MINUTES 3/6/14

SELF-INSURANCE PROGRAM BOARD MEETING

A meeting of the Self-Insurance Program Board of Trustees was called to order at 2:00 p.m., Thursday, March 6, 2014, in Personnel Conference Room #2 at 20 E. Main Street, Suite 130, Mesa.

MEMBERS PRESENT	MEMBERS ABSENT	OTHERS PRESENT
Donna Feeney		Mary Dellai, Board Secretary
Fenton Moran		Jan Ashley, Emp. Benefits Administrator
Art Schenkel		Nitra Hawkins, Safety Svcs Administrator
Board Chair Scott Somers		Debbie Spinner, City Attorney
Michael Kennington, CFO		Marc Steadman, Deputy City Attorney
		Gary Manning, Human Resources Director
		Candace Cannistraro, Ofc Mgmt & Bdgt Dir
		Matt Clark – City Council Assistant

Chairman Somers asked to review/approve the minutes from the January 9, 2014 meeting. He asked if there were any comments, questions, or concerns or changes to the minutes or if they could be approved as drafted. No changes were proposed. Donna Feeney proposed the minutes be approved. Mike Kennington seconded the motion. Chairman Somers called for a vote. The vote was unanimous.

Chairman Somers acknowledged members of the public, Candace Cannistraro, Office of Management & Budget Director and Matt Clark – City Council Assistant. He asked if there were any items from citizens present. Candace Cannistraro will present the information for today's meeting.

The third agenda item was to hear a presentation, discuss and make a recommendation to the City Council regarding the financial viability for the Property and Liability Trust Fund for FY 14/15.

- Candace Cannistraro introduced herself and gave an overview of the responsibility of the Office of Management and Budget related to the Trust funds. She said that the OMB has a responsibility to review and track the expenses and revenues for the Trust Funds and look at forecasting in relation to the General Fund (City operating budget for the City) with an 8 year forecast. She explained the General and Enterprise Funds make contributions to the Trust Funds. As expenses for the Trust Funds go up, contributions to the funds go up, and that is included in the 8 year forecast.

  She gave a financial view of the three Trust Funds, explained historically where the revenues and expenditures for each fund have been, where the contributions/revenues come from, characteristics of each fund, and projections for the funds/reserves for the next year. Candace would review each fund's financial history – how it is set up, current reserve policy for the City, and effect on future stability/risk for each fund and staff recommendation for each fund going forward. She explained the graphs for each fund would show expenses and cash flow. The expense graphs for each fund show expense totals for claims payment, administration, insurance premiums, and revenues. She explained that once funds are placed in a trust fund that it can't be taken out of that fund. Funds placed in a trust fund become restricted revenue and can only be used to pay that specific trust fund's expenses. The City can only reduce contributions going forward to reduce the reserve balance; funds can't be transferred out and used for other purposes once contributed.

  - Candace discussed the Property and Liability Trust fund is varied each year based on claims paid out. A trend/estimate can be made based on cases filed and when each case is expected to be concluded to forecast fund contributions needed to sustain an acceptable reserve balance.

estimated expenses in setting the reserve since we can always add monies to the fund. The recommended contribution to the Worker's Compensation Trust Fund is $7.1 million for FY 14/15. We have seen a higher claims expense in the past few years.

- Chairman Somers asked what sector are the heaviest users and why. Nitra Hawkins responded that public safety employees (Police/Fire) have a higher number and more severe claims. She noted that back injuries can have a very high cost. Chairman Somers asked if there is any particular reason for the increasing claims, or is it jumping over fences or falling off roofs. Nitra responded that chasing suspects or jumping over a wall and don't know what is on the other side resulting in multiple body parts impacted. There are too many variables in dealing with the police department in doing their jobs to try and pinpoint how they might do their jobs more safely. The Fire department is very proactive, however there can still be times where they can be lifting a 300 lb. patient in a stairwell resulting in a back injury.

  Mike Kennington pointed out that the Industrial Commission's state average monthly wage went up as well. Nitra concurred that the Industrial Commission has set the average monthly wage maximum for 2014 at $4,263 and it goes up each year. About 5 years ago it was only $2,400.

  Chairman Somers questioned Nitra about the fact we have not had step/COLA raises over the past five years so why is the amount continuing to go up. Art Schenkel asked why there was an 80% increase in the maximum amount over the past 5 years. Nitra responded that the legislature voted in changes each year and the governor signed it into law.

  Marc Steadman asked if medical costs were also part of that payout. Nitra replied that medical costs have been trending each year along with the national 8% increase for medical costs. In addition, we look at trend lines in costs each month and project costs for the rest of the year and factor in the 8% to project what the claims paid may be next year.

  Candace suggested the recommendation would be to continue the current practice to set the reserve balance to cover the annual expenses at $7.1 million for FY 14/15 and set the Worker's Compensation rates for FY 14/15 sufficient to maintain an appropriate reserve balance. Mike Kennington so moved. Donna Feeney seconded. The vote was unanimous for the recommendation.

The next agenda item was to hear a presentation, discuss and make a recommendation to the City Council regarding the financial viability for the Employee Benefit Trust Fund for FY14/15.

- Candace Cannistraro explained the Employee Benefit Trust Fund is similar to the PPL and Worker's Compensation Trust Funds in that we have some control over the revenues, as we set the rates for this fund to achieve the needed revenues. Because we have multiple plans (medical, dental, life, vision) and the Wellness Center costs in the Employee Benefit Trust rates are set separately for each plan, based on the experience of each plan and the projected future expenses of each plan.

  The difference in this Fund is that there are both City contributions and employee contributions to this Fund (premiums). These premium rates are set on a calendar year basis. If a higher premium is needed there would only be 6 months of premium increase reflected in a fiscal year budget. The rates can be changed more frequently than once per calendar year, however an open enrollment is required to allow employees to change plans based on new

rates. This lengthens the time the City needs to react to expenditure changes, maintain a sufficient reserve balance and cover increased expenditures for the time period until the revenues can be adjusted.

The expenditure side is similar in claims from employees using the services. This is the one fund where we expect the claims to come in. The City has implemented the Wellness Center and Wellness programs to help employees proactively manage their health, avoid catastrophic illness, live a healthier lifestyle and potentially reduce long-term health plan cost increases. Most of the increase in FY 14/15 is due to the increased cost of medical and dental care – industrywide standard increase/trend.

Candace explained a graph showing the time frame for the City to react to expenditure changes. For example, in 09/10 expenditures started to rise mainly due to medical cost increases of 16% year over year. The reserve balance fell. The City reacted by changing the rates/premiums to cover the costs plan by plan. We implemented a three-year phase-in increase in premiums to cover the costs of the plan. The City also installed some cost containment measures in plan design features. We renegotiated the prescription drug contract for significant savings and out of network charges were capped (with a shift towards employee out-of-pocket expenses) to encourage employees to use less costly in-network services. The effect was that expenses went down the following year. We continued the rates and decreased the expenses to see if they were one-time or new norm. It takes a long time to respond to large expense changes (as illustrated in the 05/06 to 07/08 timeline on the graph) and determine where to set the reserve balance to allow the City time to react to expenditure changes.

Chairman Somers asked what the specific reserve number would be. Candace replied since we can't react as quickly to expenditure changes, we need a much longer lead time, and we need to maintain a sufficient reserve balance accordingly. We also need to be able to phase-in any premium increase so as to not adversely affect employees in one year.

Art Schenkel asked if there was a sharp increase in the number of employees with a 150% increase in costs. Candace replied there was actually a decrease in employees during that time frame but a 16% increase in medical costs. Gary Manning pointed out there were 4 rounds of layoffs during that time frame and the economy fell apart and gradual increases in employees over time. Mike Kennington asked if the number of retirees went up. Candace stated that about 1/3 of the covered members are retirees. Chairman Somers confirmed employees hired after 2009 would not be eligible for subsidized retiree coverage with the City program.

There was further discussion of the requirements for City subsidized retirement medical coverage. Candace discussed the premium resources graph. Art Schenkel asked what percent the City contributes in total $. Candace explained the employee gets the same $ value: City pays 80%, employee pays 20% of the base plan.

Mike Kennington moved to recommend total revenues of $67 million (City/employee) with a $49 million contribution of City revenues for FY 14/15. Donna Feeney seconded the motion. The vote was unanimous for the recommendation.

Schedule future meetings. The next meetings will be calendared for two meetings in January 2015.

Adjournment 3:02 p.m.

There being no further business, Chairman Somers moved that the meeting be adjourned. Donna Feeney seconded the motion. All concurred. The Board adjourned at 3:48 p.m.

Mary Dellai 2/11/15 ON BEHALF OF SCOTT SOMERS 2/11/15

Mary Dellai, Secretary to the Board Date ~~Scott Somers~~ Kevin Thompson, Board Chairman Date

c: Christopher J Brady, City Manager
Self-Insurance Trust Funds Board Members
DeeAnn Mickelsen, City Clerk
Mayor's Office

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