



Self-Insurance Trust Fund Board Report

Date: March 3, 2026

To: Self-Insurance Trust Fund Board

From: Janice Ashley, Employee Benefits Administrator
Teri Overbey, Human Resources Director
Jag Mundi, Office of Management and Budget Sr Budget Analyst
Samuel Schultz, Office of Management and Budget Assistant Budget Director
Brian Ritschel, Office of Management and Budget Director

Subject: Employee Benefit Trust Fund: Financial Update and Fiscal Year 2026/27
Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2024/25 regarding the financial history and fund balance of the Employee Benefits Trust (EBT) Fund. This report will provide an update on the financial status of the EBT Fund through FY 2024/25, year-end projections for FY 2025/26 and recommended City contributions for inclusion in the FY 2026/27 budget.

Financial Update

Expense Trends

Expenses in the EBT Fund are tracked in five major categories: administration (Citywide overhead, departmental overhead, contracted third-party administration fees, and regulatory compliance fees); self-insured paid claims for medical/behavioral health and prescription drugs and dental claims; Employee Health and Wellness Center expenses, Mesa Wellness 360 incentive programs/services, and premiums for Life Insurance/ Stop-Loss Medical/Other fully insured benefit programs.

Staff review trends in expenses, claim counts, and membership changes for the various self-insured benefit plans for employees, retirees, and their respective family members, to assess future risk to the fund. As seen in the table below, total expenses and the cost of self-insured claims saw an increase in FY 2024/25 and are projected to increase further through FY 2025/26 and FY 2026/27.

The cost of claims includes medical claims, high-tech radiology and behavioral health capitation fees, third-party cost containment management fees, prescription drug claims and management fees, specialty drug advocacy service cost avoidance fees, and dental claims.

Claim costs increased in FY 2024/25 by 19.3% compared to the prior year in large part due to prescription drug claims as well as healthcare cost inflation, number of claims, utilization increases, membership increases, and capitation and cost containment fee increases. For FY 2025/26, cost trends are still increasing but slower than FY 2024/25. Claim costs are expected to finish at \$134.2 million.

The expenses for the Mesa Health and Wellness Center relocation and re-build are excluded from the table below which will be offset with a transfer from the General Fund.

Fiscal Year	Total Expenses*	% Increase	Cost of Claims	% Increase
FY 19/20 Actual	\$96.6M	6.4%	\$86.6M	7.4%
FY 20/21 Actual	\$99.3M	2.9%	\$89.5M	3.4%
FY 21/22 Actual	\$102.2M	2.9%	\$91.4M	2.1%
FY 22/23 Actual	\$101.8M	(0.4%)	\$90.3M	(1.2%)
FY 23/24 Actual	\$116.6M	14.6%	\$104.3M	15.4%
FY 24/25 Actual	\$138.2M	18.5%	\$124.5M	19.3%
FY 25/26 Projected	\$149.3M	8.1%	\$134.2M	7.8%
FY 26/27 Forecast	\$155.2M	4.0%	\$139.1M	3.7%

**Excludes Wellness Center Project related costs which will be offset with a transfer in.*

Contributing Factors Affecting the EBT Fund

Increases:

Calendar Year (CY) 2025 total expense increases were driven by healthcare cost inflation, membership increases, claims count increases, prescription drug utilization and high-cost mix increases, number and severity of high-cost medical plan claimants and wellness incentive/rewards/administration increases driven by desirable higher engagement/participation.

- **Hospital System and Specialty Provider Groups’ Healthcare Cost Inflation on Billed Charges:** (10% to 30% nationally)
- **Prescription Drug Gross Spend - Before Rebates and Subsidies:** up 32% (\$11.5 million) in 2025 across Commercial and EGWP plans:
 - ✓ Non-Specialty Drugs (incl. high-cost impact of GLP-1’s) – up 43% (\$8.7 million)
 - ✓ Specialty Drugs – up 18% (\$2.6 million)
- **Membership Growth:** overall 2% growth - 15,963 members by February 2026 (11,162 active and 4,801 retiree population with fastest growth in retiree population at 4.8%)
- **Medical Claims’ Counts:** increased 7.8% (202,125 claims in 2025 – up 14,579)
- **High-Cost Medical Claimants:** 233% increase in claimants above \$500,000 in 2024/2025 - 6 Active and 4 Retiree members

- ✓ **Wellness Incentive Gift Card Redemptions:** up 27% in 2025 - 8,722 x \$50 cash cards (\$436,100); 2024 - 6,892 cash cards (\$344,600)
- **Wellness/Medical Premium Credits to Employees** - \$315,800 earned in 2025 to be paid in 2026 to 1,579 employees/spouses; up from \$262,200 for 1,311 employees/spouses paid in 2025

Offsets/Decreases:

- **Employee/Retiree Medical/Prescription Drug Premium Contributions:** +\$901,939 - 8.4% increase overall in 2025
- **Stop-Loss Medical Claims Reimbursements:** \$1,872,522 in 2025; \$429,187 in 2024
- **New Contract for Medical/Prescription Drug Stop-Loss Insurance:** future offsets - decreased premiums approx. 34% for 2026 (but increased Specific to \$750,000)
- **RX Rebate Revenue:** 88% increase in 2025 to \$8,818,512 (\$4,690,842 in 2024) - primarily Specialty Drug/high-cost non-specialty Brand drug (including GLP-1) rebates
- **Age-In to Medicare for Retirees (and Retiree Spouses):** 113 in 2025; 117 projected for 2026 – retiree medical plan liability reduction due to secondary payment status
- **Employee Health and Wellness Center Utilization** – 11,768 office visits in 2025 (of which 3,123 for new patients) – promotes preventive care and chronic condition management that would otherwise result in claims costs in the medical plan or not happen at all and potentially result in long term claims costs for late diagnosed or unremediated care.

Revenues/Contributions and Reserve Balance

The financial principle of the reserve balance is a minimum of 30% of the year-end EBT Fund balance to following year total EBT Fund expenses. The financial principal was determined to allow the fund to withstand multiple significant growth year in claims. The reserve balance would allow the revenues to catch up with the expenses growth. Recently, the City has been challenged by severely escalating national healthcare claims (specifically in prescription drugs) and administration costs in general. Since FY 2034/24, the City has seen significant growth in claims with moderate growth in revenues. Staff recommends a draw-down of the EBT Fund balance to the 15% to 20% level to allow the opportunity for revenues to catch up with expenses. Additionally, staff are reviewing different strategies to mitigate exposure of the large increases in prescription drug claims.

For CY 2026, staff implemented a 10% increase in overall medical plan premiums for active employees, and 10% increase in overall medical plan premiums for retirees. The EBT Fund is projected to end FY 2025/26 with a balance of \$24.5 million (15.8% reserve balance).

Recommendation

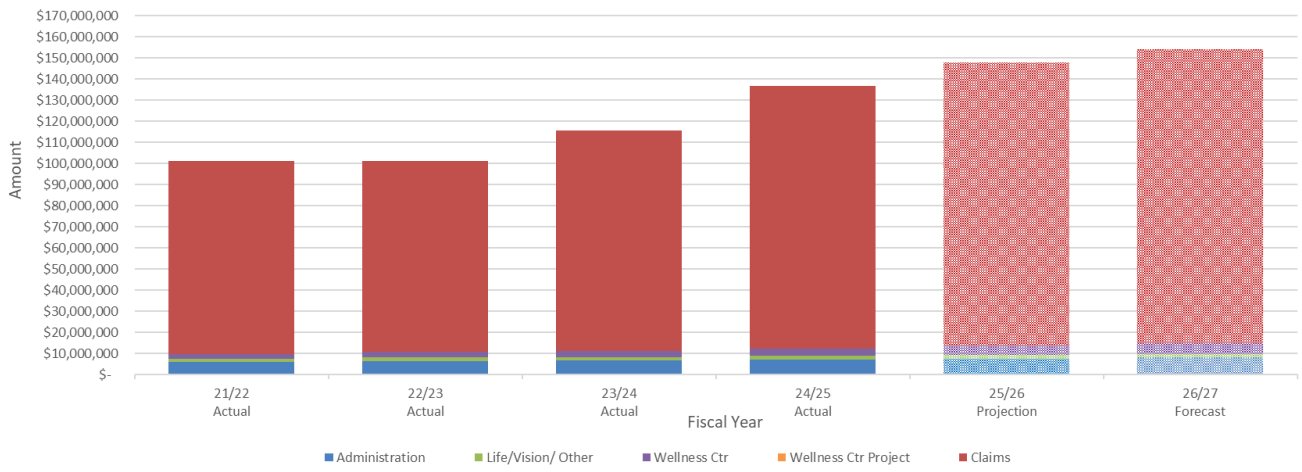
Office of Management & Budget and Employee Benefits staff will continue to monitor the claims experience of the fund. As medical and prescription claim trends emerge, the City will consider adjustments to premium contributions each calendar year to maintain the fund balance.

The FY 2026/27 forecast includes an implemented increase of 10% to premium contributions in CY 2026, and a recommended 10% increase in CY 2027 for both the City, active employees and retired employees. This equates to a FY 2026/27 City contribution of \$111.0 million to the EBT Fund, resulting in an estimated year-end fund balance of \$28.9 million (17.8% reserve balance). The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

Attachment

- 1) Employee Benefits Trust Fund Expenses
- 2) Employee Benefits Trust Fund Cashflow

Employee Benefits Trust Fund Expenses



Employee Benefits Trust Fund Cashflow

