



## Self-Insurance Trust Fund Board Report

Date: February 28, 2022  
 To: Self-Insurance Trust Fund Board  
 From: Janice Ashley, Employee Benefits Administrator  
 Brian A. Ritschel, Office of Management and Budget Assistant Director  
 Subject: Employee Benefit Trust Fund: Financial Update and Fiscal Year 2022/23 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2020/21 regarding the financial history and reserve policy of the Employee Benefits Trust (EBT) Fund. This report will provide an update on the financial status of the EBT Fund through FY 2020/21, year-end projections for FY 2021/22 and recommended City contributions for inclusion in the FY 2022/23 budget.

### Financial Update

#### *Expense Trends*

Expenses in the EBT Fund are tracked in five major categories: administration, self-insured medical/dental/prescription drug claims paid, Employee Health and Wellness Center, Mesa Wellness 360 incentive programs/services, and Life Insurance/Other benefit programs. The cost of Citywide overhead is included in the administration expenses along with departmental overhead, third-party administration fees, and fully insured premium costs. Total expenses and the cost of self-insured 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 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%
Actual	FY 18/19	\$90.8M	13.4%	\$80.7M	15.1%
Actual	FY 19/20	\$96.6M	6.4%	\$86.6M	7.4%
Actual	FY 20/21	\$99.3M	2.9%	\$89.5M	3.4%
Projected	FY 21/22	\$104.1M	4.8%	\$92.7M	3.6%
Forecast	FY 22/23	\$111.0M	6.6%	\$98.9M	6.7%

Healthcare utilization increases, cost and trend increase, and the continuing effects of a long-term national health pandemic, contribute to expense and revenue pressures on the City's EBT. Staff reviews trends in expenditures, claim counts, and membership/demographics for the various self-insured benefit plans for employees, retirees, and their respective family members to assess future risk to the fund. For FY 2020/21, the total cost of medical/behavioral health, prescription drugs, and dental claims were 3.4% above FY 2019/20. FY 2019/20 was above FY 2018/19 by 7.4%. Current FY 2021/22 claims costs are trending at the budgeted amount and are expected to finish the year at \$92.7 million.

Contributing factors affecting the EBT Fund include:

- Increasing medical plan **membership** (inclusive of active employees, retirees, and respective covered family members) from February 2021 to January 2022:
  - Active membership up 1.7% (3,635 active/COBRA employees and 6,495 covered dependents)
  - Retiree membership up 6.6% (2,192 retirees and 2,246 covered dependents)
  - Total membership: 14,568 (as compared to 14,118 in February 2021) – 3% increase
- **Medical claims frequency/utilization** – increased **number of claims** primarily due to improvements in health care access/availability and patient willingness/need to return to chronic and emergent care patterns during national pandemic:
  - Claims count were up 17% in CY 2021 over CY 2020 but 14% over CY2019 (185,802 cf. 159,098 cf. 163,696)
- Increased number of **high-cost claimants** above \$500,000 for CY 2021 (5) as compared to CY 2020 (3) – highest cost claimant = COVID related
- **COVID-19 health plan spends** for testing, professional diagnostic/treatment/lab services and inpatient/outpatient/medical transport costs for severely ill patients (many with other compromised health conditions):
  - CY 2020: approx. \$1.5 million
  - CY 2021: approx. \$4.4 million
- Prescription drug expenses:
  - CY 2020: approx. \$22.2 million
  - CY 2021: approx. \$24.8 million (up 12%)
  - Most drug expense increases from specialty drugs

### *Revenues/Contributions and Reserve 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. 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.

The EBT Fund is projected to end FY 2021/22 with a balance of \$39.3 million or 35.4% of year-end EBT Fund balance to following year total EBT Fund expenses. This fund

balance is similar to prior fiscal years and is considered a moderate year-end balance. This is lower than the prior year's ending fund balance of \$42.1 million, or 40.4% of year-end fund balance to following year total EBT Fund expenses.

As costs for prescription drugs and medical claims continue to increase simultaneously with increased member utilization of medical services, the City will continue to monitor the fund balance and adjust premium contributions accordingly to maintain the fund balance above the 30% fund balance minimum. Office of Management & Budget and Employee Benefits staff have worked jointly on an EBT Fund quarterly report that closely monitors the claims experience of the fund.

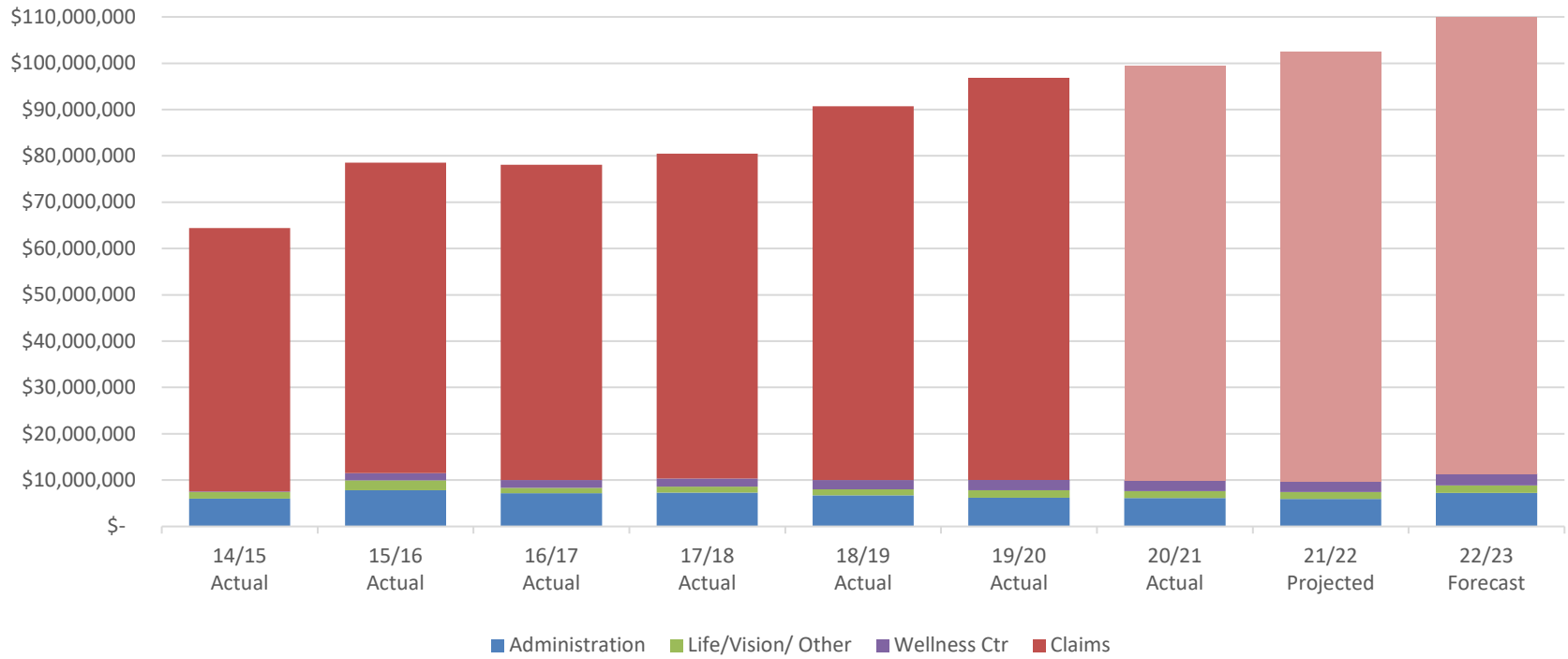
### Recommendation

Staff recommended a 6% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2022 and recommends a 6% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2023. This equates to a FY 2022/23 City contribution of \$83.6 million to the EBT Fund. The FY 2022/23 year-end fund balance estimate is \$36.5 million, or 30.9% 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. *EBT Fund Balance Report – FY21-22 Trust Fund Board – Data Through 2-6-2022*

### Employee Benefits Trust Fund Expenses



### Employee Benefits Trust Fund Cashflow

