



## **DRAFT MINUTES**

**LOSS TRUST FUND BOARD MEETING  
3939 N. Drinkwater Blvd.  
City Attorney Conference Room  
Scottsdale, Arizona 85251**

**Tuesday, February 4, 2020  
5:00 p.m.**

**PRESENT:** Richard O'Connor, Chair  
Suzanne Welch, Vice Chair  
Dominic Bilotti  
Brandon Perlow  
Allan Smith (telephonic)

**STAFF:** Katie Callaway, Risk Management Director  
Lauran Beebe, Human Resources Manager  
Lori Davis, Senior City Attorney  
Diana Day, Assistant City Attorney  
George Woods, Claims Manager

**GUESTS:** Charlie Broucek, Hays Companies

### **1) CALL TO ORDER**

Chair O'Connor called the meeting of the Loss Trust Fund Board to order at 5:04 p.m.

### **2) ROLL CALL**

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

## **OLD BUSINESS**

- 1) Approval of the November 13, 2019 meeting minutes

Grammatical corrections were identified. It was also noted that minutes had the Chair and Vice Chair incorrectly identified.

**DIRECTOR PERLOW MOVED TO APPROVE THE MINUTES OF THE NOVEMBER 13, 2019 MEETING AS PRESENTED. VICE CHAIR WELCH SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF THREE (3) TO ZERO (0) WITH CHAIR O'CONNOR, VICE CHAIR WELCH AND DIRECTOR PERLOW VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES. DIRECTOR SMITH ABSTAINED. DIRECTOR BILOTTI WAS NOT YET PRESENT.**

## **NEW BUSINESS**

- 1) Welcome new member, Allan Smith

Chair O'Connor welcome Mr. Smith to the Board. Mr. Smith spoke a few words about his background.

Director Bilotti arrived at 5:07 p.m.

Attendees took a moment to introduce themselves.

- 2) Board elections for Chairman and Vice Chairman

Katie Callaway, Risk Management Director, addressed the relevant section of the trust, which directs that an election occur on a yearly basis.

**DIRECTOR PERLOW MOVED TO NOMINATE RICHARD O'CONNOR AS CHAIR. DIRECTOR BILOTTI SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF FOUR (4) TO ZERO (0) WITH VICE CHAIR WELCH, DIRECTORS BILOTTI, PERLOW AND SMITH VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES. CHAIR O'CONNOR ABSTAINED.**

**CHAIR O'CONNOR MOVED TO NOMINATE SUZANNE WELCH AS VICE CHAIR. DIRECTOR BILOTTI SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF FOUR (4) TO ZERO (0) WITH CHAIR O'CONNOR, DIRECTORS BILOTTI, PERLOW AND SMITH VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES. VICE CHAIR WELCH ABSTAINED.**

- 3) Review, discuss Fiscal Year 2020/21 medical plan premiums

Lauran Beebe, Human Resources Manager, provided an overview of the approval process. If no plan design changes are made, there will be an increase of \$1.9 million, or 6 percent. Several options have been identified for Fiscal Year 2020/21, one of which increases the out of pocket match on the two highest co-pay plans. These include a flat

\$2,500 out of pocket max for individuals. The middle plan, (OAP) has a \$750 deductible and a \$4,500 out of pocket match. The HSA plan includes a \$1,400 deductible and \$4,000 out of pocket max. Consideration was given to gradually increasing the out of pocket max to mirror the other plans. There was also discussion to increase specialist co-pay from \$40 to \$50. This change would impact approximately 8,300 visits by 2,600 members. Increasing the out of pocket max by \$500 would only affect 40 people. Overall, everyone agreed with the incremental increase. This is the tentative proposal to City Council.

Charlie Broucek, Hays Companies, stated that the analysis includes examining two and a half years of claims experience on the City's medical plan and pharmacy benefit plan. They compare this data to national trends. They utilized a 7.3 percent trend on the medical side and 9.7 percent on the pharmacy trend. Catastrophic insurance is purchased for stop-loss for any one claimant going above \$325,000. They normalize claim activity between \$100,000 and \$325,000 on any one individual. From a budgetary perspective and based on current enrollment, the total budget for 2019/2020 was \$32,118,000, with the City running on a 97 percent loss ratio on a year-to-day basis. The 6.1 percent adjustment would increase the total budget to \$34 million.

Ms. Beebe stated that the recommended option represents approximately \$70,000 in savings. In addition, mental health co-pays will be reduced. Around the nation, there is a renewed focus on mental health. There are currently five EAP visits per person before they go to a \$20 co-pay. A reduction to \$10 is proposed, which will not impact the plans. The plan will continue to have a \$120/\$240 incentive for completing the health risk assessment for employee and spouse, \$20/\$40 per month blood pressure incentive, health savings account contributions of \$500 for single and \$1,000 for child, spouse and family, continue the \$20 monthly tobacco surcharge, continue the Omada diabetes prevention program and the CIGNA One Guide Concierge Program.

Chair O'Connor requested clarification that OAP and Local Plus Programs are more costly to the City. Ms. Beebe confirmed this, stating that it is a 100 percent co-pay plan with the max at \$2,500. Chair O'Connor commented that the goal is to incentivize employees to take a more active role in managing their health costs. He asked whether the options proposed will counteract these efforts. Ms. Beebe stated that the population served is very risk-averse. They would much prefer to pay a co-pay and not worry about deductibles. There are 300 people enrolled in the HSAs, 69 percent of whom are enrolled in the co-pay plan.

Director Bilotti asked whether there is a rate impact with the reduction of the mental health co-pay. Mr. Broucek stated that they are not concerned that the \$10 change, based on the number of visits, will create a meaningful impact. Removing barriers to mental health care will lead to folks going in for care earlier than they would have otherwise.

Director Smith asked about the impacts/success of any wellness program incentives. Ms. Beebe stated that the City has a very robust wellness program, which is very well perceived. It focuses on five pillars: Community, safety, health, fitness and financial. There are several free-use gyms throughout the City. Employees can also use public facilities, with their only financial responsibility being the tax assessed on the service. In addition, the City has cooking demos, yoga, meditation, massage therapy, relaxation pods, financial counseling, including 457 plans. Free Fitbits are provided for the walking program. There are also raffle and competition drawings.

Director Perlow asked about the number of people who surpass the five to six EAP complementary visits. Ms. Beebe was unable to provide that exact statistic, however she noted that there is 16 percent utilization, which is one of the highest in the country.

Director Perlow noted that in all four of the options, the employees will have a slightly higher percentage increase than the City and he asked for the rationale behind the proposal. Mr. Broucek said this could be as a result of rounding.

Director Bilotti asked whether the overall increase is based on the midpoint of the premium per month increase multiplied over the amount. Mr. Broucek stated that it is based on actual enrollment.

Chair O'Connor asked for the City's recommendation for options and whether they are ranked by preference. Ms. Beebe stated that this is typically taken to the Total Benefits Advisory Committee. Employee feedback is considered by the Benefits Coordinating Committee, consisting of the executive directors and the City Manager. As the employees were in agreement on pursuing Option 2, they will likely be moving forward with this plan.

Director Perlow inquired as to potentially beefing up any of the wellness programs. Ms. Beebe stated the new full-time wellness staff person is currently looking outside the box at various options.

Chair O'Connor asked about additional HSA compensations to incentivize employees to move into the HSA program. Ms. Beebe said that was not discussed this year. Based upon the risk averse population, it is not likely that they would see a significant increase in enrollment. Mr. Broucek added that if a healthy individual with relatively low claims leaves the richest plan design and migrates to the HSA, what is potentially lost are the contributions being given on the OAP in-network plan as well as the \$500 given to the individual in first dollar coverage.

Director Bilotti inquired about demographic changes in the City workforce. Mr. Broucek stated that they have not done a demographic study. Ms. Beebe said the average age is in the low 40s. Director Smith commented that the notes from the prior meeting noted approximately 33 percent of the population with chronic disease and asked whether this is a normal distribution. Mr. Broucek said he would have to look at the context of the conversation, but depending on the number of chronic diseases being discussed, this is probably normal. Chair O'Connor noted that the discussion had a focus on smoking and blood pressure. Ms. Beebe added that they had also discussed pre-diabetes.

## **ADJOURNMENT**

With no further business to discuss, being duly moved by Director Bilotti and seconded by Director Perlow, the meeting adjourned at 5:48 p.m.

AYES: Chair O'Connor, Vice Chair Welch, Directors Bilotti, Perlow and Smith  
NAYS: None

SUBMITTED BY:

eScribers, LLC



January 16, 2020

PERSONAL AND CONFIDENTIAL

City of Scottsdale, AZ

To Whom It May Concern:

We are pleased to present the actuarial study for the City of Scottsdale's Healthcare Self Insurance Fund reserving policies. Nyhart was engaged to provide a recommendation of a reserve policy for the Fund.

In preparing this report, we have relied on data provided by the City and its Consultants. We have not audited the data at the source but have reviewed it for reasonableness and consistency. To the extent, the underlying data is inaccurate or incomplete, the results may need revised.

Reasonable actuarial techniques were used to produce the results and projections in this report. Actual results will vary from the projections, perhaps significantly, due to actual plan experience, changes in assumptions, and participant demographics. While a diligent effort is made to produce reasonable projections, by their very nature projections are speculative. Clients are cautioned against placing too much reliance on any particular set of projections. The results herein are intended for the City of Scottsdale and its Consultants only.

The calculations were performed by Randy Gomez and Emily Clauss of Nyhart. Neither Nyhart nor any of its employees have any relationship with the plan or its sponsor, which could impair or appear to impair the objectivity of this certification. The undersigned are compliant with the continuing education requirements of the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States.

Please call if you have any questions about the calculations or underlying data.

Sincerely,

**Nyhart**

Randy Gomez, FSA, MAAA

Emily Clauss, ASA, MAAA



## Executive Summary

### Section I: Recommendations

Our reserve policy recommendation consists of three separate uses of asset reserves for the City's self-insured health plan.

1. Use 1: Hold sufficient asset reserves to satisfy liabilities for claims that were incurred and not paid as of a specific date. The most common needs for this reserve are to transition from a self-insured basis to a fully insured basis or (b) a change in third party administrators. We refer to this liability as the Incurred but Not Reported Reserve (IBNR) in our analysis.
2. Use 2: Creation of a dedicated asset reserve sufficient to cover unexpected and significantly large claims occurring during the year that may require additional funding from the City's budget. Our report refers to this reserve as the Claims Corridor.
3. Use 3: Creation of another dedicated asset reserve sufficient to (1) reduce large rate increases in a future year following an unfavorable claims year or (2) provide premium holidays allowing the City and/or participating employees to skip one or more contributions during the year. We refer to this reserve as a Premium Stabilization reserve in this report.

Our specific recommendations for minimum reserve levels are as follows:

- I. Set the Medical Incurred but not Reported (IBNR) reserve to 7.7% of expected paid claims.
- II. Set the Dental IBNR reserve to 7.0% of expected paid claims.
- III. Set the Claims Corridor to 8.7% of expected paid claims.
- IV. Set the Premium Stabilization reserve policy to 8.7% of expected premium income (employer plus employee).

The City may wish to increase our recommendations for additional conservatism (or claim margin) given its current strong funding position. For example, the reserve policy could include an additional 10% load for claim margin.

We suggest the formal reserve policy also include a funding plan to replenish any reserves used during the year. Several sample funding statements are shown below.

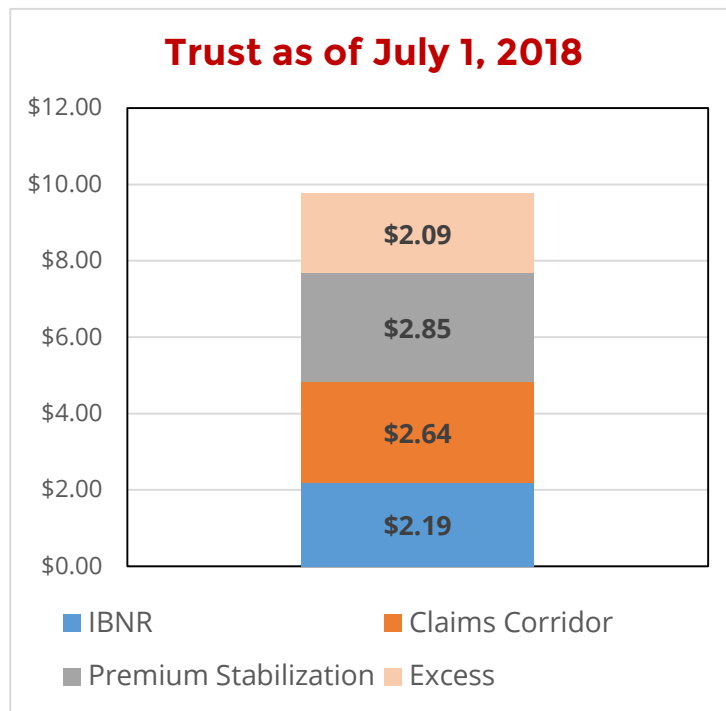
- Any reserves reduced during the year for approved uses are to be replenished within the next two budget cycles.
- The premium equivalent rates for the self-funded plan are to include a surcharge of 5% to replenish reserves used in the current year.



## Section II: Management Discussions

Nyhart was engaged to provide an analysis for the implementation of a reserve policy for the City of Scottsdale's Healthcare Self Insurance Fund. For this analysis, Nyhart's main objective was to maintain the City's funding levels at an amount appropriate to support this new reserving policy.

As of June 30, 2018, the Trust had approximately \$9.31 million in assets. Based on the current Fund financial forecast, the fund has approximately \$2.09 million in excess assets, which creates a favorable situation for the City. The following chart shows a visual representation of the breakdown of reserve assets. The Nyhart estimate for plan year ending June 30, 2020 has been used for the IBNR.



Prudent reserving policy could suggest that a plan sponsor should ensure the IBNR and Claims Corridor reserves are set appropriately before budgeting for a Premium Stabilization reserve. Nyhart recommends setting the Claims Corridor policy to 8.7% of expected paid claims. A reasonable range to consider would be from 3.2% to 8.7%, with the latter being Nyhart's recommendation for conservatism. We recommend setting the Rate Stabilization reserve to the same target as the Claims Corridor reserve, 8.7%. The total target reserve is approximately 25% of paid claims.



## Detailed Discussion

### Section I: Incurred but Not Reported (IBNR) Reserve

The reserves for incurred but not reported claims represent the liability that occurs for claims incurred but paid after the end of a given plan year. The Fund should aim to maintain assets that are able to fully cover liabilities from IBNR claims.

Nyhart completed a preliminary estimate for the 2019/20 reserves as of June 30, 2019. Combined medical and prescription drug lag triangles were provided and used for the 12 months ending September 30, 2019 for the review. Previous estimates have been updated to account for actual experience since the previous IBNR study was completed.

The analysis for reserves for claims incurred but not reported were calculated using two methods: (1) Completion Factors Method; and (2) Simple Projected Paid Method. These two methods have contrasting assumptions and will react differently to changes in claims payment pattern, enrollment fluctuations, and morbidity changes for the insured groups.

Nyhart also uses a minimum IBNR threshold that is based on a plan's prior IBNR experience, actuarial professional judgement, and Nyhart's book of business. For the City, we are currently using a minimum threshold of 1/13 (7.7%) for medical/Rx and 7.00% for dental based on actual prior run-out and professional judgement. These thresholds are evaluated annually as more historical information becomes available.

The final recommended IBNR is the largest estimate of the three methods that are reviewed. Results from prior years are shown below. Please refer to the June 30, 2019 IBNR reserve calculation report for a more detailed description of how these figures were calculated.





## Section I: Incurred But Not Reported (IBNR) Reserve (Continued)

Historical run-out suggests a viable IBNR budget range of 6.00% - 9.00% of paid claims.

	June 30, 2019	June 30, 2018	June 30, 2017
<b>Medical / Rx</b>			
Calculated IBNR (CF method)	\$ 1,908,000	\$ 1,930,000	\$ 1,780,000
Calculated IBNR (Simple Projected method)	\$ 1,743,000	\$ 1,921,000	\$ 1,666,000
Minimum IBNR threshold	\$ 2,084,000	\$ 2,190,000	\$ 1,876,000
Recommended IBNR before admin expenses	\$ 2,084,000	\$ 2,190,000	\$ 1,876,000
Administrative Expenses	0	0	2,000
<b>Final IBNR with admin expenses</b>	<b>\$ 2,084,000</b>	<b>\$ 2,190,000</b>	<b>\$ 1,878,000</b>
<b>Dental</b>			
Calculated IBNR (CF method)	\$ 73,000	\$ 84,000	\$ 77,000
Calculated IBNR (Simple Projected method)	\$ 76,000	\$ 85,000	\$ 78,000
Minimum IBNR threshold	\$ 102,000	\$ 104,000	\$ 100,000
Recommended IBNR before admin expenses	\$ 102,000	\$ 104,000	\$ 100,000
Administrative Expenses	4,000	4,000	4,000
<b>Final IBNR with admin expenses</b>	<b>\$ 106,000</b>	<b>\$ 108,000</b>	<b>\$ 104,000</b>
<b>Vision IBNR</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>
<b>Actual historical run-out*</b>			
Medical/Rx		\$ 1,849,000	\$ 2,434,000
Dental		83,000	103,000
Vision		8,000	7,000
Total		1,940,000	2,544,000
Gain/loss		(15.8%)	28.0%

\*Based on claims paid through May 31<sup>st</sup> of the respective year.



**Section I: Incurred But Not Reported (IBNR) Reserve (Continued)**

Using lag triangle and enrollment data for the 12 months ending September 30, 2019, the preliminary 2019/20 reserve estimate is as shown below. More detailed calculations for the preliminary 2019/20 reserves are shown in Exhibit A of the Appendix.

<b>Medical / Rx</b>	<b>September 30, 2019</b>
Calculated IBNR (CF method)	\$ 1,454,000
Calculated IBNR (Simple Projected method)	\$ 1,585,000
Minimum IBNR threshold	\$ 2,184,000
Recommended IBNR before admin expenses	\$ 2,184,000
Administrative Expenses	0
<b>Final IBNR with admin expenses</b>	<b>\$ 2,184,000</b>
<b>Dental</b>	
Calculated IBNR (CF method)	\$ 62,000
Calculated IBNR (Simple Projected method)	\$ 64,000
Minimum IBNR threshold	\$ 100,500
Recommended IBNR before admin expenses	\$ 100,500
Administrative Expenses	3,500
<b>Final IBNR with admin expenses</b>	<b>\$ 104,000</b>
<b>Vision IBNR</b>	<b>\$ 6,000</b>

It is our recommendation that future medical and dental reserves be estimated as 7.7% and 7.00% of expected paid claims, respectively. These figures should be re-evaluated on a periodic basis to account for new information and actual experience.

**Section II: Claims Fluctuation Reserve**

The reserve for claims fluctuation (also referred to as the “Claims Corridor”) is meant to provide the Fund with a safety margin in the event an unexpected and significantly large claim were to occur. The reserve policy should address the key aspects of an unexpected and significantly large claim year: frequency and severity. Two examples of how frequency and severity can be defined are outlined below:

- a) More frequent but less catastrophic in severity: a one-in-four year event with a 25% actuarial probability of occurring, resulting in \$1.0 million more in paid claims than expected during the year
- b) Less frequent but more catastrophic in severity: a one-in-twenty year event with a 5% actuarial probability of occurring, resulting in \$2.8 million more in paid claims than expected during the year

Nyhart (1) reviewed claims projections provided by the City’s healthcare consultant; and (2) used a claims probability distribution model with Monte Carlo simulation techniques. The simulation was run 1,000 times and normalized to



2019/20 projected medical and Rx claims experience of \$32,432,000 for 2,137 employees and their dependents. Our calculations reflect a specific stop loss deductible of \$325,000 per person.

In review of historical medical and claim drug fluctuation, expected claims and administrative expenses from plan years 2013/14 through 2018/19 were compared to actual experience. Exhibit B in the Appendix shows this charted data, which was obtained from the City's healthcare consultant. Although not an indicator of the probability of excess claims, it does provide historical context of the claims experience volatility.

The following table shows selected results from the Monte Carlo Simulation. The normalized expected medical and Rx claims were set to \$32,432,000.

<b>Percentile</b>	<b>Expected Claims</b>	<b>% in Excess of Average</b>
25 <sup>th</sup> p-tile	\$ 31,359,000	N/A
50 <sup>th</sup> p-tile	\$ 32,455,000	0.1%
75 <sup>th</sup> p-tile	\$ 33,463,000	3.2%
85 <sup>th</sup> p-tile	\$ 34,153,000	5.3%
90 <sup>th</sup> p-tile	\$ 34,555,000	6.5%
95 <sup>th</sup> p-tile	\$ 35,251,000	8.7%
99 <sup>th</sup> p-tile	\$ 36,435,000	12.3%
Normalized Claims	\$ 32,432,000	N/A

At the 95<sup>th</sup> percentile, the difference from the mean (normalized claims) is \$2,819,000 or a reserve level of 8.7% of paid claims. At the 75<sup>th</sup> percentile, the result yields a reserve level of 3.2% of paid claims. Expressed differently, the City's actual claim experience would have to be 8.7% higher than the expected claims. For this reason, we consider the 8.7% reserve target as reasonable.

In terms of creating a Claims Corridor policy, the risk tolerance of the City must be considered. For example, claims levels at the 95<sup>th</sup> percentile (in which there is 5% chance or less of occurring) are less likely to occur than claims at the 75<sup>th</sup> percentile. In providing Nyhart's recommendation, we have taken a conservative approach and recommend 8.7%, which represents a one-in-twenty year event. If desired, the City could opt to be more conservative and elect a reserve policy of 12.3%, which would represent a one-in-hundred year event.



**Section III: Premium Stabilization Reserve**

The purpose of premium stabilization reserves is to stabilize the funding by employers and employees for a self-insured health plan by taking advantage of favorable claims experience or deliberate overfunding in prior periods. Premium stabilization reserves help to ensure incoming premium income from the employer and employees (plus any investment income) exceed outgoing claims and administrative expenses paid made by the plan.

The key uses for this reserve are to:

1. Offset future rate increases for a period of unfavorable claims experience (for example, using reserves to buy down a 15% rate increase to 10%); and
2. Offset the lost income from a premium holiday (i.e. to avoid payment of premiums for a period of time) by the employer and/or employees. For example, the premium stabilization reserve is reduced by \$1,048,260 to cover the lost income from skipping the health plan funding from one payroll cycle. An example of the required needs with the premium holiday is as shown below.

<b>New Trust Policy Requirement Estimate (in millions)</b>			<b>7/1/2019</b>
Medical IBNR	7.7% x paid claims		\$2.38
Dental IBNR	7.0% x paid claims		\$0.11
Claims Corridor - medical	8.7% x paid claims		\$2.76
Claims Corridor - dental	8.7% x paid claims		\$0.13
Rate Stabilization	8.7% x premium income		\$3.07
Required needs at year-end			\$8.45
Required needs at year-end with one premium holiday (\$1.05 million)			<b>\$9.50</b>

Nyhart is recommending a funding target level equal to the same percentage as the target set for the claim corridor reserve in the initial development of the reserve policy. A more data-driven or sophisticated target can be determined as the City's reviews its experience after a formal policy is implemented.

## APPENDIX

## Appendix A - 2019/20 IBNR Development

### EXHIBIT I - MEDICAL / RX RESERVE

Lag Month	ORIGINAL INCURRED AND PAID CLAIMS											
	Total Incurred and Paid Claims by Incurred Month											
	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
0	\$1,198,112	\$1,046,650	\$1,171,528	\$1,358,594	\$944,927	\$1,130,869	\$1,393,796	\$1,389,217	\$1,402,030	\$1,308,359	\$1,045,847	\$1,160,193
1	\$797,654	\$837,123	\$898,379	\$793,903	\$879,770	\$731,708	\$944,430	\$1,149,816	\$1,056,462	\$970,846	\$849,787	
2	\$168,950	\$125,175	\$109,610	\$213,435	\$42,271	\$97,642	\$120,526	\$123,844	\$253,218	\$146,205		
3	\$24,575	\$64,007	\$8,885	\$14,328	\$58,063	\$17,891	\$64,811	\$33,977	\$302,208			
4	\$22,439	\$3,135	\$58,400	\$2,335	\$131	\$5,462	\$13,333	\$13,218				
5	\$1,540	\$20,020	\$2,179	\$1,389	\$4,940	\$2,436	\$5,769					
6	\$4,182	-\$1,541	-\$52,314	\$673	\$3,202	\$6,035						
7	\$14,694	-\$10,428	-\$385	\$655	\$5,619							
8	\$1,238	-\$11,121	\$15	\$241								
9	\$2,499	-\$2,186	\$56									
10	\$1,716	\$2,552										
11	\$1,574											
Total Paid	\$2,239,172	\$2,073,387	\$2,196,351	\$2,385,554	\$1,938,925	\$1,992,043	\$2,542,665	\$2,710,071	\$3,013,918	\$2,425,411	\$1,895,634	\$1,160,193



## EXHIBIT I - MEDICAL / RX RESERVE

Numbers in black below are based on actual claims incurred and paid.

Numbers in blue below are estimated using completion factors method.

Lag Month	COMPLETION FACTOR METHOD											
	Total Incurred and Paid Claims by Incurred Month											
	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
0	\$1,198,112	\$1,046,650	\$1,171,528	\$1,358,594	\$944,927	\$1,130,869	\$1,393,796	\$1,389,217	\$1,402,030	\$1,308,359	\$1,045,847	\$1,160,193
1	\$797,654	\$837,123	\$898,379	\$793,903	\$879,770	\$731,708	\$944,430	\$1,149,816	\$1,207,566	\$970,846	\$849,787	\$871,751
2	\$168,950	\$125,175	\$109,610	\$213,435	\$42,271	\$97,642	\$120,526	\$123,844	\$353,954	\$146,205	\$132,056	\$141,552
3	\$24,575	\$64,007	\$16,764	\$14,328	\$60,533	\$17,891	\$64,811	\$33,977	\$50,368	\$40,823	\$34,129	\$36,583
4	\$22,439	\$432	\$0	\$2,335	\$4,026	\$8,480	\$13,333	\$13,218	\$10,781	\$8,822	\$7,375	\$7,906
5	\$8,887	\$0	\$0	\$1,389	\$2,509	\$4,448	\$5,769	\$4,069	\$4,542	\$3,716	\$3,107	\$3,330
6	\$9,080	\$0	\$0	\$673	\$4,326	\$1,005	\$2,997	\$3,199	\$3,570	\$2,921	\$2,442	\$2,618
7	\$2,449	\$0	\$0	\$655	\$561	\$675	\$862	\$920	\$1,027	\$840	\$703	\$753
8	\$1,238	\$0	\$15	\$241	\$326	\$335	\$428	\$457	\$510	\$417	\$349	\$374
9	\$2,499	\$0	\$56	\$937	\$762	\$783	\$1,001	\$1,068	\$1,192	\$975	\$815	\$874
10	\$1,716	\$0	\$875	\$950	\$773	\$794	\$1,015	\$1,083	\$1,209	\$989	\$827	\$886
11	\$1,574	\$1,458	\$1,545	\$1,679	\$1,365	\$1,403	\$1,793	\$1,914	\$2,136	\$1,748	\$1,461	\$1,566
Total Paid	\$2,239,172	\$2,073,387	\$2,196,351	\$2,385,554	\$1,938,924	\$1,992,043	\$2,542,665	\$2,710,071	\$3,013,918	\$2,425,411	\$1,895,634	\$1,160,193
IBNR	\$0	\$1,458	\$2,420	\$3,566	\$3,226	\$3,990	\$8,096	\$12,710	\$24,967	\$61,251	\$183,264	\$1,068,193
Total Incurred	\$2,239,172	\$2,074,845	\$2,198,771	\$2,389,120	\$1,942,150	\$1,996,033	\$2,550,761	\$2,722,781	\$3,038,885	\$2,486,662	\$2,078,898	\$2,228,386

(1) Total claims incurred and paid	\$26,573,323
(2) Total claims incurred (estimated)	\$27,946,464
(3) IBNR	\$1,373,141
(4) Adjustment for known paid claim liability	\$0
(5) Trend adjustment to 9/30/2019	100.00%
(6) Enrollment Adjustment	0.90%
(7) Net IBNR [(3) - (4)] x (5) x (1 + (6))	\$1,385,499



## EXHIBIT I - MEDICAL / RX RESERVE

Numbers in black below are based on actual claims incurred and paid.  
 Numbers in blue below are estimated using simple projected paid method.

### SIMPLE PROJECTED PAID METHOD

Total Incurred and Paid Claims by Incurred Month

Lag Month	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
0	\$570.53	\$497.22	\$555.75	\$646.95	\$449.75	\$537.23	\$665.93	\$662.16	\$661.65	\$611.95	\$491.93	\$542.91
1	\$379.84	\$397.68	\$426.18	\$378.05	\$418.74	\$347.60	\$451.23	\$548.05	\$569.88	\$454.09	\$399.71	\$452.89
2	\$80.45	\$59.47	\$52.00	\$101.64	\$20.12	\$46.39	\$57.59	\$59.03	\$167.04	\$68.38	\$74.15	\$74.68
3	\$11.70	\$30.41	\$7.95	\$6.82	\$28.81	\$8.50	\$30.97	\$16.19	\$23.77	\$19.02	\$19.16	\$19.30
4	\$10.69	\$0.21	\$0.00	\$1.11	\$1.92	\$4.03	\$6.37	\$6.30	\$3.95	\$3.98	\$4.01	\$4.04
5	\$4.23	\$0.00	\$0.00	\$0.66	\$1.19	\$2.11	\$2.76	\$1.61	\$1.62	\$1.63	\$1.64	\$1.65
6	\$4.32	\$0.00	\$0.00	\$0.32	\$2.06	\$0.48	\$1.23	\$1.24	\$1.25	\$1.26	\$1.27	\$1.28
7	\$1.17	\$0.00	\$0.00	\$0.31	\$0.27	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
8	\$0.59	\$0.00	\$0.01	\$0.11	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18
9	\$1.19	\$0.00	\$0.03	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41
10	\$0.82	\$0.00	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41	\$0.41
11	\$0.75	\$0.76	\$0.77	\$0.78	\$0.79	\$0.80	\$0.81	\$0.82	\$0.83	\$0.84	\$0.85	\$0.86
Exposures	2,100	2,105	2,108	2,100	2,101	2,105	2,093	2,098	2,119	2,138	2,126	2,137
Paid	\$2,239,188	\$2,073,404	\$2,196,367	\$2,385,537	\$1,938,929	\$1,992,046	\$2,542,681	\$2,710,050	\$3,013,938	\$2,425,390	\$1,895,627	\$1,160,199
IBNR	\$0	\$1,600	\$2,487	\$3,360	\$3,761	\$4,547	\$7,116	\$10,553	\$19,092	\$60,056	\$217,787	\$1,188,300
Incurred	\$2,239,188	\$2,075,004	\$2,198,855	\$2,388,897	\$1,942,690	\$1,996,593	\$2,549,797	\$2,720,602	\$3,033,031	\$2,485,446	\$2,113,414	\$2,348,499

(1) Total claims incurred and paid	\$26,573,356
(2) Total claims incurred (estimated)	\$28,092,016
(3) IBNR	\$1,518,660
(4) Adjustment for known paid claim liability	\$0
(5) Trend adjustment to 9/30/2019	100.00%
(6) Enrollment Adjustment	0.00%
(7) Net IBNR [(3) - (4)] x (5) x (1 + (6))	\$1,518,660





**EXHIBIT II - DENTAL RESERVE**

**ORIGINAL INCURRED AND PAID CLAIMS**

Total Incurred and Paid Claims by Incurred Month

Lag	Total Incurred and Paid Claims by Incurred Month											
Month	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
0	\$92,273	\$78,209	\$76,400	\$94,710	\$69,464	\$80,537	\$69,643	\$72,327	\$88,934	\$105,456	\$103,736	\$74,466
1	\$23,838	\$19,303	\$22,366	\$21,248	\$29,181	\$20,395	\$19,751	\$18,142	\$23,191	\$32,564	\$19,837	
2	\$2,991	\$4,389	\$4,846	\$3,153	\$5,482	\$2,403	\$1,982	\$4,981	\$3,134	\$5,312		
3	\$1,120	\$738	\$1,106	\$3,538	\$2,447	\$1,393	\$1,778	\$2,284	\$2,376			
4	\$2,373	\$2,098	\$578	\$3,730	\$1,347	\$1,107	\$2,073	\$1,595				
5	\$768	\$0	\$578	\$214	\$194	\$860	\$290					
6	\$713	\$224	\$351	\$1,221	\$564	\$854						
7	\$1,726	\$44	\$0	\$2,863	\$2,470							
8	\$252	\$0	\$0	\$323								
9	\$19	\$0	\$396									
10	\$367	\$0										
11	\$168											
<b>Total Paid</b>	<b>\$126,608</b>	<b>\$105,004</b>	<b>\$106,619</b>	<b>\$131,000</b>	<b>\$111,150</b>	<b>\$107,548</b>	<b>\$95,516</b>	<b>\$99,329</b>	<b>\$117,635</b>	<b>\$143,332</b>	<b>\$123,573</b>	<b>\$74,466</b>



## EXHIBIT II - DENTAL RESERVE

Numbers in black below are based on actual claims incurred and paid.

Numbers in blue below are estimated using completion factors method.

Lag Month	COMPLETION FACTOR METHOD											
	Total Incurred and Paid Claims by Incurred Month											
	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
0	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846	\$83,846
1	\$23,838	\$19,303	\$22,366	\$21,248	\$29,181	\$20,395	\$19,751	\$18,142	\$23,191	\$32,564	\$19,837	\$22,711
2	\$2,991	\$4,389	\$4,846	\$3,153	\$5,482	\$2,403	\$1,982	\$4,981	\$3,134	\$5,312	\$3,753	\$3,857
3	\$1,120	\$2,136	\$1,106	\$3,538	\$2,447	\$1,393	\$1,778	\$2,284	\$2,376	\$2,245	\$1,982	\$2,037
4	\$2,373	\$699	\$578	\$3,730	\$1,347	\$1,107	\$2,073	\$1,596	\$1,706	\$1,879	\$1,658	\$1,704
5	\$1,631	\$0	\$578	\$1,645	\$1,429	\$860	\$291	\$899	\$926	\$1,020	\$900	\$925
6	\$1,288	\$224	\$351	\$2,175	\$1,387	\$855	\$998	\$1,016	\$1,048	\$1,154	\$1,018	\$1,047
7	\$288	\$44	\$198	\$477	\$413	\$269	\$268	\$273	\$282	\$310	\$274	\$281
8	\$252	\$0	\$132	\$324	\$193	\$171	\$170	\$173	\$179	\$197	\$174	\$179
9	\$19	\$0	\$67	\$30	\$31	\$28	\$28	\$28	\$29	\$32	\$28	\$29
10	\$367	\$0	\$183	\$193	\$202	\$179	\$179	\$182	\$188	\$207	\$182	\$187
11	\$168	\$158	\$163	\$172	\$180	\$159	\$159	\$162	\$167	\$184	\$162	\$167
Total Paid	\$118,180	\$110,640	\$114,066	\$120,136	\$125,532	\$110,858	\$109,721	\$110,849	\$112,547	\$121,722	\$103,683	\$83,846
IBNR	\$0	\$158	\$346	\$395	\$606	\$806	\$1,802	\$2,733	\$4,525	\$7,228	\$10,131	\$33,124
Total Incurred	\$118,180	\$110,798	\$114,412	\$120,531	\$126,138	\$111,664	\$111,523	\$113,582	\$117,072	\$128,950	\$113,814	\$116,970

(1) Total claims incurred and paid	\$1,341,782
(2) Total claims incurred (estimated)	\$1,403,636
(3) IBNR	\$61,854
(4) Adjustment for known paid claim liability	\$0
(5) Trend adjustment to 9/30/2019	100.00%
(6) Enrollment Adjustment	0.90%
(7) Net IBNR [(3) - (4)] x (5) x (1 + (6))	\$62,411



## EXHIBIT II - DENTAL RESERVE

Numbers in black below are based on actual claims incurred and paid.

Numbers in blue below are estimated using simple projected paid method.

### SIMPLE PROJECTED PAID METHOD

Total Incurred and Paid Claims by Incurred Month

Lag Month	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
0	\$49.35	\$49.85	\$49.32	\$49.23	\$49.97	\$49.79	\$49.79	\$49.82	\$49.29	\$48.80	\$48.83	\$48.83
1	\$14.03	\$11.48	\$13.16	\$12.48	\$17.39	\$12.11	\$11.73	\$10.78	\$13.63	\$18.95	\$11.55	\$13.73
2	\$1.76	\$2.61	\$2.85	\$1.85	\$3.27	\$1.43	\$1.18	\$2.96	\$1.84	\$3.09	\$2.34	\$2.35
3	\$0.66	\$1.27	\$0.65	\$2.08	\$1.46	\$0.83	\$1.06	\$1.36	\$1.40	\$1.22	\$1.22	\$1.22
4	\$1.40	\$0.42	\$0.34	\$2.19	\$0.80	\$0.66	\$1.23	\$0.95	\$1.02	\$1.02	\$1.02	\$1.02
5	\$0.96	\$0.00	\$0.34	\$0.97	\$0.85	\$0.51	\$0.17	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55
6	\$0.76	\$0.13	\$0.21	\$1.28	\$0.83	\$0.51	\$0.63	\$0.63	\$0.63	\$0.63	\$0.63	\$0.63
7	\$0.17	\$0.03	\$0.12	\$0.28	\$0.25	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17	\$0.17
8	\$0.15	\$0.00	\$0.08	\$0.19	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11
9	\$0.01	\$0.00	\$0.04	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
10	\$0.22	\$0.00	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11
11	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Exposures	1,699	1,682	1,700	1,703	1,678	1,684	1,684	1,683	1,701	1,718	1,717	1,717
Paid	\$118,199	\$110,659	\$114,087	\$120,147	\$125,548	\$110,875	\$109,729	\$110,859	\$112,538	\$121,703	\$103,672	\$83,841
IBNR	\$0	\$168	\$357	\$391	\$571	\$859	\$1,920	\$2,845	\$4,610	\$6,751	\$10,766	\$34,358
Incurred	\$118,199	\$110,827	\$114,444	\$120,538	\$126,118	\$111,733	\$111,649	\$113,703	\$117,148	\$128,455	\$114,438	\$118,198

(1) Total claims incurred and paid	\$1,341,857
(2) Total claims incurred (estimated)	\$1,405,450
(3) IBNR	\$63,593
(4) Adjustment for known paid claim liability	\$0
(5) Trend adjustment to 9/30/2019	100.00%
(6) Enrollment Adjustment	0.00%
(7) Net IBNR [(3) - (4)] x (5) x (1 + (6))	\$63,593



### EXHIBIT III - VISION RESERVE

Recommended vision IBNR is based on the maximum of average claims paid in the first two months after they were incurred over different periods as shown below.

	Past 12 months	Past 6 months	Past 3 months
A. Average claims paid one month after they were incurred	\$ 2,800	\$ 3,331	\$ 3,842
B. Average claims paid two months after they were incurred	\$ 1,478	\$ 1,632	\$ 2,155
C. Average claims paid in the first two months after they were incurred (A + B)	\$ 4,278	\$ 4,963	\$ 5,997
Recommended vision IBNR (maximum of C)	\$ 5,997		
Conservatism load (5%)	\$ 300		
Final vision IBNR (D + E)	\$ 6,297		

### EXHIBIT IV - MINIMUM IBNR THRESHOLD

The imposed minimum IBNR threshold is calculated as follows:

	Medical / Rx	Dental
A. Paid claims for the 12-month period ending September 30, 2019	\$ 26,573,323	\$ 1,341,782
B. Projected paid claims for 12-month period ending September 30, 2019	\$ 28,394,675	\$ 1,436,150
C. Minimum Threshold %	1/13	7.00%
D. Minimum IBNR (B * C)	\$ 2,184,206	\$ 100,530

The minimum IBNR percentage threshold is set based on professional judgment and it considered past actual run-out data. This percentage will be evaluated annually, as more historical information is available.



## EXHIBIT V - ENROLLMENT AND ADMINISTRATIVE FEES

Enrollment adjustment calculations are as follows:

Month	Total	Dental
Oct-18	2,100	1,699
Nov-18	2,105	1,682
Dec-18	2,108	1,700
Jan-19	2,100	1,703
Feb-19	2,101	1,678
Mar-19	2,105	1,684
Apr-19	2,093	1,684
May-19	2,098	1,683
Jun-19	2,119	1,701
Jul-19	2,138	1,718
Aug-19	2,126	1,717
Sep-19	2,137	1,717

Average enrollment	Medical	Dental
Past 12 months	2,110.83	1,697.17
Past 4 months	2,130.00	1,713.25
% enrollment load	0.9%	0.9%

Monthly administrative load calculations are as follows.

- Medical / Rx administrative fees and PEPM claims are based on claims projections provided by the Plan Sponsor and its Health Consultant.
- Dental admin fee is as provided by the plan sponsor. Dental PEPM claims are calculated based on July 2018 through May 2019 claims increased to 2019/20 plan year using a 5% dental trend divided by total dental enrollment for the same period.

### Medical / Rx

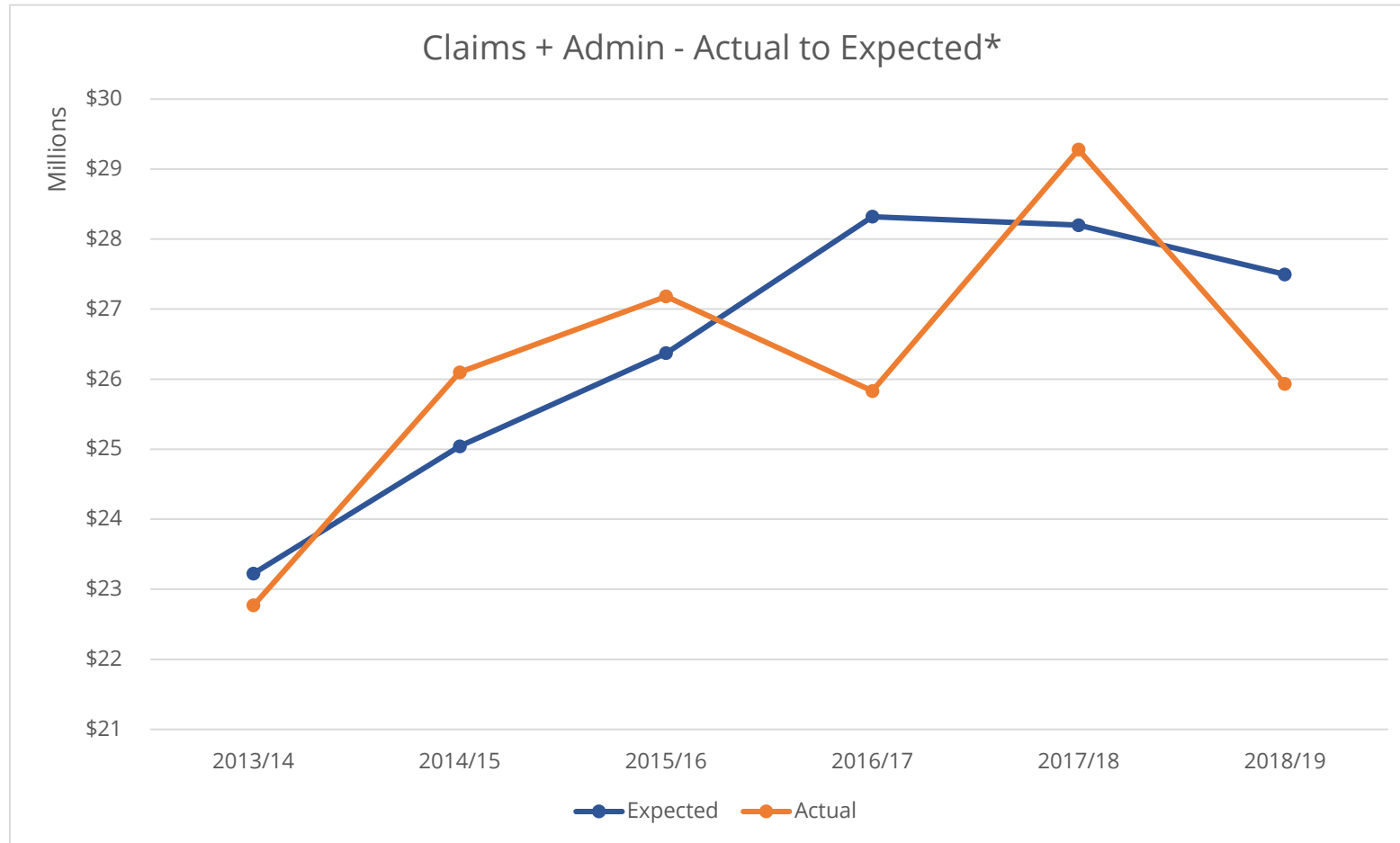
Admin	\$	22.40
Wellness/consulting	\$	10.22
GF Subsidy - Disabled Retirees	\$	(4.54)
(A) Total	\$	28.08
(B) PEPM claims	\$	1,213.23
% admin load (A) / (B)		2.3% <sup>1</sup>

### Dental

(A) Admin	\$	2.69
(B) PEPM claims	\$	75.82
% admin load (A) / (B)		3.5%

<sup>1</sup> Limited to 0% for purposes of this IBNR calculation.

## Appendix B - Historical Expected Claims and Admin Expenses vs. Actual Experience



\*Figures used to create this graph are as provided by the City's Health Consultant, Hays', monthly report analyses for each respective year. 2018/19 data is illustrated through May 2019.

## Reporting structure for Municipal Risk Management Departments

<b>City/County</b>	<b>Reports To</b>	<b>Self- Insured Funding Type</b>
Coconino County	HR	Pool for P &C and Benefits
City of Mesa	City Attorney	Trust Fund
City of Flagstaff	City Manager	Trust Fund
Maricopa County	Finance	Trust Fund
Tucson	Business Service ( Finance)	Trust Fund
Glendale	Human Resources	Trust Fund
Kingman	Human Resources	Municipal Pool
Cottonwood	HR, Purchasing, & City Attorney	Municipal Pool
Buckeye	Human Resources	Municipal Pool
CAP	Finance	Captive



## **2019 Annual Report**

### **Name of Board or Commission Annual Report**

Prepared by Name, Title on Date

Approved by the Name of Board or Commission on Date Approved

Web Site Address: [www.ScottsdaleAZ.gov/boards/insert link here](http://www.ScottsdaleAZ.gov/boards/insert link here)

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**Number of Meetings Held:** #2

**Public Comments:** #0

### **Major Topics of Discussion / Action Taken:**

- Trustee review of annual report and transmittal letter. Approved motion to transmit them to the City Council.
- Board Elections
- Revise name and experience recommendations changes to the Loss Trust Fund Document and lien settlement authority was Approved
- – Review of proposed employee medical benefits. Information Item.
- 

### ▪ **Current Member Attendance:**

<b>Member Name, Title</b>	<b>Present</b>	<b>Absent</b>	<b>Service Dates</b>
Name, Title Richard O'Connor	#2	#0	From 12/2019 to 12/2022
Name, Title Suzanne Welch	#2	#0	From 2/2019 to 2/2022*
Name, Title Russell Mosser*	#2	#0	From 09/2016 to 09/2019
Name, Title Brandon Perlow*	#2	#0	From 07/2017 to 06/2020*
Name, Title Dominic Bilotti	#1	#0	From 2/2019 to 2/2022*

\*Brandon Perlow joined the board mid-year. Russell Mosser elected to not refresh his service at the expiration of his term.

**Subcommittees:** "None"

**Ethics Training:** Yes. Completed self-study

**Selected Officers:** Yes. Elections were held 2/13/2019.

**Reviewed Bylaws/City Code:** Changes to the trust document, and city code were approved and made as recommended by the City Attorney's Office.

**Anticipated Key Issues:**

**Future Significant Work Products:**

**Upcoming Opportunities, Challenges, or Outcomes:**

**Additional Comments/Recommendations:** If the Board/Commission wishes to add additional comments or recommendation(s) to the City Council, it can go in this section.

Report Approved on: