

Meeting Minutes

Workers' Compensation and Employer Liability

Trust Board

Regular Meeting

February 2, 2023 | 4:00 p.m.
Council Chambers Conference Room
88 E. Chicago St., Chandler, AZ



Call to Order

The meeting was called to order by Chairman Longacre at 4:03 p.m.

Roll Call

Board Attendance

Chair Lily Longacre
Vice Chair Michael Bohnert
Secretary Jennifer Huppenthal
Terry Bond
Assistant Fire Chief Val Gale

Other Attendance

Adam Hirsch, Oliver Wyman
Joshua Jumper, Heinfeld, Meech & Co.
Kristi Smith, Financial Services Assistant Director
Kristin Maier, Human Resource Manager
Robert Steele, Accounting Senior Manager
Roni Laxa, Assistant City Attorney
Teresa Canjar, Management Assistant

Scheduled and Unscheduled Public Appearances

Consent Agenda and Discussion

1. November 17, 2022 Minutes

Secretary Huppenthal made a motion to approve the minutes as presented from the November 17, 2022, meeting of the City of Chandler Workers' Compensation and Employer Liability Trust Board, seconded by Vice Chair Bohnert, motion carried.

Briefing

2. Actuarial Report – Oliver Wyman

Adam Hirsch from Oliver Wyman Actuarial Consulting provided an overview of the Workers' Compensation Unpaid Losses, and ALAE Executive Summary as of June 30, 2022. The liability estimate of \$10,504,362 reflects the future payments that will be made on all accidents occurring June 30, 2022, or prior. Last year's estimate was \$10,458,761. This is an estimate because not every claim was known by the City at this time and claims can get larger than initially reported (incurred development). There is a lot of movement between the two years, and we are just \$50,000 higher. I expected a larger increase because the City's retention threshold has continued to increase (per occurrence retention limit). The city is taking on more risk now than the amount the City has paid off in previous years. The estimated amount the City will pay in claims that occur during the 22/23 period once they are all settled is \$2,907,000 as of June 30, 2022. The forecast for 22/23 is up 5.7% from the prior forecast due to increases in payroll and the retained limits. The estimated exposure is up 11.9%, but we saw some favorable metrics in the last 12 months which resulted in a decrease of 7.2%. Claims grew far less than anticipated and because of this, we will revisit our estimates of ultimate loss in previous policy years and adjust those down quite a bit.

Secretary Huppenthal asked on the actual versus expected, the expected is the City's history or benchmark history of similar clients? Adam responded we have a significant amount of data from the City of Chandler, so we don't rely on data from other clients.

Ms. Bond asked the actual isn't impacted by a delay in processing claims? Adam responded it could be, but I don't think that is the issue. For example, during COVID we saw some accounts encounter a huge delay in moving claims along, but in a normal year they would have been litigated and a final settlement reached. That sort of thing could have impacted this comparison of actual to expected, but I think we are just seeing a good year for 21/22. We expect some volatility. Kristin confirmed we just had a good year, and it is a nice change from the previous two years.

Secretary Huppenthal asked if there are explanations for those quicker closures and could we recreate in future years? Adam responded this was not something he could answer, but he reviewed the Claim Changes Since Prior Report Section on the second page of the summary. Kristin said we did have a few very severe claims that needed many years of treatment and the two claims closed. The one that has decreased in cost was a former employee whose treatment worked better than expected which was a good outcome for the employee.

The Reconciliation of Reserves Table shows \$10,458,761 beginning of period unpaid losses as of 6/30/21 and end of period losses as of 6/30/22 of \$10,504,362. The Ultimate Frequency chart reflects the number of claims per payroll and the line is pretty stable with a slight decline over the last ten years. The Ultimate Severity chart reflects the average cost per claim (cap limit of \$75,000) and this line has been decreasing over the last ten years. The Ultimate Loss Cost chart combines the Ultimate Severity and Ultimate Frequency charts. This shows the cost of risk; how many dollars of Workers' Comp is the City paying for every \$1,000 of payroll and this line has been fairly flat but has spiked down this last year.

3. Financial Audit Report – Heinfeld, Meech & Co.

Joshua Jumper from Heinfeld, Meech & Co. reviewed the audit results of the Chandler Workers' Compensation and Employer Liability Trust through June 30, 2022. The Management's Discussion and Analysis starts on page 4 and provides a general overview of financial highlights for the fiscal year. Page 9 of the report discloses the reserve levels and the reserve goal of the trust. The reserve goal for June 30, 2022, was met. The Notes to the Financial Statements provides more details on the specific line items. The letter to the Governing Board shows there were no difficulties encountered for this audit. The General Fraud Checklist is always included to remind the Board of the importance of their role and fiduciary responsibility. There is also a copy of the engagement letter which is signed at the beginning of the audit process and the representation letter which is signed before the issuance of the audit. Kristi Smith thanked HR staff and the Heinfeld, Meech team for their assistance in completing the audit.

4. Financial Statements

Statement of Net Position as of December 31, 2022

Kristi Smith advised the Board that the total assets were \$16,699,586, cash is down \$947,000 from last quarter, and Due from the City is up \$1.7 million from prior quarter. Total liabilities are \$40,000, no change from the prior quarter. The unrestricted net position is \$16,659,586 which is up \$825,000 from last quarter. When Net Position is compared to the Reserve Goal as of June 30, 2022, there is a surplus of almost \$3,200,000.

Statement of Revenues, Expenses and Changes in Net Position – December 31, 2022

The annual and prorated budget is shown, some items are prorated based on the number of months while other items may have been 100% spent. The total actual operating revenues are \$2,352,609 which is \$160,759 over budget. Operating expenses are \$2,290,058 which is \$1,024,773 under budget primarily related to claims payable. This provides for an Operating Income of \$62,551, which is \$1,185,532 more than anticipated. The Non-Operating Revenues and Expenses total \$763,051 and there is a change in net position of \$825,602. The ending net position is \$16,659,586 which agrees with the Statement of Net Position.

Statement of Cash Flows – December 31, 2022

Kristi Smith advised the Board that this report shows where funds were received and spent by activity – operating – capital – non-capital and investing. The end of year Cash and Equivalents total \$13,925,019 which agrees with the Statement of Net Position.

5. Investment Report – December 31, 2022

Kristi Smith provided a brief overview of the Investment Performance Review. The portfolio statistics yield at cost is 1.40% which is down from 1.41% in the previous quarter. Yield at Market is 4.64% which is up from the prior quarter of 4.33%. Effective Duration is at 1.33 as compared to the prior quarter of 1.56. The Benchmark Effective Duration is 1.74. The money market rate is continuing to trend up and is 4.08% for Allspring and 3.86% for First American Funds (PFM). The Sector Allocation is showing minimal change in each of the security types.

6. Rate Contribution and Reserve Recommendation

Kristi Smith said the Actuarial Report Comparison information has already been covered by Oliver Wyman reports and we are in a good position as of June 30. In the Audit Report Comparison section, the Net Position without IBNR is \$14,210,055 an excess of \$798,693. The Reserve Analysis budget basis with actuals for FY20/21 and FY21/22 estimated FY 22/23 and proposed FY23/24 shows revenues greater than expenses (increase in fund balance) in FY 20/21, FY21/22 and estimated 22/23. Proposed FY 23/24 does show a slight decrease in fund balance, but projects fund balance higher than the June 30, 2022, Actuarial Reserve required by \$3,986,656. While there is no change to the contribution, there is a change in how it is reported. Beginning in FY21/22, the fund was responsible for the Municipal Firefighter Cancer Reimbursement Fund payment of \$676,429, in FY 23/24 it will no longer be a transfer instead it will be built into the contribution rates. Total contribution remains unchanged at \$5,060,100.

Action Agenda

7. Approve Resolution No. WC-010 – A Resolution of the City of Chandler Workers' Compensation and Employer Liability Trust Board recommending Workers' Compensation Contribution and Reserve Level for Fiscal Year 2023-24.

Ms. Bond made a motion to approve Resolution No. WC-010, City of Chandler Workers' Compensation and Employer Liability Trust Board recommending Workers' Compensation Contribution and Reserve Level for Fiscal Year 2023-24, seconded by Vice Chair Bohnert, motion carried.

Members Comments/Announcements

Kristin Maier made Michael Bohnert aware that his term is up for renewal May 1, 2023.

Calendar

The next regular meeting will be a combined meeting on Thursday, June 15, 2023, at 4:00 p.m., in the Council Chambers Conference Room, 88 E. Chicago St.

Informational Items

Agenda Items for Future Meeting Dates

- Financial Statements – Management Services
- Investment Report – Management Services
- Excess Insurance Renewal
- CorVel Contract Renewal
- New Members and Election of Officers

Adjourn

Mr. Gale made a motion to adjourn the meeting of the City of Chandler Workers' Compensation and Employer Liability Trust Board of February 2, 2023, at 5:06 p.m., seconded by Secretary Huppenthal, motion carried.

Teresa Canjar, Secretary

Lily Longacre, Chair