



Self-Insurance Trust Fund Board Report

Date: February 25, 2020
 To: Self-Insurance Trust Fund Board
 From: Janice Ashley, Employee Benefits Administrator
 Candace Cannistraro, Office of Management and Budget Director
 Subject: Employee Benefit Trust Fund: Financial Update and Fiscal Year 2020/21 Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in fiscal year FY 2018/19 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 2018/19, year-end projections for FY 2019/20 and recommended City contributions for inclusion in the FY 2020/21 budget.

Financial Update

Expenditure Trends

Expenditures 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%
Projected	FY 19/20	\$97.2M	7.0%	\$86.9M	7.7%
Forecasted	FY 20/21	\$103.3M	6.3%	\$92.7M	6.7%

The healthcare and health insurance industries are an ever-changing environment. Staff reviews the trend in expenditures and membership 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 FY 2017/18 the total cost of medical, prescription drug, and dental claims came in at 1.1% above the prior year, and FY 2018/19 cost of claims came in 15.1% above the prior year. FY 2019/20 claims are trending higher than FY 2018/19 actuals and are expected to finish the year at \$86.9 million, \$4.1 million or 7.7% above the budgeted amount of \$82.8 million. The expected increase in claims costs for FY 2019/20 is due to several factors:

- Overall, moderate medical plan **membership increases** (2.4%) from February 2019 to February 2020:
 - Active population up 3.1%
 - Retiree population up 2.7%
 - Dependent population up 2%
 - Total membership over 14,100 (as compared to approx. 13,700 a year ago)
- **Claims frequency/utilization** in medical plans – **increased number of claims:**
 - Claims counts up 5% in CY 2019 (163,000) compared to CY 2018 (155,600)
 - Average 1,200 to 1,400 more claims per month in FY 2019/20 compared to FY 2018/19
- National **drug price cost trends:**
 - City's **net drug spend** up 11% in CY 2019 (after Rebates and Medicare Part D subsidies and reimbursements)
 - More than \$14.8 million net drug spend compared to \$13.3 million in CY 2018
 - Specialty drugs - high-cost, high complexity, high touch, injectable or oral biologics (derived from living cells rather than chemical compounds) to treat complex/rare conditions such as cancer, rheumatoid arthritis, hemophilia, H.I.V., psoriasis, multiple sclerosis, hepatitis C:
 - Primary pipeline for new to market entries
 - 22.2% national price trend increases annually causing ever increasing % of total drug spend for Specialty Drugs
 - Main diagnostic drivers of City spend - cancers and rheumatoid arthritis
 - Specialty drugs were 45% of City spend (national 48%) in CY 2019 for 1.3% of the City's non-Medicare population (national 0.8%); 25% of City spend (national 34%) for 2.7% of the City's Medicare eligible retirees and dependents (national 1.8%)
 - Non-specialty generic and brand drug price trend running 2.2% increases per year

Operational Highlights in FY 2019/20

Based upon feedback from employee surveys, plan offerings were enhanced in 2019 to

provide fully insured, voluntary Short Term Disability Insurance for part-time benefit eligible employees in 2020 and beyond - with no change in premium rates and no cost to the City. This coverage had previously been available to full-time employees only, but now provides an opportunity for disability income loss protection for a broader population.

During 2019 the City's fully insured Vision Care program for routine vision care and materials was renewed for a final year under the current contract with VSP. This renewal included modest premium increases after no increases for four years, heavy utilization/high favorability and significantly, introduction of a new enhanced third plan option for 2020. The enhanced option experienced an initial enrollment of more than 1,350 employees and retirees. Currently, overall vision plan enrollments have increased almost 3% over 2019 levels.

The City continued and expanded the Mesa Wellness 360 program during CY 2019 to advance wellness and preventive engagement for active medical plan enrollees. The 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 and coaching. The City's near-site Employee Health and Wellness Center provides primary and preventive care services with contracted medical professionals for employees, some eligible retirees (post 1/1/17 non-Medicare eligible retirees), and respective dependent populations enrolled in City of Mesa medical plans. The Mesa Wellness 360 program and the Health and Wellness Center are funded by the EBT Fund and supplemented annually by a medical plan third-party administered Cigna *Health Improvement Fund*, a feature of the current Cigna contract that the City awarded effective January 1, 2018. Current enrollment figures for the Mesa Wellness 360 program has 2,250 employees registered out of more than 3,600 eligible employees (61%). More than \$139,000 in gift cards were awarded to points earning participants in 2019 and 504 employees became eligible for \$200 per person medical plan premium discounts in 2020 under the program.

The City's annual Employee/Retiree Health and Wellness Benefits Fair during the 2019 Open Enrollment period for 2020 benefit programs, saw significantly increased attendance, expanded focus on health and wellness education opportunities and presentations, revised floor plan, and "sold out" vendor participation. The Fair included volunteer supported online enrollment opportunities (primarily from the City's Employee Benefits Task Force and citywide Wellness Champions) as well as wellness points earning classes on "What's New in Benefits, Did you Know..."

Two cost containment strategies were analyzed in 2019 for implementation in 2020 self-insured benefit plans. These included increasing medical plan out-of-network (OON) deductibles and coinsurance amounts for members (cost shifting). OON deductibles increased from \$1,000 single/\$3,000 family to \$1,500 single/\$4,500 family and coinsurance amounts changed from 60% Plan liability and 40% member liability to 50% for each. A second cost containment strategy was increased education and enforcement of dependent eligibility criteria across medical, dental, and vision care plans. Employees

were encouraged to refresh on dependent eligibility provisions and remove ineligibles during the Open Enrollment process. Additionally, the City announced a self-administered Dependent Eligibility Verification Audit process conducted in phases in 2020 and 2021. This verification audit process will require members to re-verify relationship eligibility - provide documentation that substantiates the eligibility of spouses and children covered under the City's benefit plans. Ineligibility or failure to substantiate will be enforced by removal from plan coverages.

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 2019/20 with a balance of \$40.0 million or 38.8% of year-end EBT Fund balance to following year total EBT Fund expenses. This fund balance is below recent EBT Fund balance history and is considered a low to moderate year-end balance. This is in contrast to the prior year ending fund balance of \$45.5 million, or 45.8% of year end fund balance to following year total EBT expenses, which is considered a healthy but not excessive fund balance.

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. With current contribution increases set at 6% for active employees and 3% for retirees, staff anticipates approaching the 30% fund balance minimum in the next 18 months. 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.

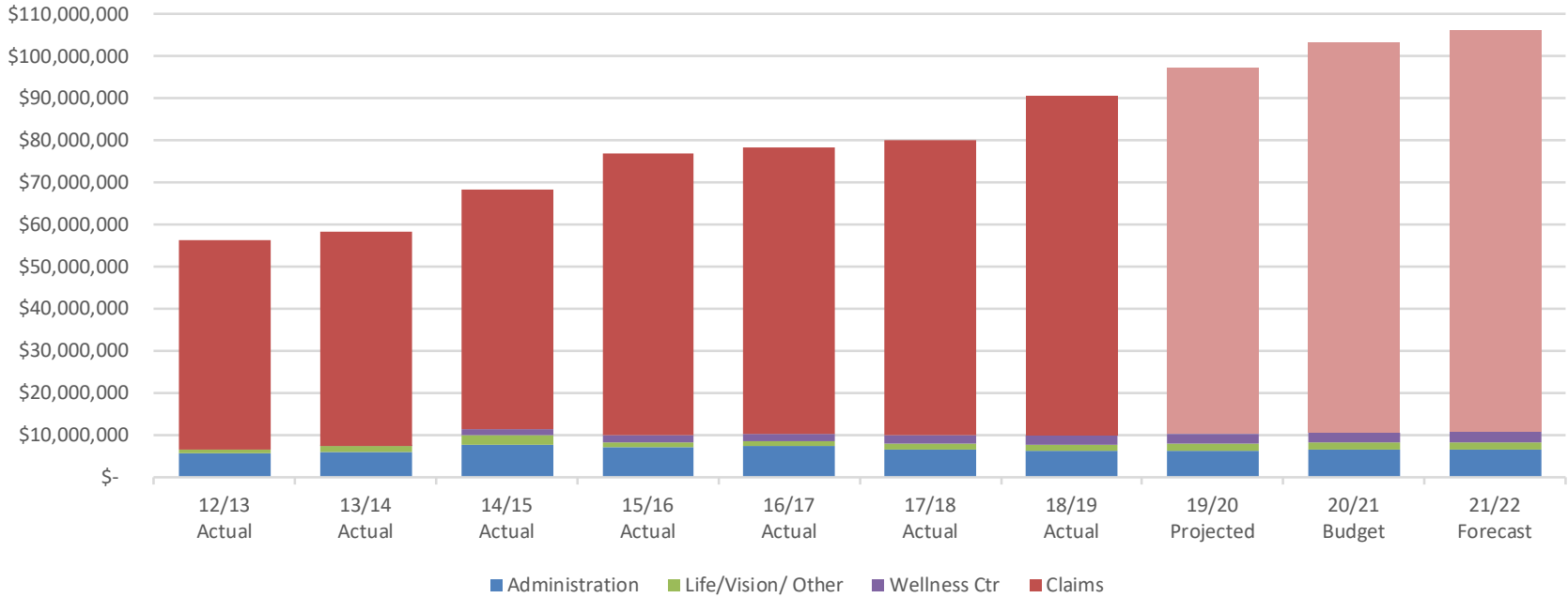
Recommendation

Staff recommends a 6% increase in premium contributions for active employees, and 3% increase in premium contributions for retirees in CY 2020 and CY 2021, which equates to a FY 2020/21 City contribution of \$72.9 million to the EBT Fund. This is a city contribution increase of \$52,000 over prior year budget that included larger estimated premiums in CY 2020 and 2021 than were implemented. The FY 2020/21 year-end fund balance estimate is \$35.9 million, or 33.9% 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. *Employee Benefits Trust Fund Expense and Employee Benefits Trust Fund Cashflow Charts – Data Through 12-31-2019*

Employee Benefits Trust Fund Expenses



Employee Benefits Trust Fund Cashflow

