



## MINUTES

### LOSS TRUST FUND BOARD MEETING

City Attorney Conference Room and Via Teams  
3939 N. Drinkwater Blvd.  
Scottsdale, Arizona 85251

May 10, 2022  
5:00 p.m.

**PRESENT:** Brandon Perlow, Chair  
Allan Smith, Chair  
Richard O'Connor  
Jacob Seltzer  
Linda Wannie

**STAFF:** Lori Davis, Legal Advisor  
Lauren Beebe, Human Resources Manager  
George Woods, Risk Management Director

**GUESTS:** Charlie Broucek, Hays Companies

### CALL TO ORDER

Chair Perlow called the meeting of the Loss Trust Fund Board to order at 5:06 p.m.

### ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above.

#### 1. **Approval of the December 17, 2021 public meeting minutes**

Chair Perlow called for questions or comments. There were no changes.

BOARD MEMBER O'CONNOR MOVED TO APPROVE THE DECEMBER 17, 2021 PUBLIC MEETING MINUTES AS PRESENTED. BOARD MEMBER WANNIE SECONDED THE MOTION, WHICH CARRIED FIVE (4) TO ZERO (0). CHAIR PERLOW, AND BOARD MEMBERS O'CONNOR, AND WANNIE AND SELTZER VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES. VICE CHAIR SMITH ABSTAINED.

Chair Perlow welcomed Jacob Seltzer to the Board. Mr. Seltzer provided a brief overview of his background and experience.

## **2. Election of Chair and Vice Chair**

VICE CHAIR SMITH NOMINATED BRANDON PERLOW TO CONTINUE AS CHAIR. CHAIR PERLOW NOMINATED ALLAN SMITH TO CONTINUE TO SERVE AS VICE CHAIR. BOARD MEMBER WANNIE SECONDED THE MOTION FOR BOTH NOMINATIONS, WHICH PASSED BY A VOTE OF FIVE (5) TO ZERO (0). CHAIR PERLOW, VICE CHAIR SMITH AND BOARD MEMBERS O'CONNOR, SELTZER AND WANNIE VOTED IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

## **3. Presentation, discussion and possible recommendation on the Fiscal Year 2022/23 medical plan premiums**

Lauren Beebe, Human Resources Manager, provided an overview of the Benefits Advisory Committee's meeting structure, schedule and purpose. There was a focus on mental health issues over the past year. The City has brought on board a dedicated EAP provider, whose time has expanded from five hours per week to a full day per week on a regular basis. In addition, she is present for days or weeks at a time to work with first responders, after being certified in January to be a first responder provider. The City also has a Behavior Health Subcommittee and a Critical Incident Stress Management Team.

Charlie Broucek, Hays Companies, stated that the City of Scottsdale Medical Plan is increasing by 5.3 percent over last year. Claims are expected to rise by approximately 4.7 percent. There is a contractual administration arrangement with CIGNA with a 1.6 percent annualized increase. The City does not purchase aggregate insurance, but only the individual stop loss coverage. On a rate to rate basis, the stop loss was finalized at 18.76 percent. They will not adjust the 25 percent base, as last year with CIGNA, they were able to negotiate a \$45,000 one-time bill credit to the individual stop loss component. There is an outgoing budget of nearly \$33 million compared with an incoming budget of approximately \$34.7 million.

Chair Perlow asked for additional clarification on the individual stop loss percentage of 18.76. Mr. Broucek acknowledged that the rate has been better in years prior. He reviewed the claims that were considered as part of the determination process, which included seven large claimants. The largest was a claim of nearly \$800,000. Other significant claims totaled \$514,000, approximately \$500,000, \$582,000, \$404,000 and \$432,000. With this number of higher claims and the effects of the pandemic, the stop loss market was a little bit challenging.

For the total incoming budget of \$34.7 million, employees contribute approximately \$7.8 million. The City has established a percentage contribution and held the line, applying the increase to employees and the City on an equal basis, based on their percentage contributions. An overview of the four plans and rates was provided, with the most popular being the OAP in-network plan.

Board Member Seltzer asked if City employees are educated as to whether they may be paying too much for unneeded benefits. Ms. Beebe stated that the history of City employees reflects that they are very risk-averse.

Board Member Seltzer inquired as to the last time adjustments were made to the City's contributions. Ms. Beebe stated that the most significant change was made in 2016, where the City increased the employer's required contribution. In 2020, the City moved to split the difference in the increase, which lowered employee costs. Mr. Broucek added that in aggregate, the City is picking up approximately 78 percent. For purposes of projections, a 7.3 percent trend was used on medical and 10.3 percent on pharmacy. At the time the information was compiled, the plan was running 100 percent to last year's budget and is running now at approximately 102 percent, reflecting a slight deficit on a year-to-date basis. There has been an uptick in utilization this year, as elective surgeries and other procedures were deferred during the pandemic.

Vice Chair Smith asked for a comparison to other cities in terms of the City's share of costs. Mr. Broucek stated that the City is in line with neighboring cities and municipalities.

Chair Perlow inquired about the City's contributions towards HSAs. Ms. Beebe stated that it is \$500 for single coverage and \$1,000 for child, spouse or family. Mr. Broucek stated that the number of employees in this category has increased significantly over the years with Ms. Beebe adding that it equates to approximately 20 percent. Education on the plan is provided to employees via a variety of means.

Mr. Broucek stated that from a large claims perspective, they take a normalized approach based on the historical database and then project forward. Projections include years 2019 full year, 2020 full year and 2021 year-to-date. They also look at average membership and claims above \$100,000 and claims exceeding the \$325,000 stop loss. Gross claims are projected forward and reduced by the underwriting adjustment. The second step involves examining demographics and size of the group and determining the expectation of large claim activity at different thresholds.

Chair Perlow asked for clarification on the difference in expected liability between \$100,000 and \$325,000, between 2019 to 2020 and 2020 to 2021. Mr. Broucek stated that large claims are getting even larger. The ability to treat some cancers versus what was possible in years past continues to increase. The cost for services increases as well.

Vice Chair Smith asked if there are dedicated cost containment providers for specific high severity loss types. Mr. Broucek stated that it is bundled with CIGNA and these services are used by the group.

Mr. Broucek provided an overview of the medical and pharmacy projections. There are currently approximately 5,100 members on the plan, of which 2,100 are employees. There is a claims cost of \$1,292 per month on a projected base. Also included are administration expenses and stop loss, chargeback for wellness services and consulting fees. There are

disabled retirees that the City Council years ago agreed to keep on the plan at employee rates. A calculation is done every year, which comes out of a different bucket and provides the additional subsidy for these individuals. For this period, the amount is \$4.54. All totaled, there is \$1,372.64 per employee per month. Based on the current employee count of 2,107, the projection is \$2.892 million per month or \$34.7 million per year, compared with an outgoing budget of \$32.9, representing a 5.3 percent increase.

Board Member O'Connor referenced Line 18, adjusted membership, and asked what this represents, as it is increasing from 12,615 to 18,737. Mr. Broucek directed attention to Line 11, reflecting 63,000 members during the year and explained the calculations year over year based on the period weight.

Vice Chair Smith asked if the cost of the stop loss is an expected number based on budget, or a negotiated number. Mr. Broucek stated that it is negotiated every year and the current negotiation has already occurred.

Mr. Broucek addressed the four plan designs, noting that there is no change going into the new plan year.

In response to a question from Board Member Seltzer, Mr. Broucek confirmed that \$500 was given to employees for their health savings account and \$1,000 if they had dependent coverage.

Vice Chair Smith referenced the plan benefit rate change year over year of 5.3 percent and asked how this compares to the tier category. Mr. Broucek stated that they are coming off of a year where there was a zero percent increase. 5.3 percent is squarely average for a group of this size across the board.

Chair Perlow asked for more information on the plan change notes. Ms. Beebe stated that this relates to bumping up the out of pocket maximums. Mr. Broucek clarified that this change was made in the prior year.

Mr. Broucek noted other factors, including a tobacco surcharge, blood pressure discount and HRA discount. In response to a question from Vice Chair Smith, Ms. Beebe clarified that the tobacco surcharge applies to not only smoking, but also vaping and chewing, based on an honor system reporting.

Chair Perlow asked for statistics on the percentage of employees who are taking advantage of various incentives. Ms. Beebe said they started with the Health Risk Assessment, which was the main tool for many years. This year, in order to be eligible for incentives, employees must complete the HRA, but it has shifted to include a visit to their primary care doctor. There is approximately 50 percent participation of those going to the doctor and completing the HRA with approximately 30 percent of the blood pressure compliance. On a yearly basis, employees are provided with a chart of the various incentives and addressed via various reach-out methods. Many employees feel guarded about sharing their information. Chair Perlow suggested the possibility of an anonymous survey. Ms. Beebe stated that staff can certainly look into this.

Board Member Wannie asked about the existence of employee self-directed help incentives, such exercise programs and online education in areas such as diabetes prevention, cholesterol and plant-based nutrition. Ms. Beebe confirmed that this type of

option is available. Incentives are given based on the number of classes taken. The HSA remains as the overall gatekeeper. Visiting the primary care physician and good blood pressure apply to the premium. Going to a dental preventive visit, meeting with a diabetes counselor and attending counselors are rewarded with gift cards.

Mr. Broucek addressed the dental plan, noting that they are utilizing a 4.5 percent annual trend. The claims projection is \$76.41 on a per employee per month basis with administrative expenses at \$2.85 for a total of \$79.26 and \$1.6 million. Rates were kept flat with no increase.

George Woods, Risk Management Director, presented Ms. Beebe with a token of appreciation for her service to the City, as she will be retiring soon.

#### **4. Presentation, discussion and possible recommendation on the cost of risk**

Mr. Woods stated that the Risk Department's success has been measured as to whether or not they are able to stay below the 2 percent cost of risk. The 2 percent represents a portion of the overall City's operating budget. In speaking with other cities, including Glendale, Avondale, Tempe and Phoenix, the cost for these cities has increased over time to as much as 3 percent. The costs of medical services and procedures are increasing. When damage happens to City property, the expectation is often that replacement will be at the full value, versus the depreciated value, which creates a strain on the budget. Staff would appreciate the Board's input regarding the potential to going to Council with a budget increase request. The proposal is an increase from 2 to 2.5 percent of the City's overall expenses.

Last year, there was a loss in the solid waste department of \$1.6 million from damage to garbage trucks in a fire. Following the incident, approximately \$120,000 was invested into the Solid Waste Department, where trucks aged 2016 and newer were outfitted with a fire backpack suppression system. They would like to continue to take similar proactive measures in other areas. The City has contributed \$686,000 to the Cancer Fund of Arizona this year and will receive reimbursement of approximately \$112,000. There is currently a hardening in the insurance market with cyber insurance and property insurance expected to increase significantly.

Board Member Wannie asked for input on whether City Council is realistically likely to approve the increase to 2.5 percent. Mr. Woods stated that it is realistic in that this year, they had to exceed the approved budget due to a specific claim and via a request for an additional \$600,000. This is not the first occurrence whereby they were required to access the contingency. A 2.5 percent increase will prevent the need to dip into the contingency in the future and will also assist with loss mitigation.

Vice Chair Smith stated that he was in favor of a budget increase for the Department. However, the request to City Council should articulate where and why the extra half percent is needed, i.e., how much will be invested in loss prevention activities. Mr. Woods stated that from a depreciation standpoint, the increase will add approximately \$250,000 to the budget. This is driven by actual claims.

Vice Chair Smith asked why some items for departments and areas are not included in those specific department budgets but are instead included in the Risk Department's

budget. Ms. Woods said that the Department has posed this question for quite some time. Historically, various departments have used the Risk Department's budget to supplement their own budgets. The discussion with the City Manager boiled down to the following questions: Do we increase the budget for 30 departments by \$1 million each for loss prevention, depreciation and replacement, or do we increase Risk Management's budget by a few million dollars to cover the costs? The Adjusted Loss Expense (ALE) has been introduced as of last year for departments. On a weekly basis, adjustors tally how much time they are spending per department. The totals are noted on a quarterly basis. At the end of the year, when premium amounts are set for each department, the 10 percent ALE is included in the calculation. The Solid Waste Department premiums increased by \$193,000 last year because of the ALE adjustment.

Chair Perlow asked about the proposed time for the request to City Council. Mr. Woods noted that budgets are set for this year, so this would be presented as a budget adjustment. They would like to present the request this fiscal year.

Chair Perlow voiced support for increasing the funding and requested that the Board be permitted to review any formal proposal.

Board Member Seltzer stated that it is apparent that the Department is underfunded. The programs being put in place by the Department should be occurring in conjunction with having the other departments taking responsibility for their areas. Further discussion ensued regarding the need for increasing individual department accountability for risk responsibility and loss costs.

In response to a question from Board Member Wannie, Mr. Woods confirmed that the revamping of root cause analysis has been shared with supervisors. When the Risk Department has an opportunity to improve a loss, it is sent to the safety department to investigate and make recommendations for approval. The recommendations are then sent to the director or supervisor for implementation.

Chair Perlow commented that it would be helpful to have an additional discussion to continue to hash out the issues further and assist the Department further. Mr. Woods stated that the next meeting will primarily be used to discuss the annual report. There was discussion regarding holding an additional meeting in the intervening months to revisit this issue specifically. Also discussed was the potential for the City Manager to be present to provide insight and guidance. There was consensus that Mr. Woods would keep the Board apprised of progress and potential to schedule an additional meeting.

## **PUBLIC COMMENT**

No comments were submitted.

## **ADJOURNMENT**

BOARD MEMBER O'CONNOR MOVED TO ADJOURN. BOARD MEMBER WANNIE SECONDED THE MOTION, WHICH CARRIED (5) TO ZERO (0) WITH CHAIR PERLOW, VICE CHAIR SMITH AND BOARD MEMBERS O'CONNOR, SELTZER AND WANNIE VOTING IN THE AFFIRMATIVE. THERE WERE NO DISSENTING VOTES.

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 7:18 p.m.

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