

## 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 (sprains and strains).

### **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

- coaching and other health education tools/classes for active employees enrolled in City medical plans
- 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)
  - 1,624 health coaching sessions
  - Over 2,100 \$50 gift cards earned –total of \$117,700 awarded to 833 employees
  - 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):
  - 26 high dollar claimants in CY 2018 (\$7 million); 43 claimants (\$9 million) in CY 2017 and 34 (\$9.5 million) in CY 2016
  - 5 stop-loss claimants over \$300,000 in CY 2018 (one in CY 2017 and 11 in CY 2016)
  - 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
  - Active: 3,416
  - Retiree: 2,016
  - 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

# Attachments



## Self-Insurance Trust Fund

## Board Report

**Date:** March 25, 2019  
**To:** Self-Insurance Trust Fund Board  
**From:** Jim Smith, City Attorney  
Jason Reed, Deputy City Attorney  
Lisa Lorts, Risk Management Claims Analyst  
**Subject:** The Property and Public Liability Trust Fund

### I. Purpose.

This report addresses the financial status of and a budget recommendation for the Property and Public Liability Trust Fund (the "PPL Trust Fund").

### II. PPL Trust Fund Finances.

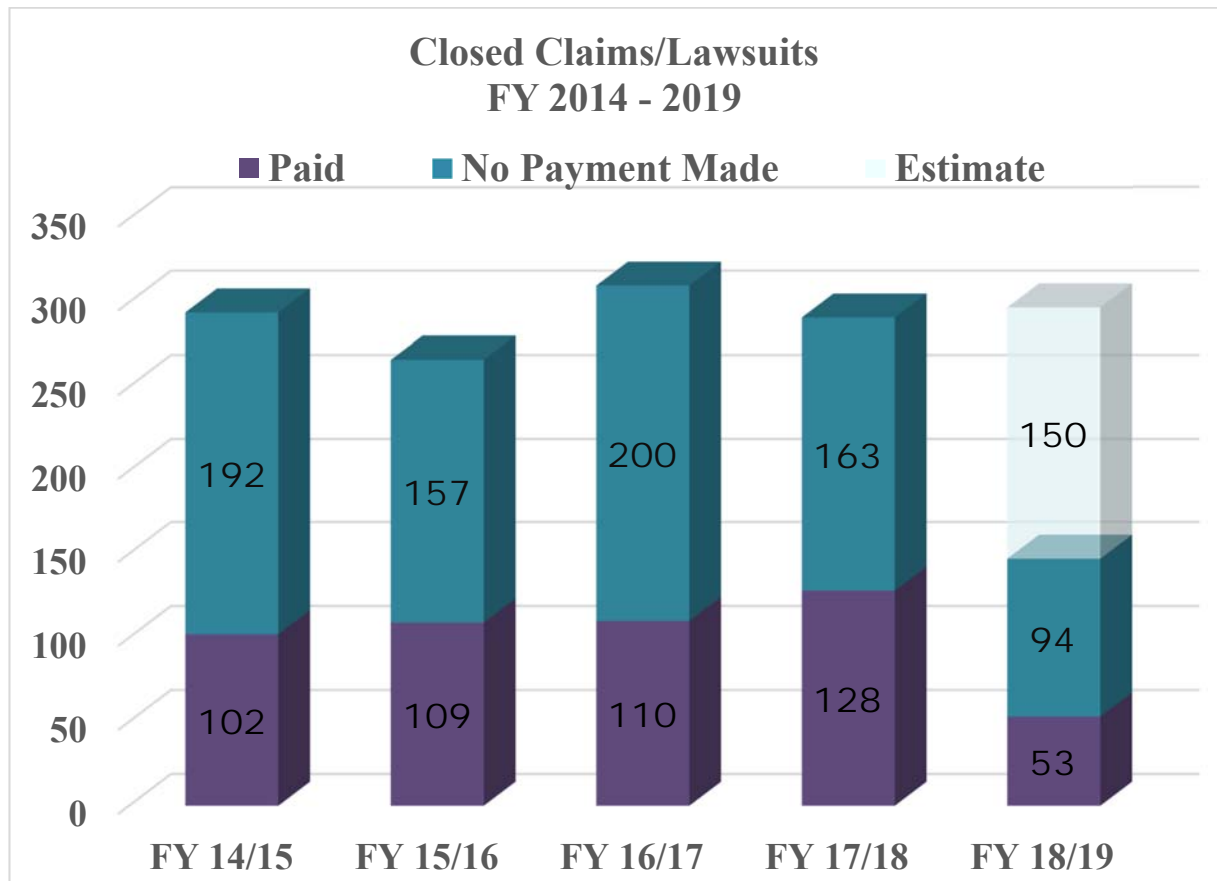
In accordance with A.R.S. § 11-981(A)(2), the City of Mesa established the PPL Trust Fund to cover the following costs:

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.

Per the City Council's direction, the PPL Trust Fund maintains a \$10 million balance through quarterly transfers from various City funds, including the City's general fund. Payouts from the PPL Trust Fund vary considerably based on the timing of verdicts or payouts in high-exposure cases. In FY 17/18, the PPL Trust Fund incurred approximately \$5.6 million in costs: \$3.2 million for claims and lawsuits; \$1.3 million for insurance; and \$1.1 million for the staffing costs of the litigation unit.

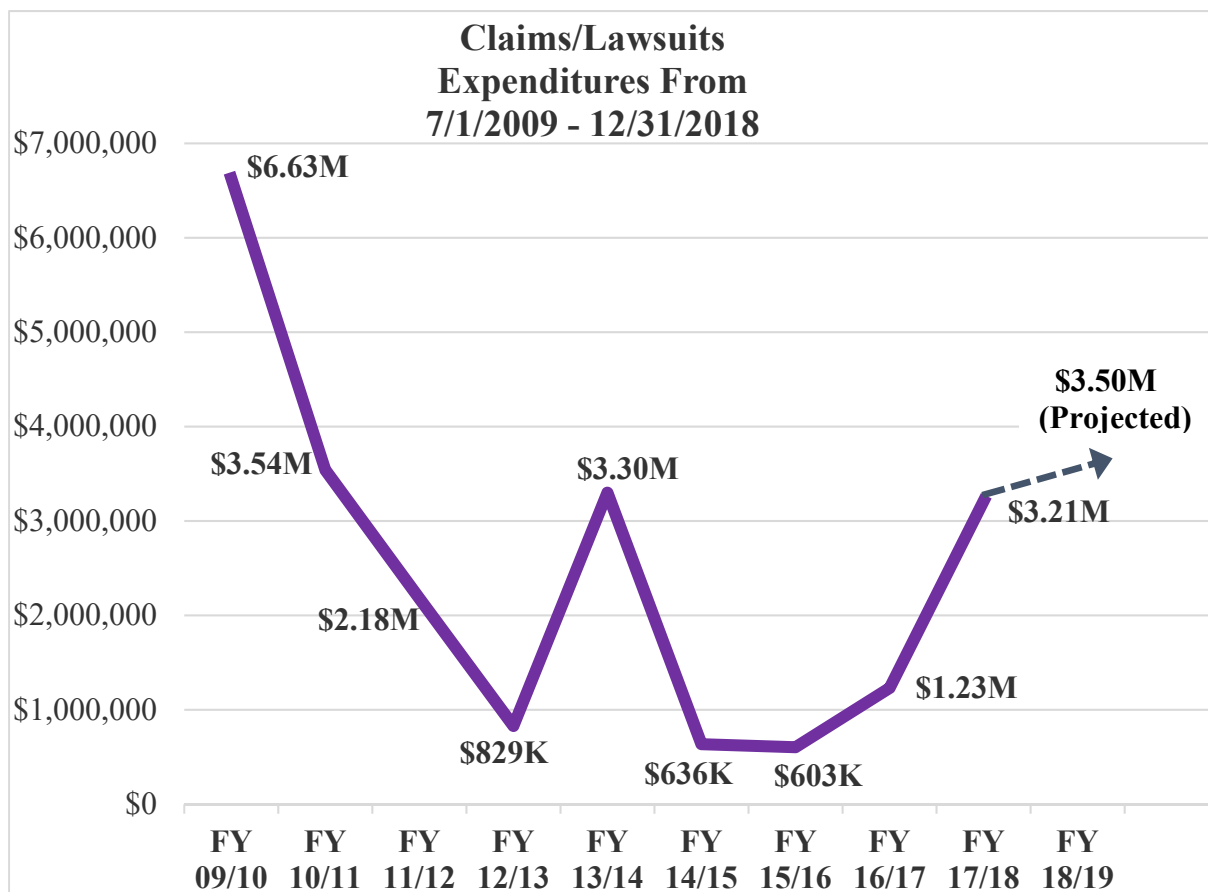
### III. Claims And Lawsuits.

The City historically receives around 300 claims and 30 lawsuits each year. A majority of these claims and lawsuits are resolved without making a payment to the claimant.



Based on national and local trends, however, the City anticipates that the number of claims and lawsuits will increase, especially as the City continues to expand by hiring more employees and providing additional services. As the number of claims increases, the City anticipates that payouts from the PPL Trust Fund will increase because, in addition to the increased number of claims and lawsuits, juries are awarding higher damage awards.

The following chart shows the annual claim-related payouts from the PPL Trust Fund. The variation in the annual payout depends primarily on whether high-exposure cases were resolved during a particular fiscal year.



Based on the City's high-exposure claims and the litigation trends discussed above, annual payouts to handle and resolve claims will likely increase.

The City, for example, generally incurs greater costs to defend high-exposure cases as a result of the potential for larger damage awards, increased outside counsel fees, expert witness fees, increased technology costs, attorney fee shifting provisions, and other litigation expenses.

The City is currently defending multiple high-exposure lawsuits. Considering the factors listed above, pressure could be placed on the PPL Trust Fund if a jury awarded significant damages in one or more of the high-exposure cases.

#### **IV. Litigation Expenses.**

##### **A. The City's Litigation Unit.**

The City's litigation unit defends the City and its employees in nearly all third-party liability claims and lawsuits. In comparison, many cities hire outside counsel to handle their litigation. By handling litigation matters internally, the City reduces the cost and expenses associated with the hiring of outside counsel and generates significant cost savings.

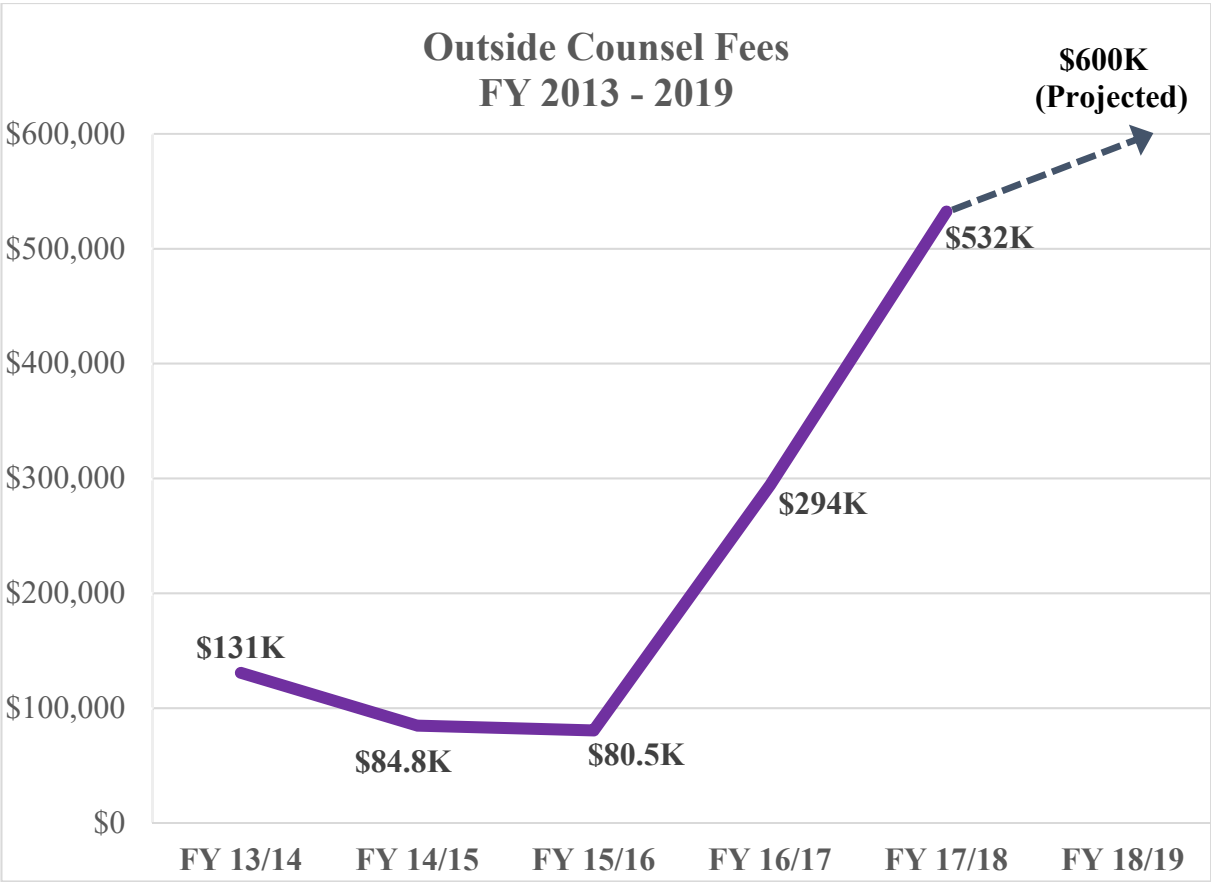
The City's litigation unit is comprised of three attorneys, two paralegals, two legal assistants, and one claims adjuster. The size of the litigation unit compares favorably with that of other cities of comparable size. The City Attorney's Office, for example, has the lowest number of attorneys per capita for cities with comparable populations. Sacramento and Fresno (two of the comparably sized cities) each employ six attorneys to handle those cities' litigation matters.

The litigation unit also helps respond to public record requests. In recent years, the number of public record requests has increased significantly. Attorneys from both the litigation unit and the administrative law unit have had to devote more time responding to these requests. Due to this increase in requests, the City anticipates hiring another attorney to help manage both the increasing number of claims and lawsuits and the increasing number of public record requests.

##### **B. Outside Counsel.**

The City also retains outside counsel when a conflict of interest prevents the City's litigation unit from defending the lawsuit, when a particular expertise is needed to defend the lawsuit, and/or for certain high-exposure claims that may erode the City's SIR.

The following chart shows the amounts spent on outside counsel for the last five years.



The increase in outside counsel costs has been associated with, among other things, multiple high-exposure cases, specialized litigation matters, and turn-over in the litigation unit.

By hiring an additional attorney for the litigation unit, the City anticipates that it will be better positioned to manage outside counsel expenses so that outside counsel fees will begin to level off and eventually trend downward. In the meantime, because litigation matters can last for multiple years, the City anticipates that it will continue to incur costs for outside counsel until these matters are resolved.



## **V. Insurance.**

Governmental entities are frequent targets for litigation, particularly those entities with law enforcement agencies. As more claims are made against government entities, insurers are required to pay larger amounts to defend and resolve those claims. This likely will reduce the number of insurers that offer municipality insurance and will place pressure on insurers to raise premiums.

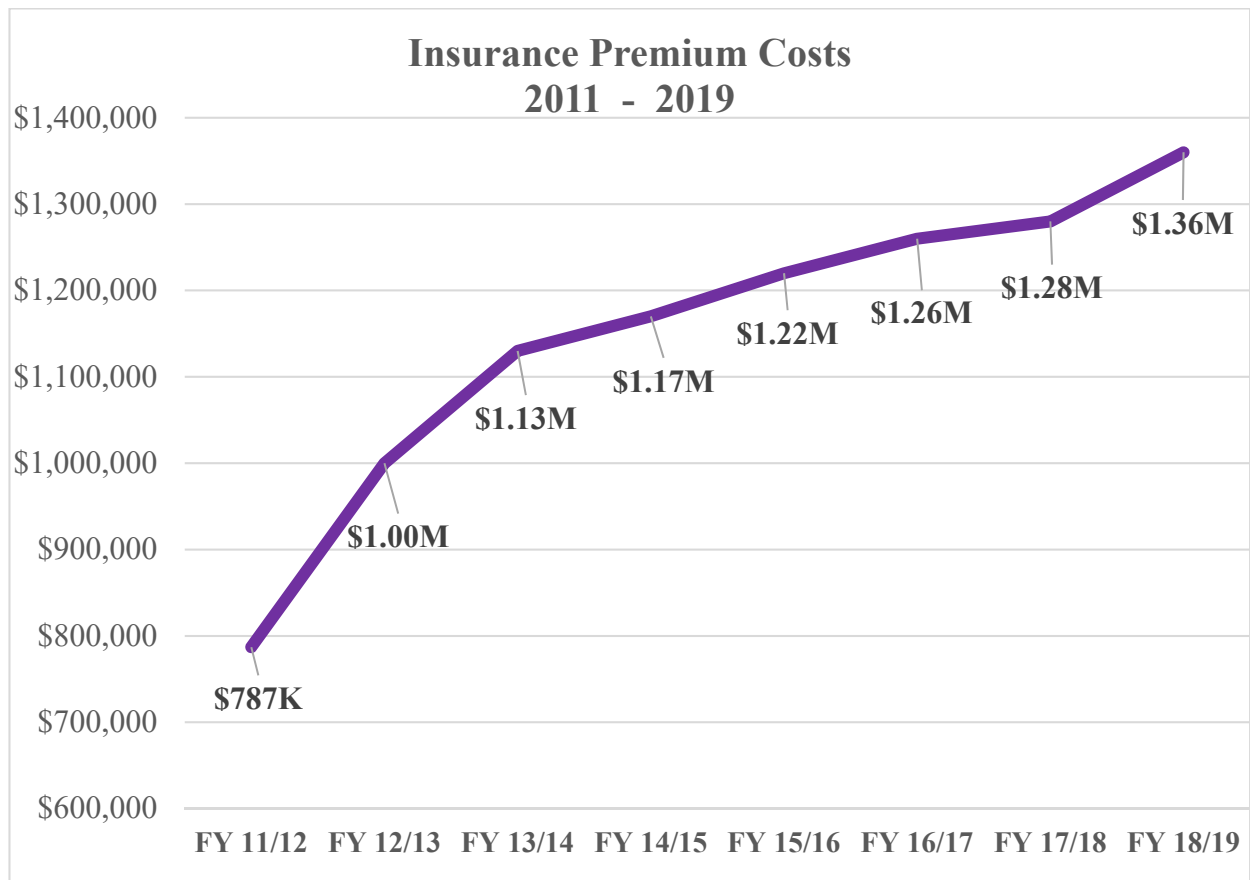
### **A. Market Changes.**

For example, the City anticipates that fewer insurers will offer insurance to municipalities, especially those municipalities with law enforcement agencies. The City has already seen evidence of this because, when the City has requested insurance quotes in the past, insurance companies indicated either that they had abandoned the municipality insurance market and/or that they would not submit a quote for the City's insurance.

For the insurers that do remain in the market, those insurers likely will raise premiums to reflect the increased number of claims and the increased litigation costs. If, for example, a verdict were entered against a governmental entity that was ultimately paid by the entity's insurer, the insurer likely would raise its premiums, potentially significantly, to reflect that expenditure.

## B. Insurance Costs.

The following chart shows the annual cost for the City's insurance. While the City works to minimize future premium increases (as discussed below), the City anticipates that premiums will continue to rise.



Prior to 2015, the City requested insurance quotes from multiple insurers on an annual basis. Based on recommendations from the City's insurance broker, and to help manage rising insurance premiums, the City has obtained insurance pursuant to a 2015 and 2018 City Council resolution 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.

For example, when the City renewed its liability insurance in 2018, the quote provided by the City's current insurer was approximately \$200,000 less than that of the next

lowest quote. By maintaining a long-term relationship with the City's current insurers, the City is working to minimize future premium increases.

The City Attorneys' Office also works with City Departments and its current insurer to identify areas of risk, to identify national and local trends related to new claims and lawsuits, and to offer and implement additional training to reduce and potentially minimize future claims and lawsuits.

For example, Travelers Insurance Company provided a four-hour training session on Police liability to Police Department supervisors. In that training, Travelers discussed, among other things, current litigation trends and suggestions regarding best practices.

### **C. The City's Self-Insured Retention.**

The City is currently self-insured for \$3 million per covered event. The City has had this level of SIR for the last 10 years.

The amounts paid by the City towards items like litigation costs, outside counsel fees, and expert witness fees erode the SIR. Once the City's SIR is completely eroded, insurance is intended to cover the remaining expenses, costs, and any damage award associated with defending and resolving the underlying claim or lawsuit.

For claims that exceed the City's \$3 million SIR, the City has purchased \$50 million in excess liability insurance coverage. In the future, insurers may put pressure on the City to raise its SIR in order to reduce the insurers' potential exposure.

### **VI. Summary.**

The City has had a successful year in managing the claims and lawsuits filed against the City and its employees. Pressure continues to exist on the PPL Trust Fund based on, among other things, the high-exposure claims filed against the City and the rising cost of litigation, outside counsel fees, and insurance.

The City will continue to evaluate the PPL Trust Fund and will provide recommendations about the amount that the City should budget to replenish the PPL Trust Fund, whether the PPL Trust Fund balance should be increased, and whether the level of the City's SIR should be increased.

### **VII. Recommendation.**

The City recommends a City contribution of \$7.4 million for FY 18/19. The City also recommends a City contribution of \$6.9 million for FY 19/20.

**CHARLES LEWIS HALSEY**  
2328 HEATHER VALLEY DR  
LAS VEGAS NV 89134-6098

## ARIZONA INSURANCE LICENSE

License No: 718880

### **CHARLES LEWIS HALSEY**

10100 W CHARLESTON BLVD STE 220  
LAS VEGAS NV 89135-5001

NON-RESIDENT

As of January 10, 2019

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	08/15/2003	08/01/2017	07/31/2021	Property	08/15/2003
				Life	12/28/2006
				Casualty	08/15/2003
				Accident and Health or Sickness	12/28/2006

APPOINTMENT DATA IS NOT COLLECTED, TRACKED OR MAINTAINED IN ARIZONA.

Arizona Department of Insurance  
100 N 15th Ave # 102, Phoenix, AZ 85007  
<https://insurance.az.gov> | (602) 364-4457

**ARTHUR J GALLAGHER RISK MANAGEMENT SERVICES INC**

BSD LICENSING

2850 GOLF ROAD

ROLLING MEADOWS IL 60008-4050

**ARIZONA INSURANCE LICENSE**

License No: 1800001294

**ARTHUR J GALLAGHER RISK MANAGEMENT  
SERVICES INC**

2850 GOLF ROAD  
ROLLING MEADOWS IL 60008

NON-RESIDENT

As of February 01, 2018

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	08/16/2005	01/01/2018	12/31/2021	Casualty	08/16/2005
				Variable Life and Variable	08/16/2005
				Annuity	08/16/2005
				Property	08/16/2005
				Life	08/16/2005
Surplus Lines Broker	08/16/2005	01/01/2018	12/31/2021	Accident and Health or Sickness	08/16/2005
				Personal Lines	08/16/2005
				Surplus Lines Broker	08/16/2005

APPOINTMENT DATA IS NOT COLLECTED, TRACKED OR MAINTAINED IN ARIZONA.

Arizona Department of Insurance  
2910 N 44th Street, Suite 210, Phoenix, AZ 85018-7269  
<https://insurance.az.gov/> (602) 364-4457

**ROBIN LEE REEVES**  
8525 E INDIANOLA AVE  
SCOTTSDALE AZ 85251-4924

## ARIZONA INSURANCE LICENSE

License No: 951327

### **ROBIN LEE REEVES**

8525 E INDIANOLA AVE  
SCOTTSDALE AZ 85251-4924

RESIDENT

As of February 06, 2019

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	06/12/2014	10/02/2017	09/30/2021	Life	06/12/2014
				Accident and Health or Sickness	06/12/2014

APPOINTMENT DATA IS NOT COLLECTED, TRACKED OR MAINTAINED IN ARIZONA.

Arizona Department of Insurance  
100 N 15th Ave # 102, Phoenix, AZ 85007  
<https://insurance.az.gov> | (602) 364-4457

**Buck Global LLC**  
11 STANWIX ST SUITE 2220  
PITTSBURGH PA 15222

## ARIZONA INSURANCE LICENSE

License No: 1800003654

### ***Buck Global LLC***

420 LEXINGTON AVE SUITE 2220

NEW YORK NY 10170

NON-RESIDENT

**As of December 31, 2018**

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	03/17/2005	04/01/2017	03/31/2021	Accident and Health or Sickness	03/17/2005
				Variable Life and Variable Annuity	07/21/2005
				Life	03/17/2005
				Property	02/24/2006
				Casualty	02/24/2006

APPOINTMENT DATA IS NOT COLLECTED, TRACKED OR MAINTAINED IN ARIZONA.

Arizona Department of Insurance  
2910 N 44th Street, Suite 210, Phoenix, AZ 85018-7269  
<https://insurance.az.gov> | (602) 364-4457



## Self-Insurance Trust Fund Board Report

Date: March 25, 2019  
To: Self-Insurance Trust Fund Board  
From: Candace Cannistraro, Office of Management and Budget Director  
Subject: Property and Public Liability (PPL) Trust Fund: Financial Update and FY 19/20 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 17/18 regarding the financial history and reserve policy of the Property and Public Liability (PPL) Trust Fund. This report will provide an update on the financial status of the fund through FY 17/18, year-end projections for FY 18/19, and recommended City contributions for inclusion in the FY 19/20 budget.

### Financial Update

#### *Expenditure Trends*

Expenditures in the PPL Trust Fund are tracked in three categories: administration, claims paid, and premium costs. Administration costs include salary and benefits of City employees who work directly with the program, as well as other operating costs. Citywide overhead charges are not applied to the PPL Trust Fund. The length of time from the submission of a claim to final resolution, value of claims paid, and frequency of claims contribute to the variability of the annual costs to the PPL Trust Fund. The total expenses and cost of claims for the last several fiscal years are shown in the following chart.

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Cost of Claims</b>
Actual	FY14/15	\$2.8M	\$0.6M
Actual	FY15/16	\$2.9M	\$0.6M
Actual	FY16/17	\$3.5M	\$1.2M
Actual	FY17/18	\$5.6M	\$3.2M
Projected	FY18/19	\$4.8M	\$2.5M
Forecast	FY19/20	\$7.6M	\$4.5M



### *Revenues/Contributions and Reserve Balance*

The PPL Trust Fund contains expenditures that can vary greatly from year to year, but the fund has a stable funding source from contributions directly from the City's operating funds. The needed contribution is estimated each year and included in the adopted budget. Expenditures are reviewed during the year, and contributions are made to the fund on a quarterly basis. Since FY 14/15, the PPL Trust Fund has maintained a \$10 million year-end fund balance.

The FY 18/19 budget was adopted with PPL contributions estimated at \$7.4 million to achieve a \$10.0 million ending reserve balance based on estimated expenses.

### *Future Stability of the Fund*

The City's management practices over the last several years have resulted in a stable reserve balance for the PPL Trust Fund. There are no identified changes in policy or legislation that would affect the future revenues or expenses of the fund. Insurance premium costs to the City for property and public liability insurance premiums have remained stable in recent fiscal years and are negotiated on an annual basis.

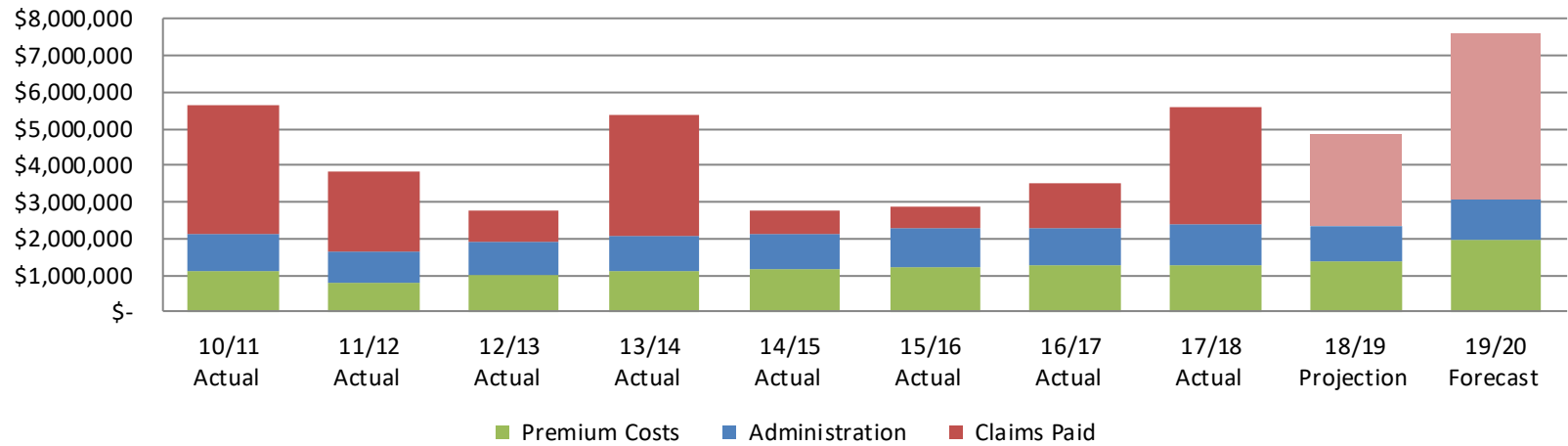
### Recommendation

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.

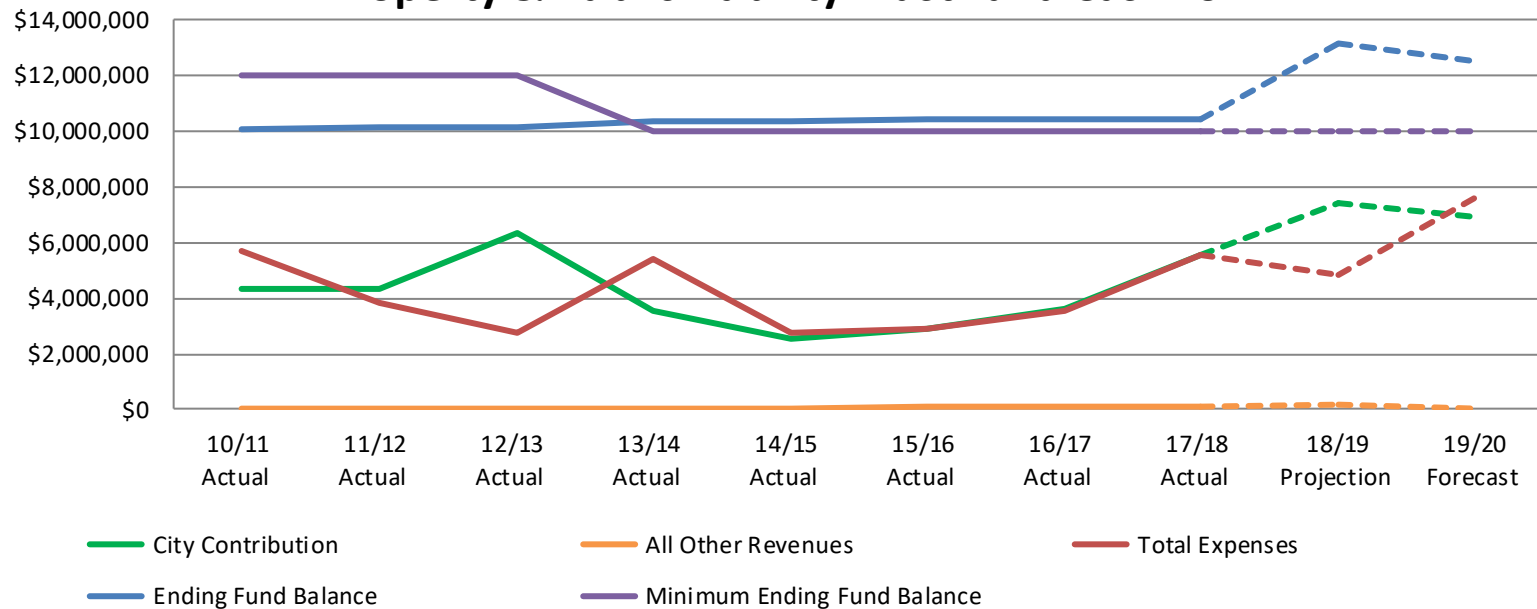
### Attachments:

1. *Property & Public Liability Trust Fund Expenses and Property & Public Liability Trust Fund Cashflow Charts – Data Through 12-31-2018*

## Property & Public Liability Trust Fund Expenses



## Property & Public Liability Trust Fund Cashflow



# **CITY OF MESA WORKERS' COMPENSATION TRUST FUND – Operations Report**

Self-Insurance Trust Fund Board Presentation  
March 25, 2019

# Workers' Compensation Program Overview

- Arizona statute requires that all public and private employers provide worker's compensation coverage for their employees.
  - Industrial Commission of Arizona (ICA)
- The City's Workers' Compensation Program provides medical (including prescription) and loss wage compensation benefits to City employees who have a work-related injury or illness.
  - These benefits are also extended to City of Mesa's Official Volunteers, pursuant to City Resolution Number 6491.
  - City of Mesa – Self-Insured since ***July 1, 1982***
  - *Self-Administered since **October 1990***

# WC Trust Funding

- 100% City Funded
  - No employee contributions or premiums are collected
- Workers' Compensation Trust Fund is funded by:
  - General Fund contributions (Department Rates)
    - *(Job Title & Assigned Risk Rate)*
  - Excess WC Insurance Reimbursements (Stop Loss)
    - **2013: \$491,420**
    - **2014: \$162,602**
    - **2015: \$182,925**
    - **2016: \$234,839**
    - **2017: \$377,797**
    - **2018: \$669,217**
- Subrogation Reimbursements (*i.e.; motor vehicle accidents*)
- Trust investment income

**\*\*Self Insured Retention (SIR) - \$250,000 - \$600,000**

**\*\*\*Current SIR - \$1 Million**

# Workers' Compensation Program Operations

❖ *From the Workers' Compensation Trust fund, the City pays all:*

- Industrial injury and illness claims,
  - ***Medical and Lost income/wages***
- Prescriptions (***Rx Invoices***)
- Legal costs – WC Attorneys
- 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 \* July 01, 2007***
- Personnel (*Staff*) Costs – *Program Administration*

# Workers' Compensation Program Operations cont.

- ❖ Workers' Compensation claims: Claims Adjudication
  - 2013: **434 – new claims**
  - 2014: **437 – new claims**
  - 2015: **407 – new claims**
  - 2016: **397 – new claims**
  - 2017: **426 – new claims**
  - 2018: **411 – new claims**
  
- ❖ First Contact Program – PT Program Assistant (1)
  - **New injury / Illness Claims:** Phone calls and emails
  
- ❖ Workers' Compensation Representatives (2)
  - Manage an average of **190** claims per Representative
  - Oldest open claim **September 1985**
  
- ❖ WC Bill Payment Program – Safety and Workers' Compensation Specialists (2)
  - 2016: **Processed and paid medical bills = \$1,452,056**
  - 2017: **Processed and paid medical bills = \$1,775,667**
  - 2018: **Processed and paid medical bills = \$1,997,984**

# Workers' Compensation Program

## Operations cont.

- ❖ Transitional Work Program (Return-to-Work): Transitional Work Coordinator
  - **Reduction in hours** – *Less than full-time work to meet the temporary restrictions.*
  - **Alternative Work** – *Offering the employee a position other than his/her regular job to meet the temporary work restrictions.*
  - **Modified Work** – *Changing or eliminating specific job duties within the employee's regular job to meet the temporary work restrictions.*
- **Work-related and Non-Work-related Conditions**

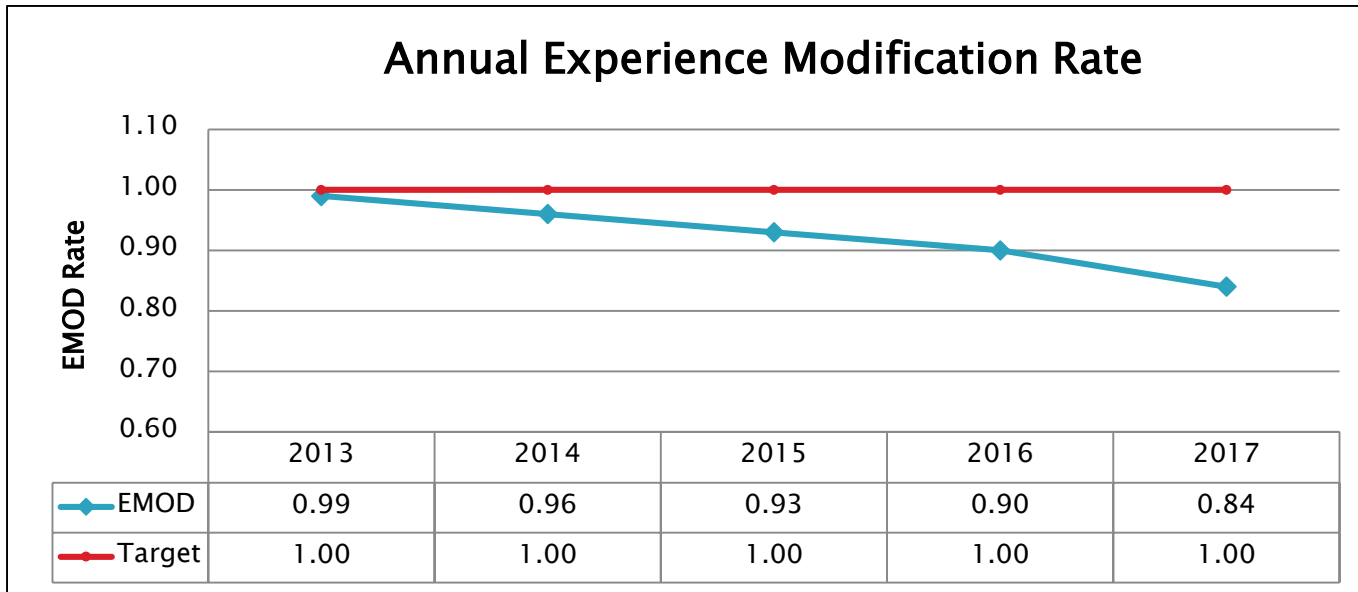


# Workers' Compensation Program Operations cont.

## ❖ Cost Containment Programs:

- Directed-care Policy – requires 1<sup>st</sup> visit to designated medical facility.
  - ***Banner Occupational Health Clinics***
- AZ Blue Cross / Blue Shield Workers' Compensation Network of medical providers
  - 2016: **BILLED - \$3,272,646 PAID - \$1,190,050 SAVED - \$2,082,596**
  - 2017: **BILLED - \$3,395,225 PAID - \$1,177,245 SAVED - \$2,217,981**
  - 2018: **BILLED - \$3,797,798 PAID - \$1,477,116 SAVED - \$2,320,681**
- Specialty Bill Review Services – Hospitals, DME & Non-Participating Providers
- ICA State Fee Schedules
- WC Prescription Program – Pharmacy Benefits Manager (PBM)
  - 2015: **BILLED - \$258,819 PAID - \$221,165 SAVED - \$37,655** \*03/02/2015
  - 2016: **BILLED - \$208,040 PAID - \$125,752 SAVED - \$82,288**
  - 2017: **BILLED - \$215,115 PAID - \$123,760 SAVED - \$91,356**
  - 2018: **BILLED - \$250,153 PAID - \$177,830 SAVED - \$72,322**
- RFP Procurement process (2018)
- myMatrixx awarded 3 Year contract starting 01/01/2019

# Workers' Compensation Program Operations cont.



# Safety Program Operations:

## Workplace Safety

- ❖ Injury Prevention Programs: Safety Coordinators (2) & Safety Technician (1)
  - Safety Inspections
  - Safety Training
  - Safety Program Manuals/Procedures
  - Indoor Air Quality Monitoring
  - Special Safety Considerations – Department employee concerns
- ❖ Safety Committees:
  - Citywide Safety Committee – multi-department representation
  - Citywide LOTO & Electrical Safety Committee
  - Commercial Motor Vehicle Committee
  - Department Safety Committees
- ❖ Safety Awareness: Injury Statistics
  - Department Specific & Citywide
    - Slips, Trips, and Falls
    - Lifting & Carrying (sprains and strains)

# Operational Challenges: WC/Safety

- ❖ Expansion of Presumptive Cancer Statutes (2018):
  - 13 Additional Cancers added to list in 2018; **21 presumptive cancers**
- ❖ Safety Statistics: Injury Statistics
  - Time Lost Claims 2018 – Severity of injuries up!!!



## **Self-Insurance Trust Fund Board Report**

Date: March 25, 2019  
To: Self-Insurance Trust Fund Board  
From: Nitra Hawkins, Work Safety Administrator  
Candace Cannistraro, Office of Management and Budget Director  
Subject: Workers' Compensation Trust Fund: Financial Update and FY 19/20 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 17/18 regarding the financial history and reserve policy of the Workers' Compensation Trust Fund. This report will provide an update on the financial status of the fund through FY 17/18, year-end projections for FY 18/19, and recommended City contributions for inclusion in the FY 19/20 budget.

### Financial Update

#### *Expenditure Trends*

Expenditures in the Workers' Compensation Trust Fund are tracked in three categories; administration, claims paid and premium costs. Administration costs include salary and benefits of City employees who work directly with the workers' compensation program, as well as other operating costs. Citywide overhead charges are not applied to the Workers' Compensation Trust Fund. Total expenses have been relatively consistent in the previous five years ranging between \$4.4 million and \$5.1 million with a five-year average of \$4.7 million dollars annually.

FY 17/18 total Workers' Compensation Trust Fund expenses were \$5.0 million – an increase of 5.4% over the prior fiscal year. The increases in expenditures are largely driven by the increased cost of providing medical care for workers' compensation claims. The projected total expenditures for FY 18/19 are expected to be \$4.9 million, approximately \$1.0 million below the budgeted amount. The projected claims for FY 18/19 are anticipated to be \$3.4 million, approximately \$120 thousand lower than the previous year. The total expenses and cost of claims for the last several fiscal years are shown in the following chart.

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Cost of Claims</b>
Actual	FY 14/15	\$4.5M	\$3.1M
Actual	FY 15/16	\$4.4M	\$3.0M
Actual	FY 16/17	\$4.7M	\$3.3M
Actual	FY 17/18	\$5.0M	\$3.5M
Projected	FY 18/19	\$4.9M	\$3.4M
Forecast	FY 19/20	\$6.0M	\$4.0M

### *Revenues/Contributions and Reserve Target*

The Workers' Compensation Trust Fund has a stable funding source as departments are charged each pay period based on the salary of the departments' employees. The needed revenues are estimated each year and included in the estimated expenses of each department's adopted operating budgets. Expenditures are reviewed during the fiscal year, and rates may be modified as needed. The outstanding workers' compensation claims are valued at the total estimated payments which may occur over many years based on the type of injury. The current reserve policy sets the reserve target at the amount sufficient to cover the following year's total Workers' Compensation Trust Fund expenses. Rates are adjusted annually to coincide with budget adoption.

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. The budgeted fund balance utilization (where expenses are higher than revenues) was \$2.7 million, but the year-end utilization amount will be \$0.9 million with a projected year-end balance of \$8.0 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.

### *Future Stability of the Fund*

The Safety Services Division provides OSHA safety training and education to City employees as well as department-specific safety programs. Safety team members work in collaboration with departments to proactively address, correct and mitigate safety challenges. Claims are reviewed for preventability, mechanism and accident types for trending and candidacy for additional training to reduce accident occurrence.

The future stability of the trust fund may be impacted by the legislative expansion of the of Arizona Revised Statute §23-901.01 regarding presumptive cancers. In most workers' compensation claims, the burden is placed on the worker to prove their ailment is a result of occupational exposure. "Presumptive" illnesses work in the opposite course, whereby the employer is required to prove the worker was not injured while at work. Thirteen (13) additional cancers were added to the presumptive statute increasing the total to 21 covered cancers for public safety employees, which includes both Fire & Medical Department and Police Department employees. The presumed cancers are considered to arise out of employment and covered under the City's workers' compensation program. The total ongoing

financial impact of the new legislation to the Workers' Compensation Trust Fund is currently being considered, although there is no immediate impact anticipated.

### Recommendation

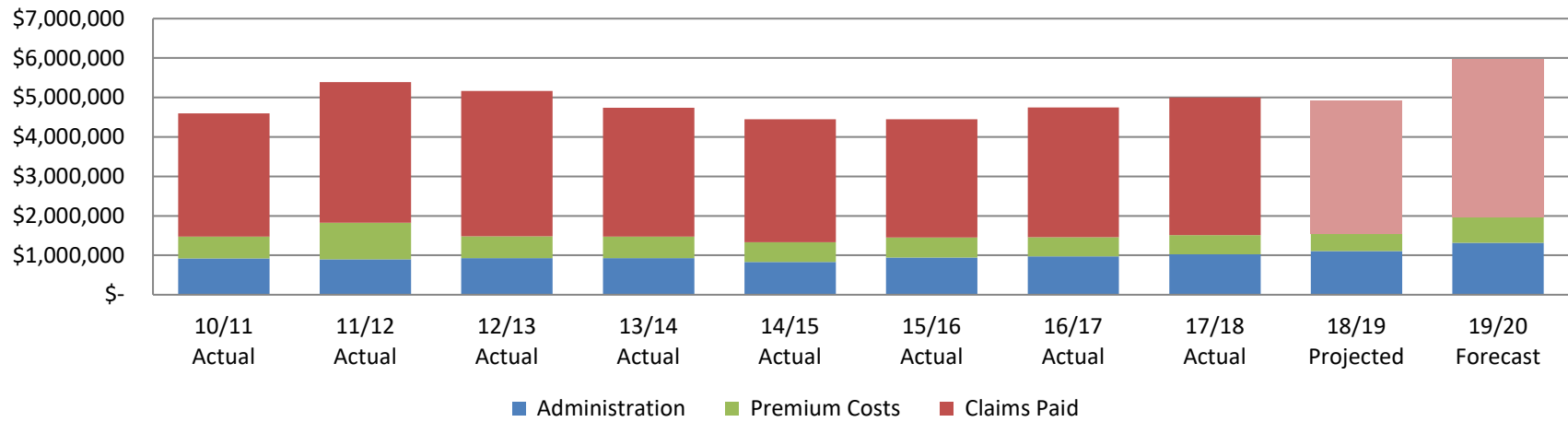
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 19/20 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation Trust Fund expenses. 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.

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.

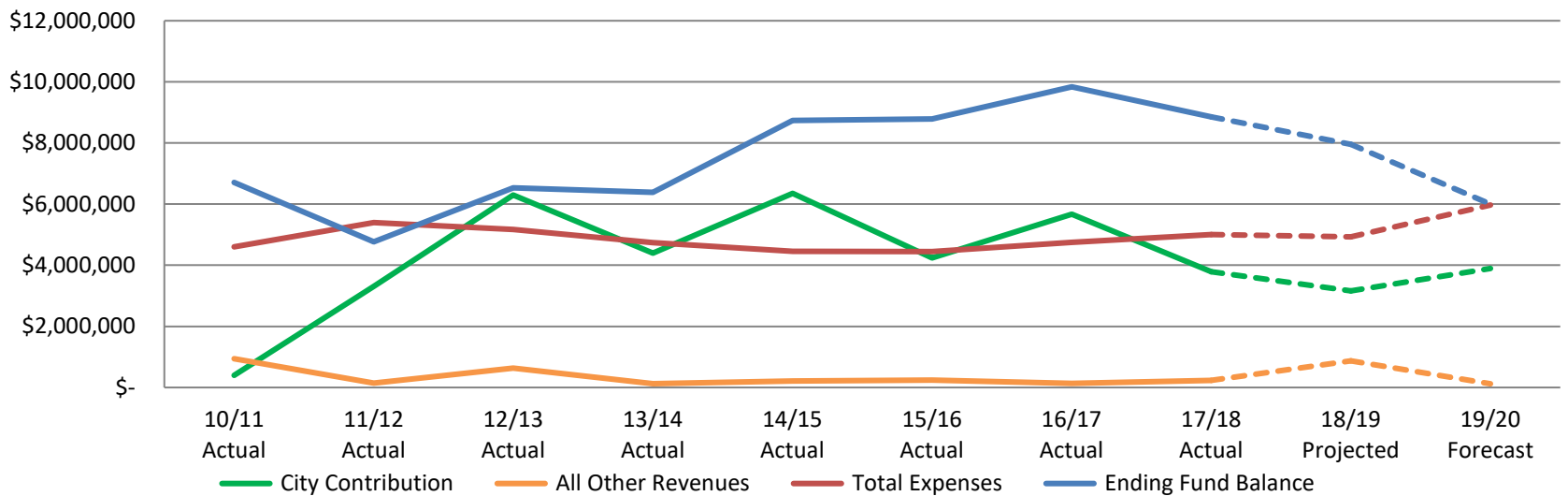
### Attachments:

1. *Workers' Compensation Trust Fund Expenses and Workers' Compensation Trust Fund Cashflow Charts – Data Through 12-31-2018*

## Workers' Compensation Trust Fund Expenses



## Workers' Compensation Trust Fund Cashflow







# CITY OF MESA EMPLOYEE BENEFIT TRUST FUND (EBT) – OPERATIONS REPORT



SELF-INSURANCE TRUST FUND BOARD PRESENTATION  
March 25, 2019

# Employee Benefit Trust (EBT) Benefit Program Overview

2

The City's Employee Benefit Trust Fund provides health and welfare benefit programs for employees, retirees and eligible family members:

- ❑ 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 exam and materials) administered and insured by not-for-profit Vision Service Plan (VSP)
- ❑ EAP program administered and insured by ComPsych

# Employee Benefit Trust (EBT) Benefit Program Overview cont.

3

- ❑ Health and Dependent Care Flexible Spending Accounts administered by ConnectYourCare
- ❑ Health and Wellness Center (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.
- ❑ 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

# Employee Benefit Trust (EBT) Benefit Program Overview cont.

4

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

# EBT Funding

5

- EBT is funded by:
  - Contributions from City department budgets
  - Employee, retiree and COBRA premiums
  - State retirement system subsidies (ASRS & PSPRS)
  - Medicare Part D Drug subsidy/discount reimbursements (EGWP) – for eligible retirees
  - PBM generated Brand Drug 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 year
  - Trust investment income

# Benefit Administration Changes

6

## Medical Plans: Third-Party Administration and Provider Network

- ❑ Implemented 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)

# Benefit Administration Changes cont.

7

## Group Term Life, AD&D and Disability Plans: New Carrier Implementations

- ❑ 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)

# Health and Wellness Initiatives

8

## **City of Mesa Employee Health and Wellness Center:**

- ❑ Primary and preventive care; pediatrics services from a family medicine perspective; flu and other preventive immunizations; DOT physicals; seasonal drug testing; basic screening derm appointments from March, 2019
- ❑ Third-party managed/staffed by MD and two 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



# Health and Wellness Initiatives cont.

9

## **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 coaching and other health education tools/classes for active employees **enrolled in City medical plans**
  - 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)
  - 1,624 health coaching sessions
  - Over 2,100 \$50 gift cards earned – total of \$117,700 awarded to 833 employees
  - Over 400 employees achieved maximum 1,000 points and rewards

# Challenges/Opportunities for EBT for 2019/2020

10

- ❑ 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):
  - 26 high dollar claimants in CY 2018 (\$7 million); 43 claimants (\$9 million) in CY 2017 and 34 (\$9.5 million) in CY 2016
  - 5 stop-loss claimants over \$300,000 in CY 2018 (one in CY 2017 and 11 in CY 2016)
  - 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 increase 3.2% from 2017 to 2019 – 13,805 total lives covered by March, 2019
  - ❑ Active: 3,416
  - ❑ Retiree: 2,016
  - ❑ Total Dependents: 8,335



## Self-Insurance Trust Fund Board Report

Date: March 25, 2019  
To: Self-Insurance Trust Fund Board  
From: Janice Ashley, Employee Benefits Administrator  
Candace Cannistraro, Office of Management and Budget Director  
Subject: Employee Benefit Trust (EBT) Fund: Financial Update and FY 19/20 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 17/18 regarding the financial history and reserve policy of the EBT Fund. This report will provide an update on the financial status of the EBT Fund through FY 2017/18, projections for FY 2018/19 and recommended City contributions for inclusion in the FY 2019/20 budget.

### Financial Update

#### *Expenditure Trends*

Expenditures in the EBT Fund are tracked in four categories: administration, medical/dental/prescription drug claims paid, life/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:

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Increase</b>	<b>Cost of Claims</b>	<b>Increase</b>
Actual	FY 14/15	\$68.4M	17.2%	\$56.8M	11.9%
Actual	FY 15/16	\$77.0M	12.7%	\$69.0M	17.9%
Actual	FY 16/17	\$78.4M	1.8%	\$69.3M	0.4%
Actual	FY 17/18	\$80.1M	2.1%	\$70.1M	1.1%
Projected	FY 18/19	\$87.6M	9.3%	\$77.6M	10.6%
Forecasted	FY 19/20	\$93.1M	6.3%	\$82.8M	6.7%

The healthcare and health insurance industries are an ever-changing environment. Staff reviews the trend in expenditures for the various self-insured benefit plans offered to employees and retirees, and the effect of approved or pending legislation to assess future risk to the fund. For the past two completed fiscal years, the total cost of medical,

prescription drug and dental claims have finalized at single-digit increase amounts and below budget. Current FY 18/19 claims are trending approximately 10.6% higher than FY 17/18 actuals and are expected to finish the year at the budgeted amount of \$77.6 million. The expected increase in claims costs for FY 18/19 is due to several factors:

- Medical/Prescription drug plan - reduced frequency of high dollar claimants (over \$150,000) but slightly increased severity of claimants (stop-loss over \$300,000):
  - 26 high-dollar claimants over \$150,000 (\$7 million) in Calendar Year (CY) 2018; 43 claimants (\$9 million) in CY 2017; 34 claimants (\$9.5 million) in CY 2016
  - Five stop-loss claimants over \$300,000 in CY 2018; one stop-loss claimant over \$300,000 in CY 2017; 11 stop-loss claimants in CY 2016
  - Top diagnostic drivers in CY 2018: early stage cancers, cardiovascular/stroke, blood disorders, and neonatal congenital disorders
- Membership (3.2%) and utilization increases from CY 2017 through to current, primarily in retiree, active dependent, and retiree dependent populations:
  - Retiree population is up more than 500 from CY 2017 to 2019 - more than 2,000 retirees in March 2019
  - Dependent population (for both retiree and active groups) is up 160 from CY 2017 to 2019 – more than 8,300 dependents in March 2019
  - Total population covered in medical plans: more than 13,800 in March 2019 (compared to approximately 13,300 in CY 2017)

### *Operational Highlights in FY 18/19*

In CY 2018, the City implemented a three to five-year contract with Cigna for third-party medical plan administration and medical provider network and activated a 12-month run-out administration with AmeriBen and Blue Cross & Blue Shield of Arizona. The Cigna contract includes medical and behavioral health administration services (claims, appeals, medical utilization, and case management), customer service and provider network in all fifty states, and several cost containment and service enhancement opportunities including: significantly reduced base administration fees, seamless national network with minimal member disruption, vendor and service consolidation across in-state and out-of-state plans, and partial, multi-year funding of health and wellness initiatives.

The City introduced and expanded the Mesa Wellness 360 program during CY 2018 to advance wellness engagement with active medical plan enrollees. This wellness program provides financial incentives for registered participants who complete/sign-up for activities (between January 1 and October 31), biometric screenings, daily physical activities, health and wellness events/contests/challenges, preventive physicals and/or screenings, and participation in wellness education. The Mesa Wellness 360 program is funded by the EBT Fund and is supplemented annually by a Cigna-provided *Health Improvement Fund*. Current enrollment figures for the Mesa Wellness 360 program has

more than 1,600 employees registered. An energetic marketing campaign in late CY 2018 promoted the CY 2019 program and continued robust communications increase program participation daily.

During CY 2018 the City's stop-loss insurance program for medical and prescription drug plans was renewed for CY 2019 with significant annual premium cost reductions (almost \$900,000) and increased specific deductible per claimant (to \$500,000). Additionally, an extensive Request for Proposal (RFP) process produced awards for several new welfare benefit plan contractors that have been activated in CY 2019 (Basic and Supplemental Life, Basic and Supplemental Accidental Death & Dismemberment, (AD&D), Business Travel Accident (BTA), Short Term Disability (STD) and supplemental Long Term Disability (LTD) for sworn officers and elected officials). These RFP awards allowed the City to save approximately \$59,500 in annual premium expenses, maintain premium rates for voluntary supplemental insurance programs and add new supplemental AD&D coverage at maintained premium levels but potentially "double the coverage" available to employees.

#### *Revenues/Contributions and Reserve Balance*

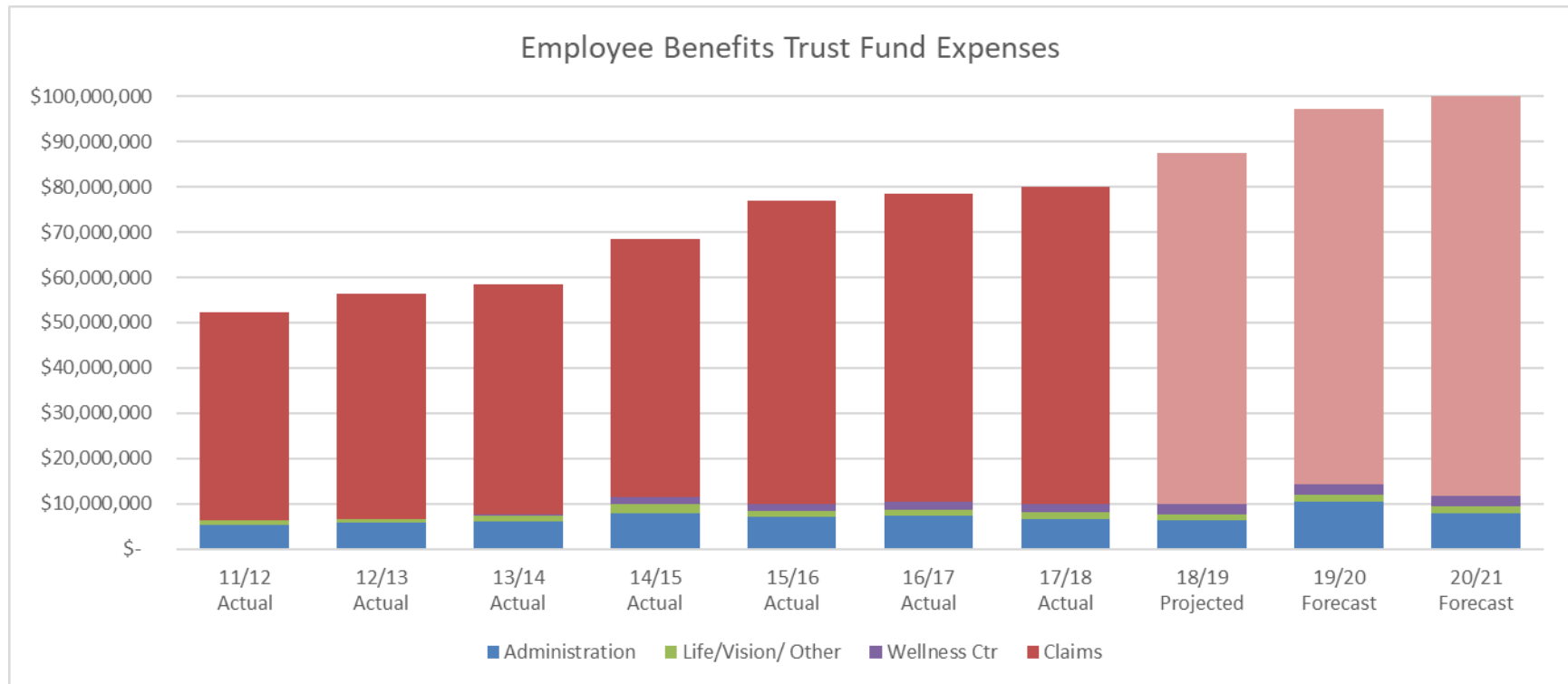
The EBT Fund is projected to end FY 18/19 with a balance of \$44.4 million or 47.7% of year end EBT Fund balance to following year total EBT Fund expenses. This fund balance is consistent with recent EBT Fund balance history and is considered a healthy, but not excessive, year-end balance. The current 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 that the fund can tolerate two consecutive years of significant expenditures, while keeping contributions at no more than 8% growth.

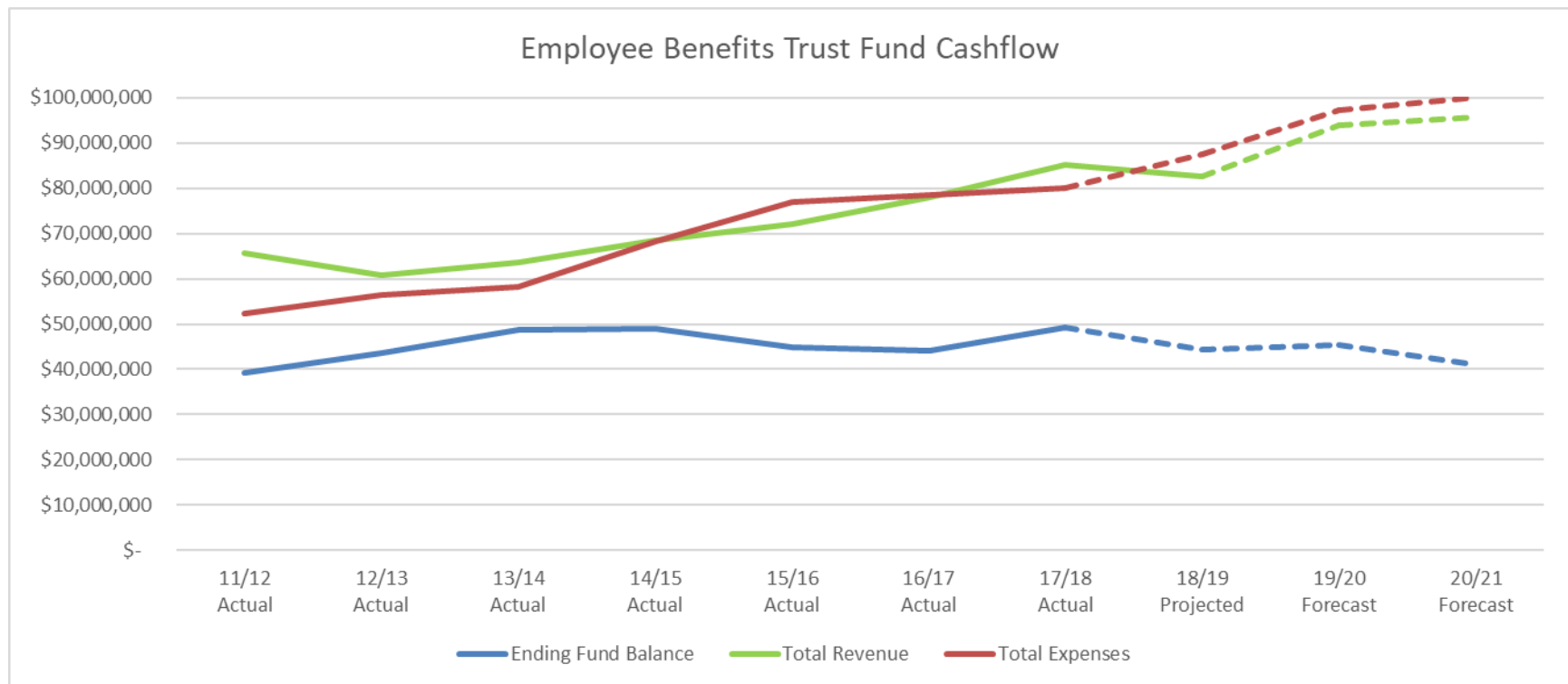
#### Recommendation

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.

#### Attachments:

1. *Employee Benefits Trust Fund Expense and Employee Benefits Trust Fund Cashflow Charts – Data Through 12-31-2018*





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## ARIZONA INSURANCE LICENSE

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### **ROBIN LEE REEVES**

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RESIDENT

As of February 06, 2019

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	06/12/2014	10/02/2017	09/30/2021	Life	06/12/2014
				Accident and Health or Sickness	06/12/2014

APPOINTMENT DATA IS NOT COLLECTED, TRACKED OR MAINTAINED IN ARIZONA.

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PITTSBURGH PA 15222

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License No: 1800003654

### ***Buck Global LLC***

420 LEXINGTON AVE SUITE 2220

NEW YORK NY 10170

NON-RESIDENT

**As of December 31, 2018**

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	03/17/2005	04/01/2017	03/31/2021	Accident and Health or Sickness	03/17/2005
				Variable Life and Variable Annuity	07/21/2005
				Life	03/17/2005
				Property	02/24/2006
				Casualty	02/24/2006

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NON-RESIDENT

As of January 10, 2019

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	08/15/2003	08/01/2017	07/31/2021	Property	08/15/2003
				Life	12/28/2006
				Casualty	08/15/2003
				Accident and Health or Sickness	12/28/2006

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**ARTHUR J GALLAGHER RISK MANAGEMENT SERVICES INC**

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ROLLING MEADOWS IL 60008-4050

**ARIZONA INSURANCE LICENSE**

License No: 1800001294

**ARTHUR J GALLAGHER RISK MANAGEMENT  
SERVICES INC**

2850 GOLF ROAD  
ROLLING MEADOWS IL 60008

NON-RESIDENT

As of February 01, 2018

LICENSE CLASS	FIRST ACTIVE DATE	LICENSE EFFECTIVE DATE	LICENSE EXPIRATION DATE	LINES OF AUTHORITY	LOA EFFECTIVE DATE
Insurance Producer	08/16/2005	01/01/2018	12/31/2021	Casualty	08/16/2005
				Variable Life and Variable	08/16/2005
				Annuity	08/16/2005
				Property	08/16/2005
				Life	08/16/2005
				Accident and Health or Sickness	08/16/2005
Surplus Lines Broker	08/16/2005	01/01/2018	12/31/2021	Personal Lines	08/16/2005
				Surplus Lines Broker	08/16/2005

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