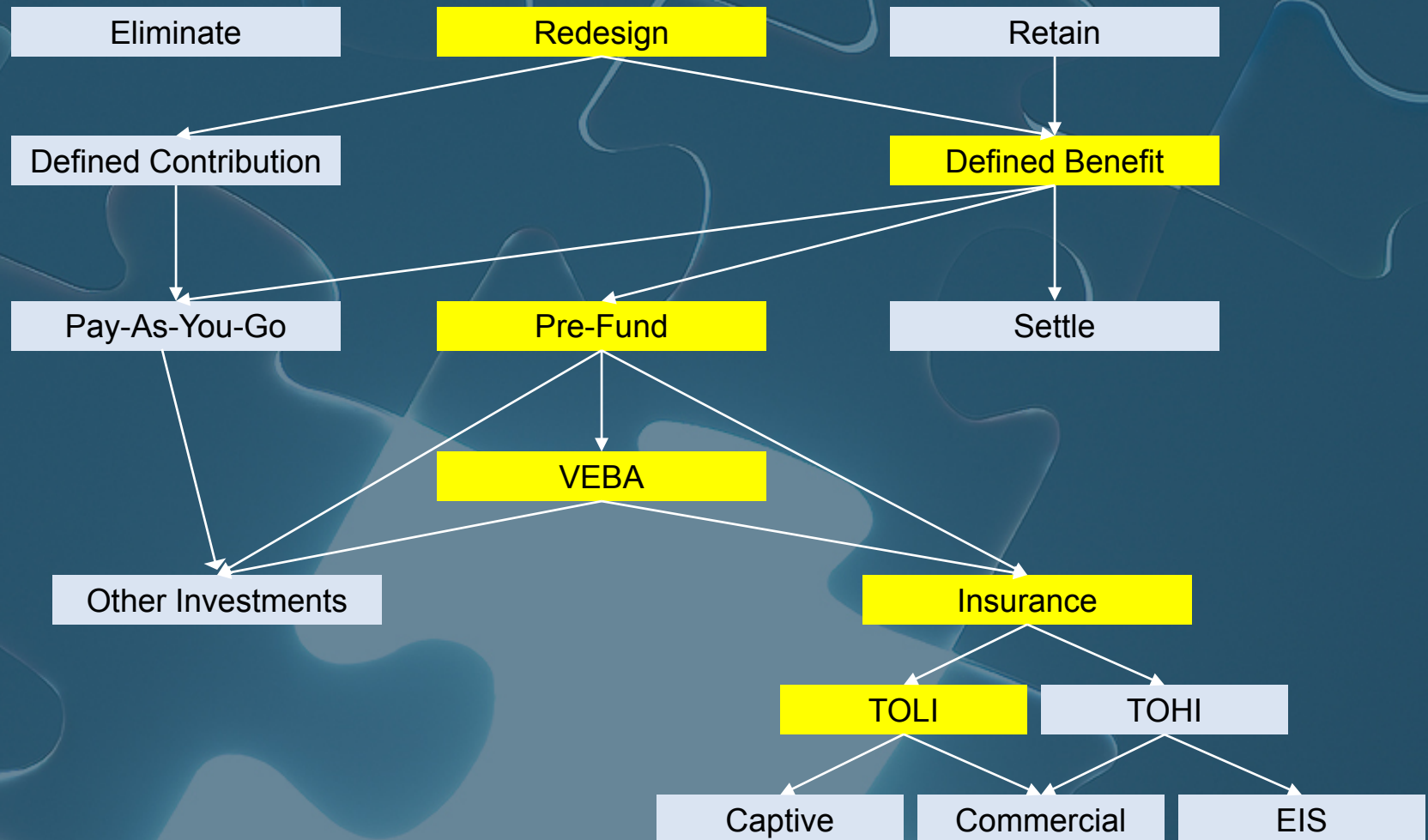
# Types of Insurance

- Trust Owned Life Insurance (TOLI)
- Trust Owned Health Insurance (TOHI)



# Retiree Benefits

## Option: TOLI

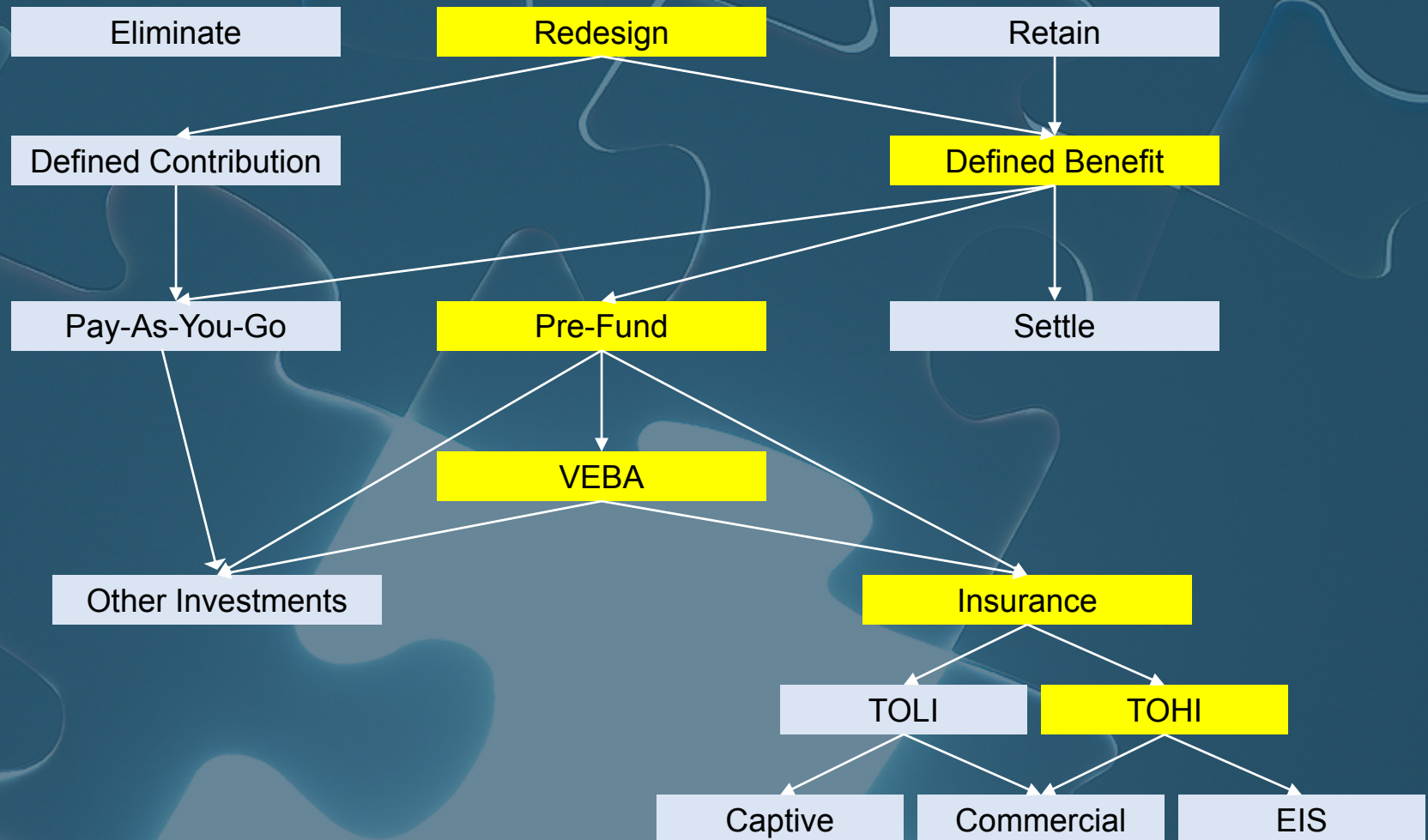






# Retiree Benefits

## Option: TOHI





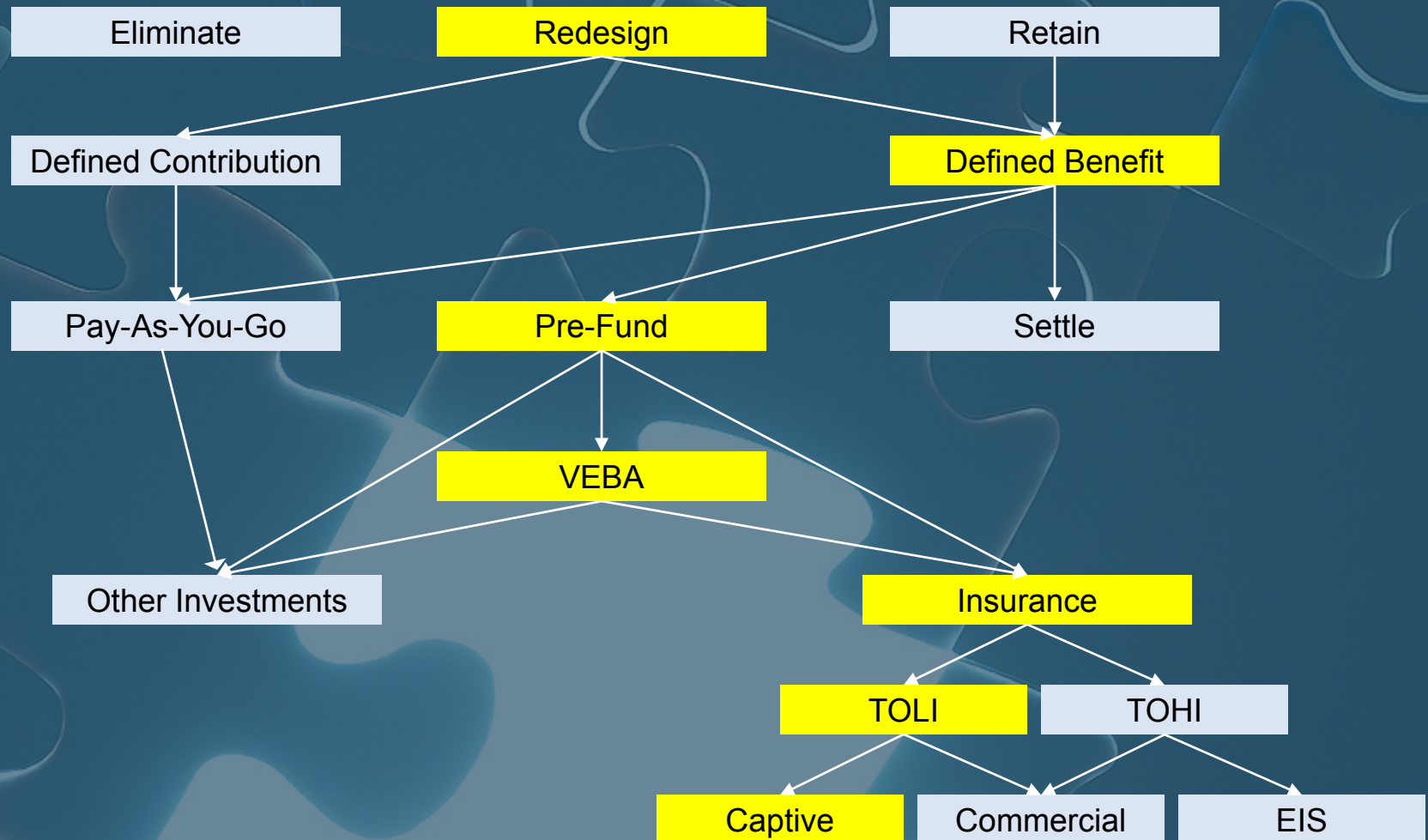
# Forms of Insurers

- Captive Insurer
- Commercial Insurer
- Energy Insurance Services, Inc. (EIS)



# Retiree Benefits

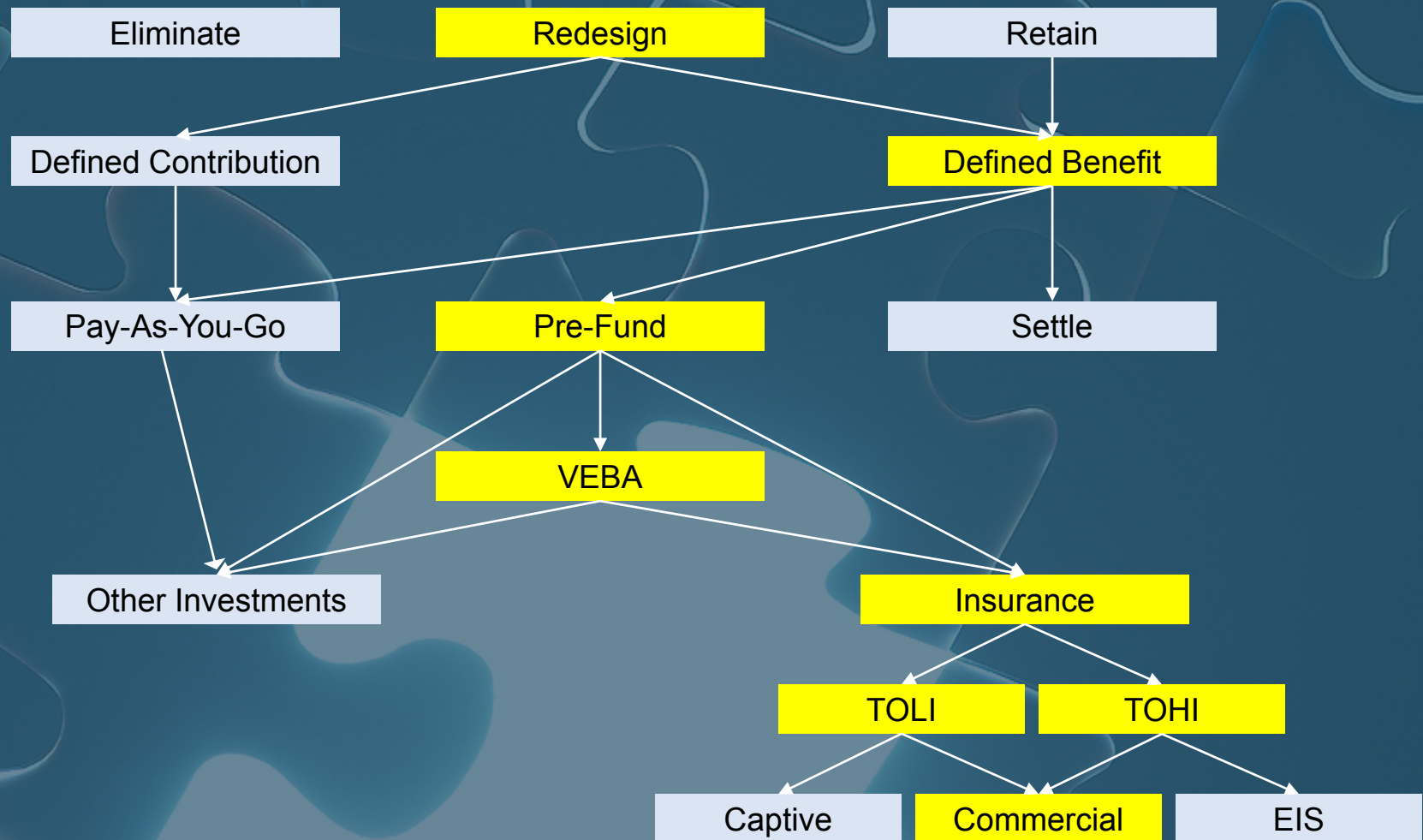
## Option: Captive





# Retiree Benefits

## Option: Commercial

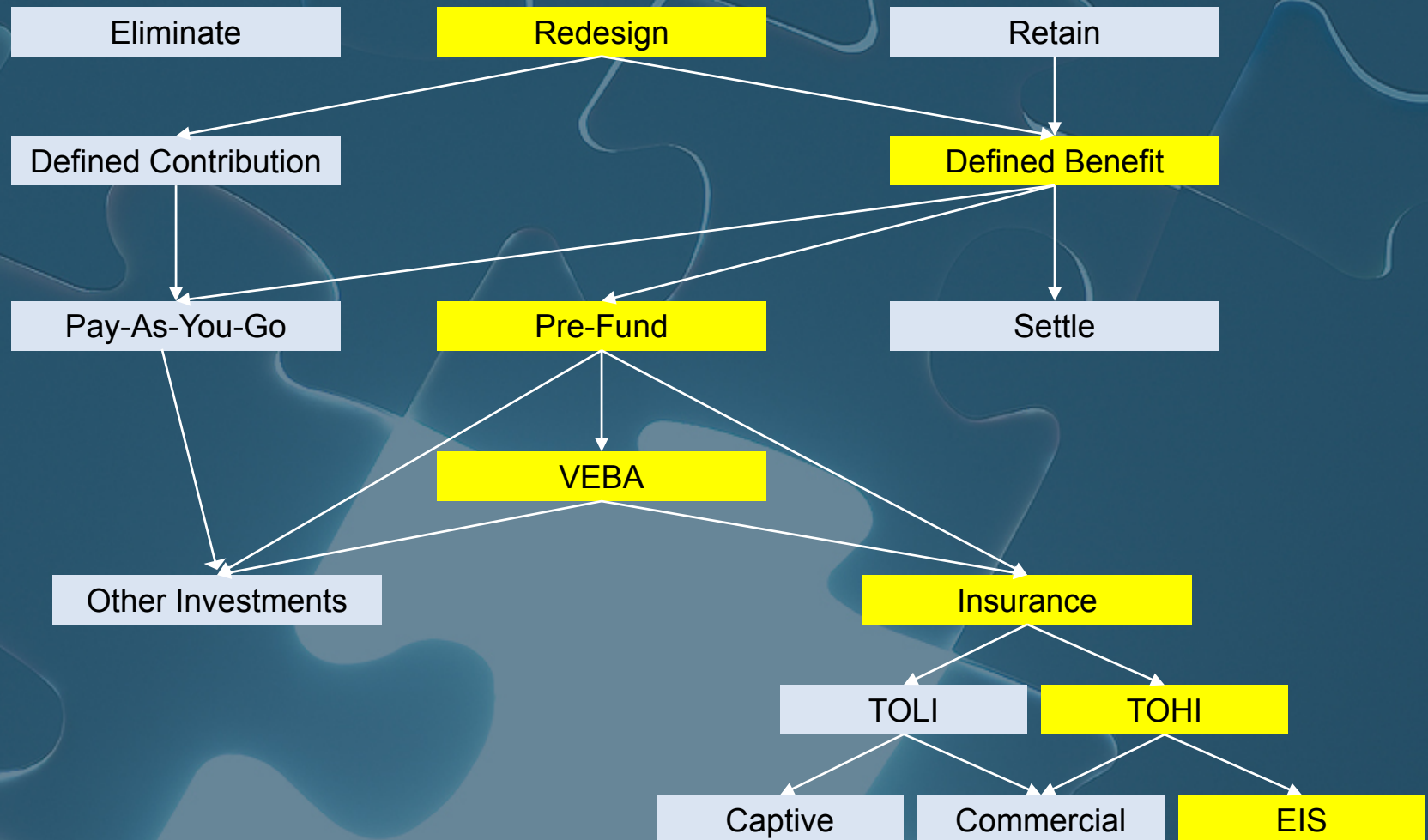






# Retiree Benefits

## Option: EIS





# EIS's TOHI Policy



# Overview

- Policies are a form of TOHI
- Policies are purchased by a VEBA
- VEBA is insured on a Stop Loss basis for a portion of the claims experienced by participants
- EIS provides noncancelable stop loss insurance coverage for the life of the covered population
- The VEBA trust owns the policy, pays the premium(s) and receives payments as they become due
- Retirees do not directly receive payment from EIS





# Premium Determination

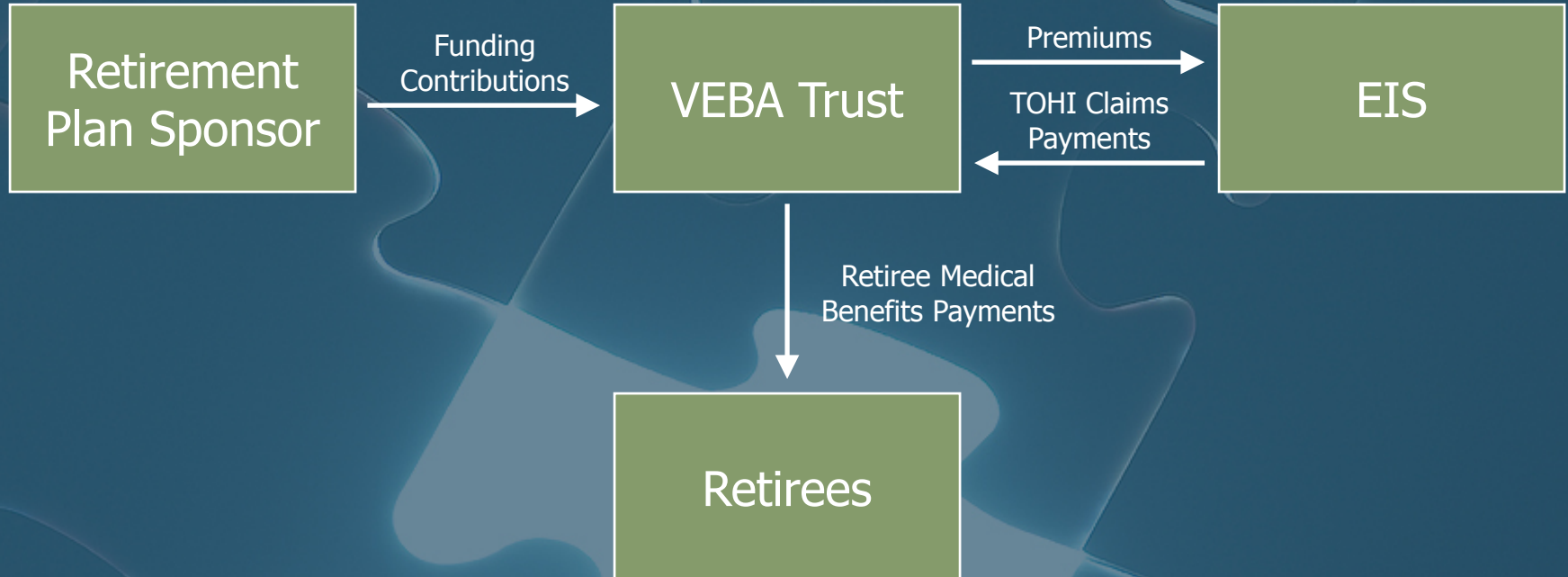
A function of:

- Company's post retirement benefit obligation (APBO)
- Qualified asset account limit (US code section 419)
- Company's financial strategy
- Actuarial principals
- Premium level is elective, subject to the above



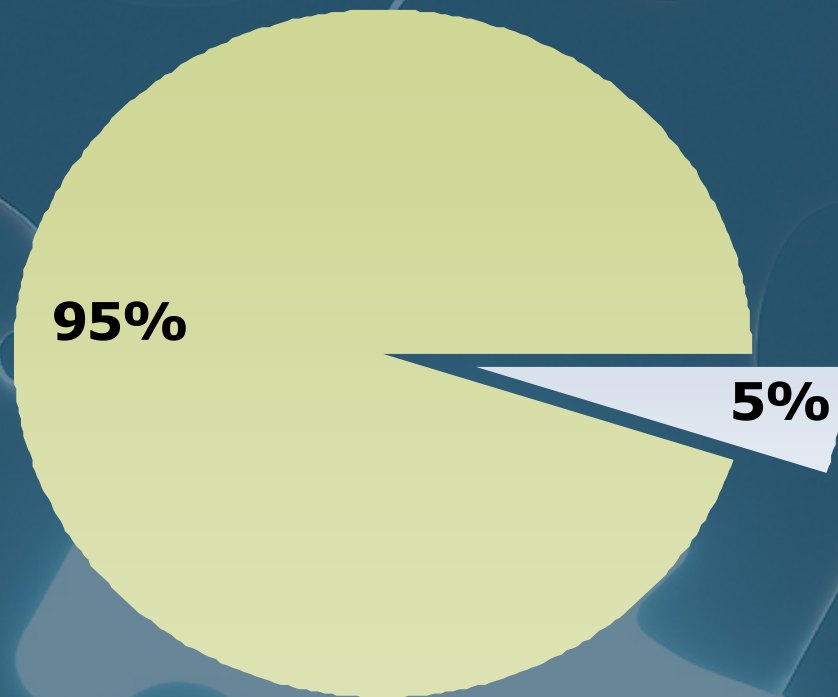


# TOHI Funding Cash Flow





# Current Premium Allocation



■ General Account

■ Separate Account



# Policy Benefit Claim Payments

- Annual policy claims pricing
  - Guaranteed factors
  - Current factors
- Annual medical claims of retirees covered under the policy
- Policy asset performance and aggregate multi-year policy experience



# Annual Policy Pricing Parameters

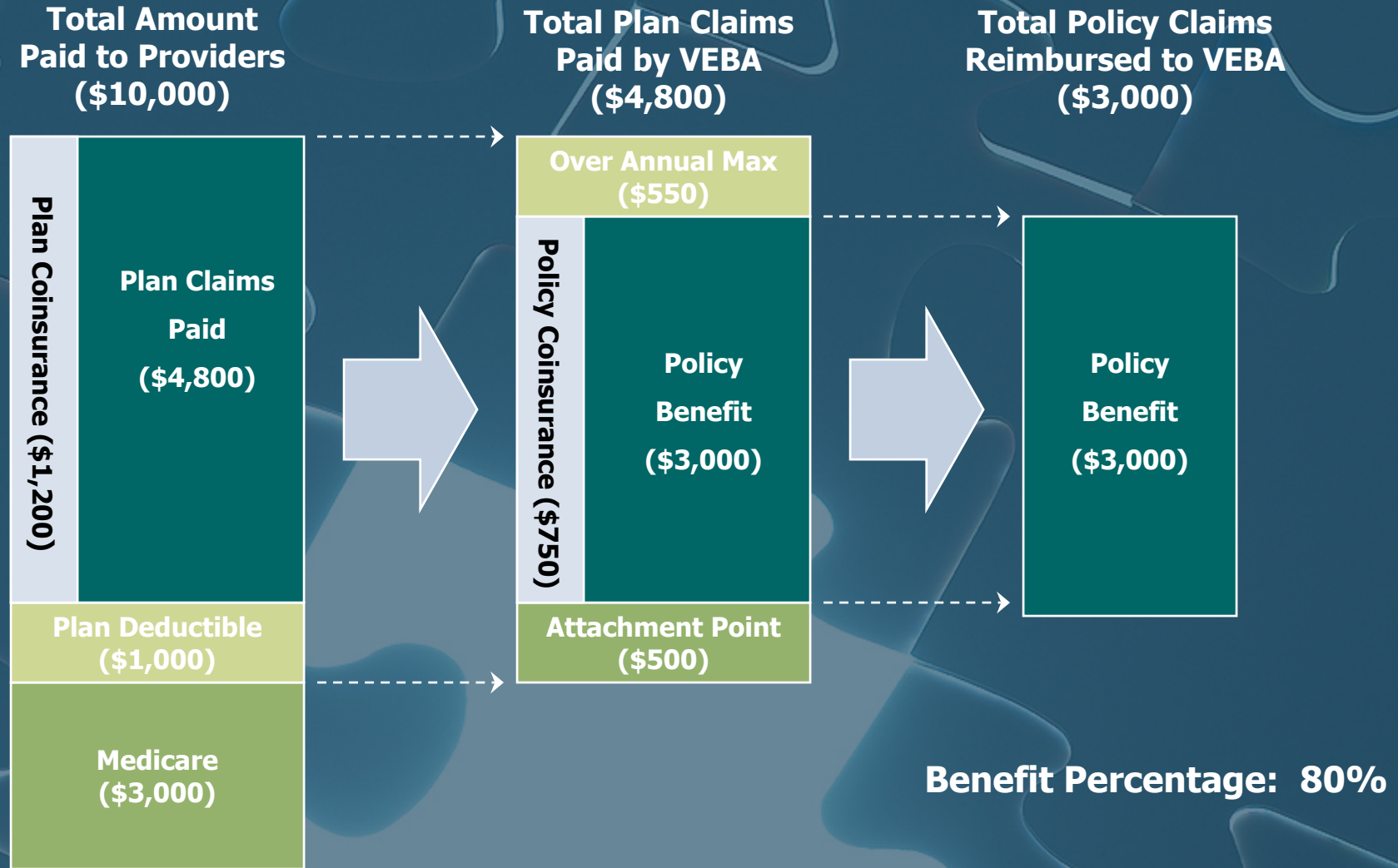
- Guaranteed factors
- Current Factors
- Benefit Percentage

	Guaranteed Factors	Current Factors
Attachment Point	\$ 1,000	\$ 500
Benefit Percentage	49.98 %	80.00 %
Annual Maximum	\$ 1,499	\$ 3,000
Lifetime Maximum	\$ 29,980	N/A

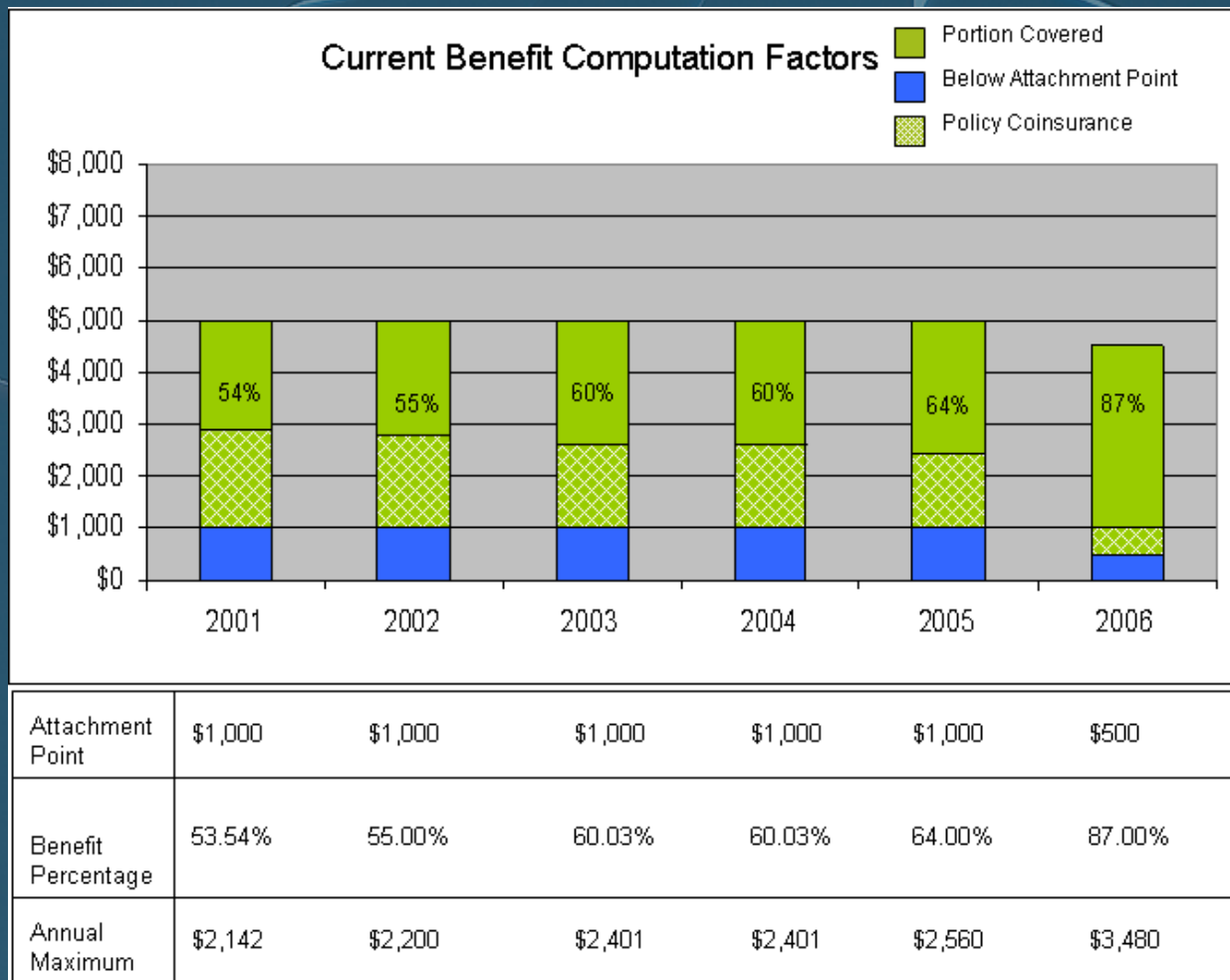




# Sample Policy Benefit Payment Calculation



# Current Benefit Computation Factors





# Other EIS MBP and Policy Considerations

- Risk shifting
  - In *Helvering v. Le Gierse* (1941), the United States Supreme Court explained that a valid life insurance contract, for federal tax purposes, must involve risk-shifting and risk-distribution.
  - EIS TOHI program contains a reciprocal mechanism that distributes actual claims across separate accounts according to expected values
- Program Advisory Committee
  - Consults with EIS on any MBP issues



# EIS Advantages

- EIS is in business to meet the needs of its policyholders
  - Does not have earnings per share or return on equity requirements that impact the fees charged to the policyholders
- TOHI program has been in operation for over ten years
- Captive status allows EIS to take advantage of lower premium tax rates as compared to commercial insurers





# Merrill Lynch

- Investment Management Consultant for MBP # 15 since 1996
- Responsibilities include assisting EIS and Policyholders with:
  - Establishing investment policy, objectives, asset allocations and guidelines
  - Selecting investment managers
  - Measuring, evaluating and reporting investment performance



# Merrill Lynch

- Approved Investment Managers includes:
  - Asset Classes: 9
  - Firms: 25
  - Products: 37
- Assets Custodied at State Street Bank
- Performance reported to Policyholders monthly



# Investment Information

Asset Class	Allocation	
	Minimum %	Maximum %
Conservative Fixed Income	14.14 %	28.41 %
High Yield	11.11 %	11.11 %
Large Cap Value	15.04 %	26.97 %
Large Cap Growth	6.59 %	22.70 %
Small Cap Growth	9.23 %	21.25 %
Small Cap Value	16.08 %	16.08 %
International	13.85 %	18.71 %



# **Current Policyholder Experience**

## **Margaret Walsh, OGE Energy**



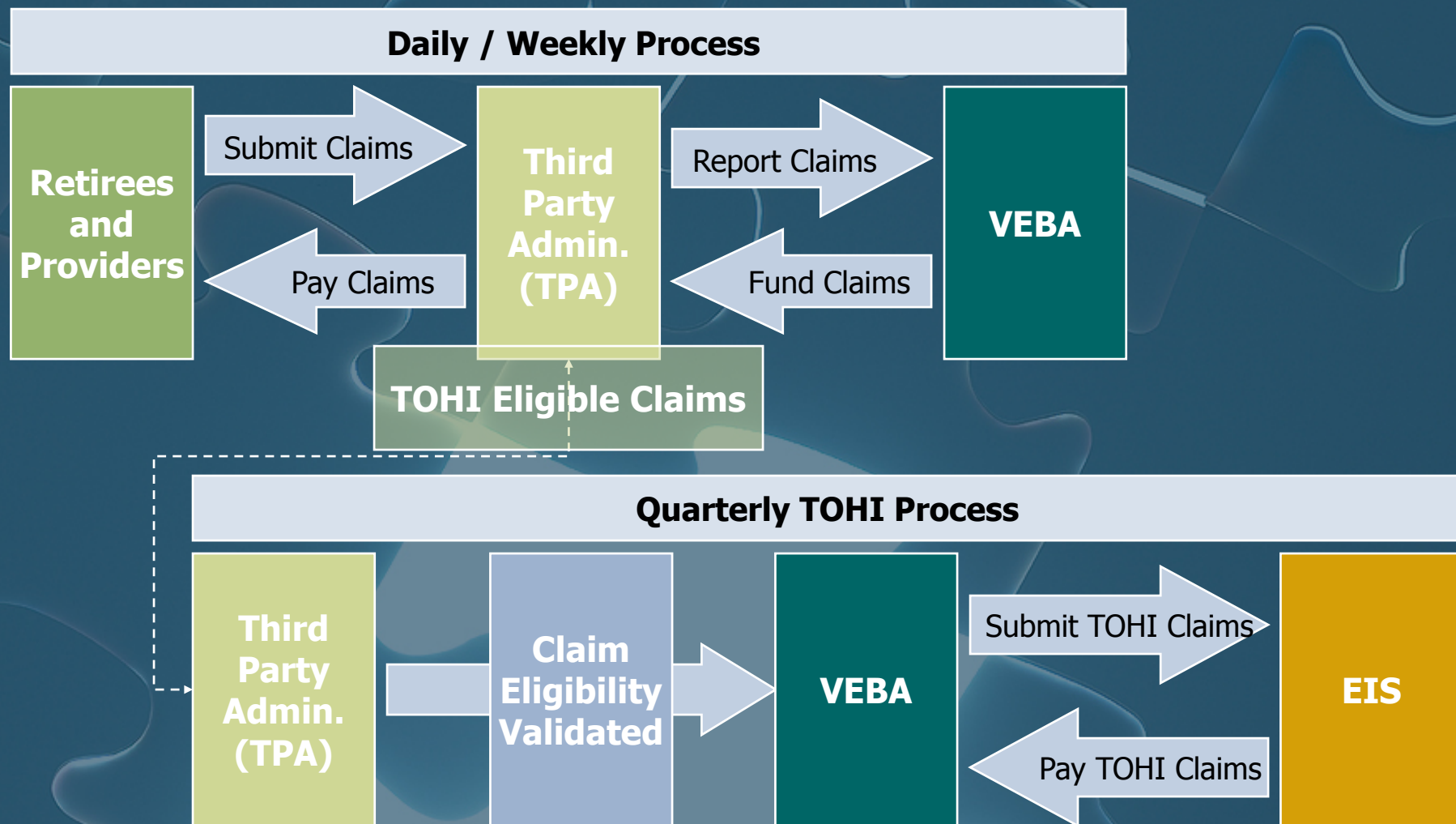


# Retiree Plan Summary

- 1993: Eligibility for retiree medical changed
- 1994: Adopted carve out coordination with Medicare
- 2000:
- Eliminated Plan eligibility for any employee hired after February 1, 2000
  - Increased / modified plan deductibles
- 2003: Increased retiree cost share



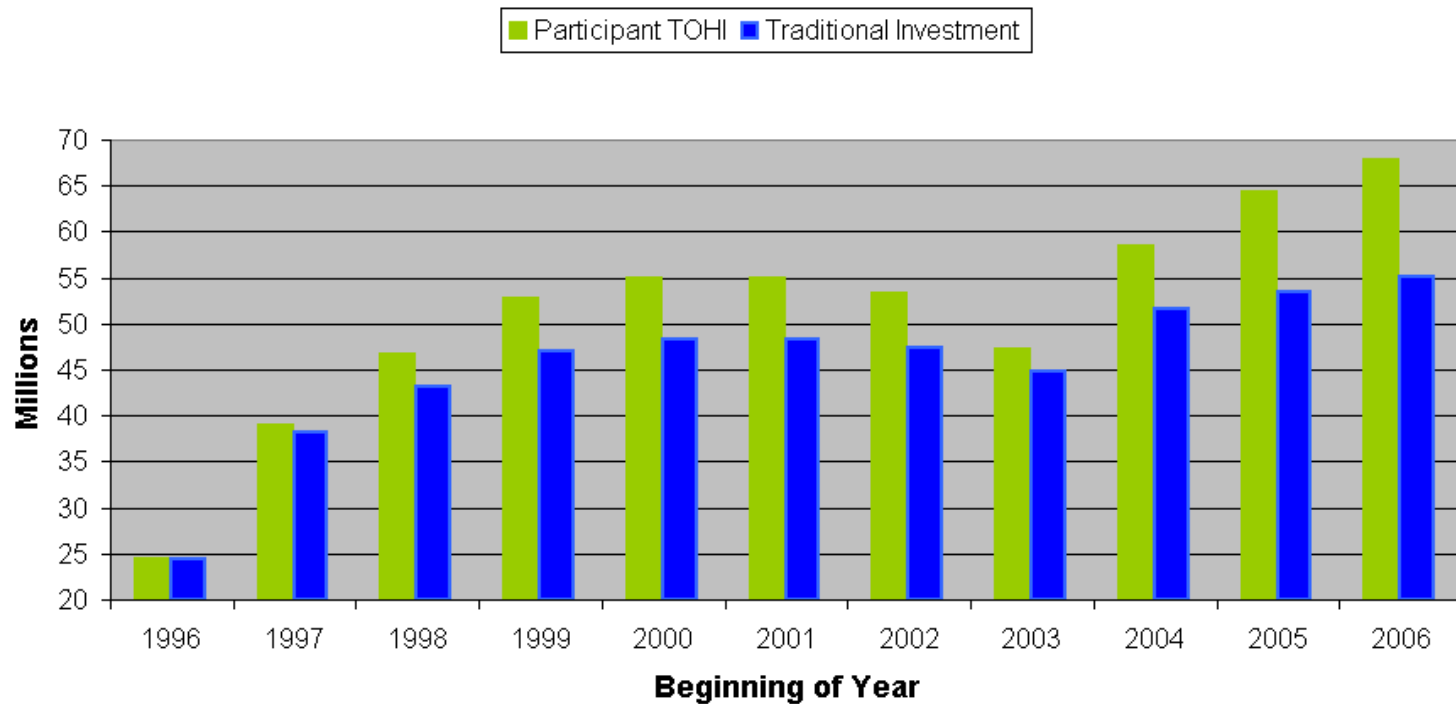
# Claims Filing Process





# Ten Year History

**Participants's Historical Performance**





# Program Recap

- TOHI through a captive offers significant advantages
- Members are owners
- Program is receptive to its Policyholders' evolving requirements and business circumstances
- TOHI contract is a competitive product for funding employee benefits





# FAS 106 Strategy Development

- Involve a cross section of the organization
- Model the financial impact
- If EIS Policy purchase is a consideration, complete a Policy mechanics review
- Stakeholder consideration