



Self-Insurance Trust Fund Board Report

Date: February 23, 2021
 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 2021/22 Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2019/20 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 2019/20, year-end projections for FY 2020/21 and recommended City contributions for inclusion in the FY 2021/22 budget.

Financial Update

Expense Trends

Expenses in the EBT Fund are tracked in four major categories: administration, self-insured medical/dental/prescription drug claims paid, Employee Health and Wellness Center and 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:

	Fiscal Year	Total Expenses	% Increase	Cost of Claims	% Increase
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%
Actual	FY 18/19	\$90.8M	13.4%	\$80.7M	15.1%
Actual	FY 19/20	\$96.6M	6.4%	\$86.6M	7.4%
Projected	FY 20/21	\$99.7M	3.3%	\$89.6M	3.4%
Forecast	FY 21/22	\$102.9M	3.1%	\$92.7M	3.4%

Healthcare access, utilization, costs and trends, legislative changes and the effects of a

long-term, national health pandemic have contributed to an ever-changing environment. Staff reviews trends in expenditures and membership for the various self-insured benefit plans offered to employees and retirees, along with the impact of approved or pending legislation, to assess future risk to the fund. For FY 2019/20 the total cost of medical, prescription drug, and dental claims was 7.4% above the prior fiscal year, as compared to a 15.1% increase for FY 2018/19 over FY 2017/18. FY 2020/21 claims are trending lower than the budgeted amount and are expected to finish the year at \$89.6 million, or 3% below the budgeted amount of \$92.7 million. Contributing factors affecting the fund include:

- Stable medical plan **membership** from February 2020 to February 2021:
 - Active membership down 1%
 - Retiree membership up 0.9%
 - Total membership at 14,118 (as compared to 14,104 in February 2020)
- **Claims frequency/utilization** in medical plans – **decreased number of claims** primarily due to decreased access and utilization during pandemic months in 2020 and 2021:
 - Claims counts down 3% in CY 2020 (approximately 159,000 claims compared to almost 164,000 claims in CY 2019)
 - Average 383 fewer claims per month in CY 2020 compared to CY 2019.
- Slight increase in **high-cost claimants** above \$500,00 for CY 2020 (3) as compared to CY 2019 (one)
- **COVID-19 health plan costs** for testing, professional diagnostic/treatment/lab services and inpatient/outpatient costs for care and treatment of severely ill patients often complicated by other health conditions/occurrences:
 - Over \$2.2 million thru January 2021
 - Influenced by compliance requirements to provide 100% coverage
 - Future vaccine distribution costs for authorized pharmacy/medical provider phased distribution - projected \$200,000 - \$400,000
- **Prescription Drug cost trends:**
 - City's **net drug spend** up almost 7% in CY 2020 for active and non-Medicare eligible populations and down almost 10% for retiree Medicare eligible individuals
 - **Non-specialty drugs price trends** in CY 2020 decreased between 2.5% and almost 5%
 - **Specialty Drugs costs:**
 - Primary pipeline for new to market entries and new treatments
 - Treat complex, rare disease states like rheumatoid arthritis (RA), oncology conditions, multiple sclerosis (MS), psoriasis and hemophilia
 - 21% national price trend increase in CY 2020
 - 48.4% of total City prescription drug spend comes from Specialty drugs for 1.6% of active and non-Medicare eligible retiree populations (both trends slightly above national benchmarks of 48% and 0.9% respectively)
 - 27.2% (lower than national benchmark of 37%) of total City

prescription drug spend comes from Specialty drugs for 2.8% of retiree Medicare eligible individuals (slightly higher than national benchmark of 2%)

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 2020/21 with a balance of \$41.0 million or 39.8% 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 \$43.0 million, or 41.7% of year-end fund balance to following year total EBT expenses.

As costs for prescription drugs and medical claims continues 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 quarterly report that closely monitors the claims experience of the fund.

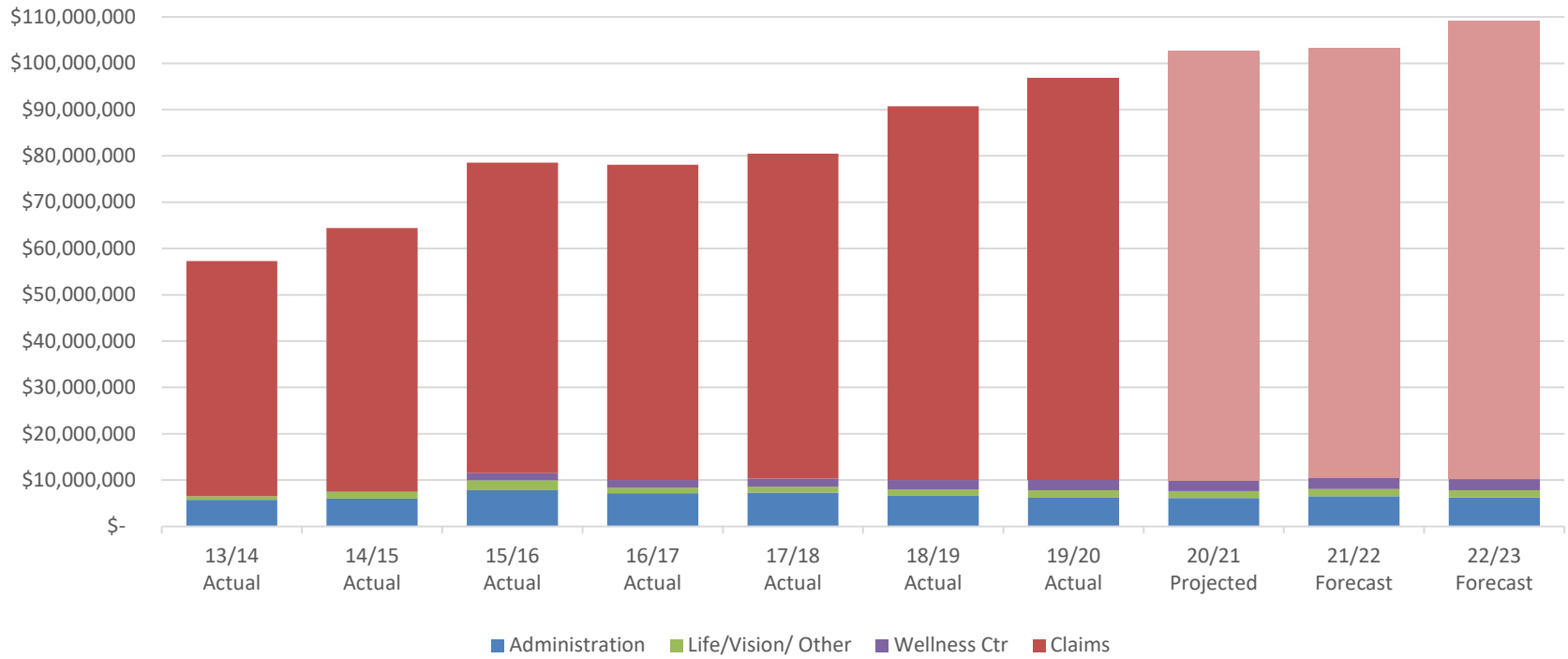
Recommendation

Staff recommended a 4% increase in premium contributions for active employees and 0% increase in premium contributions for retirees in CY 2021 and recommends a 6% increase in premium contributions for active employees and 3% increase in premium contributions for retirees in CY 2022. This equates to a FY 2021/22 City contribution of \$77.8 million to the EBT Fund. The FY 2021/22 year-end fund balance estimate is \$39.7 million, or 36.3% 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. *EBT Fund Balance Report – FY20-21 Trust Fund Board – Data Through 12-31-2020*

Employee Benefits Trust Fund Expenses



Employee Benefits Trust Fund Cashflow

