EXHIBIT NO. ______(JHS-5)
DOCKET NO. UE-92______
WITNESS: J.H. STORY

BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

COMPLAINANT

VS.

PUGET SOUND POWER & LIGHT COMPANY

RESPONDENT

EXHIBIT

UE-921262; -920433; -920499

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WILLIAM M.
MERCER

Puget Sound Power & Light Company

Actuarial Valuation of the Postretirement Medical and Life Insurance Plans

Projection: 1992 through 2011

July 1, 1992

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Section 1

Projection of Actuarial Valuation Results

This section presents a projection of actuarial valuation results of Puget Power's retiree medical and life insurance plans for fiscal years 1992 through 2011.

Section 1.1 shows the determination of the net periodic postretirement benefit cost and the projected value of plan assets under three prefunding scenarios.

Section 1.2 shows the net cash expense for the next 20 years.

1.1 Projection of Net Periodic Postretirement Benefit Cost & Plan Assets

This section presents the results of the actuarial valuation of Puget Power's retiree medical and life insurance plans. Results have been calculated as of January 1 for each of the next 20 years, assuming a constant population (i.e., the current population size is projected to remain the same in each future year). In addition, 1992 results are based on individual census records, while projection years are based on summarized active census information (retirees were projected individually.) This information is used to determine the net periodic postretirement benefit cost and the value of plan assets under three prefunding scenarios:

Scenario 1

- The plans are not prefunded (beyond current funded amounts held by Aetna in the retiree life insurance X-Fund).
- Retiree medical benefits are paid from general assets.
- Retiree life insurance benefits are paid from current plan assets (i.e., the retiree life insurance X-Fund) until the fund is exhausted after which benefits are paid from general assets.

Scenario 2 (current situation)

- The plans are not prefunded (beyond current funded amounts).
- Retiree medical and life insurance benefits are paid from general assets.
- The retiree life insurance X-Fund is allowed to accumulate indefinitely with interest.

Scenario 3

- The plans are prefunded (in addition to current funded amounts).
- Contributions to prefund the plans are assumed to equal the accrual expense.
- It is assumed that retiree medical and life insurance benefits are paid from plan assets (including the retiree life insurance X-Fund).

The value of plan assets is calculated as follows:

Beginning of year plan assets
+ Assumed return on plan assets
- One-half year's interest on assumed net benefit payments
- Assumed net benefit payments
+ Contribution at year-end
= End of year plan assets

In addition, the following assumptions have been made:

- There is a vehicle or combination of vehicles available which allow Puget Power to fund the plans in an amount equal to the accrual expense. [*No assumption is made as to whether funding is on a tax-favored basis.*]

- Income derived from plan assets is non-taxable.

- The estimated value of assets in the retiree life insurance X-Fund as of 1/1/92 is $5,266,000 (as provided by Aetna).

- Contributions are made at year end (12/31).

- The accrual expense (or amount funded each year) includes a component to amortize the transition obligation over 20 years.

Columns (1) through (3) show the accrual expense for each fiscal year for each of the three scenarios. Columns (4) through (6) show the corresponding value of plan assets at year end under each scenario. [*A graph of the accrual expense from Scenario 3 and the total net cash expense is presented in Section 1.2.*]

Results in 1,000s

Year	(1) Scenario 1 Accrual Expense	(2) Scenario 2 Accrual Expense	(3) Scenario 3 Accrual Expense	(4) Scenario 1 Plan Assets	(5) Scenario 2 Plan Assets	(6) Scenario 3 Plan Assets
1992	$3,508	$3,488	$3,568	$5,225	$5,714	$7,312
1993	3,652	3,589	3,536	5,155	6,199	9,442
1994	3,762	3,651	3,460	5,056	6,726	11,638
1995	3,864	3,699	3,367	4,927	7,298	13,907
1996	3,987	3,762	3,287	4,765	7,918	16,242
1997	4,100	3,807	3,190	4,569	8,591	18,596
1998	4,234	3,867	3,111	4,338	9,322	20,975
1999	4,357	3,907	3,015	4,068	10,114	23,365
2000	4,463	3,922	2,899	3,759	10,974	25,734
2001	4,585	3,944	2,797	3,405	11,906	28,085
2002	4,705	3,955	2,692	3,004	12,918	30,403
2003	4,829	3,958	2,589	2,552	14,016	32,691
2004	4,955	3,951	2,486	2,044	15,208	34,940
2005	5,087	3,938	2,389	1,474	16,501	37,158
2006	5,231	3,922	2,299	838	17,903	39,358
2007	5,371	3,889	2,203	127	19,425	41,524
2008	5,490	3,839	2,103	0	21,076	43,652
2009	5,564	3,772	2,001	0	22,867	45,733
2010	5,639	3,696	1,905	0	24,811	47,778
2011	5,703	3,594	1,799	0	26,920	49,779

Commentary

- In Scenario 1, the accrual expense is continuing to grow due to lack of prefunding. However, the rate of growth declines due to an increase over time in the proportion of retired participants covered under the post-1/92 defined contribution retiree medical plan. In addition, assets in the retiree life X-Fund are exhausted by payment of retiree life insurance benefits.

- In Scenario 2, the accrual expense grows gradually and then declines due to interest earned on the retiree life insurance X-Fund as well as an increase over time in the proportion of retired participants covered under the post-1/92 defined contribution retiree medical plan.

- In Scenario 3, the accrual expense continually declines due to increasing returns on plan assets which are growing over time, as well as an increase over time in the proportion of retired participants covered under the post-1/92 defined contribution retiree medical plan.

- The accrued expense in Scenario 3 is higher in the first year than under Scenario 2 because of the assumption that contributions are made at the end of the year, while benefits are assumed to be paid evenly throughout the year. After the first year, the assets accumulated under Scenario 3 generate income resulting in a lower accrued expense.

1.2 Projection of Net Cash Expense

This section presents the net cash expense for Puget Power's retiree medical and life insurance plans for the next 20 years, assuming a constant population. The net cash expense equals the employer portion of the projected cash expense (i.e., gross eligible charges after application of the plan's cost-sharing provisions less Medicare expenses less retiree contributions). A graph of the accrual expense assuming full prefunding versus the net cash expense is shown on page 8.

Results in 1,000s

Year	Medical	Life Insurance	Total
1992	$1,421	$469	$1,890
1993	1,451	493	1,944
1994	1,467	515	1,982
1995	1,466	536	2,002
1996	1,490	557	2,047
1997	1,550	576	2,126
1998	1,622	595	2,217
1999	1,697	613	2,310
2000	1,786	628	2,414
2001	1,879	646	2,525
2002	1,986	662	2,648
2003	2,089	679	2,768
2004	2,197	695	2,892
2005	2,300	713	3,013
2006	2,394	731	3,125
2007	2,495	750	3,245
2008	2,591	771	3,362
2009	2,687	795	3,482
2010	2,774	820	3,594
2011	2,855	848	3,703

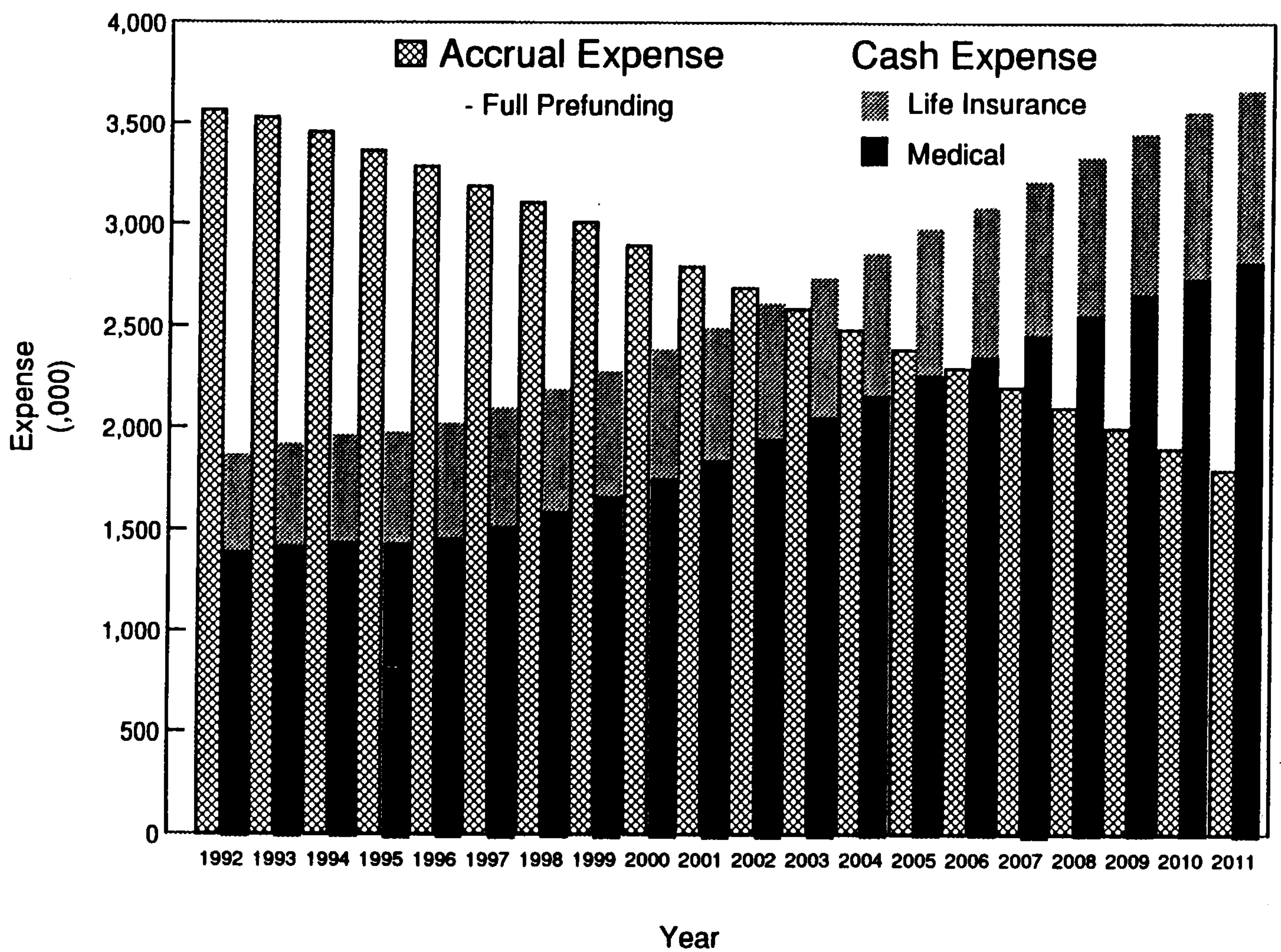
Commentary

- There is no difference in the net cash expense between the three scenarios.

- The cash expense increases over time due to an increasing number of retired participants, increasing medical costs, and salary increases which increase retiree life insurance amounts.

- These increases are mitigated by an increasing proportion of retired participants covered under the post-1/92 defined contribution retiree medical plan as well as the $40,000 retiree life insurance maximum. [Actual increases in the cash expense for life insurance may be slightly higher due to the group of salaried exempt employees who may receive 125% of annual salary at retirement, but who are assumed for valuation purposes to have a life insurance benefit equal to 25% of salary.]

20-Year Projection of Cash Expense vs. Accrual Expense



Section 2

Basis of Valuation

In this section, the basis of the valuation is presented and described. This information is the foundation of the valuation, since these are the present facts upon which plan benefits will depend.

Section 2.1 summarizes the postretirement medical and life insurance plans (based on the substantive plan).

Section 2.2 summarizes the census information used as the basis for the valuation.

Section 2.3 shows the funding and actuarial assumptions.

Section 2.4 shows the detailed development of the per capita claims cost (and participant contributions).

Section 2.5 shows current retiree medical plan premiums and contributions.

2.1 Summary of Medical & Life Insurance Plan Provisions

This section provides a summary of the retiree medical and life insurance plans. The provisions outlined in this section represent the substantive plan. [*The retiree dental plan is not included, since the retiree pays 100% of the fully-insured premium, where the premium is determined on a stand-alone basis.*]

Eligibility

Employees and their eligible dependents must meet the following requirements:

- Enrolled in the respective active plan at retirement;
- Retired under the Company pension plan; and
- Receiving pension benefits immediately on leaving the Company; <u>or</u>
- Receiving LTD benefits at retirement and covered under the Company's active medical and life insurance plans. [*Years of service includes years while disabled.*]

[*Under the pension plan, employees may retire at age 55 with 15 years of service; normal retirement is age 65 with 1 year of service; the plan does not include a disability benefit.*]

Retiree Medical Plans

Enrollment

At retirement, employees must make a one-time election to participate in the retiree medical plan. Employees who decline coverage are not allowed to enroll at a later date, unless coverage was declined due to coverage under a spouse's plan.

In general, open enrollment occurs on an annual basis. During open enrollment, retirees may change plan(s).

Financial Arrangement

- Indemnity plans Experience-rated with Washington Physicians Service

- HMOs Capitated arrangement

Eligible Dependents

- Spouse
- Unmarried child(ren) under age 23
- Child(ren) disabled before age 23
- Widows (*see below*)
- COBRA beneficiaries (*see below*)

[*Only retirees who retired before 1/1/92 may add dependents after retirement.*]

Status Changes

- Retiree's death

Enrolled family members may continue coverage indefinitely. For the first 2 years, the cost is shared; thereafter, coverage must be fully-paid by the participant.

- Divorce, legal separation or dependent no longer eligible

Enrolled family members may continue coverage under COBRA for 3 years. For the first 2 years, the cost is shared; for the remaining year, coverage must be fully-paid by the participant.

Contributions

- Pre-1992

Retiree contributions are determined by Puget Power annually.

- Post-1992

The company contribution is set equal to a fixed amount of $6 per month per year of service at retirement. The retiree contributes the difference between the plan premium and the company contribution. Retirees may <u>not</u> receive cash for the difference between the defined contribution and the plan premium.

WPS High Option Medical Plan

Plan Type	Basic plus major medical
Covered Group	Pre-1/89 retirees and dependents under age 65 who were enrolled in the plan
Deductible	$100 per person / $300 per family (no carryover)
Out-of-Pocket Limit	$475 (including the deductible)
Maximum Benefit	$300,000 (with $5,000 automatic reinstatement per year)
Pre-Existing Conditions	Must be covered for 10 months before the plan reimburses covered expenses for conditions existing within 12 months prior to enrollment.
Cost Management Program	The plan includes the following costs management features: • pre-admission review (recommended only) • pre-admission testing • mandatory second surgical opinion • outpatient surgery • individual case management

Covered Expenses

Covered at "usual, customary and reasonable" (UCR) charges. Basic benefits are covered at 100% with certain exceptions. Major medical benefits are covered at 80% after the deductible.

- physician's services
- x-ray and lab services
- inpatient hospital
- outpatient hospital & emergency room
- ambulance
- maternity care
- inpatient/outpatient chemical dependency (limited)
- rehabilitation (limited)
- home health care (limited)
- hospice care (limited)
- skilled nursing facility (limited)
- vision care (limited)
- durable medical equipment & prosthetic devices
- prescription drugs (limited)
- outpatient physical therapy (limited)
- organ transplants (pre-authorization required)
- private duty nursing (limited)
- inpatient/outpatient mental/nervous (limited)
- certain cardiac procedures

WPS $200 Deductible Medical Plan

Plan Type	Comprehensive medical
Covered Group	Post-1/89 retirees and dependents under age 65
Deductible	$200 per person / $600 per family (no carryover)
Out-of-Pocket Limit	$1,200 (including the deductible)
Maximum Benefit	Same as High Option plan
Pre-Existing Conditions	Sam as High Option plan
Cost Management Program	Same as High Option plan
Covered Expenses	This plan covers the same expenses as the High Option plan at 80% of UCR charges after the deductible.

WPS After Medicare Comprehensive Plan

Plan Type

Comprehensive medical

Covered Group

Retirees and dependents age 65 and over or Medicare-eligible

Deductible

- Part A: None
- Part B: $75 per person/no family maximum; 3-month carryover

Out-of-Pocket Limit

When the plan has paid $3,000 in benefits (or 80% of $3,750), the plan will pay 100% of covered UCR charges for the remainder of the year.

Pre-Existing Conditions

No benefit limitations

Medicare Coordination

Non-duplication/carve-out method [*The benefit that would have been paid in the absence of Medicare is calculated and then reduced by Medicare payments.*]

Maximum Benefit

Same as High Option plan

Covered Expenses

This plan covers the essentially the same expenses as the High Option plan at 80% of UCR charges after the deductible with the following exceptions:

Not Covered
- maternity care
- rehabilitation
- outpatient physical therapy
- inpatient mental/nervous

Additional Covered Expenses
- physical, speech and occupational therapy (limited)
- hearing care (limited)

Group Health Cooperative (GHC)

Plan Type	Health Maintenance Organization (HMO)
Covered Group	Retirees and dependents, regardless of age or date of retirement
Pre-Existing Conditions	No benefit limitations
Maximum Benefit	None.
Covered Expenses	Covered at 100% of charges performed, prescribed, directed or authorized by Group Health Cooperative (GHC). Services received at a non-GHC facility may not be covered.

- physician's services
- x-ray and lab services
- inpatient/outpatient hospital care
- emergency room
- ambulance
- maternity care
- inpatient/outpatient chemical dependency (limited)
- rehabilitation (limited)
- home health care
- hospice care (limited)
- certain appliances (limited)
- prescription drugs
- inpatient mental/nervous (limited)
- outpatient mental/nervous (limited)
- vision care (limited)
- hearing exams
- certain organ transplants (pre-authorization required)
- preventive care
- certain plastic and reconstructive services

Health Plus

Plan Type	Health Maintenance Organization (HMO)
Covered Group	Retirees and dependents, regardless of age or date of retirement
Pre-Existing Conditions	No benefit limitations
Maximum Benefit	None
Covered Expenses	Covered at 100% of charges performed, prescribed, directed or authorized by Health Plus. Services received at a non-Health Plus facility may not be covered. Copays may apply.

- physician inpatient visits
- physician office visits
- physician home visits
- x-ray and lab services
- inpatient hospital
- outpatient surgery
- inpatient emergency services
- outpatient emergency services
- ambulance
- maternity care
- inpatient/outpatient chemical dependency (limited)
- rehabilitation (limited)
- home health care
- hospice care
- skilled nursing facility (limited)
- prescription drugs
- inpatient mental/nervous (limited)
- outpatient charges for mental/nervous conditions (limited)
- hearing exams
- vision care
- preventive care
- allergy testing
- family planning, sterilization and voluntary terminations
- infertility services (limited)
- certain obesity services (limited)
- charges for TMJ (limited)
- charges for biofeedback (limited)

Retiree Life Insurance Plan

Financial Arrangement Fully-insured with Aetna Life & Casualty

Maximum Amount $40,000 for all groups

General Group	Specific Group	Coverage Amount
Salaried Exempt	If retired on or before 6/30/96 and enrolled for life coverage before 4/1/86	125% of base annual salary at retirement
	All others	25% of base annual salary at retirement
Salaried Non-Exempt	If retired on or before 6/30/96 and enrolled for life coverage before 4/1/86	Choice of: • retiree-paid coverage of 125% of base annual salary at retirement; or • company-paid coverage of 25% of base annual salary at retirement
	All others	25% of base annual salary at retirement
Union	If retired before 7/1/85 (with the cost shared by the retiree and the company)	50% of the employee life amount at retirement
	If retired on 7/1/85 or later	25% of base annual salary at retirement

Trading Options
[Post-1/92 retirees]

Employees who retire on or after 1/1/92 may "trade in" retiree life insurance coverage at a rate of $36 per $1,000 per year to pay retiree medical plan contributions. Retirees must retain a minimum of $5,000 of coverage. Retirees may <u>not</u> receive the value of such coverage in cash.

2.2 Summary of Census Data

This section contains summary census information, as of January 1, 1992, derived from the data provided by Puget Power. For projection purposes, individual data records for active employees were summarized by single year age and sex, using average service and average salary. Retiree data records were projected individually.

Census information for salaried participants is summarized below. Disabled employees and employees on leave of absence are included. Employees who are not yet plan participants (generally those with less than one year of service) and part-time employees are excluded.

Salaried Participants

	Service						
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25+**	**Total**
Under 20	0	0	0	0	0	0	0
20 - 24	13	0	0	0	0	0	13
25 - 29	47	21	3	0	0	0	71
30 - 34	52	50	56	1	0	0	159
35 - 39	51	39	79	25	0	0	194
40 - 44	28	39	64	62	25	0	218
45 - 49	24	28	41	42	38	18	191
50 - 54	14	14	33	15	15	52	143
55 - 59	2	8	12	13	4	52	91
60 - 64	0	2	2	3	3	27	37
65 +	1	1	1	0	1	4	8
Total	232	202	291	161	86	153	1,125

Average Age 43.3

Average Service 13.6

Census information for union participants is summarized below. Disabled employees and employees on leave of absence are included. Employees who are not yet plan participants (generally those with less than one year of service) and part-time employees are excluded.

Union Participants

	Service						
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25+**	**Total**
Under 20	0	0	0	0	0	0	0
20 - 24	34	0	0	0	0	0	34
25 - 29	58	28	4	0	0	0	90
30 - 34	52	53	93	5	0	0	203
35 - 39	45	37	93	36	2	0	213
40 - 44	26	32	82	61	26	0	227
45 - 49	13	15	52	45	72	23	220
50 - 54	6	12	35	26	26	43	148
55 - 59	4	3	23	18	31	49	128
60 - 64	1	1	4	8	9	28	51
65 +	0	0	1	0	0	3	4
Total	239	181	387	199	166	146	1,318

Average Age 42.9

Average Service 14.0

Census information for retired participants and covered spouses is summarized below. Surviving spouses and children are excluded. Retired participants may be covered under the retiree life insurance plan, the retiree medical plan, or both.

Retired Participants

Age	Retirees	Spouses	Total
Under 55[1]	2	3	5
55 - 59	20	13	3
60 - 64	85	100	185
65 - 69	210	123	333
70 - 74	152	107	259
75 - 79	123	51	174
80 - 84	65	22	87
85+	42	11	53
Total	699	430	1,129

Average Age (*retirees*)

- Under age 65 61.5
- Age 65 & over 73.4

[1]According to the eligibility requirements, employees must be at least age 55. Two participants in the census do not appear to meet the minimum age requirement. Neither their birthdates nor eligibility were validated.

2.3 Funding Method and Actuarial Assumptions

An actuarial valuation is dependent upon the use of many assumptions. The assumptions used in this valuation are detailed below and separated by plan, where applicable. Assumptions adopted from the SFAS 87 valuation have been relied upon as suitable and valid for this purpose. These assumptions have not been independently evaluated.

Data

Persons Included	Salaried and hourly retired employees and their dependents currently participating in the retiree medical and life insurance plans. Salaried and hourly active employees who are pension plan participants, including disabled employees and employees on leave of absence. Part-time employees are excluded.
Missing Data	No assumptions required.

Medical & Life Insurance Plans

Projection Period	Results are projected for 20 years (1/1/1992 - 1/1/2011).
Population Growth	None assumed. Population to remain at current level (such that new entrants replace decrements and the population maintains its current size).

New Entrants

Eight new entrant descriptors were developed based on the characteristics of new hires from 1989 through 1991 as follows:

Salaried:

Gender	**Age**	**Salary**	**Percent**
Male	26	$30,474	21.80%
Female	26	$30,474	8.97%
Male	35	$35,697	24.36%
Female	35	$35,697	19.23%
Male	45	$31,273	5.13%
Female	45	$31,273	11.54%
Male	54	$29,265	1.28%
Female	54	$29,265	7.69%

Union:

Gender	**Age**	**Salary**	**Percent**
Male	25	$22,109	23.69%
Female	25	$22,109	10.53%
Male	34	$32,059	28.95%
Female	34	$32,059	11.84%
Male	43	$26,304	14.47%
Female	43	$26,304	7.89%
Male	55	$41,090	2.63%
Female	55	$41,090	0.00%

Funding

The amount funded each year is assumed to equal the accrual expense, where the accrual expense includes an amount to amortize the transition obligation over 20 years. *[No assumption is made as to whether funding is on a tax-favored basis.]*

Discount Rate

8.5% [*Adopted from SFAS 87 valuation.*]

Return on Plan Assets

8.5% [*Based on current and future rates of return expected over the 20-year projection period. This rate assumes investment earnings accumulate tax-free.*]

Mortality Rates

1983 Group Annuity Mortality Table. Representative mortality rates are as follows:

Age	Male	Female
30	0.00061	0.00034
40	0.00124	0.00067
50	0.00391	0.00165
60	0.00916	0.00424
70	0.02753	0.01239
80	0.07407	0.04295

[*Adopted from SFAS 87 valuation.*]

Active Turnover

Three-year select and ultimate rates. Representative ultimate turnover rates are as follows:

Age	Non-Union	Union
25	0.05060	0.03490
35	0.04120	0.01970
45	0.01960	0.00800
55	0.00650	0.00000
65	0.00000	0.00000

[*Adopted from SFAS 87 valuation.*]

Retirement Rates

Age	Non-Union	Union
55	0.0000	0.0000
56	0.0136	0.0000
57	0.0296	0.0296
58	0.0488	0.0583
59	0.0676	0.0952
60	0.0952	0.1395
61	0.1132	0.1818
62	0.3333	0.3333
63	0.3333	0.3333
64	0.3333	0.3333
65	1.0000	1.0000

[*Adopted from SFAS 87 valuation.*]

Disability Rates

Not applicable.

Medical Plan – Pre-1992 Participants

Annual Per Capita Claims Cost

Age	Gross	Medicare	Net
55	$ 2,881	$ N/A	$ 2,881
60	3,340	N/A	3,340
65	3,872	2,711	1,161
70	4,275	2,993	1,282
75	4,720	3,304	1,416
80	4,961	3,473	1,488

Administrative costs are included (and trended on the same basis as per capita claims cost).

[*More detailed information on the development of per capita claims cost is included in the next section.*]

Retiree Contributions

Type of Participant	Under Age 65	Age 65 & Over
Retiree	$ 460	$ 360
Spouse	1,086	869

[*Based on current enrollment and current contributions. No assumption is made for future changes in enrollment patterns or changes in the relationship of contributions among the plans. More detailed information on the development of retiree contributions is included in the next section.*]

Morbidity or
Aging Factors

Age	Increase in Expected Claims Over Prior Age
To 44	5.0%
45-54	4.0
55-64	3.0
65-74	2.0
75-84	1.0
85 +	0.0

[*Based on a Mercer study of morbidity.*]

Trend Rates

Year	Medical	Medicare	Retiree Contributions
1993	12.0%	12.0%	21.0%
1994	11.5	11.5	19.5
1995	11.0	11.0	18.0
1996	10.5	10.5	16.5
1997	10.0	10.0	15.0
1998	9.5	9.5	13.5
1999	9.0	9.0	12.0
2000	8.5	8.5	10.5
2001	8.0	8.0	9.0
2002	7.5	7.5	7.5
2003	7.0	7.0	7.0
2004	6.5	6.5	7.0
2005+	6.0	6.0	7.0

[*Medical trend rates based on a review of actual trend rates experienced for actives and retirees over the past 35 months. Medicare trend rates are assumed to equal the medical trend rates. The trend in retiree contributions is based on Puget Power's consistent past practice of reducing its proportional share of retiree medical costs as shown below:*

Year	*Retiree Contribution Percentage*
1986	*20%*
1987	*20%*
1988	*22%*
1989	*30%*
1990	*31%*
1991 (est)	*30%*
1992 (est)	*33%*

Dependent Coverage
- Current Retirees

Actual spousal participation information is used. Dependent children are not considered.

Husbands are assumed to be 3 years older than their wives.

Adding dependents after retirement is not considered. Divorce or legal separation after retirement is not considered.

Limited coverage for the following events is not considered:
- retiree's death
- divorce or legal separation
- dependent child ceasing to meet the definition of dependent child

- Future Retirees

Not applicable.

Medical Plan -- 1992 & Later Participants

Defined Contribution	$72 per year of service. [*No allowance has been made for amounts "saved" by Puget Power when the defined contribution exceeds the plan premium and the retiree "loses" the benefit of the excess cash.*]
Trend Rate	0%. [*Since this plan is new, no past practice has been established. In addition, at this time, Puget Power has no intention of increasing the fixed amount.*]
Waiver of Coverage	
- At retirement	5.0% [*Based on waive information provided by Puget Power for 1988-1990 adjusted for future expectations.*]
- After retirement	0.0% [*These assumptions may change in the future depending on the changing relationship between the defined contribution and medical plan premiums.*]
Dependent Coverage	No explicit assumption has been made. [*However, it is estimated that 62.5% of post-1/92 retirees will cover a spouse at retirement. This reduces the magnitude of the "excess cash" resulting from the situation where the defined contribution exceeds the plan premium and the retiree "loses" the benefit of the excess cash.*]

Life Insurance Plan

Coverage Amount	All future salaried retirees are assumed to have life insurance coverage equal to 25% of base annual salary at retirement. [*Certain active employees may receive higher amounts of coverage under a grandfathered provision.*]
Retiree Contributions	None [*Certain union employees who retired before 7/1/85 have varying contribution amounts. Such contributions have been converted into a coverage amount and subtracted from the total insured amount to arrive at the employer-paid portion of coverage.*]
Salary Increase	6.0% per year [*Adopted from SFAS 87 valuation.*]
Trading Option *(post-1/92 retirees)*	No special provision has been made relative to the plan provision which allows retirees to "trade in" life insurance coverage to pay retiree medical plan contributions. [*This is based on the relative insignificance of the difference between the "trade in" value of $36 per $1,000 per year and the premium rate of $47.16 per $1,000 per year ($3.93 per $1,000 per month).*]
Waiver of Coverage	0.0%

2.4 Detailed Development of Claims Cost

[*This section applies only to pre-1/1/92 retirees.*]

Due to the critical nature of the underlying claims cost in producing appropriate valuation results, a detailed analysis claims experience was undertaken. The analysis is separated into two phases:

- development of total projected claims cost; and
- development of the distribution of per capita claims cost by age.

This section also includes an analysis of participant contributions.

Total Projected Claims Costs

In order to determine total projected costs for the valuation period, an analysis of active and retiree paid claims experience for the past 35 months (1/89 through 11/91) was completed. This period covers almost 4,300 active life years of experience plus over 1,500 life years of retiree claims experience. Although active claims experience is an imperfect substitute for retiree claims experience, active experience with several adjustments was used to enhance the credibility of the retiree claims analysis. [*An exhibit showing the claims analysis follows this narrative.*]

The analysis was separated into an analysis of the indemnity plans and an analysis of the HMO plans. First, paid claims for the indemnity plans were tabulated, totaled and an average annual amount determined. [Paid claims for retirees in 1989 have been adjusted for the impact of the Medicare Catastrophic Act.] Next, several adjustments were applied:

- A population adjustment was applied to account for declining enrollment in the active indemnity plans over the experience period relative to current census counts.

- A trend adjustment from the midpoint of the 35 month period (6/15/90) to the midpoint of the valuation period (7/1/92) was applied to "project" historical experience to the present.

- An incurred adjustment was made under the assumption that claims are paid on average 4 months after incurral in order to restate paid claims on an incurred basis.

A trend rate of 12% was used to project historical claims experience. This rate is based on a review of actual trend rates experienced for age 65 and over retirees for recent experience periods (using regression techniques). For this purpose, per capita claims were restated to account for plan design changes during the period.

Finally, to this, administrative costs of 7.81% of projected incurred claims were added. The result is total projected indemnity plan costs for 1992.

Since claims information is not generally available for HMOs, the HMO analysis focused on premiums. Active HMO premiums were calculated based on 1/92 enrollment and 7/91 premiums. This result was trended one-half year at 12.5% to arrive at projected 1992 HMO premiums. The trend rate is based on the weighted average of premium increases from 7/90 to 7/91 for Group Health and HealthPlus for salaried and union employees. Retiree HMO premiums for 1992 were calculated using actual 1/92 enrollment and 1992 premiums.

Finally, total projected 1992 costs were determined by adding total projected HMO premiums to total projected indemnity plan costs.

Detailed Development of Claims Cost

		Active Employees	Retirees Under 65	Retirees Age 65 +	Total
Indemnity Plans					
1989 Paid claims	1	$3,372,286	$336,508	$467,598	$4,176,392
1990 Paid claims		2,864,758	307,330	554,033	3,726,121
1991 Paid claims	2	2,436,731	392,161	560,778	3,389,670
Total paid claims		8,673,775	1,035,999	1,582,409	11,292,183
Average annual paid claims		2,973,866	355,200	542,540	3,871,606
Trend (24.5 months) & Population adjustments	3	1.0924	1.2603	1.2603	
Incurred adjustment (4 mos)	3	1.0385	1.0385	1.0385	
Projected incurred claims		3,373,652	464,906	710,109	4,548,667
Administrative costs	4	263,482	36,309	55,459	355,251
Total projected indemnity costs		$3,637,134	$501,215	$765,568	$4,903,918
Projected HMO Premiums					
Group Health	5	3,059,929	154,088	407,455	3,621,472
HealthPlus	5	1,271,844	51,445	45,010	1,368,298
Total proj. HMO premiums		$4,331,773	$205,533	$452,465	$4,989,771
Indemnity + HMOs		$7,968,907	$706,748	$1,218,033	$9,893,688

1 – 1989 claims for age 65+ retirees include an additional $65/participant/year to adjust for the Medicare Catastrophic Act.			
2 – 1991 paid claims thru November.			
3 – Indemnity trend:	12.0%	12.0%	12.0%
Population adjustment	0.8667	1.0000	1.0000
4 – Admin. costs (% of incurred claims):	7.81%	7.81%	7.81%
5 – HMO trend:	12.5%	NA	NA
HMO premiums are adjusted to account for the difference between the total and eligible populations.			

Notes: Actives have a 7/1 plan year and retirees a 1/1 plan year.

In developing per capita costs, a factor adjustment was applied to total costs to exclude claims for ineligible employees.

Distribution of Per Capita Claims Cost by Age

Following the development of total projected costs, a distribution of per capita claims cost was developed separately for actives and retirees. First, total projected claims costs for active employees were adjusted to account for the fact that employees who are plan participants under the retiree medical plan (generally, those with one or more years of service) are a subset of employees participating in the active medical plan. Adjusted total projected claims costs were then allocated to a distribution of plan participants (including dependents) by age, using assumed morbidity or aging factors.

The number of covered dependents was determined based on the participant's medical family coverage category (from the census information). Currently:

- 50% of active employees cover a spouse;
- 50% of active employees cover one or more children; and
- 62.5% of retirees cover a spouse.

In addition, it was assumed that:

- active employees (who cover children) cover 1.7 children on average; and
- retirees do <u>not</u> cover any children.

The final results were obtained by weighting the results of the active analysis by a 30% credibility factor and the results of the retiree analysis by a 70% credibility factor. This resulted in the net per capita claims cost distribution shown below.

Age	Actives	Retirees	Results
55	$ 2,667	$ 2,973	$ 2,881
60	3,091	3,447	3,340
65	1,075	1,199	1,161
70	1,187	1,324	1,282
75	1,311	1,461	1,416
80	1,377	1,536	1,488

Projected Per Capita Participant Contributions

Finally, since participant contributions vary by plan and family coverage category, an analysis was necessary to determine average annual participant contributions. This analysis was accomplished by computing total projected 1991 contributions (for under age 65 retirees and spouses and age 65 and over retirees and spouses) and dividing this by the number of participants in each category to arrive at per capita contribution amounts. Implicitly this assumes that future enrollment patterns and the relationship of contributions among the plans will not change. Note that spousal contributions are for the spouse only and do <u>not</u> include the contribution for retiree coverage.

Age Group	Type of Participant	Per Capita Contributions
Under age 65	Retiree	$ 460
	Spouse	1,086
Age 65 & over	Retiree	360
	Spouse	869

2.5 1992 Retiree Medical Plan Premiums & Contributions

Plan	Family Coverage Category	Plan Code	Monthly Premium	Puget Contribution	Retiree Contribution
Group Health Cooperative					
	R<65	GH11	196.72	196.72	0.00
	R<65 + S<65	GH12	393.44	358.44	35.00
	R<65 + S>65	GH13	315.86	260.86	55.00
	R<65 + C	GH14	286.61	286.61	0.00
	R<65 + S<65 + C	GH15	483.33	358.33	125.00
	R<65 + S>65 + C	GH16	405.75	358.75	47.00
	R<65 + S>65 + C>18	GH17	590.16	358.16	232.00
	R>65	GH21	119.14	83.14	36.00
	R>65 + S<65	GH22	315.86	269.86	46.00
	R>65 + S>65	GH23	238.28	124.28	114.00
	R>65 + C	GH24	209.03	197.03	12.00
	R>65 + S<65 + C	GH25	405.75	269.75	136.00
	R>65 + S>65 + C	GH26	328.17	268.17	60.00
Health Plus					
	R<65	HP11	234.88	220.88	14.00
	R<65 + S<65	HP12	479.63	358.63	121.00
	R<65 + S>65	HP13	377.12	260.12	117.00
	R<65 + C	HP14	298.53	298.53	0.00
	R<65 + S<65 + C	HP15	543.28	358.28	185.00
	R<65 + S>65 + C	HP16	446.82	358.82	88.00
	R>65	HP21	138.49	83.49	55.00
	R>65 + S<65	HP22	377.12	269.12	108.00
	R>65 + S>65	HP23	281.40	124.40	157.00
	R>65 + C	HP24	213.16	197.16	16.00
	R>65 + S<65 + C	HP25	446.82	269.82	177.00
	R>65 + S>65 + C	HP26	351.09	269.09	82.00

* The breakdown of the premium into the Puget and retiree portions applies only to pre-1/1/92 retirees.
The breakdown for post-1/1/92 retirees is determined based on the $6/month/YOS formula.

1992 Retiree Medical Plan Premiums & Contributions (cont.)

Plan	Family Coverage Category	Plan Code	Monthly Premium	Puget Contribution	Retiree Contribution
WPS High Option					
	R<65	WH11	371.00	220.00	151.00
	R>65 + S<65	WH22	481.00	269.00	212.00
WPS $200 Deductible Option					
	R<65	WT11	289.00	220.00	69.00
	R<65 + S<65	WT12	578.00	358.00	220.00
	R<65 + S>65	WT13	399.00	260.00	139.00
	R<65 + C	WT14	423.00	358.00	65.00
	R<65 + S<65 + C	WT15	712.00	358.00	354.00
	R<65 + S>65 + C	WT16	533.00	358.00	175.00
	R>65 + S<65	WT22	399.00	269.00	130.00
	R>65 + C	WT23	244.00	218.00	26.00
	R>65 + S<65 + C	WT24	533.00	269.00	264.00
	R>65 + S>65 + C	WT25	354.00	269.00	85.00
	R>65 + S>65 + C>18	WT26	509.00	269.00	240.00
Medicare Supplement					
	R>65	WM21	110.00	83.00	27.00
	R>65 + S>65	WM22	220.00	124.00	96.00

* The breakdown of the premium into the Puget and retiree portions applies only to pre-1/1/92 retirees.
The breakdown for post-1/1/92 retirees is determined based on the $6/month/YOS formula.

Section 3

Appendix

This section provides a variety of background information regarding SFAS #106.

Section 3.1 describes both the history and provisions of SFAS #106.

Section 3.2 is a glossary of SFAS #106 terms.

Section 3.3 discusses SEC disclosure requirements under Staff Accounting Bulletin #74.

3.1 SFAS #106

Background

Over the past decade, the Financial Accounting Standards Board (FASB) has taken a number of significant steps in requiring employers to account for their postretirement plans on an accrual basis, using specified assumptions and methods. The FASB's first major efforts were directed at defined benefit pension plans. This work concluded in December 1985 with SFAS #87 "Employers' Accounting for Pensions" and SFAS #88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits".

Following the completion of detailed accounting standards for pension plans, the FASB turned its attention to retiree health and welfare benefits. In 1984, the FASB issued SFAS #81 "Disclosure of Postretirement Health Care and Life Insurance Benefits". This was intended to serve as an interim step, prior to issuing a much more comprehensive Standard. On February 14, 1989, the FASB issued an Exposure Draft entitled "Employers' Accounting for Postretirement Benefits Other Than Pensions", the health and welfare counterpart of SFAS #87. The intent of the Exposure Draft was to solicit feedback from employers, actuaries, accountants and others in the financial and benefits community, regarding the proposed assumptions and methodology. Over the period of a year and a half, the FASB received and evaluated responses to the Draft, finally issuing SFAS #106 on December 21, 1990.

SFAS #106

- **A Change in Accounting**

The primary change required by SFAS #106 is a change in accounting for non-pension postretirement benefits from a cash ("pay-as-you-go") to an accrual basis. This requires employers to attribute or amortize the cost of such plans over an employee's working lifetime. This change resulted from the FASB's view that non-pension postretirement benefits are deferred compensation plans, under which the employer is promising future benefits in exchange for an employee's current services. Thus, the cost of these plans should be accrued as the employee renders services. This is very similar to the approach used in accounting for the costs and liabilities associated with pension plans.

- **Effective Date**

According to SFAS #106, most employers will be required to recognize the liability and expense associated with their non-pension postretirement benefits in their annual financial statements for fiscal years beginning after December 15, 1992. A two-year delayed effective date has been granted for (1) non-U.S. plans and (2) for plans of employers who do not have publicly-traded securities and have fewer than 500 plan participants.

- **Financial Statement Disclosures**

In addition to changing from cash to accrual accounting, SFAS #106 generally requires the following disclosures in the footnotes to an employer's financial statements:

- description of the plan(s), employees covered, benefits provided, funding policy, and types of assets held;

- net periodic postretirement benefit cost (or accrual expense) showing the service cost, interest cost, actual return on plan assets, and amortization of the unrecognized transition obligation or asset;

- schedule reconciling the funded status of the plan(s), including:
    - fair value of plan assets
    - accumulated postretirement benefit obligation for retirees, fully eligible participants and active participants
    - unrecognized prior service cost
    - unrecognized net gain or loss
    - any remaining unrecognized transition obligation or asset

- description of health care cost trend(s);

- weighted-average discount rate, salary increase (for pay-related plans), and expected rate of return on plan assets;

- effect of a 1% increase in health care cost trend on the service and interest cost components of the accrual expense and on the accumulated postretirement benefit obligation;

- amounts and type of securities included in plan assets; and

- certain other disclosures.

3.2 Glossary of Terms

This section defines several terms used by the FASB in determining the Accrual Expense associated with a firm's non-pension postretirement benefit plans, including:

- Expected Postretirement Benefit Obligation (EPBO)
- Accumulated Postretirement Benefit Obligation (APBO)
- Service Cost

This is followed by a description of the components of the Accrual Expense.

The Expected Postretirement Benefit Obligation is the amount of money needed today which, with interest at the assumed rate, will be sufficient to cover expected future claims (net of retiree contributions) for both retired participants and active participants who are expected to receive benefits.

The Accumulated Postretirement Benefit Obligation is the portion of the EPBO attributable to past service. For participants eligible for coverage and for current retired participants, the APBO equals the EPBO. As an example, assume an employee is currently 35 years old, was hired at age 25 and will be fully eligible for benefits at age 55. The employee has completed 10 years of service and will have 30 years of service at age 55 (full eligibility date). If the EPBO at age 35 is $30,000, the APBO at age 35 is $30,000 x 10/30 or $10,000.

The portion of the EPBO attributable to future service is recognized each year through the Service Cost component of the Accrual Expense. Equal amounts of the EPBO in excess of the APBO are allocated to each future year of service. The Service Cost for participants eligible for coverage and for current retired participants is zero, since the cost must be fully accrued by the full eligibility date. The previous example of a 35-year old with an EPBO of $30,000 gives an excess of $20,000 over the APBO. This amount is evenly spread over the 20 years of the employee's expected future service (ending on the full eligibility date) to produce a Service Cost of $1,000 per year.

The Accrual Expense (referred to in SFAS #106 as the Net Periodic Postretirement Benefit Cost) is composed of the following:

Service Cost with interest to the end of the plan year.

- plus -

Interest on the APBO to recognize the effects of the passage of time. This amount is the APBO multiplied by the assumed discount rate less a half year's interest on net benefit payments made during the year.

- minus -

Actual Return on Plan Assets equal to the value of the plan assets (if any) multiplied by the assumed rate of investment return. Since most employers have not pre-funded their postretirement health and welfare plans, this component is usually zero.

- plus -

Amortization of the APBO at the transition date equal to the APBO divided by the average remaining service period of active plan participants or, if greater, the employer may use 20 years (or if all or most of the plan participants are inactive, the average remaining life expectancy of plan participants). If the plan has assets or has previously accrued a liability for the plan, this amount is subtracted from the APBO before the amortized amount is determined; this amount is called the **transition obligation.**

- minus/plus -

Amortization of Gains / Losses due to changes in the APBO or the value of plan assets resulting from experience different from that assumed or from changes in assumptions. At a minimum, gains/losses must be amortized when the unrecognized gain/loss (as of the beginning of the year) exceeds 10% of the greater of the APBO or the value of plan assets. The minimum amortization shall be the excess divided by the average remaining service period of active plan participants (or if all or most of the plan participants are inactive, the average remaining life expectancy of plan participants). Other amortization methods are permissible if certain conditions are met.

- plus/minus -

Amortization of Prior Service Costs due to a plan amendment which increases/reduces plan benefits. At a minimum, an equal amount of the cost of benefit improvements must be amortized over the average remaining service period of active plan participants (or if all or most of the plan participants are inactive, over the average remaining life expectancy of inactive plan participants), A reduction in plan benefits must be used first to reduce any existing unrecognized prior service cost, then to reduce any unrecognized transition obligation. Any excess must be amortized in a manner similar to the cost of a benefit improvement.

3.3 SEC Disclosure Requirements

This section addresses the additional requirements imposed on firms which are subject to Securities and Exchange (SEC) rules and regulations.

According to the SEC Staff Accounting Bulletin No. 74 ("Disclosure of the Impact that Recently Issued Accounting Standards will have on the Financial Statements of the Registrant when Adopted in a Future Period"), firms which are subject to SEC rules and regulations should disclose the impact that a recently issued accounting standard will have on the financial position and results of operations of the firm -- even though the accounting standard is not effective until some future date. Therefore, since SFAS #106 was issued in December 1990, firms with publicly-traded securities may be required to disclose relevant information regarding their non-pension postretirement benefit plans beginning with their 1990 financial statements.