



## Self-Insurance Trust Fund Board Report

Date: February 8, 2016  
To: Self-Insurance Trust Fund Board  
From: Candace Cannistraro, Office of Management and Budget Director  
Janice Ashley, Employee Benefits Administrator  
Subject: Employee Benefit Trust (EBT) Fund: Financial Update and FY 16/17 Funding Recommendations

### Strategic Initiatives



### Purpose

This report will provide an update on the financial status of the Fund through FY 2014/2015, projections for FY 2015/2016 and recommended City contributions for inclusion in the FY 2016/17 budget.

### Financial Update

#### *Expenditure Trends*

Expenditures in the EBT Fund are tracked and trended in four categories: administration, medical/dental/prescription drug claims paid, life/vision/other and the employee health and wellness center/programs. The cost of Citywide overhead is included in the administrative expenses along with departmental overhead and third party administration fees. Cost containment measures implemented by the City resulted in a resetting of the base level of expenses in FY 11/12. In the years since then, total expenses and the cost of claims have increased as shown in the following chart:

		Total Expenses	Increase	Cost of Claims	Increase
Actual	FY 11/12	\$52.2M		\$45.8M	
Actual	FY 12/13	\$56.3M	7.9%	\$49.8M	8.7%
Actual	FY 13/14	\$58.4M	3.7%	\$50.9M	2.1%
Actual	FY 14/15	\$68.4M	17.0%	\$56.8M	11.8%
Projected	FY 15/16	\$77.6M	13.6%	\$67.0M	17.9%
Forecast	FY 16/17	\$83.8M	8.0%	\$72.4M	8.1%

Each year, staff reviews the plan design and benefits with consultants and risk managers. Staff also reviews and recommends wellness programs. The City implemented a health and wellness center that opened to active employees and their families in October 2014 for preventive and primary care services. The Wellness Center opened for operations in FY 14/15 and accounts for \$1.6M of the increase in total expenses. Utilization of the Wellness Center:

- Provides easy access for patients who do not have an established PCP or are willing to change providers for access, quality and cost improvement
- Focuses on prevention and screening
- Identifies chronic disease management cases and previously undiagnosed conditions, enabling early intervention, treatment, drug prescribing and in-network referrals
- Supports and develops a Citywide culture of health, including wellness education, coaching, other organizational supports (diabetes management, nutrition classes, healthy food options, bicycle racks, walking challenges) and establishment of an Employee Wellness Committee (12 members across City departments engaged in the City's health and wellness initiative)
- Goal: long term cost containment in health plan claims

The City has experienced increased medical/prescription drug claims costs starting in FY 14/15 and projected in FY15/16. Increases in these expenditures are largely driven by:

- Nationwide medical and prescription drug trend increases
- ACA fees/taxes (almost \$900,000 in FY 14/15 and 15/16)
- ACA plan design compliance changes
- Utilization increases (frequency and total number of claims)
- Severity of claims - increases in large \$ claimants (over \$150,000)
  - 29 large claimants in CY 2015 as compared to 14 large claimants in each of 2014 and 2013
  - Top three diagnostic drivers: complex cancers, cardiovascular and NICU/multiple disorder baby care
  - Number of claimants and severity of conditions within these categories have increased
  - Other high dollar diagnostic categories include: brain surgery, organ transplant, end-stage renal disease, musculoskeletal disorders, blood disorders, immune disorders and RAs

The City moved to third party vendors for the administration of medical, FSA and dental claims and the introduction of integrated utilization management programs (including pre-certification requirements, disease and case management programs) starting January 2015. These changes resulted in expense savings or achievement of compliance objectives as follows:

- Medical claims edit savings of approximately \$321,385 for calendar year 2015
- 2015 implementation credits of \$55,000 for medical and \$97,000 for pharmacy management credits
- Claims coding compliance by October, 2015 (ICD-10 previously unavailable in the City's self-administration system)
- 3,460 pre-certification requests with denial savings of \$894,600
- Dental network provider discount savings of \$923,000 (reflected in FY 15/16 forecasted expenses)

Pharmacy Benefit management programs have been third party administered for several years with expected renewal cost decreases for the 2016 calendar year of \$1.2 million.

#### *Revenues/Contributions and Reserve Balance*

Staff has not established a particular reserve balance level for the Employee Benefit Fund. The medical industry is an ever changing environment. Staff reviews the trend in expenditures for the various benefit plans and the effect of approved or pending legislation to assess future risk to the Fund. In FY 08/09 the City started to experience an increase in the trend for the medical plans. The City adjusted the premiums accordingly. The increase in premiums was phased over a couple of years to give employees time to adjust their personal budgets and evaluate the different plan options. This accounts for the increase in revenues shown on the attached graph. Maintaining an adequate fund balance allows the City to do this type of phasing or rate stabilization.

During the same time period, cost containment measures were evaluated and later implemented. The effect can be seen between FY 10/11 and FY 11/12 in the attachment. Once the effect of the cost containment measures were realized and projected, premium adjustments were made to realign revenues with expenditures. The graph illustrates the timeframe needed to respond to changes in the environment affecting the EBT Fund.

The cost containment measures and actions that the City has actively pursued over the years allowed for recent premium increases to be minimal. The claims expense experienced so far in FY 15/16 along with the projected costs for the next 12 months are estimated to reduce the fund balance (reserves) by just over \$14.0 million before premium rates can be adjusted to compensate. An 8% increase in premium contributions for the calendar year 2017 results in an estimated fund balance on June 30, 2017 of about \$35.0 million. This level of fund balance is still adequate for the Fund however to maintain the fund balance, an additional 8% increase in calendar year 2018 would be needed. The City has been able to reduce costs over the last few years but an 8-9% annual increase in cost is more in line with the national average.

#### *Future Stability of the Fund*

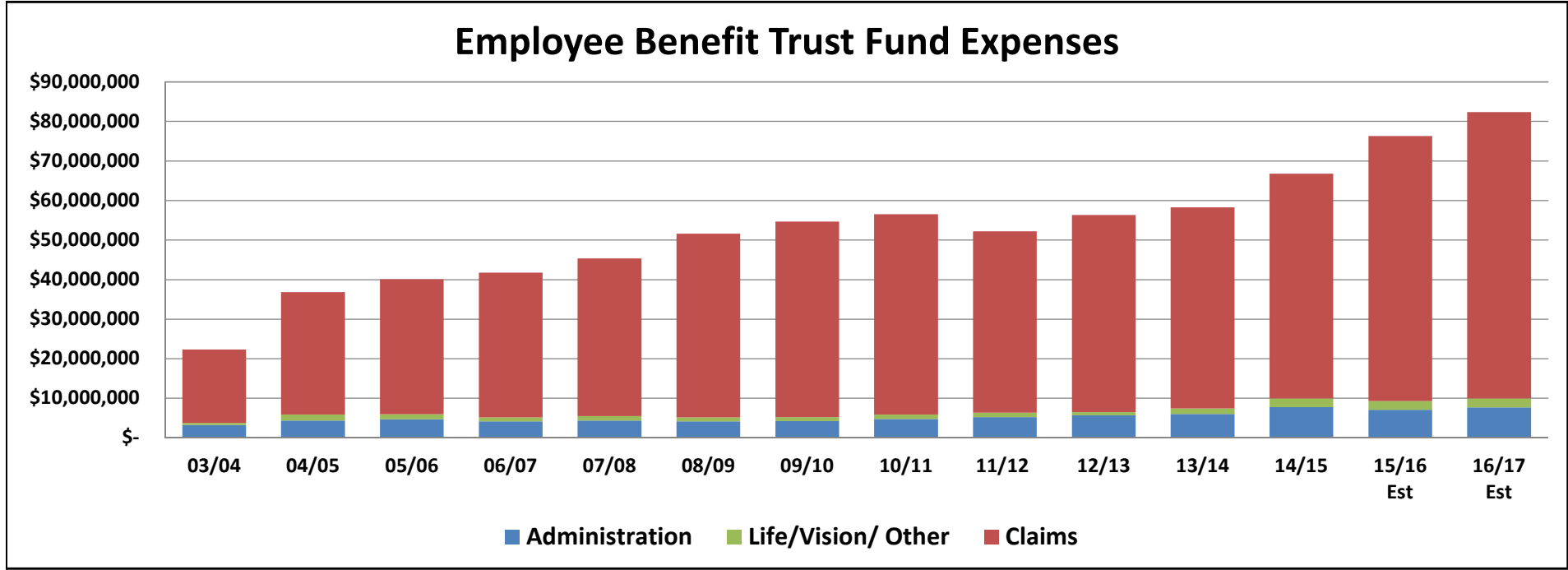
The EBT Fund is subject to the health care reform legislation. While some impacts are known, others are more general. Staff will continue to assess the impact and risk as more information becomes available.

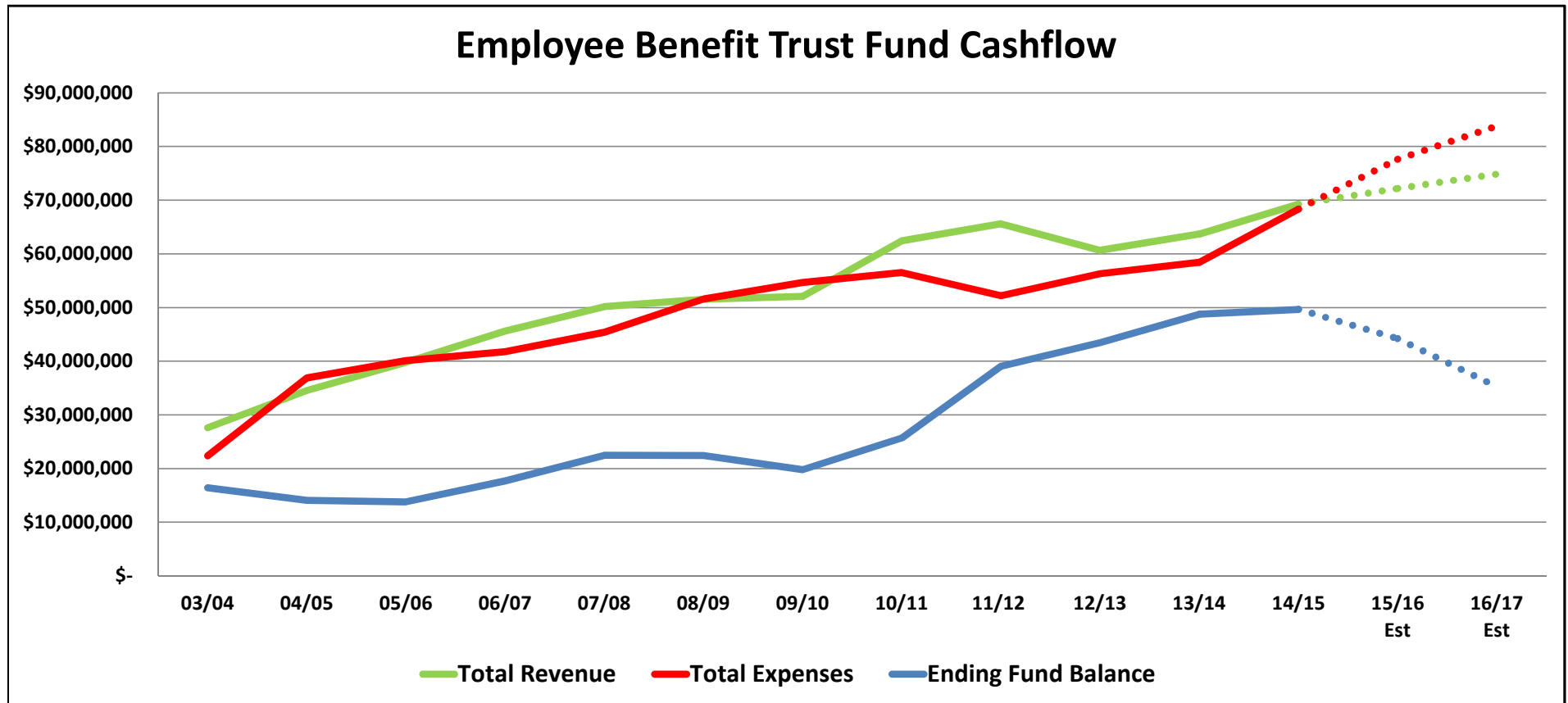
#### Recommendation

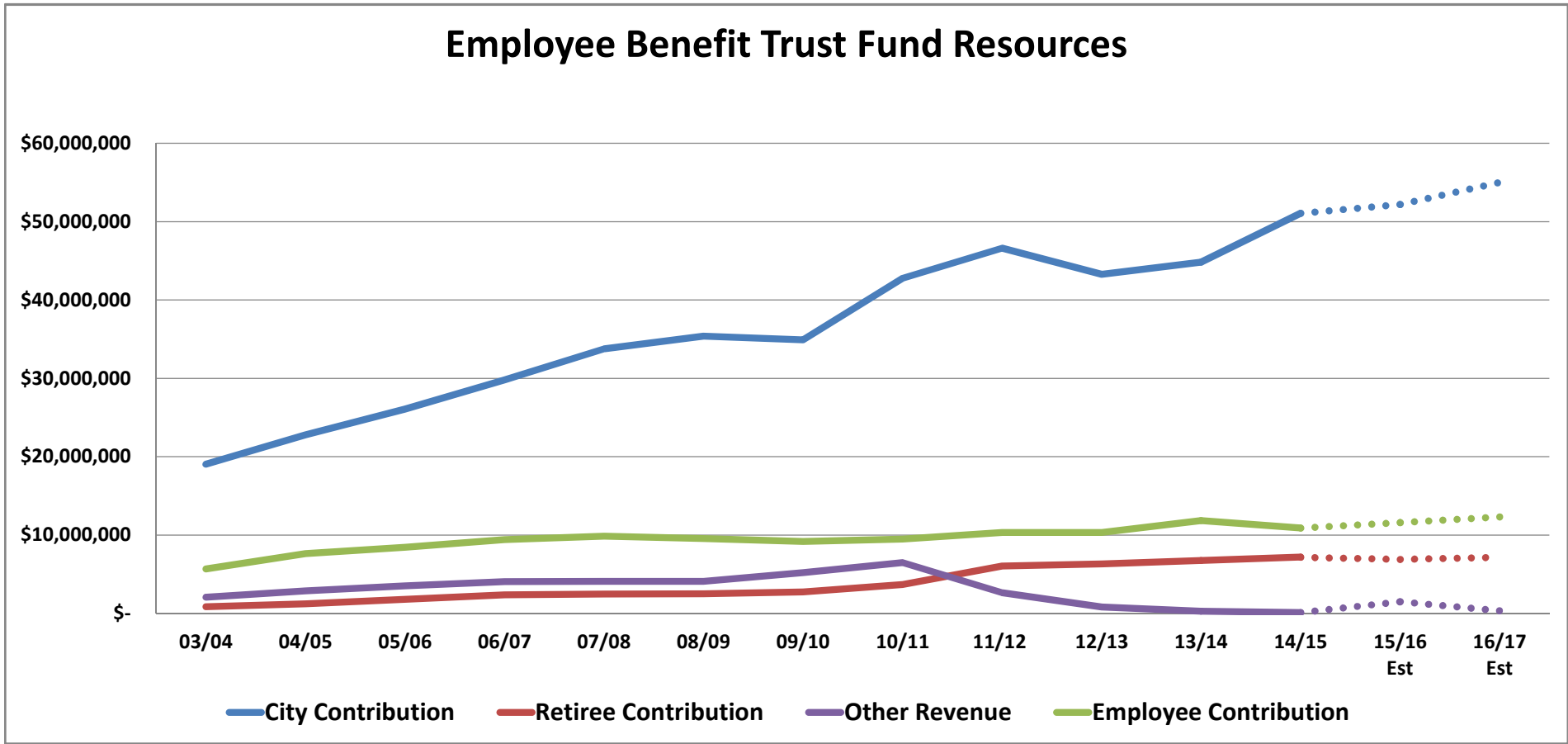
Staff recommends the City contribution to the EBT Fund budgeted for FY 16/17 be based on current medical and dental premiums to be increased 8% in the benefit plan year 2017. The current estimate for the resulting City contribution is \$55.0 million. The increased premiums affect 6 months of the fiscal year. The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

#### Attachments:

1. Employee Benefits Trust Fund Charts – Data Through 12-31-2015







EMPLOYEE BENEFIT TRUST

		Revenues						Expenditures						Fund Balance	
Fiscal Year	Fund	City Contribution	Employee Contribution	Retiree Contribution	Other Revenue	Total Revenue	Employee and Retiree Contribution	Administration	Claims	Life/Vision/ Other	Wellness Ctr	Total Expenses	Net	Ending Fund Balance	Ending Fund Balance
02/03	280	\$ 13,829,072	\$ 3,237,843	\$ 439,246	\$ 2,430,616	\$ 19,936,776	\$ 3,677,089	\$ 2,167,761	\$ 12,656,807	\$ 679,763		\$ 15,504,331	\$ 4,432,445	\$ 11,181,215	50%
03/04	280	\$ 19,034,050	\$ 5,676,585	\$ 843,957	\$ 2,056,909	\$ 27,611,501	\$ 6,520,543	\$ 3,246,520	\$ 18,604,091	\$ 515,972		\$ 22,366,584	\$ 5,244,917	\$ 16,426,132	45%
04/05	280	\$ 22,780,362	\$ 7,631,311	\$ 1,235,984	\$ 2,867,507	\$ 34,515,164	\$ 8,867,295	\$ 4,348,088	\$ 30,981,629	\$ 1,537,805		\$ 36,867,522	\$ (2,352,358)	\$ 14,073,774	35%
05/06	280	\$ 26,079,046	\$ 8,438,275	\$ 1,811,286	\$ 3,499,891	\$ 39,828,499	\$ 10,249,561	\$ 4,724,684	\$ 34,111,398	\$ 1,265,134		\$ 40,101,215	\$ (272,716)	\$ 13,801,058	33%
06/07	280	\$ 29,798,260	\$ 9,415,998	\$ 2,370,537	\$ 4,054,380	\$ 45,639,176	\$ 11,786,535	\$ 4,202,623	\$ 36,594,830	\$ 953,607		\$ 41,751,060	\$ 3,888,115	\$ 17,689,173	39%
07/08	280	\$ 33,775,102	\$ 9,852,965	\$ 2,464,993	\$ 4,075,435	\$ 50,168,495	\$ 12,317,958	\$ 4,384,518	\$ 39,899,125	\$ 1,101,066		\$ 45,384,709	\$ 4,783,786	\$ 22,472,959	44%
08/09	280	\$ 35,384,407	\$ 9,551,133	\$ 2,499,880	\$ 4,098,219	\$ 51,533,640	\$ 12,051,013	\$ 4,169,489	\$ 46,460,185	\$ 973,631		\$ 51,603,305	\$ (69,665)	\$ 22,403,294	41%
09/10	280	\$ 34,914,242	\$ 9,167,018	\$ 2,754,294	\$ 5,217,249	\$ 52,052,803	\$ 11,921,313	\$ 4,247,325	\$ 49,429,636	\$ 991,990		\$ 54,668,951	\$ (2,616,147)	\$ 19,787,146	35%
10/11	280	\$ 42,776,875	\$ 9,487,078	\$ 3,676,222	\$ 6,472,216	\$ 62,412,391	\$ 13,163,300	\$ 4,746,401	\$ 50,589,887	\$ 1,175,611		\$ 56,511,900	\$ 5,900,491	\$ 25,687,637	49%
11/12	280	\$ 46,596,854	\$ 10,334,369	\$ 6,035,886	\$ 2,648,228	\$ 65,615,336	\$ 16,370,254	\$ 5,267,031	\$ 45,829,630	\$ 1,104,162		\$ 52,200,823	\$ 13,414,513	\$ 39,102,150	69%
12/13	4012	\$ 43,275,754	\$ 10,315,504	\$ 6,297,198	\$ 803,017	\$ 60,691,472	\$ 16,612,702	\$ 5,727,818	\$ 49,802,962	\$ 786,383		\$ 56,317,164	\$ 4,374,309	\$ 43,476,459	74%
13/14 Adopt	4012	\$ 45,069,645	\$ 10,110,742	\$ 6,390,028	\$ 267,500	\$ 61,837,915	\$ 16,500,770	\$ 7,118,006	\$ 55,924,342	\$ 1,280,000	\$ 82,894	\$ 64,405,242	\$ (2,567,327)	\$ 40,909,132	
13/14 Actual	4012	\$ 44,839,298	\$ 11,833,707	\$ 6,735,338	\$ 289,231	\$ 63,697,574	\$ 18,569,045	\$ 6,035,689	\$ 50,850,917	\$ 1,410,288	\$ 116,505	\$ 58,413,399	\$ 5,284,175	\$ 48,760,634	71%
14/15 Adopt	4012	\$ 52,289,885	\$ 11,526,246	\$ 6,786,440	\$ 535,000	\$ 71,137,571	\$ 18,312,686	\$ 8,541,948	\$ 56,663,653	\$ 2,003,143	\$ 2,517,978	\$ 69,726,722	\$ 1,410,849	\$ 50,171,483	
14/15 Actual	4012	\$ 51,062,708	\$ 10,900,638	\$ 7,176,298	\$ 117,179	\$ 69,256,822	\$ 18,076,936	\$ 7,797,579	\$ 56,825,942	\$ 2,146,672	\$ 1,581,690	\$ 68,351,883	\$ 904,939	\$ 49,665,573	64%
15/16 Adopted	4012	\$ 53,043,655	\$ 12,542,645	\$ 6,866,519	\$ 270,480	\$ 72,723,299	\$ 19,409,164	\$ 8,024,211	\$ 55,735,180	\$ 2,170,000	\$ 1,536,553	\$ 67,465,944	\$ 5,257,355	\$ 54,922,928	
15/16 Estimate	4012	\$ 52,200,000	\$ 11,600,000	\$ 6,900,000	\$ 1,500,000	\$ 72,200,000	\$ 18,500,000	\$ 7,127,840	\$ 67,000,000	\$ 2,170,000	\$ 1,346,054	\$ 77,643,894	\$ (5,443,894)	\$ 44,221,679	57%
16/17 est w 8% inc															
jan-jul 2017	4012	\$ 55,016,000	\$ 12,324,000	\$ 7,176,000	\$ 350,000	\$ 74,866,000	\$ 19,500,000	\$ 7,729,036	\$ 72,400,000	\$ 2,260,000	\$ 1,430,000	\$ 83,819,036	\$ (8,953,036)	\$ 35,268,643	42%