

MINUTES 2/5/18

SELF-INSURANCE PROGRAM BOARD MEETING

A meeting of the Self-Insurance Program Board of Trustees was called to order at 2:00 p.m., Monday, February 5, 2018, in Personnel Conference Room #2 at 20 E. Main Street, Suite 130, Mesa.

MEMBERS PRESENT

Linee Ferguson
Kelly Vorseth
Board Chair Mark Freeman
Michael Kennington, CFO

MEMBERS ABSENT

Fenton Moran

OTHERS PRESENT

Tracy Hurt, Board Secretary
Jan Ashley, Emp. Benefits Administrator
Nitra Hawkins, Safety Administrator
Candace Cannistraro, Ofc of Mgmt & Bdgt Dir
Jim Smith, City Attorney
Marc Steadman, Deputy City Attorney
Jason Reed, Asst. City Attorney III
Marcus Steele, Sr Budget Analyst, OMB
Robert Baer, Budget Coordinator, OMB
Spencer Houk, Management Associate I

Citizens Present

None

The meeting was called to order by Board Chairperson, Councilmember Mark Freeman at 2:00p.m.

Board Chair Freeman opened the meeting with rollcall of members present. One member, Fenton Moran was absent. Board Chair Freeman 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, announced the pending retirement of Marc Steadman, Deputy City Attorney, over the litigation unit of the City Attorney's office and introduced Jason Reed, Deputy City Attorney who will be overseeing the litigation unit. Jim explained that the City of Mesa is unique in comparison to other cities regarding the number and size of cases that we keep in house as opposed to sending to outside counsel. Most cities, including Phoenix, do not keep large cases in house. They send everything over \$125,000 to outside counsel. Mesa has historically kept cases in house although in this past year we have sent cases out largely due to workload or conflict issues which necessitate sending them out.

Jim indicated that the City has had a number of successes in both litigating and settling some major cases in the last year. Settlement of cases and a partial settlement of a case still in process could cause potential exposure to the Trust Fund. Although it is important to try cases when we can, it is also important to resolve cases for reasonable sums, mitigate risk, and resolve them appropriately for the people that are involved. We look to resolve the case appropriately given the circumstance.

Referring to the first page of the Property and Public Liability (PPL) Trust Fund Report, Jim noted that the City has contributed \$3M historically to the Trust Fund (\$1M for claims, \$1M for insurance and \$1M for staffing). The insurance cost and staffing cost have been higher than the \$1M, while claims have come in under so the \$3M has been a tremendous success historically. Moving forward, we will have a number of pressures on the fund.

Three specific pressures:

- A number of high profile police shootings and a large volume of cases overall (57 currently) when historically we've held approximately 45
- Insurance costs increasing
- More lawsuits are being filed against governmental agencies, including the City of Mesa, and damage awards seem to be increasing

Increasing insurance costs are not based on just our claims. Nationally, the risk associated with cities, specifically police departments (PD), make it a complex process to obtain the insurance.

To give a sense of the risk on the insurance side, a charge of approximately \$600,000 for the comprehensive general liability insurance coverage that gives us \$50M of excess coverage creates a potential profit of \$600,000 for the insurance company. If we lose one case over \$3M all their profit is wiped out, and could be potentially for years, so you can see the risk assessment for some of these companies is tremendous and some of these companies no longer provide this type of insurance.

Referring to the third page of the report PPL Trust Fund Report, Jim noted the chart showing the number of lawsuits from FY 08/09 through FY 16/17 and explained the trend of the higher number of cases we are carrying over time. On page four of the report, the chart shows the claims/lawsuit expenditures and magnitude of the payouts including the projections through FY 18/19. We have had several good years, but the current volume and magnitude of cases is causing our projections for increasing expenditures.

There has been an average historically of approximately \$3M for claims with an anticipated increase over \$4M which is why part of the recommendation for the budget will be moving to a \$4.5M funding request for the claims portion of the PPL Trust Fund.

Linee Ferguson asked Jim what happens to the funds when we have those good years with less payouts. Jim explained the funding to maintain the Trust Fund at \$10M contains an annual budgeted amount that is provided quarterly by the City so in those good years when there are less payouts, the City retains the money to use for other unexpected contingencies, etc. The PPL Trust Fund does not retain additional funds over the \$10M balance in the good years.

Referring to page five of the PPL Trust Fund Report, Jim explained the City's litigation staffing and the importance of having the quality of staff that we do to litigate our cases in-house which provides tremendous savings in comparison to using outside counsel. The Closed Claims/Lawsuits 2013-2018 chart shows that more than half of the claims made against the City were resolved without any payout to the claimant. The payouts have historically been significantly low, averaging approximately \$80,000, over those years. The increased cost projected is due to the increased number of cases and the size of some of the cases. On some of the cases we have a conflict of interest so we need to send them to outside counsel. For example, we have a high-profile case which has four outside firms handling various components of the case with one of those firms specifically for insurance issues. This gives an example of the complexity possible in just one incident and the cases related to it.

Michael Kennington asked if the \$3M for claims for this fiscal year was still the current estimate given that we are half way through the year. Marc confirmed that the \$3M was still the estimate due to settlements. Two years ago, outside attorney fees were approximately \$80,000 and this year we are projecting over \$300,000 due in part to one high-profile police officer case with those four outside firms.

Kelly Vorseth asked what the City is doing to help prevent future cases of that nature. Jim noted that we have a new Police Chief and he is making changes which the City supports. He will be included in the meetings with the potential insurance carriers as they will be asking the same question. Jim indicated he would not speak on behalf of the Police Chief in regards to what the changes in his department are; however, he is supportive of the changes occurring.

Kelly asked how long the previous Police Chief was in Mesa PD. Jim explained that Chief Milstead left the City approximately 3.5 years ago (he is now the head of the Department of Public Safety). Since

then there has been a Chief and an interim Chief and they did start making changes. Chief Mesa was in the DROP program (a program that public safety employees can utilize during the five years prior to their retirement). Once they enter the DROP program, they must retire within five years. Chief Mesa was already over two years into the program when he became Police Chief. There has been some turnover in the last 3.5 years since there have been three different Police Chiefs.

Marc added that there is a certain ebb and flow to the number of cases, and because we are a large city we can't predict some incidents that occur. He gave an example of a case involving a citizen's fall into a grate that should have covered a 25-foot drop which resulted in significant injury. He also noted that there have not been a large number of police shootings recently but they happen to have been high profile cases with complicated circumstances that are difficult to defend. Mesa has been leading the way in utilizing AXON cameras and they show police work that is sometimes difficult to see. Marc noted that he thinks in the long run it is better to have the cameras; however, it is difficult to see anyone being shot and even if it is warranted it is hard to watch. This makes those cases more difficult to defend.

Linee asked how many total litigation staff the City has. Jim responded: three attorneys, two paralegals, two legal secretaries, and one claims adjuster. They are looking to add an additional attorney in the next fiscal year.

Moving on to the insurance portion of the report, Jim gave some background on current premiums and the savings achieved by utilizing a three-year "term" to enable the possibility of renewing the insurance after the first year for up to two additional one-year terms. The three-year term is not a multi-year contract as the insurance companies will not lock themselves into multiple years due to the risk. They renew only on one-year terms. After the first year if they propose rates that are within 2.5% then we would do another agreement. Maintaining those rates within the last three years has helped us tremendously in keeping the cost down. The expectation is that future rates will increase.

There is also pressure from the expected increase in the self-insured retention (SIR) portion of the insurance. Jim explained the SIR as the amount the trust fund must cover prior to the insurance paying (similar to a deductible). The SIR is currently \$3M and has been for many years. There has been pressure in the past to increase this to \$5M and he expects even more pressure by the carriers going forward to mitigate their risk. The importance of keeping the SIR at \$3M is because just a few large cases in a year at \$3M each could significantly reduce the fund balance and, in addition to other costs, put us over the entire fund balance in that year. Moving to a \$5M SIR could require increase to the \$10M fund balance. In addition to mitigating risk, we must also consider that we are locking that money into an account that the City can't use for other things.

Michael Kennington noted that the City has not exceeded the \$3M in the last three years, allowing the insurance carrier to retain those premiums as profit. Since the City has been able to keep those claims costs down, could that be a positive influencer in negotiating the future SIR. Marc added that the total insurance cost includes property insurance and liability insurance and the \$600,000 is for the liability only. We have had a few property claims and insurance has paid out on that. Jim added that they are looking at the claims in the year they are paid out so they are still exposed on the years the incidents occurred. In the next year we will have new insurance. We will do a three- or five-year option. This does not lock either side in, yet it prevents the insurance company having to go through our procurement process each additional year if they come in at the 2.5% rate and we can sign another contract.

The staff funding recommendation for the PPL Trust Fund is a \$7.6M City contribution in the FY 18/19 budget to achieve a minimum forecasted ending reserve fund balance of \$10M.

Michael clarified the recommendation on the PPL Trust Fund report that included the prior recommendation for FY 17/18 of \$6.2M and Jim indicated that the current year (FY 17/18) City contribution would bring the fund back to the \$10M balance prior to FY 18/19. The \$7.6M City contribution recommendation is for FY 18/19 (that includes the \$4.5M in what we consider the "claims bucket").

Jim noted that the vote on the funding recommendations would occur on agenda item number four after the Workers' Compensation and Employee Benefits Trust Fund presentations.

Chair Freeman asked if there were any additional questions regarding the PPL Trust Fund or the funding recommendation. There were no additional questions; however, Chair Freeman added a question regarding the claims.

Chair Freeman asked if they have identified specific departments that were heavy contributors to the lawsuits that we have. In addition to the police department cases and flooding case we know is still ongoing, is there any way to break cases out by department? The goal would be education and looking at department policies to be sure we are reducing our exposure. Jim stated that he could do that for the next meeting and provide a breakout of the lawsuits by department. Marc indicated that the Police Department does have the majority of cases and the payouts are actually much greater because the stakes are higher. We have lots of drivers in various departments such as solid waste, transportation or just people who have driven into manhole covers that are flipped up, so various situations like that occur as well. Predominately our payouts (approximately 70%) are in the Police Department cases and that is not unique to Mesa - it is the trend nationally.

Marcus Steele added that the contributions to the PPL Trust Fund are comprised of 65% from the general fund which is where PD funds reside, 15% from the local streets fund, and other enterprise funds after that. Office of Management and Budget (OMB) works with the City Attorney's office to balance where the payments are coming from.

Chair Freeman introduced the Worker's Compensation fund presentation by Nitra Hawkins, Safety Administrator.

Nitra referred the board to the Worker's Compensation (WC) presentation 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 covers City employees and is also extended to our official volunteers.

The WC Trust Fund is 100% funded by the City. There are no premiums collected from our employees. Contributions come from the General Fund and there are some revenue streams that contribute to the fund with the primary being the Excess WC Insurance Reimbursements. Referring to page three of the presentation, Nitra noted that the last five years history of Excess WC Insurance Reimbursements were provided. Those reimbursements are primarily due to our WC SIR. We have had a variety of SIR levels going back to 1982. WC currently has a \$1M SIR that has been in place since 2007, so many of those reimbursements shown are for older claims when the SIR was at \$250,000 - \$600,000 etc.

Linee asked if any employers require WC contributions from their employees. Nitra clarified that it is a violation of statute to require employee contributions.

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. If we expend \$60,000 in medical payments, we can recover those payments and that would be a revenue as well.

Page four of the presentation shows the items the WC Trust Fund pays for such as:

- 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),
- 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

Personnel costs included since we administer the program in-house are comprised of our workers' compensation representatives who do claims adjudication, and the program assistants who pay all medical bills as part of the cost that is expended out of the WC Trust Fund.

Linee asked if the City was self-insured up to a certain amount and then another policy takes over if claims exceed a certain amount. Nitra responded that this would be the Excess WC Insurance – (Stop Loss). If a claim came in we would pay the first \$1M and then the Excess WC Insurance would reimburse us for payment over that \$1M.

Referring to page five of the presentation, Nitra indicated that at last year's meeting the Board requested a five-year history of claims. Claims are provided from 2013 thru 2017 with the five-year average being approximately 420 claims per year.

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.

Kelly commented that this brings back to point the previous question from the PPL Fund presentation of whether we are monitoring departments to communicate and route preventative information to them. Nitra confirmed that they do look at trends and all incidents to determine what the primary drivers are of those incidents and if they are preventable. The departments where we do have the most claims is going to be Police and Fire and they have some incidents that we can't control. A police officer who is trying to arrest a suspect may have an incident that safety practices can't control. Although they train, it is impossible to cover every situation. There are current priorities for safety initiatives of a common theme to provide departments with tools that they can use to help make a difference in those claims.

The two worker's compensation representatives manage an average of 160 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 1985.

Kelly asked if there is a cap on the number of claims a representative can have before there will be a need to add another representative. Nitra stated that they do have some backup resources to assist if the need arises. The most that Nitra remembers a representative having is 190 claims. Some claims can be handled very quickly and she does track them. The representatives are very experienced and are encouraged to communicate if they are getting bogged down.

Another component of the WC Program is the medical bills that are processed by two Sr. Program Assistants. The presentation page four shows some statistics on the number of bills processed and the amounts paid in 2016 and 2017.

- 2016: 4,465 processed and paid medical bills = \$1,428,167
- 2017: 6,005 processed and paid medical bills = \$1,683,161

Nitra explained the Cost Containment programs in place to reduce the cost, but not the quality of care that our employees are receiving. She noted that the quality of care is our priority, and we have the Directed-care Policy which requires the employee to go to a designated medical facility for their first visit. Currently the designated medical facility is Banner Occupational Health Clinics. Banner is very good at completing the required paperwork and getting us timely information so that if the employee requires a referral to a specialist we are able to get them to one quickly instead of the employee trying

to find one on their own. This allows the employee to receive the treatment they need quickly to improve their recovery.

Linee asked what measures are in place to ensure quality and what Nitra's definition of quality care is. Nitra responded that the employees are asked for their feedback, and additionally, when we go out for the Request for Proposal (RFP) process we look at the quality of the physicians – how long have they been providing occupational services, what is their clientele? We reach out to other cities and municipalities who are using them to check references. When we do receive communication of any issues from our employees, we immediately contact the facility to have that conversation and keep open dialogue with all participants - from the employee to the providers - in order to have continuous improvement. There are clinics all around the valley so that there is availability for our employees and we have met the clinic managers and they follow the same protocols to ensure continuity of care and we see the quality that has been there. If there are any issues we follow up to get it taken care of quickly.

The next component of the Cost Containment program is the AZ Blue Cross / Blue Shield Workers' Compensation Network of medical providers which is a large source of cost containment. In reviewing the billing for the last two years, we see a savings of \$4.2M. In 2016, we were billed \$3,272,051 and we paid: \$1,189,874 for a savings of \$2,082,178. In 2017, we were billed \$3,360,970 and paid \$1,151,929 for a savings of \$2,209,041.

Michael asked if we will retain the same provider network in 2018 based on our change to Cigna for the employee health benefits provider. Nitra and Jan Ashley responded that the WC provider is not tied to the health plan. Nitra also indicated that she will be submitting a provider RFP in 2019 due to contract expiration.

Continuing with Cost Containment, the WC Prescription Pilot Program – Pharmacy Benefits Manager provides cost savings on pharmacy charges. This is a pilot program that has been very successful. An RFP has been submitted and responses are currently being reviewed to select a Pharmacy Benefits Manager. This program has provided tremendous savings for our prescription costs. In 2016 we had a savings of \$82,288 and in 2017 a cost savings of \$91,356.

In addition to the Workers' Compensation program, Nitra highlighted 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, ergonomic evaluations, safety training and safety procedures. There is also a Citywide Safety Committee comprised of representatives from each department with the goal of heightening safety awareness and communication.

The Safety Services team has put together some Citywide safety initiatives that include providing injury statistics to departments. Each department will receive the 2016 and 2017 statistics for their department by incident type to assist the departments with resources to bring safety awareness to their employees. From a Citywide perspective, the priority of training will be focused on the two incident types of "slips, trips, and falls" and "strains and sprains – lifting and carrying".

In 2016, there were \$521,625 in claims due to slips, trips, and falls. In 2017, there were \$415,382.

Safety Services will be focusing on these two incident types to bring an awareness of proper procedures, use of hand rails on stairs as an example, and other types of tips to bring awareness where we can.

Linee asked what specifically we are doing to promote employee awareness. Nitra indicated that there are online trainings available, outreach to departments to provide specific trainings during department meetings, or as requested by the department in order to bring awareness of trends that we may be seeing and give examples of these incidents and tips for prevention. There is also a new Safety Newsletter spotlighting slips, trips, and falls. There is also outreach to department leadership to promote communication from the departments to our Safety team regarding any issues that we may need to be

aware of. For example, if there is uneven pavement and someone may have stumbled but not fallen and been injured, we would still like to know so that we could go out and perhaps correct that uneven pavement to prevent future falls/injuries.

Nitra noted that the "strains and sprains lifting and carrying" claims do not include Firefighters lifting patients as that is a separate category. The lifting and carrying claims represented in the report includes various incidents from lifting items such as tools and equipment. The cost for claims for the lifting and carrying injuries in 2016 were \$93,115 while 2017 claims were \$108,555.

Concluding the presentation Nitra asked if there were any additional questions.

Michael asked for clarification on the funding recommendation on the WC Fund: FY 18/19 Funding Recommendations memo regarding the total expense of \$5.9M. He asked what is driving the increase in the cost expenses. Marcus responded that the budget is set to prepare the contributions into the fund to be slightly higher than anticipated claims.

Michael asked if the difference between total expenses and claims is the administrative expenses. Marcus confirmed that the claims amount is approximately 60-70% of the budget and the personnel expenses, premiums, training materials, etc. are the remainder. Nitra added that the administrative taxes in addition to the network access fees, which are increasing this year from 7.25% to 12.5%, are also included in the administrative expenses.

Michael noted that the increase appears to be a result of the administrative costs rising. Nitra explained that the claims are budgeted at approximately an 8% increase due to medical costs. Marcus added that the cost estimate for the percentage increase in the network access fees would be approximately \$250,000 and that those fees are included in the administrative portion of the budget and not the claims portion.

Gary Manning added that with the move to Cigna for our employee benefits healthcare plan this year, BCBS, who was our previous healthcare provider in addition to being the WC network provider, had historically kept the network access fees lower and this increase may be due to moving our employee benefits healthcare plan to another provider.

Marcus also noted that there are also some inflationary increases added that are incremental.

Kelly asked how many staff are in the WC/Safety unit. Nitra indicated that there are nine (9) full-time and one part-time staff. Kelly asked if this was new staffing and Nitra stated that it is not new staffing.

Marcus concluded that staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 18/19 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation expenses. For FY 18/19, the reserve target is \$6.3 million. The current estimate for the City contribution for FY 18/19 is \$3.1 million with a fund utilization of \$2.5 million. The final budgeted contribution may vary slightly from the recommendation as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

Chair Freeman introduced the Employee Benefits Trust Fund (EBT) presentation by Janice Ashley, Employee Benefits Administrator. Referring to the EBT Operations Report, Jan gave an overview of the employee benefits available to City employees, retirees, and eligible family members which include:

- Medical/behavioral health/prescription drug benefits (including Medicare Part D prescription drug program for eligible retirees)
- Stop-loss medical insurance (covers individual annual claim amounts >\$300,000)
- Dental benefits
- Vision Care benefits (routine eye care and materials)
- EAP program
- Health and Dependent Care Flexible Spending Accounts
- Health and Wellness Center (near-site primary and preventive care medical services)

- Mesa Wellness 360 – programs, incentives/rewards, digital platform

Referring to page two Jan noted the welfare benefit programs available to employees:

- Basic Group Term Life and Accidental Death and Dismemberment Insurance (up to \$500,000 coverage – full-time employees only)
- Supplemental Group Term Life Insurance for employees and dependents (up to \$300,000 coverage)
- Business Travel Accident/Commuter Death Insurance (\$200,000 coverage)
- Short Term Disability Insurance (full-time employees only) voluntary purchase as premiums are paid 100% by the employee
- Long Term Disability Insurance (full-time sworn officers and elected officials only)

The EBT is funded through various sources (page 3 of the report):

- Contributions from City department budgets
- Employee, retiree and COBRA premiums
- State retirement system subsidies (ASRS & PSPRS) for retiree health care plan participants
- Medicare Part D Drug subsidy reimbursements (EGWP) – for eligible retirees which has been in place for just one year and provides substantial subsidies
- PBM generated Brand Drug Rebates for active and retiree prescription drug programs and we receive 100% of the rebates. The PBM does keep any portion of those rebates.
- Administrative, Wellness and Performance Guarantee (PG) credits from contracted vendors such as an implementation credit, audit credit, etc.
- Stop-Loss Insurance reimbursements for medical/prescription drug claims over \$300,000 per claimant per calendar year. We consider the cost of the stop-loss premium compared to the reimbursements to determine if this is an effective strategy.
- Trust investment income

Linee asked how the COBRA premiums are a source of revenue for the fund. Jan noted that the COBRA participant pays 100% of the cost of the premium (plus an administrative fee) for that benefit. The City is not paying any portion of the COBRA premium so the entire amount is going into the trust.

The next portion of the report (pages 5-6) is an overview of the administration changes the EBT and the employee benefits unit has been engaged in over the last twelve months:

A comprehensive RFP procurement process (2017) for Medical Plans: Third-Party Administration and Provider Network during which we identified opportunities for significant administrative cost savings. Cigna was awarded a 3 to 5-year contract starting 1/1/18 (replaces AmeriBen and BCBSAZ except for run-out administration by both companies). Some of the benefits of the new provider include:

- Administration and service consolidation advantages allow all services to be provided nationwide by one vendor. Both out-of-state and in-state administration and network have the same vendor.
- Medical and behavioral health TPA services (claims, appeals, customer service)
- Medical management services (case management, pre-certifications and disease management)
- Provider network services in all 50 states - minimal network disruption with OAP Plus medical network (including 20 Cigna Medical Group staff model facilities in AZ)

Kelly asked if Jan had a percentage or knowledge of employees who were unable to see their current provider due to the change from BCBS to Cigna. Jan responded that there was a 96-98% match on the providers, 100% match on major hospital systems, and primary care, internal medicine or pediatricians the match is 98-99%. Where there is not a match in that 96-99% range, it is usually a

specialist who is not in the network. When that is brought to our attention we give that provider information to Cigna and they reach out to that provider to try to add them to the network.

Jan noted that in some cases they have found that those who are not contracted in the network are often not contracted in any network. There are categories of care where providers choose not to contract at all. Linee added that this is common in the mental health area.

Gary added that the City was very cognizant of potential disruption and provided a lot of evaluation when we went out to RFP to look for a provider. The financial savings were not the only consideration, the potential disruption for the employees and retirees was evaluated and we were pleased to learn that more than 90% of the doctors used most by members, were in the network. In addition, the transition and interfaces must be considered as well. To Jan and her team's credit this has been a smooth transition and we are pleased with the transition so far.

Jan referenced page 6 of the report to note additional features of the new contract and partnership with Cigna:

- Base administration fee reductions and first year credits (currently \$600,000 and approximately the first five months of fees waived)
- 24 x 7 x 365 customer service
- On-site Cigna representative
- Comprehensive, award-winning member portal
- Opportunity for Plan benefit enhancements to increase member satisfaction and reduce out-of-pocket costs e.g. reduced copays and deductibles
- Contracted Telehealth services introduced (two providers paid 100% by the City under the Health Plan with no out of pocket cost for employees)
- Claims cost containment opportunities in mental health services, high-cost radiology, and general oversight on claims payments in keeping bundled items together as appropriate
- Partial funding of Mesa Wellness 360 program (more than \$260,000 annually)

Linee asked if the Cigna representative was on-site full time at the City and Jan confirmed.

Moving on to the Health and Wellness Initiatives on page 7, Jan noted that the City of Mesa Employee Health and Wellness Center has been operational for approximately four years providing the following care and statistics:

- Primary and preventive care for eligible employees, dependents, and new retirees who had established care at the center prior to retiring
- DOT physicals
- Third-party managed/staffed by MD and two mid-level professionals:
 - 4,787 unique patients to date
 - Average utilization rates – 71.5% monthly
 - Chronic conditions managed/treated – high cholesterol, HBP and diabetes

Kelly asked if flu shots were provided at the wellness center and Jan confirmed. Jan noted that the employees can receive flu shots at our annual employee health and wellness fair in addition to flu shots

being available at the wellness center with walk-in service every Friday after the fair. Kelly asked if flu shots were mandatory for employees and Jan explained that they are not mandatory although in some departments like Fire and Police they may have policies regarding that.

In addition to the Employee Wellness Center, other wellness initiatives, education and group disease management program information to note:

- In 2017, there were 1,520 participants in over 108 classes and 6 disease management programs (City staffed)
- Mesa Wellness 360 program (with Sonic Boom digital platform) introduced on 12/1/17:
 - Go live for all eligible employees in January 2018 with points/incentive reward opportunities
 - The object to engage and encourage healthy behaviors and “points” opportunities via fitness devices, mobile app, contests, events, screenings, daily challenges, health coaching and other health education tools/classes for active employees enrolled in City medical plans
 - Wellness incentives/rewards available – up to \$200 cash cards (250 points = \$50) in 2018 and if the employee obtains 1,000 points they can receive a \$200 medical premium reduction in 2019 for a maximum available reward of \$400

Kelly asked if Sonic Boom is an outside vendor and if the contract amount is included in the report. Jan explained that they are an outside vendor and Marcus noted that the cost is approximately \$120,000 for the online portal. Gary added that some of this cost is offset by the wellness incentive funds provided to us by Cigna. Kelly asked if Cigna required a wellness program and if Sonic Boom was on a list of required vendors. Gary and Jan noted that Cigna did not require this program they simply provided the \$260,000 for use in some type of wellness program or initiative.

Gary noted that the City currently has a 39% participation rate by employees in the program and it is going well.

Jan asked if there were any additional questions on the health and wellness programs before moving on to the challenges/opportunities the EBT will face in FY 18/19. No additional questions were added, so we referred to page 9 of the EBT Operations Report. Jan noted that most of the items are opportunities and not challenges which is a good place to be looking forward to FY 18/19.

There has been increased frequency of high dollar claimants (over \$150,000) but significantly decreased severity (cost) of high dollar claimants as noted below:

- 43 high dollar claimants (\$9 million) in CY 2017 compared to 34 (\$9.5 million) in CY 2016
- One stop-loss claimant over \$300,000 in CY 2017 compared to 11 stop-loss claimants in CY 2016
- Top diagnostic drivers: earlier stage cancers, cardiovascular/stroke, blood disorders
 - Of note, the number of complex or advanced stage cancers has decreased

There has been a 1% membership increase - 13,484 members by January 2018 which is modest compared to the prior year's increase of 2%. We are at our highest membership with approximately 13,500 members. It is approximately a 100-120 person increase over the last year, a steady increase and we do not anticipate a trend, however, we have retirees in the program who are retiring and when they are replaced at the City, that adds numbers into the program as well. This could account for the increase.

Jan continued to page 10 of the report noting:

- With the Cigna contract, we will see a significant reduction in base administration fees for medical plans over next 5 years (approx. \$600,000 savings annually guaranteed for 5 years)
- Vendor funded administrative credit increases (medical plans) for implementation, communications and wellness activities (over \$1 million in 2018 to over \$300,000 per year in 2019 - 2022)
- Overall medical plan rate increases reduced to 4% for CY 2018 (instead of projected 8%) which is lower than the national average (6-8% range)
- ACA fees/compliance obligations in FY 18/19 and later (current regulations):
 - PCORI Federal Excise Tax – estimated \$30,000 annually
 - 1095 reporting process for employees and IRS
 - 40% “Cadillac Tax” impact (postponed from 2018 until 2022)
- Life, AD&D and Disability insurance RFP process in 2018 - opportunities for cost containment and administrative efficiencies in 2019 and beyond

Linee commented that if we are noting the Cadillac Tax, we must have a health plan in that category. Jan responded that we do not, however, she must review through 2022 and calculate what that cost increase could be should any of our plans fall into that category. Only one of our plans, the Copay Plan, based on current projections is ever be likely to come close to having a Cadillac tax impact and it does not appear to qualify in the initial years. We are doing well in that regard, but need to keep it in the pipeline.

This concluded Jan’s presentation and she asked for questions.

Kelly noted that it will be interesting to see if the Wellness program will provide a trend in seeing more diagnosis of those early cancers opposed to the later stage cancers or other illnesses and if we can correlate that to the Wellness program.

Jan stated that she believes that the communication, awareness, promotion and engagement in the Wellness program based on the City’s sponsorship is having a positive effect on overall health and wellness.

Marcus reviewed the FY 16/17 and forecasted FY17/18 claims expenses which have been approximately 4.5M under budget although in previous years we have had 12-18% increases in claims costs which are significant to the EBT. The goal in keeping a healthy EBT fund balance is to have enough capacity to manage those increases without raising employee/retiree contributions by 12-18%. The current national average of medical cost increases is 8%. With the fund balance we have now, staff would recommend keeping contribution rates on pace with the rise in claims.

Staff recommends the City contribution to the EBT Fund budgeted for FY 18/19 be based on current medical and dental premiums to be increased 8% in the benefit plan/calendar year 2019. The FY 18/19 year-end fund balance estimate for the resulting City contribution is \$45.5 million, or 48.1% of fund balance to following year’s total expenses. The increased premiums affect six 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.

Marcus also presented the Employee Benefit Trust Fund Balance Policy Memo to adopt a standard policy to maintain the EBT at a minimum of 30% of the next year’s projected expenses in reserved fund balance. To date, the City has not had a guiding policy to establish the percentage of the EBT fund balance that should be carried into the next year. The 30% fund balance is the minimum percentage that would allow the City to endure two consecutive years of 16% expense growth, while maintaining the guideline of no more than an 8% employee contribution increase.

Michael referred to page six of the Employee Benefit Trust Fund Policy memo and noted that the cities used for comparison to establish the minimum, specifically Tempe and Surprise, had a similar percentage of claim amounts, while others such as Gilbert and Chandler were based on Incurred but Not Reported (IBNR) expenses. Marcus explained that the IBNR was equivalent to approximately 1.5 - 2 months of expenses based on his research for the report.

Candace noted that at last year's meeting we discussed the fund balance policies for PPL (\$10M) and Worker's Compensation (100% of following year's claims) yet we did not have a policy regarding the EBT fund balance that could be used as a guideline when recommending funding in the years moving forward. This fund balance policy is not an official policy requiring adoption, but more a guideline provided for feedback or questions. The action item for the Board will be the EBT funding recommendation to be presented to Council for FY 18/19.

Chair Freeman asked if there were any additional questions. There were no additional questions.

Jim introduced agenda item three regarding verifying the insurance broker licenses for the funds. Several of the licenses were renewed and according to statute require verification by the Board. The licenses were submitted to each Board member for review.

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

Michael made a motion that the board accept the recommendations from the OMB Self-Insurance Trust Fund Reports presented for all three funds (PPL, Workers' Compensation and EBT) to be recommended to City Council as follows:

Property & Public Liability Trust Fund: Staff recommends including a \$7.6M City contribution in the FY 18/19 budget to achieve a minimum forecasted ending reserve fund balance of \$10M.

Worker's Compensation Fund: Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 18/19 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation expenses. For FY 18/19, the reserve target is \$6.3 million. The current estimate for the City contribution for FY 18/19 is \$3.1 million with a fund utilization of \$2.5 million. The final budgeted contribution may vary slightly from the recommendation as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

Employee Benefits Trust Fund: Staff recommends the City contribution to the EBT Fund budgeted for FY 18/19 be based on current medical and dental premiums to be increased 8% in the benefit plan/calendar year 2019. The FY 18/19 year-end fund balance estimate for the resulting City contribution is \$45.5 million, or 48.1% of fund balance to following year's total expenses. The increased premiums affect six 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.

Kelly seconded the motion to approve the recommendations. All were in favor.

Item five on the agenda presented by Jim Smith was to explain a motion that states the Minutes of the meeting be approved by the Chairperson after they have been circulated to all members and any edits have been finalized. This authorizes the Board Chairperson to approve the minutes without the delay of another meeting a year later.

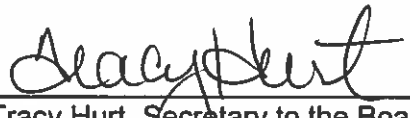
A motion was made by Linee to authorize the Board Chairperson to approve the minutes after circulation to all board members. Michael seconded the motion. All were in favor.

Chair Freeman addressed the agenda item of scheduling future meetings. Tracy noted the next meeting would be scheduled for February 2019 unless a meeting is required sooner.

Chair Freeman asked that the meeting materials (presentations and reports) be provided in advance of the meeting if possible. Jim agreed that this would be appropriate. Chair Freeman also requested the agenda include the Board members and presenter names for future meetings.

Michael moved to adjourn. Linee seconded the motion. All were in favor.

The meeting was adjourned at 4:01p.m.

 3/12/18

Tracy Hurt, Secretary to the Board Date

 3/14/2018

Mark Freeman, Board Chairperson Date

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