

Meeting Minutes

Health Care Benefits Trust Board

Regular Meeting

August 18, 2022 | 4:00 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ



Call to Order

The meeting was called to order by Vice Chair Bond at 4:02 p.m.

Roll Call

Board Attendance

Vice Chair Terry Bond
Secretary Lily Longacre
Jennifer Huppenthal
Val Gale

Absent

Chair Michael Bohnert

Other Attendance

Catherine Piepenbrink, Organizational Development Spec.
Dee Hooker, Benefits Analyst
Fernanda Osgood, Benefits/Compensation Manager
Kristi Smith, Financial Services Officer
Kristin Maier, Human Resources Manager
Rachel Calisi, Segal Consultants
Rae Lynn Nielsen, HR Director
Roni Laxa, Assistant City Attorney
Teresa Canjar, Management Assistant

Consent Agenda and Discussion

1. June 16, 2022 Minutes
Secretary Longacre made a motion to approve the minutes as presented from the June 16, 2022, meeting of the City of Chandler Health Care Benefits Trust Board, seconded by Ms. Huppenthal, motion carried.

Scheduled and Unscheduled Public Appearances

Briefing

1. Medical Trust Actuarial Report

Rachel Calisi from Segal provided an overview of the Medical and Prescription Drug Plan Quarterly Report from January 1, 2022, through December 31, 2022 - data through June 30, 2022. For June 2022, we did have a loss ratio of 131%, and so far, this year there has been lots of ups and downs. Overall, we are at a 101% loss ratio. There has been a reduction in medical and pharmacy claims compared to the 2021 year and that is a 14.2% reduction in our per employee per month cost. When you compare claims and expenses, we are at \$1,246.70 last year compared to \$1,069.91 this year. The total plan paid prescription is at 17.7% down for the year 10.5% due to the changes in generic paid. The demographics have had no significant changes; it has remained steady. The total number of large claimants is 10 at \$1,991,985 compared to 18 at \$3,335,045 last year. Inpatient hospital bed days/1,000 and average length of stay has increased. Our in-network allowed is 98.3% which is up from 97.1% last year. Our discounts have decreased a little compared to last year, but again that compares the mix of claims versus inpatient, physician, and outpatient. Our member cost share has increased to 17.7% compared to 13.4% last year, keep in mind we are comparing the entire year to just six months of this year. I see this dropping as we progress through the year.

Vice Chair Bond asked if there is a benchmark on the in-network allowed percentage? Rachel responded in the valley, we want over 90% or more because there are plenty of providers. We are glad this is in the 90s. Ms. Huppenthal commented that is a really high number with all the claims I look at.

Ms. Huppenthal asked about the medical utilization, I'm assuming those numbers are on case management with Blue Cross? Rachel responded she doesn't have those numbers in the report, but yes, they would be managed. We have a meeting next month with Blue Cross to review each one of the cases.

Rachel highlighted the 2021-2022 Medical/RX Contributions and Expenses Report. The key numbers between 2021 and 2022 were noted. Enrollment and contributions have remained pretty steady. Rachel pointed out for April 2022, the stop loss claim was lower with a credit which was attributable to some claims that were adjusted. There were stop loss refunds in 2021 of \$1,241,629 and \$385,758, for 2022. Our plan expenses to date are \$1,577,104 reflecting an average of \$262,851. Our deficit to date is \$70,311. The total loss ratio is 100.6% versus 116.3% last year. Everything is lower this year as we don't have large claims like last year.

Vice Chair Bond asked if she expected this trend to continue because as she looks at 2021 with the \$3M deficit that is significant? Rachel said it appears to be that way as we seem to be on a better projectory this year.

The 2022 Enrollment by Status and Plan report shows no significant changes.

The Medical/RX YTD Claims Paid by Plan and Status Comparison Chart shows the difference between the different plans and actives versus retirees. For 2022, Retirees are costing the plan more than active and that is occurring across the board. In 2021, you can see some large claims and that seems to have calmed down this year.

The 2022 Contributions and Paid Claims by Status and Plan Report shows a further breakdown of the actives and retirees looking at the loss ratios with contributions and total expenses. All active plans are at a 99% Active Loss Ratio, red/blue is over 100%, and white is at 77% bringing down the loss ratio overall. We should see the white plan increase as people meet their deductibles. Our retiree plans are running over the 100% loss ratio, but when we combine active and retirees it calms down some. The reason the loss ratio is 104% is because this report does not incorporate any stop loss reimbursements.

The 2022 Contributions and Expenses by Status and Plan Charts are broken out by active versus retiree. The red and blue active plans are at deficit and the active white plan is the only one that has a surplus. All of the retiree plans are at a deficit. Overall retirees make up 12% of enrollment, 10% of contributions, and 14% of claims and expenses bumped up a bit.

The 2022 Incurred Medical Claims Paid in Excess of \$100,000 Report shows that large claims over \$100,000 account for 19.8% of the total medical/RX paid. The 10 large claims paid \$1,991,989 in Medical/RX. One of these claims is in excess of the \$350,000 Stop Loss Deductible. The red plan participants accumulate most of the claims at 69%, the white plan at 25% and one blue claim at 6%.

The Thirteen Month Snapshot shows the net medical trend at -11.8% and the RX trend at -11.5%. We are on a better projectory with things moving on a downward trend and hopefully things will even out.

2. Financial Statements and Wellness Report

Statement of Net Position as of June 30, 2022

Kristi Smith advised the Board that the total assets were \$15,223,378 which is down from last quarter and due from the city is down. There is \$6,126,555 in liabilities which is up from the prior quarter related to increases in due to city and claims payable. The unrestricted net position is \$9,096,823 when comparing the total net position to the reserve goal of \$6,934,000 there's a surplus of over \$2.1 million.

The prorated budget is shown, some items are based on the number of payrolls with and without insurance, others are based on the number of months, and some may be at 100%, if fully expended. The total actual operating revenues are \$11,358,809 which is under budget because of the reduced

employer/employee self- insurance premiums. Actual operating expenses are at \$13,663,537, which is under budget related primarily due to a reduction in claims paid. The actual operating loss is at \$2,304,729, while an operating loss was anticipated, the operating loss is greater than anticipated by almost \$500 thousand. The non-operating revenues exceeded expenses by \$68,999 providing a negative change in net position of \$2,235,730. The ending net position is \$9,096,823 which agrees with the Statement of Net Position.

Statement of Cash Flows – June 30, 2022

Kristi Smith advised the Board that this report shows the inflows and outflows of cash by activity. The cash and investments total \$15,189,993 which agrees with the Statement of Net Position.

Wellness Programs Tracking Report – June 30, 2022

Kristi Smith advised the Board that the Wellness Program tracking shows \$115,562.97 which is cumulative over the years. We have received the \$25,000 from Blue Cross and have expended \$14,931. This number agrees with the wellness programs operating expense on the Statement of Revenues, Expenses and Changes in Net Position.

Ms. Huppenthal commented she was glad to see this program back in action. She asked if Blue Cross provides this funding? Rae Lynn responded yes, Blue Cross gives us \$25,000 a year and helps us with our Wellness Coordinator's salary. They technically don't give us this money; it is built in our per employee per month rate. Vice Chair Bond commented you can really see the usage was down in 2020/21. Ms. Huppenthal said there are some really good wellness programs.

3. Investment Report – June 30, 2022

Kristi Smith provided a brief overview of the Investment Performance Review. The portfolio statistics yield at cost is 0.82% which is down from 0.89% the previous quarter. Maturity distribution shows the yield at market of 2.67% which is up from the prior quarter at 1.76%. The effective duration is 1.00 which is in line with the benchmark of 1.78. The money market rate for Allspring is 0.84% and FAF is 1.25%, which is an increase from last quarter. The Sector Allocation Review shows changes from the prior quarter and the color graph shows the shifting between sectors.

4. Review of Calendar Year 2023 Rates

Rae Lynn went over the schedule of proposed meetings for 2023. Since you are a combined board, both board's meeting dates are listed. There are two combined meetings listed, one in June and one in November. Let us know of any conflicts; otherwise, we will schedule these meetings.

Ms. Huppenthal said she won't be available on March 2. Vice Chair Bond asked Assistant Fire Chief Gale if he sees any conflicts, and he responded no.

5. Resolution No. HB-013 for 2023 Rates

Rae Lynn stated this Board gets to approve the rates to build into our benefit plan for the next calendar year and she would provide information needed to vote on the action item. New rates go into effect January 1, which is calendar year, and our budget runs fiscal year which can be a challenge. There is a communication ready to go out to staff tomorrow if this resolution is approved. This will be our first-rate increase since 2015. We have had a healthy trust for many years and have made some benefit plan changes to keep our rates steady. There were recommendations to raise rates during that time but because of the health of the trust, we decided not to do that. Over the last 10 years, 2020-2021 was the first-time money had to be taken out of the trust. In 2020 we had a deficit of \$115,000 that came out of the trust. In the first part of the year, we typically don't see a lot of money coming out of the plan because that is when employees are meeting their deductibles, but that wasn't the case in 2021. We saw negatives the entire year and we ended up with a deficit of \$3.6M. We worked closely with Segal and our accounting/budget team and originally projected \$4.2M; we came in under what was projected. The reason why this is important is because we have a reserve requirement in the trust of \$6.9M. Segal gives us a report every year that estimates claims and operating costs and that how we get to this number. What that means for year ending 2022 is we have \$2.1M more than what our funding policy requires, but as you see we can go through that very quickly. We are recommending we increase our rates by 8% and in addition the City has agreed to give us \$5M one-time funding from the General Fund. The increase for our employees will be \$5 to \$15 per pay period. As we communicate with our employees, we will concentrate more on the dollar amount instead of the percentage.

Vice Chair Bond asked if the premiums on the resolution are what the employee pays and are there any employer contributions? Rae Lynn responded that for the red and blue plans the City pays 80% and the employee pays 20% of the premium listed. The white plan is our high deductible plan and the City covers 100% of the premium for everyone. The change we are planning to make for calendar year 2023 is we are going to add a cost share to the white plan where employees will pay 5% and the City pays 95%. We are looking at increasing this yearly. We have labor agreements in place that contains wording for these changes to go into effect. It will be an employee cost of \$14 to \$34 dollars per pay period for the white plan.

Ms. Huppenthal asked on your white plan do you have an HSA or something like that and do you contribute to that? Rae Lynn said we do have an HSA, but we don't contribute. We have a wellness incentive and if a certain number of points are accumulated, we contribute \$350 to either HSA or if on the blue or red plan their flex spending account. The white plan has an HSA only. Ms. Huppenthal said since we haven't had a rate increase since 2015, employees shouldn't be shocked about this change? Rae Lynn responded no. Ms. Huppenthal said she was surprised we hadn't had a rate increase and said we should have little increases along the way even we are doing ok. She talked to some actuarials and that is a standard philosophy. Rae Lynn said we have had those discussions every year since 2015 and different decisions were made. Ms. Huppenthal said that is ok. Rae Lynn commented that people want to blame 2021 claims on COVID, but that is not the case. We had some high dollar claims for conditions that were ongoing. We are fortunate that 2022 is starting out better than we thought. We do have funding plan that is in the budget book which projected we would need another 8% increase and another \$5M from the general fund next year, but we will assess that later. Ms. Huppenthal said I'm not criticizing, sounds like you have been

having those discussions and a \$5 to \$10 increase per employee is a good deal. Rae Lynn said the range depends on the plan, the lowest is \$5 and the highest is \$15. Secretary Longacre asked if retirees contribute to the plan? Rae Lynn responded that retirees pay 100% of the premium. We look at all angles when we decide what to do with rates including plan design options and it goes up through the City Manager's office. Ms. Huppenthal said you guys are doing fine and I'm sure you are going to communicate this message well. Rae Lynn communicated that we have already done two communications to employees about this change, this will be the actual numbers.

Vice Chair Bond said we need to understand their side with inflation and the cost of everything going up this is another thing hitting their budget. Even though it is only an 8% increase, they are not going to be happy. It is still money coming out of their pockets. Rae Lynn said her hope is that if there are changes at the end of the year with the classification/compensation study there might be some balance. Everyone was given a 5% market adjustment in July.

Assistant Fire Chief Gale asked if an employee would now pay \$556.03 for the white plan when it was zero before? Rae Lynn responded no, that is the total premium; the employee would pay 5% of \$556.03. Assistant Fire Chief Gale asked if the ratio is staying the same on the red and blue plan? Rae Lynn said yes, the employees on the red and blue will pay 20% of the numbers you see there. Assistant Fire Chief Gale commented that regardless of the actual basis for the increased expenses in 2021, whether a small percentage was attributed to COVID or not he feels the workforce is going to look at the year as an anomaly and feels this adjustment is weighing heavily on the expenses of 2021. In a time when we are struggling to fill positions and having retention issues, the timing for this is good based on the dollar amount, the dollar amount isn't very high, but he feels the timing of the message isn't going to be very good. Rae Lynn responded if you think back because you have been on the trust for a long time, Segal has recommended a rate increase every year. At one point they recommended a 29-30% increase, and part of the problem is that we haven't done a small rate increase over the years when the trust was healthy. I understand, we have had many discussions about this and talked about coming forward with a rate increase in 2022, but the decision was with the classification/compensation study we could wrap things together. Because you are in the department, the conversation could be that we projected a greater increase, but with the City contributing \$5M from the general fund we were able to keep the rates down. Assistant Fire Chief Gale feels the timing is going to be a significant challenge and the 5% for the general employees feels great in the moment, but the City has not kept up with inflation since the last adjustments and maybe the classification/compensation study will make a difference. The message isn't going to be received well. Fernanda said that last year when we announced the premiums, we did mention there was going to be an increase so this shouldn't be a shock. They know this is coming. Rae Lynn said if we don't do something this year, we will have a bigger one next year and this is lower than the 9% that was published budget book.

Vice Chair Bond said it is unfortunate that adjustments weren't made last year because the economy was much better, and it might have been handled better.

Secretary Longacre asked if we shopped around for our plan? Rae Lynn responded we are self-funded, and we did an RFP for our administration. Blue Cross was the successful company which will start in 2023. It isn't an expense issue it is a claim issue. We try to do a lot of wellness things, but a lot of the high dollar claims are retirees and that is just the make-up of our plan. Secretary

Longacre asked if retirees will experience the same increase? Rae Lynn responded yes, and they pay 100% of the premium. Secretary Longacre asked if an employee has the red family plan, they pay \$2,009.43 a month? Rae Lynn responded no they would only pay 20%. Ms. Huppenthal commented family is two adults and unlimited children. Rae Lynn said we do benchmarks by looking at other cities plans; the white plan is very competitive even with the 5% cost share. Ms. Huppenthal commented back to Val's point if you are looking for a job at least we are in the ballpark, because people look at the whole package. Assistant Fire Chief Gale said last year would have been a more difficult time to implement this change and he supported the decision to wait even though the economy isn't that great this year. There just isn't a great way to message this, it isn't going to feel good. Secretary Longacre asked what happens if this isn't approved? Rae Lynn responded that would be a real problem. We would have to go back to the City for additional money and go to Council and explain. Council has been briefed during the All-Day Budget Briefing because they had to approve the \$5M from the general fund and they were briefed a few weeks ago on the information I have shared with you. We would have to call a special meeting if denied and that is within the purview of the Board. Ms. Huppenthal said you are already getting support from the City, maybe next year it's not quite as bad because we will end up in a better place this year. Rae Lynn said she is hopeful, the City has committed another \$5M for next year, but we will look at it later to make sure it is needed. We are all owners of this plan and the upside of being self-funded is all the good years with no premium increase, but we have to make choices when it goes the other way. Assistant Fire Chief Gale commented that he knows how much work goes into this and wanted to voice his concerns. He also knows there are some challenges going on right now, but he will support this change. Vice Chair Bond said his comments were appreciated because he has to deal directly with employees. Assistant Fire Chief Gale said as an employee he appreciates how serious everyone is taking this.

Action Items

Ms. Huppenthal moved to approve the City of Chandler Health Care Benefits Trust Resolution No. HB-013 establishing the Total Monthly Rates for Employee Premiums for the Red Plan, Blue Plan, and White Plan for Calendar Year 2023; seconded by Secretary Longacre, motion carried.

Member Comments/Announcements

Calendar

The next regular meeting will be held on Thursday, November 17, 2022, at 4:00 p.m., in the Council Chambers Conference Room, 88 E. Chicago Street.

Informational Items

Agenda Items for Future Meeting Dates

Actuarial Audit Report – Segal

Financial Statements and Wellness Report – Management Services

Investment Report – Management Services

Adjourn

Ms. Huppenthal made a motion to adjourn the meeting of the City of Chandler Health Care Benefits Trust Board of August 18, 2022, at 4:56 p.m., seconded by Secretary Longacre, motion carried.

Teresa Canjar, Secretary

Michael Bohnert, Chair