



## Self-Insurance Trust Fund Board Report

Date: March 25, 2019  
 To: Self-Insurance Trust Fund Board  
 From: Janice Ashley, Employee Benefits Administrator  
 Candace Cannistraro, Office of Management and Budget Director  
 Subject: Employee Benefit Trust (EBT) Fund: Financial Update and FY 19/20 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 17/18 regarding the financial history and reserve policy of the EBT Fund. This report will provide an update on the financial status of the EBT Fund through FY 2017/18, projections for FY 2018/19 and recommended City contributions for inclusion in the FY 2019/20 budget.

### Financial Update

#### *Expenditure Trends*

Expenditures in the EBT Fund are tracked in four categories: administration, medical/dental/prescription drug claims paid, life/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. Total expenses and the cost of claims have increased as shown in the following chart:

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Increase</b>	<b>Cost of Claims</b>	<b>Increase</b>
Actual	FY 14/15	\$68.4M	17.2%	\$56.8M	11.9%
Actual	FY 15/16	\$77.0M	12.7%	\$69.0M	17.9%
Actual	FY 16/17	\$78.4M	1.8%	\$69.3M	0.4%
Actual	FY 17/18	\$80.1M	2.1%	\$70.1M	1.1%
Projected	FY 18/19	\$87.6M	9.3%	\$77.6M	10.6%
Forecasted	FY 19/20	\$93.1M	6.3%	\$82.8M	6.7%

The healthcare and health insurance industries are an ever-changing environment. Staff reviews the trend in expenditures for the various self-insured benefit plans offered to employees and retirees, and the effect of approved or pending legislation to assess future risk to the fund. For the past two completed fiscal years, the total cost of medical,

prescription drug and dental claims have finalized at single-digit increase amounts and below budget. Current FY 18/19 claims are trending approximately 10.6% higher than FY 17/18 actuals and are expected to finish the year at the budgeted amount of \$77.6 million. The expected increase in claims costs for FY 18/19 is due to several factors:

- Medical/Prescription drug plan - reduced frequency of high dollar claimants (over \$150,000) but slightly increased severity of claimants (stop-loss over \$300,000):
  - 26 high-dollar claimants over \$150,000 (\$7 million) in Calendar Year (CY) 2018; 43 claimants (\$9 million) in CY 2017; 34 claimants (\$9.5 million) in CY 2016
  - Five stop-loss claimants over \$300,000 in CY 2018; one stop-loss claimant over \$300,000 in CY 2017; 11 stop-loss claimants in CY 2016
  - Top diagnostic drivers in CY 2018: early stage cancers, cardiovascular/stroke, blood disorders, and neonatal congenital disorders
- Membership (3.2%) and utilization increases from CY 2017 through to current, primarily in retiree, active dependent, and retiree dependent populations:
  - Retiree population is up more than 500 from CY 2017 to 2019 - more than 2,000 retirees in March 2019
  - Dependent population (for both retiree and active groups) is up 160 from CY 2017 to 2019 – more than 8,300 dependents in March 2019
  - Total population covered in medical plans: more than 13,800 in March 2019 (compared to approximately 13,300 in CY 2017)

### *Operational Highlights in FY 18/19*

In CY 2018, the City implemented a three to five-year contract with Cigna for third-party medical plan administration and medical provider network and activated a 12-month run-out administration with AmeriBen and Blue Cross & Blue Shield of Arizona. The Cigna contract includes medical and behavioral health administration services (claims, appeals, medical utilization, and case management), customer service and provider network in all fifty states, and several cost containment and service enhancement opportunities including: significantly reduced base administration fees, seamless national network with minimal member disruption, vendor and service consolidation across in-state and out-of-state plans, and partial, multi-year funding of health and wellness initiatives.

The City introduced and expanded the Mesa Wellness 360 program during CY 2018 to advance wellness engagement with active medical plan enrollees. This wellness program provides financial incentives for registered participants who complete/sign-up for activities (between January 1 and October 31), biometric screenings, daily physical activities, health and wellness events/contests/challenges, preventive physicals and/or screenings, and participation in wellness education. The Mesa Wellness 360 program is funded by the EBT Fund and is supplemented annually by a Cigna-provided *Health Improvement Fund*. Current enrollment figures for the Mesa Wellness 360 program has

more than 1,600 employees registered. An energetic marketing campaign in late CY 2018 promoted the CY 2019 program and continued robust communications increase program participation daily.

During CY 2018 the City's stop-loss insurance program for medical and prescription drug plans was renewed for CY 2019 with significant annual premium cost reductions (almost \$900,000) and increased specific deductible per claimant (to \$500,000). Additionally, an extensive Request for Proposal (RFP) process produced awards for several new welfare benefit plan contractors that have been activated in CY 2019 (Basic and Supplemental Life, Basic and Supplemental Accidental Death & Dismemberment, (AD&D), Business Travel Accident (BTA), Short Term Disability (STD) and supplemental Long Term Disability (LTD) for sworn officers and elected officials). These RFP awards allowed the City to save approximately \$59,500 in annual premium expenses, maintain premium rates for voluntary supplemental insurance programs and add new supplemental AD&D coverage at maintained premium levels but potentially "double the coverage" available to employees.

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

The EBT Fund is projected to end FY 18/19 with a balance of \$44.4 million or 47.7% of year end EBT Fund balance to following year total EBT Fund expenses. This fund balance is consistent with recent EBT Fund balance history and is considered a healthy, but not excessive, year-end balance. The current reserve balance policy sets the reserve minimum at 30% of year-end EBT Fund balance to following year total EBT Fund expenses, however, reserve balances should remain above the minimum of 30%. The 30% reserve balance has been determined to be the lowest threshold that the fund can tolerate two consecutive years of significant expenditures, while keeping contributions at no more than 8% growth.

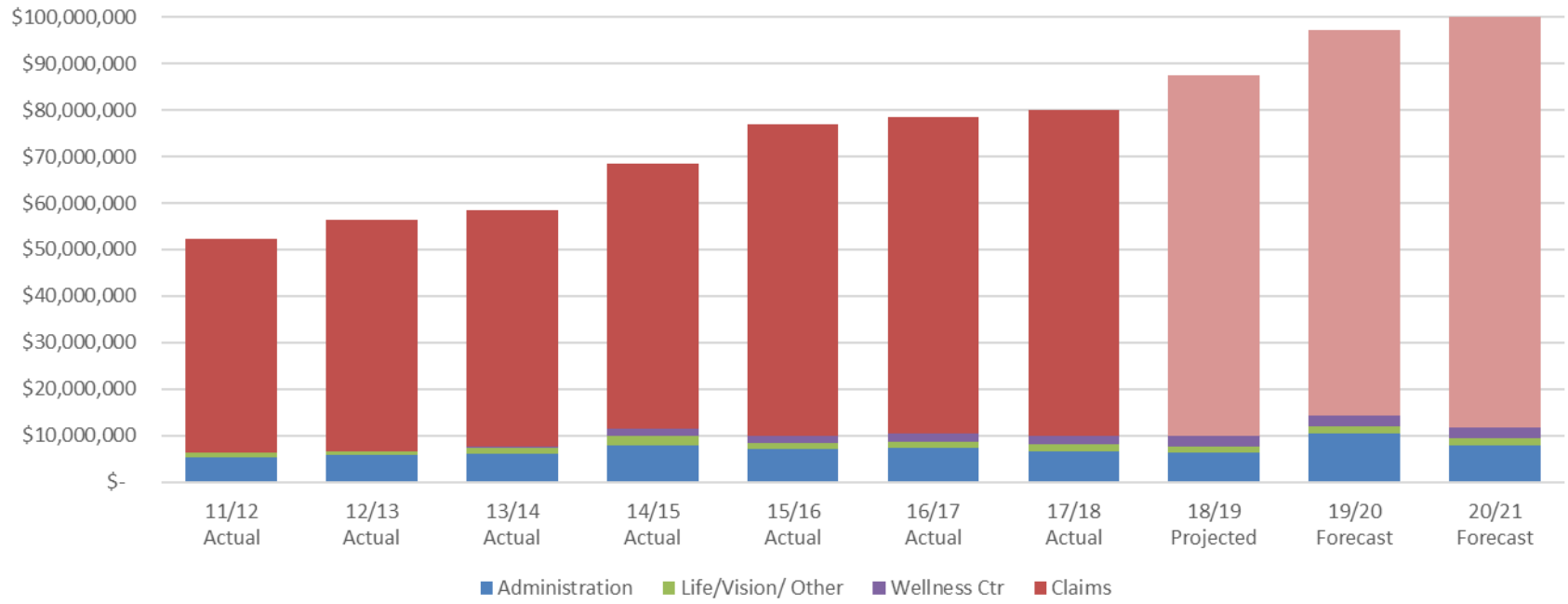
#### Recommendation

Staff recommends a FY 19/20 City contribution of \$72.9 million to the EBT Fund, which equates to a 5% increase in premium contributions for active employees, and 3% increase in premium contributions for retirees in calendar year 2020. This is \$5.5 million City contribution increase from prior year budget. The FY 19/20 year-end fund balance estimate is \$45.3 million, or 45.3% of fund balance to following year's total expenses. 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 Expense and Employee Benefits Trust Fund Cashflow Charts – Data Through 12-31-2018*

### Employee Benefits Trust Fund Expenses



### Employee Benefits Trust Fund Cashflow

