

MINUTES 3/25/19

SELF-INSURANCE PROGRAM BOARD MEETING

A meeting of the Self-Insurance Program Board of Trustees was called to order at 11:00 a.m., Monday, March 25, 2019, in Personnel Conference Room #2 at 20 E. Main Street, Suite 130, Mesa, AZ 85201.

MEMBERS PRESENT

Board Chair Kevin Thompson
Linee Ferguson
Courtney Guinn
Michael Kennington, CFO

MEMBERS ABSENT

Kelly Vorseth

OTHERS PRESENT

Tracy Hurt, Board Secretary
Gary Manning, HR Director
Jan Ashley, Emp. Benefits Administrator
Nitra Hawkins, Safety Administrator
Candace Cannistraro, Of of Mgmt & Bdgt Dir.
Jim Smith, City Attorney
Lisa Lorts, Risk Management Claims Analyst
Marcus Steele, Sr Budget Analyst, OMB
Brian Ritschel, Deputy Director, OMB

Citizens Present

None

The meeting was called to order by Board Chairperson, Councilmember Kevin Thompson at 11:00a.m.

Board Chair Thompson opened the meeting with rollcall of members present. One Board member, Kelly Vorseth was absent. Board Chair Thompson asked if there were any citizens present. There were no citizens present.

The next order of business was to hear presentations and budget recommendations for the Public Property and Public Liability Trust Fund, the Worker's Compensation Trust Fund, and the Employee Benefits Trust Fund.

Jim Smith, City Attorney, reviewed the presentation document "Self-Insurance Trust Fund Board Report" (attachment) and highlighted the following:

The PPL Trust fund is for claims brought against the City for monetary damages and expenses incurred to litigate those claims. The three areas of cost paid out of the PPL Trust are:

1. Payouts and defense costs of third-party claims and lawsuits filed against the City and its employees;
2. Costs associated with staffing the litigation unit in the City Attorney's Office; and
3. The City's insurance premiums.

Claims and Lawsuits

Referring to the second page of the report, Jim noted that the number of claims and lawsuits have been relatively similar for a number of years. We have closed quite a few cases in the last fiscal year (128).

Linee asked for clarification on our fiscal year. Jim noted that it runs July 1 through June 30.

Litigation Expenses

Moving on to the Litigation Expenses, Jim noted that there have been some increases in outside counsel fees / co-counsel fees for large cases. In order to reduce those costs in the future the City will be hiring an additional litigation attorney in the City Attorney's office to keep more cases in house. Due to current cases in process, those costs may take a few years (2-5) to trail off.

Courtney asked if the success rate is higher when we use outside counsel. Jim responded that this is not the case. There is a leverage that the plaintiff gains when we use outside counsel due to our cost. When we go to mediation handling a case in-house, the plaintiff knows that we are not incurring outside counsel expenses and will use that in negotiating a settlement.

Insurance

Insurance costs are anticipated to increase. We have been fortunate to have stable costs due to a City Council resolution to that allows the City to renew its insurance coverage with its current insurer if the annual increase in premiums does not exceed 2.5%. This resolution helps reduce premium increases by attracting and retaining insurers that want a long-term relationship with the City. We do not know if we will be able to maintain the 2.5% or less increase in the future due to increased market costs so we are realistic. The major driver of the insurance cost is the comprehensive general liability that insures the City for claims involving the Police department and many other departments. Additionally, property claims involving accidents on City property. We have made a number of claims on the property insurance side and out of \$1.3M in premiums paid have received approximately \$475,000 back.

Travelers provided a two four-hour training session on how to reduce liability to Police Department supervisors. Approximately 150 officers attended that training. Travelers discussed, among other things, current litigation trends and suggestions regarding best practices. We also met with Solid Waste and Transportation (two of our departments that have kept costs down) regarding training other departments utilizing best practices.

Chair Thompson asked if the City Attorney's office works with Energy Resources regarding third-party damage to power lines (for example, if a car hits a power line).

Jim noted that they would only get involved if the department was not able to recover from the third-party insurance company. Lisa indicated that the Finance department would reach out for insurance subrogation.

Funding Recommendation (PPL Trust FY 19/20)

Jim explained that although it looks as though the budget is decreasing for the next fiscal year, there were actually lower than anticipated claims paid out which allowed "savings/carryover" remaining in the fund. This results in a reduced City contribution in FY 19/20 from the FY 18/19 contribution of \$7.4M to maintain the fund balance minimum of \$10M and cover anticipated expenses.

Marcus asked Jim to explain the City's Self-Insured Retention (SIR) layers. Jim explained that some may think of this as a "deductible" since we are required to pay the first \$3M in claims before our next level of insurance coverage kicks in. The first \$3M in claims cost comes out of the trust fund, then the next \$15M from Travelers Insurance and additional "layers" of coverage. The City has a total \$50M excess liability insurance coverage above the \$3M SIR. We do not want to increase our SIR because very few claims rise above that \$3M and any insurance cost savings would be lost if we were required to pay an additional \$2M in SIR.

Staff recommends a City contribution of \$6.9M to the PPL Trust Fund for FY 19/20 budget to achieve a minimum forecasted ending reserve balance of \$10M and anticipated to be approximately \$12M.

Sixty-five percent (65%) of the funding for the PPL Trust comes from the General Fund and thirty-five percent (35%) comes from other funds.

Linee asked if the funds were earning interest. Candace explained that all City's funds are in an investment pool and earning interest.

Courtney asked if Mesa could partner with other cities to share an umbrella policy and if that would be beneficial? Jim stated that many smaller cities are in a pool and utilize an outside law firm. We have gotten out of the pool and so has Phoenix, Chandler, Tempe and Tucson to save money. From an insurer's perspective, they are trying to calculate risk of the municipality and we could be inheriting other municipalities problems. There are both pluses and minuses in getting a rate based on our risk assessment. Historically we have done a very good job of reduced costs and claims.

Chair Thompson asked if there were any other questions regarding the PPL Trust presentation. There were no additional questions, so we moved to the next presentation of the Workers' Compensation Trust Fund by Nitra Hawkins, Safety Administrator.

Nitra referred the board to the Worker's Compensation Trust Fund Operations Report (attachment) to highlight the statutory requirements and history of the WC self-insurance program at the City of Mesa. The City of Mesa has been self-insured since July 1, 1982. Our program has also been self-administered since October, 1990.

WC Trust Funding

The WC Trust Fund is 100% funded by the City. There are no premiums collected from employees. Contributions come from the General Fund through department rates. Rates are determined by job titles/job duties based on likelihood of injury risk.

Linee asked if highlighting the fact that no employee contributions are required means that is uncommon? Nitra clarified that it is a violation of statute to require employee contributions – no employer could require employee contributions.

Excess WC Insurance Reimbursements (Stop Loss) is another source of funding. Nitra noted that the last six years history of Excess WC Insurance Reimbursements are provided (Page 3). Those reimbursements are primarily due to our WC liability SIR. There have been various levels of SIR, so reimbursements for older claims are typically between \$250,000 - \$600,000. WC currently has a \$1M SIR that has been in place since 2007. We have not had a claim that has reached \$1M.

Chair Thompson asked if the \$1M SIR is per event and Nitra confirmed.

Nitra noted that another revenue stream is Subrogation Reimbursements, where the City has lien-holder rights before the claimant against third parties at fault such as the insurance provider of the other party.

WC Program Operation Costs

Expenses paid out of the WC Trust Fund are listed on page four (4) of the presentation:

- Industrial injury and illness claims paid to our injured workers
 - Medical and Lost income/wages
- Legal costs
- Network access fees – Medical providers
 - (AZ Blue Cross / Blue Shield)
- Specialty bill review services
- Self-insurance surety bond costs
- Special and administrative taxes (ICA)
- Excess workers' compensation insurance premiums (Stop-Loss),
- Self-Insured Retention (SIR) of \$1 Million per Claim
- Personnel Costs – Program Administration

Referring to page five of the presentation, Nitra reviewed our six-year history of claims. Claims are provided from 2013 thru 2018.

Another portion of the personnel cost is the part-time Program Assistant for our First Contact program. She reaches out to all claimants as soon as an injury report is received to ensure they have all of the information they need and to see if they are ok.

Two Worker's Compensation Representatives manage an average of 190 claims each at one time which may change due to the ebb and flow of new claims coming in. Our oldest active claim goes back to September of 1985.

Courtney asked if we ever look back to do an internal audit of claims to be sure no one is taking advantage of the system. Nitra explained that the claims are based on a doctor rating of the disability. Perhaps a Firefighter has a 15% disability of shoulder use and he can no longer perform the essential functions of his job and there is a loss of earning capacity. Based on the AMA guidelines we are responsible for the lifetime of the employee. There is usually not a sense of fraud, but if there is a concern that employee could be sent for an independent medical evaluation to confirm.

Michael asked if annual follow-ups are required. Nitra indicated that medical updates are required every 30 days for active care and every year for maintenance care. If updates are not provided the benefits can be suspended temporarily until the doctor update is provided.

Linee asked if the 190 cases for each Workers' Compensation Representative is consistent or has that increased. Nitra noted that there has been an increase in claims and to also keep in mind that older claims that may be in maintenance are part of that case load as well.

The WC Bill Payment Program consists of two Sr. Program Assistants that process all medical bills. Historical statistics on page five show the last three years of medical bills paid.

The Transitional Work Program is available for those who might require a reduction in hours, alternative work for a temporary period, and modified work duties within their regular position.

Chair Thompson asked if they are assigned to a position where their skills can be utilized for transitional work and if the assignment is up to the department. Nitra indicated that Workers' Comp works with the department to utilize the worker for the benefit of their department as allowable based on the employee's restrictions.

Nitra reviewed the Cost Containment programs listed on page seven of the report such as Directed Care, Specialty Bill Review, ICA State Fees, and the Pharmacy Benefits Manager (PBM)-(myMatrixx as of 1/1/19). The Blue Cross/Blue Shield WC Network has an extensive list of providers and we do realize cost savings from this network. Although we cannot require an employee to utilize this network, we do make it available and convenient for them.

Linee asked why we would not require employees utilize certain providers and Nitra explained that based on state statute we can't require an employee to see a specific medical provider for treatment.

Courtney asked if the PBM savings are contracted discounts off the WCP and how does that savings compare to our active employees? Nitra explained that those our contracted discounted and reduced medication dispensing fees. She indicated that WC has much less utilization than our active employee population so we will not have the benefit of rebates that Employee Benefits Trust would have.

Nitra reviewed our EMOD rate (target to be under 1.00) from 2013 through 2018 on page 8 and explained that the ICA looks at the prior three years of claims compared to other municipalities to calculate our EMOD rate.

Safety Program - In addition to the Workers' Compensation program, Nitra oversees the Safety program that works in conjunction with WC to ensure employee's safety. The Safety program is a proactive program that focuses on preventative measures to ensure OSHA compliance. There are two Safety

Coordinators, and one Safety Technician that provide safety inspections, safety training, safety manuals/procedures indoor air quality monitoring, and specific department employee concerns.

Safety Committees - there is a Citywide Safety Committee comprised of representatives from each department with the goal of heightening safety awareness and communication. Departments also have their own Safety Committees.

Safety Awareness – utilizing injury statistics, the safety team will provide department specific and Citywide training on items of concern such as slips, trips, and falls and lifting and carrying (strains and sprains).

WC Operational Challenges

Concluding her presentation, Nitra referred to the Operational Challenges listed on page ten. With the expansion of Presumptive Cancer Statutes in 2018 there have been 13 additional types of cancers added to the list bringing it to a total of 21 presumptive cancers based on job-related causes (this will be specific to Police and Firefighters). This can potentially impact the trust fund, although these costs will occur over time and not all up front.

Linee asked what the prior list included and Nitra responded that there were eight (8) presumptive cancers on the list previously.

Chair Thompson asked at what point a claim would move from WC to long-term disability? Nitra explained that WC claims have lifetime rights so we could have claimants on LTD with a WC claim, so it would depend on what point they are no longer able to do the job they were hired to do. It differs for Public Safety employees. Public Safety employees must go before the PSPRS Board and retirement process. There are specific criteria for them. WC is not offset for PSPRS (Public Safety Personnel Retirement System) but there is offset for ASRS (Arizona State Retirement System).

Chair Thompson noted that because of the additional cancers being added to the presumptive cancers list, and Police Officers are often first responders on scene and if they go into a burning building without an apparatus should Police Officers be outfitted with masks in case this occurs from a safety standpoint? Nitra noted that PD has gas masks but not the same type of masks as FD. This is something that will need to be looked at from an operations perspective. Typically, PD first responders are securing the perimeter and the Firefighters are going in. With a fire, smoke may be blowing their way even as they set up the perimeter. Currently only the bomb squad and SWAT are trained on SCBA masks. Chair Thompson added that last year we had two officers who entered a burning building to get a child out and both suffered smoke inhalation. Nitra agreed that this is something that we must address.

The final challenge Nitra presented for WC and Safety Services was the Time Lost Claims for 2018 showed that the severity of injuries had increased. Even a small number of increases can have an impact on our numbers. In 2017 we had 283 OSHA recordable injuries (meaning they required more than first aid). In 2018 we had 300 and two of those claims resulted in a no-work status for each employee of 480 days. This increases overall costs to the trust fund and department budget due to overtime, etc.

Funding Recommendation for WC Trust FY 19/20

Marcus reviewed the OMB Funding Recommendation Report for Workers' Compensation Trust Fund (Attachment 4) and noted the fund balance policy is to end the year with a total fund balance that could cover the expenses for the following year. The reserve balance at the end of FY 18/19 is anticipated to be higher than budgeted due to FY 18/19 expenses being \$1.0 million lower than budgeted. For FY 19/20, the reserve target is \$6.0 million. Based on the FY 18/19 projected reserve balance and the expenditures forecasted for FY 19/20, a slight increase to the workers' compensation rates from the previous year is recommended for the FY 19/20 budget to reach the targeted reserve. The current estimate for the City contribution for FY 19/20 is \$3.9 million with a fund utilization of \$2.0 million.

Chair Thompson asked if there were any questions before moving to the final presentation. No additional questions were asked and Chair Thompson introduced the Employee Benefits Trust Fund (EBT) presentation by Janice Ashley, Employee Benefits Administrator.

Referring to the EBT Operations Report (Attachment 5), Jan gave an overview of **Employee Benefits** available to City employees, retirees, and eligible dependents which include:

- Self-insured medical/behavioral health/prescription drug benefits (including Medicare Part D prescription drug program for eligible retirees) administered by Cigna and CVS Caremark/SilverScript
- Stop-loss medical and prescription drug insurance administered by Matrix Group Benefits and insured by Nationwide Life Insurance Company
- Self-insured dental benefits administered by Delta Dental of Arizona
- Vision Care benefits (routine eye care and materials) administered and insured by not-for-profit Vision Service Plan (VSP)
- EAP program administered and insured by ComPsych and fully funded by the Employee Benefit Trust Fund
- Health and Dependent Care Flexible Spending Accounts administered by ConnectYourCare
- Health and Wellness Center (near-site primary and preventive care medical services for employees, recent retirees and families covered in City medical plans) operated by OnSite Care, Inc.
- Mesa Wellness 360 – programs, incentives/rewards, digital platform provided by Sonic Boom Wellness, Inc.

Welfare benefit programs available to employees:

- Basic Group Term Life and Accidental Death and Dismemberment Insurance (full-time employees only) insured by MetLife
- Supplemental Group Term Life Insurance for employees and dependents insured by MetLife
- Business Travel Accident/Commuter Travel Accident Insurance by Life Insurance Company of North America (a Cigna company)
- Short Term Disability Insurance (full-time employees only) insured and administered by Unum
- Long Term Disability Insurance (secondary insurance for full-time sworn officers and elected officials only) insured and administered by MetLife

EBT funding:

- Contributions from City department budgets
- Employee, retiree and COBRA premiums
- State retirement system subsidies (ASRS & PSPRS)
- Medicare Part D Drug subsidy reimbursements (EGWP) for eligible retirees
- PBM generated Brand Drug Rebates for active and retiree prescription drug programs (Trust receives 100% of the rebates)
- Administrative, Wellness and Performance Guarantee (PG) credits from contracted vendors
- Stop-Loss Insurance reimbursements for medical/prescription drug claims over \$500,000 per claimant per calendar year
- Trust investment income

EBT Operations

Some of the operational highlights that have occurred in the last eighteen months:

Implementation of a 3-5 year Cigna contract in 2018 (replaced AmeriBen and BCBSAZ) with limited network disruption for members and closely monitored and audited benefit feature installation:

- Medical and behavioral health TPA services (claims, appeals, customer service).
- Cost containment and medical management services (case management, pre-certifications, disease management, out-of-network claims review/cost management)
- Provider network services in all 50 states - OAP Plus medical network (including 20 Cigna Medical Group staff model facilities in AZ)
- Partial funding of Mesa Wellness 360 program (>\$260,000 annually)

Jan referenced page seven of the report to note new carrier implementations of Group Term Life, AD&D and Disability Plans:

- Life, AD&D and Disability RFP process completed/implemented in 2018 (4 contracts/3 new carriers as of January 2019)
- Premium cost savings for City - \$59,500 annually
- Two to four-year rate guarantees and product enhancements:
 - MetLife:
 - Group Term Life, AD&D (reduced or maintained premium rates) - 4-year rate guarantee and introduction of supplemental AD&D coverage
 - Sworn Officer/Elected Official secondary LTD program (reduced premium rate with 3-year guarantee)
 - Unum – Voluntary Short-Term Disability insurance for full-time employees (maintained premium rates with 2-year guarantee)
 - Cigna/Life insurance Company of North America (LINA) - Business Travel Accident/Commuter Travel Accident program (reduced premium rate with 3-year guarantee)

All insurances above were effective as of January 1, 2019.

Health and Wellness Initiatives

Jan noted that our health and wellness initiatives (page 8) are very robust with desirable employee engagement increases year over year.

The City of Mesa Employee Health and Wellness Center offers:

- Primary and preventive care; pediatrics services from a family medicine perspective; flu and other preventive immunizations; DOT physicals; seasonal drug testing; basic screening dermatology appointments from March of 2019
- Third-party managed/staffed by MD and two or three mid-level professionals:
 - 5,862 unique patients (since opening in late 2014)
 - Average utilization rates –80.5% monthly (up from 71.5% in 2017)
 - Annual preventive physicals
 - Chronic conditions managed/treated – high cholesterol, HBP, diabetes, weight management, co-morbidity depression

Mesa Wellness 360 - initiatives, incentives and education programs:

- Mesa Wellness 360 program (with Sonic Boom digital platform)
 - Engage and encourage healthy behaviors and “points” opportunities via fitness devices, mobile app, contests, events, screenings, daily challenges, health

- o coaching and other health education tools/classes for active employees enrolled in City medical plans
- o Wellness incentives/rewards – up to \$200 cash cards (250 points = \$50) in 2019 and \$200 medical premium reduction in 2020
- 2018 – 1,672 participants (48% of eligible population)
 - o 1,624 health coaching sessions
 - o Over 2,100 \$50 gift cards earned –total of \$117,700 awarded to 833 employees
 - o Over 400 employees achieved maximum 1,000 points and rewards

Challenges/Opportunities for EBT in FY 19/20:

- Medical/Prescription Drug plans maintained or reduced frequency of high dollar claimants (over \$150,000) and severity (cost) of high dollar claimants (stop-loss claimants over \$300,000):
 - o 26 high dollar claimants in CY 2018 (\$7 million); 43 claimants (\$9 million) in CY 2017 and 34 (\$9.5 million) in CY 2016
 - o 5 stop-loss claimants over \$300,000 in CY 2018 (one in CY 2017 and 11 in CY 2016)
 - o Top diagnostic drivers: early stage cancers, cardiovascular/stroke, blood disorders, neonatal congenital disorders
- Stop-Loss premiums reduced \$900,000 in CY 2019 with increased specific deductible from \$300,000 to \$500,000 per claimant
- Medical plan membership increased 3.2% from 2017 to 2019 – 13,805 total lives covered by March of 2019
 - o Active: 3,416
 - o Retiree: 2,016
 - o Dependents: 8,335

Jan noted that the membership increase contained a large percentage of those employees that are entering the retired population. Many of our eligible employees are reaching the 20 - 25+ year mark with the City and are eligible to retire. The dependent population has increased slightly as well.

Michael asked if the current trend of retiree population growth will change in the future when the City ceases contributions towards retiree plan premiums for eligible retirees who were hired after 1/1/2009 and subsequently retire with at least 20 years of service. Jan explained that with the 20 year service requirement, a lower growth rate in the new retiree population would likely occur in 2029 and later.

Funding Recommendation for Employee Benefits Trust FY 19/20

Marcus provided the following EBT Financial Update and FY 19/20 Funding Recommendation:

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 under which the fund can tolerate two consecutive years of significant expenditures, while keeping contributions at no more than 8% growth.

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. Premium contribution amounts will be reviewed end of summer, early fall to determine exact amounts.

Chair Thompson asked if there were any questions and when there were none moved to agenda item three (3) to take action on the staff recommendations for budgeting of the following Trust Funds for FY 19/20:

Property & Public Liability Trust Fund: Staff recommends including a \$6.9 million City contribution in the FY19/20 budget to achieve a minimum forecasted ending reserve balance anticipated to be above \$10 million.

Linee motioned to accept the recommendation.
Michael seconded the motion and the votes were:

Linee Ferguson– aye
Michael Kennington – aye
Courtney Guinn - aye
Chair Thompson – aye

Worker's Compensation Fund: For FY 19/20, the reserve target is \$6.0 million. Based on the FY 18/19 projected reserve balance and the expenditures forecasted for FY 19/20, a slight increase to the workers' compensation rates from the previous year is recommended for the FY 19/20 budget to reach the targeted reserve. The current estimate for the City contribution for FY 19/20 is \$3.9 million with a fund utilization of \$2.0 million.

Linee motioned to accept the recommendation.
Michael seconded the motion and the votes were:

Linee Ferguson– aye
Michael Kennington – aye
Courtney Guinn - aye
Chair Thompson – aye

Employee Benefits Trust Fund: 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.

Linee motioned to accept the recommendation.
Michael seconded the motion and the votes were:

Linee Ferguson– aye
Michael Kennington – aye
Courtney Guinn - aye
Chair Thompson – aye

Moving to agenda item four, Jim explained the necessity of verifying the insurance broker licenses for each fund. The licenses were submitted to the Board for review as required by statute.

Chair Thompson noted there were different addresses provided on the Buck Global license and Jan indicated they had multiple locations.

Linee made a motion to verify that the licenses were reviewed by members of the Board and Michael seconded the motion. The votes were:

Linee Ferguson– aye
Michael Kennington – aye
Courtney Guinn - aye
Chair Thompson – aye

Item five (5) on the agenda to authorize the Board Chairperson to approve the minutes after circulation to all Board members was presented by Jim. Linee motioned to authorize. Michael seconded the motion.

Votes were as follows:

Linee Ferguson– aye
Michael Kennington – aye
Courtney Guinn - aye
Chair Thompson – aye

Chair Thompson addressed agenda item six regarding scheduling of future meetings. The next meeting will be approximately one year from current meeting. Jim also advised that if there were any questions, Board members could request a meeting prior to the yearly scheduled meeting.

Linee moved to adjourn. Michael seconded the motion.

Votes were as follows:

Linee Ferguson– aye
Michael Kennington – aye
Courtney Guinn - aye
Chair Thompson – aye

The meeting was adjourned at 12:33p.m.

 4/25/19

Tracy Hurt, Secretary to the Board Date

 4/30/19

Kevin Thompson, Board Chairperson Date

c: Christopher J Brady, City Manager
DeeAnn Mickelsen, City Clerk
Mayor's Office
Self-Insurance Trust Funds Board Members