



Self-Insurance Trust Fund Board Report

Date: February 13, 2017
 To: Self-Insurance Trust Fund Board
 From: Candace Cannistraro, Office of Management and Budget Director
 Janice Ashley, Employee Benefits Administrator
 Subject: Employee Benefit Trust (EBT) Fund: Financial Update and FY 17/18 Funding Recommendations

Strategic Initiatives



Purpose

This report will provide an update on the financial status of the Fund through Fiscal Year 2015/2016, projections for FY 2016/2017 and recommended City contributions for inclusion in the FY 2017/18 budget.

Financial Update

Expenditure Trends

Expenditures in the EBT Fund are tracked and trended in four categories: administration, medical/dental/prescription drug claims paid, life/vision/other and the employee health and wellness center/programs. The cost of Citywide overhead is included in the administrative expenses along with departmental overhead and third party administration fees. Total expenses and the cost of claims have increased as shown in the following chart:

		Total Expenses	Increase	Cost of Claims	Increase
Actual	FY 12/13	\$56.3M		\$49.8M	
Actual	FY 13/14	\$58.3M	3.6%	\$50.8M	2.0%
Actual	FY 14/15	\$68.4M	17.3%	\$56.8M	11.8%
Actual	FY 15/16	\$77.0M	12.6%	\$67.0M	18.0%
Projected	FY 16/17	\$82.7M	7.0%	\$72.1M	7.6%
Forecast	FY 17/18	\$90.1M	9.3%	\$77.9M	8.0%

Each year, staff reviews the plan design and benefits with consultants and risk managers. Staff also reviews and recommends Health and Wellness Center services and Wellness programs that provide easy access for health plan member patients, focuses on prevention and screening, identifies chronic disease management cases and previously undiagnosed conditions, supports and develops a Citywide culture of health and wellness and has a goal of long-term cost containment in health plans. The Wellness Center and Wellness programs accounted for \$1.6M of EBT expense in FY 15/16; \$1.7M of EBT expense is projected for FY 16/17 and \$1.8M for FY 17/18.

The City has experienced increased medical/prescription drug claims costs starting in FY15/16 and projected for FY 16/17 and FY 17/18. Increases in these expenditures are largely driven by:

- Frequency and severity of claims - increase in high dollar claimants (over \$150,000)
 - 34 in Calendar Year (CY) 2016; 29 in CY 2015; 14 in each of CY 2014 and CY 2013
 - Top diagnostic drivers: complex cancers, cardiovascular/stroke/brain surgery
 - Other high dollar diagnostic categories: organ transplant, end-stage renal disease, musculoskeletal disorders, blood disorders, immune disorders and rheumatoid arthritis

- 32% of high dollar claimants in CY 2016 were also high dollar claimants in CY 2015
- Nationwide medical and prescription drug trend increases
- Membership and utilization increases

The City moved to a Medicare Part D Prescription Drug programs for eligible retirees starting January 2017. This program is expected to generate more than \$600k annually in subsidies and reimbursements to the EBT. Other cost containment strategies are planned for 2017 and beyond including competitive renewal and marketing processes for third party vendor contracts that have the potential to generate administration savings.

Revenues/Contributions and Reserve Balance

Staff has not established a specific reserve balance level for the Employee Benefit Fund. The health care and health insurance 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 began 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 was 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.

Cost containment measures and strategies that the City has actively pursued since 2012, allowed for minimal premium increases between 2013 and 2015 and a fund balance of \$44.2M at the end of FY15/16. However, actual cost trends in CY 2015/2016 and projections for FY 2017 have resulted in an 8% increase in premium contributions for CY 2017 and a reduction in benefit levels (increase in copays) in one of the City's medical plans. This results in an estimated fund balance on June 30, 2017 of approx. \$39.4M. This level of fund balance is still adequate for the EBT. However, to maintain the fund balance at an adequate level, an additional 8% increase in premium contributions in CY 2018 is projected to be needed. An 8-9% annual increase in cost is more aligned with national averages.

EBT fund is subject to Affordable Care Act legislation. Much of the incremental expense attributable to ACA fees, taxes and compliance obligations have been paid by the fund in recent fiscal years (>\$900,000) or is anticipated within future projections and budgets. While some future impacts are known, the impact of any repeal or replacement legislation are unknown at this time. Staff will continue to assess the impact and risk as more information becomes available.

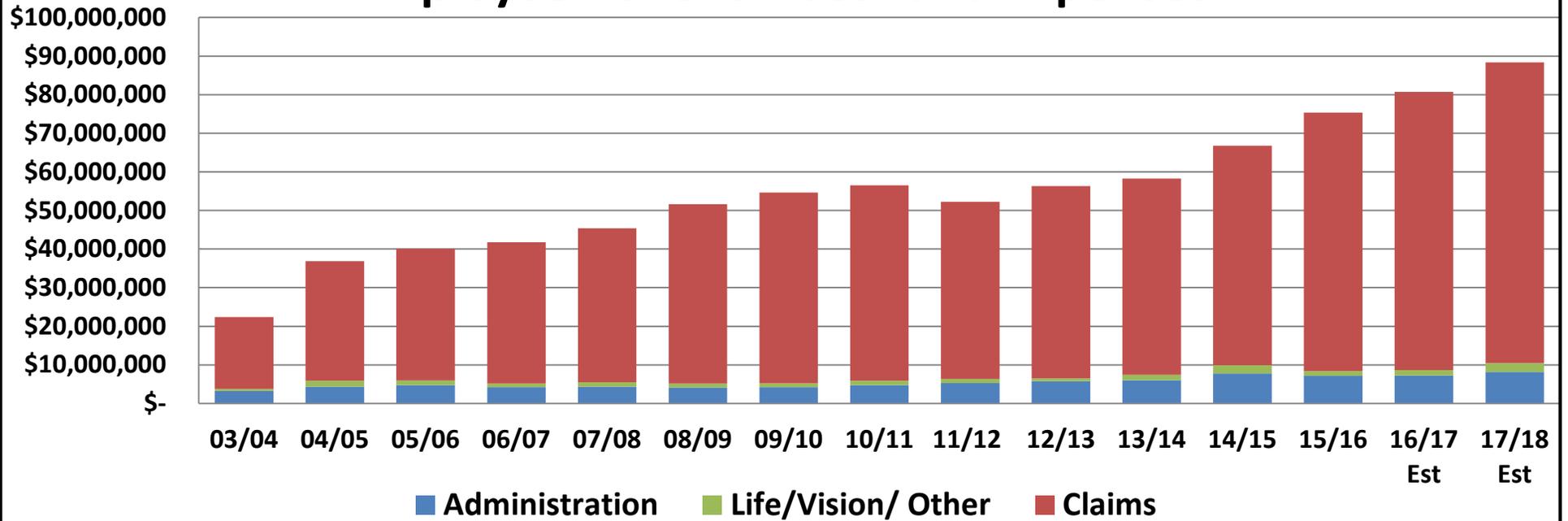
Recommendation

Staff recommends the City contribution to the EBT Fund budgeted for FY 17/18 be based on current medical and dental premiums to be increased 8% in the benefit plan year 2018. The current estimate for the resulting City contribution is \$62.5M. The increased premiums affect 6 months of the fiscal year. The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

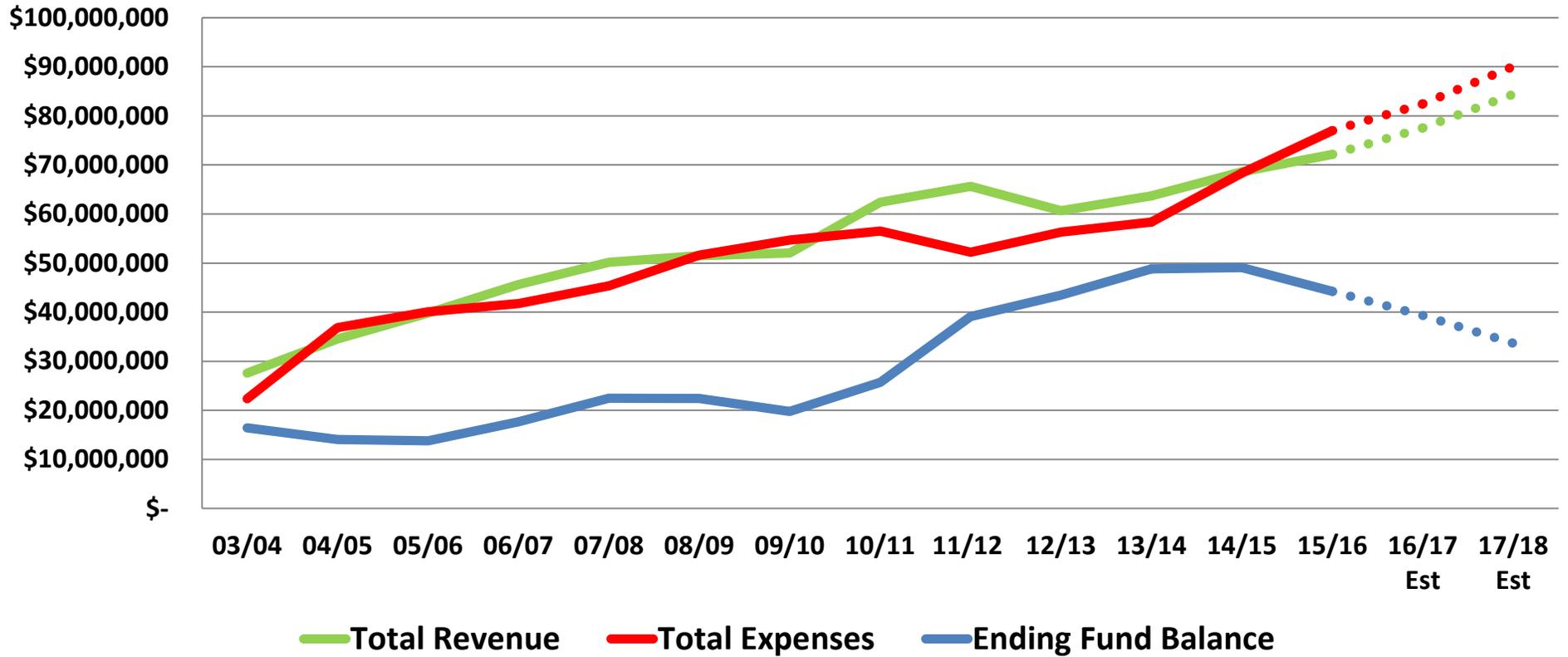
Attachments:

1. Employee Benefits Trust Fund Charts – Data Through 12-31-2016

Employee Benefit Trust Fund Expenses



Employee Benefit Trust Fund Cashflow



Employee Benefit Trust Fund Resources

