



Self-Insurance Trust Fund Board Report

Date: February 11, 2015
 To: Self-Insurance Trust Fund Board
 From: Candace Cannistraro, Management and Budget Director
 Subject: Employee Benefit Trust (EBT) Fund: FY 15/16 Funding Recommendations

Strategic Initiatives



Purpose

The Self-Insurance Trust Fund Board received information last year regarding the financial history and reserve policy of the Employee Benefit Trust (EBT) Fund. This report will provide an update on the financial status of the fund and recommended City contributions for inclusion in the FY 2015/16 budget.

Financial Update

Expenditure Trends

Expenditures in the EBT Fund are tracked and trended in four categories: administration, claims paid, life/vision/other and the new wellness center. The cost of Citywide overhead is included in the administrative expenses along with departmental overhead. Cost containment measures implemented by the City resulted in a resetting of the base level of expenses in FY 11/12. In the years since then, total expenses and the cost of claims have increased as shown in the following chart.

| | | Total Expenses | Increase | Cost of Claims | Increase |
|-----------|----------|----------------|----------|----------------|----------|
| Actual | FY 11/12 | \$52.2M | | \$45.8M | |
| Actual | FY 12/13 | \$56.3M | 7.9% | \$49.8M | 8.7% |
| Actual | FY 13/14 | \$59.6M | 5.9% | \$52.2M | 4.8% |
| Projected | FY 14/15 | \$67.4M | 13.1% | \$56.9M | 9.0% |
| Forecast | FY 15/16 | \$71.0M | 5.3% | \$60.1M | 5.6% |

Increases in expenditures are largely driven by increases nationwide in the medical industry. Each year, staff reviews the plan design and benefits. Staff also reviews and recommends wellness programs. The City implemented a new wellness center that opened to employees and their families in October 2014. The City is hoping that it will have a positive influence on future expenses through diversion away from higher cost facilities and encouragement of prevention and screening. Starting next year, staff will be able to review claim history to evaluate the effect of the wellness center utilization.

By moving to a third party vendor for the administration of medical and prescription claims, the City hopes to achieve cost savings both in administrative fees and in the value of the claims paid. The City's use of the Delta Dental network of providers that was effective January 1, 2015 is anticipated to result in \$1M of annual savings in the cost of dental claims. These additional cost containment measures are reflected in the FY 15/16 forecasted expenses.

Revenues/Contributions and Reserve Balance

Staff has not established a particular reserve balance level for the Employee Benefit Fund. The medical industry is an ever changing environment. Staff reviews the trend in expenditures for the various benefit plans and the effect of approved or pending legislation to assess future risk to the fund. In FY 08/09 the City started to experience an increase in the trend for the medical plans. The City adjusted the premiums accordingly. The increase in premiums was phased over a couple of years to give employees time to adjust their personal budgets and evaluate the different plan options. This accounts for the increase in revenues shown on the attached graph. Maintaining an adequate fund balance allows the City to do this type of phasing or rate stabilization.

During the same time period, cost containment measures were evaluated and later implemented. The effect can be seen between FY 10/11 and FY 11/12 in the attachment. Once the effect of the cost containment measures were realized and projected, premium adjustments were made to realign revenues with expenditures. The graph illustrates the timeframe needed to respond to changes in the environment affecting the EBT Fund.

The current reserve balance is sufficient to allow for a hold on increases to medical and dental premiums for an additional year. Calendar year 2016 would be the third year in a row that the City will be able to keep premiums static. This is mainly attributable to the cost containment measures and actions that the City has actively pursued over the years.

Future Stability of the Fund

The EBT Fund is subject to the health care reform legislation. While some impacts are known, others are more general. Staff will continue to assess the impact and risk as more information becomes available.

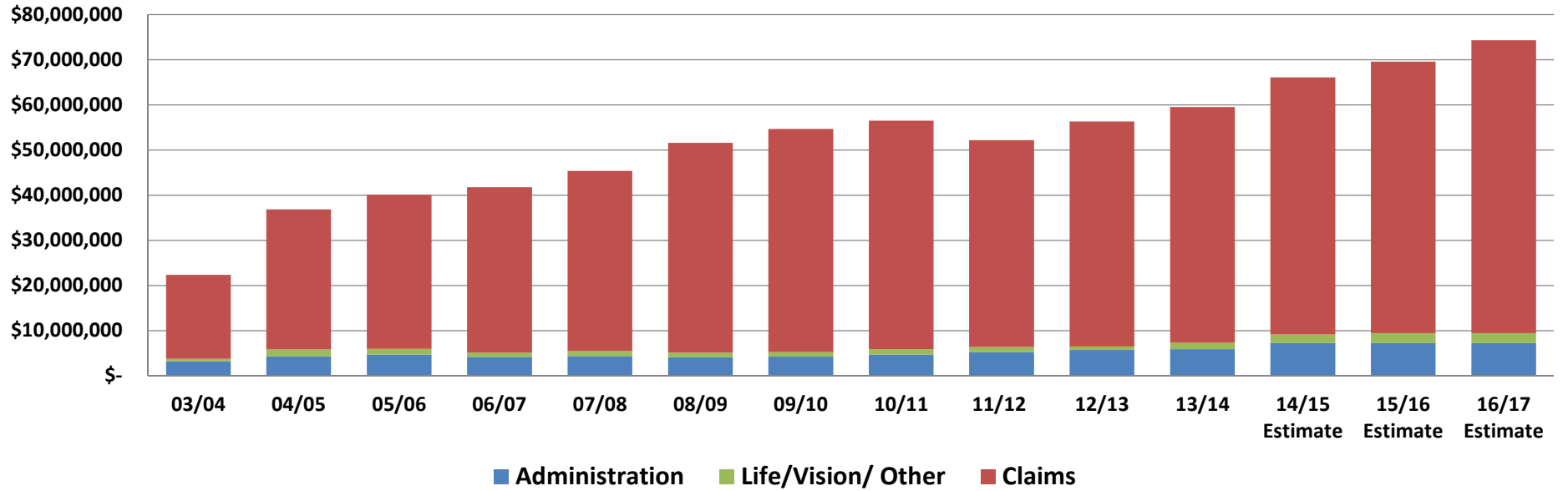
Recommendation

Staff recommends the City contribution to the EBT fund budgeted for FY 15/16 be based on current medical and dental premiums to continue in the benefit plan year 2016. The current estimate for the resulting City contribution is \$51.1M. The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

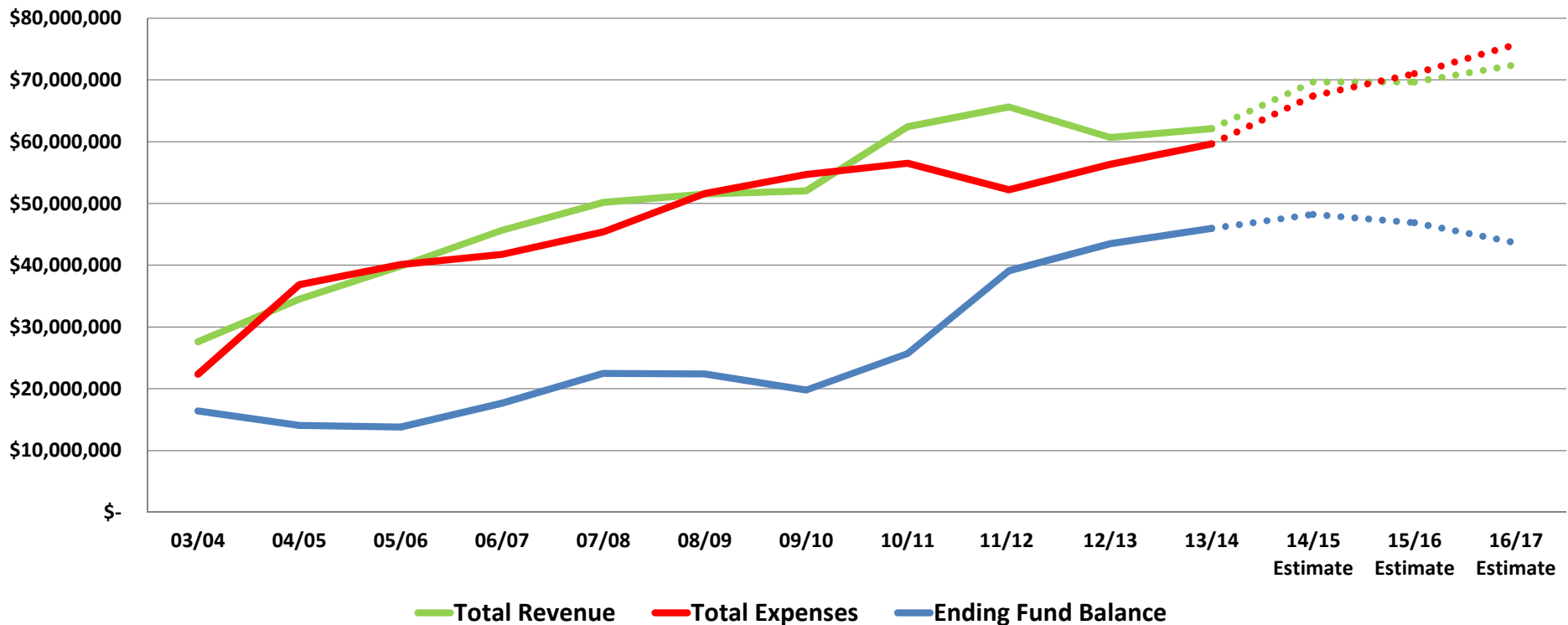
Attachments:

1. Employee Benefits Trust Fund Charts – Data Through 12-31-2014

Employee Benefit Trust Fund Expenses



Employee Benefit Trust Fund Cashflow



Employee Benefit Trust Fund Resources

