



MINUTES

**LOSS TRUST FUND BOARD MEETING
7447 E. Indian School Rd., Suite 210
Finance Conference Room
Scottsdale, AZ**

**January 28, 2015
8:00 a.m.**

- PRESENT:** James Tomlinson, Chair
Jim Stabilito, Vice Chair
Pauline Hecker (telephonic)
Matthew Kleifield (telephonic)
- STAFF:** Jeff Nichols, City Treasurer
Lauran Beebe, Human Resources Manager
Ryan Fielder, Senior Budget Analyst
Jack Miller, Senior Budget Analyst
- GUESTS:** Charlie Broucek, Hayes Management Consulting
David Smith, Councilman

1) CALL TO ORDER

Chair Tomlinson called the meeting of the Loss Trust Fund Board to order at 8:08 a.m.

2) ROLL CALL

A formal roll call confirmed the presence of Board Members as stated above. Board Members Hecker and Kleifield attended via telephone.

OLD BUSINESS

- 1) Approval of the October 14, 2014 meeting minutes

BOARD MEMBER HECKER MOVED TO APPROVE THE MINUTES OF THE OCTOBER 14, 2014 MEETING. VICE CHAIR STABILITO SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).

- 2) Approval of the Risk Management Annual Report for FY 2013/2014 for Submission to City Council as an Annual Status of the Trust Fund

VICE CHAIR STABILITO MOVED APPROVAL OF THE RISK MANAGEMENT ANNUAL REPORT FOR FY 2013/2014. BOARD MEMBER KLEIFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).

NEW BUSINESS

- 1) Nomination and Election of Chair and Vice Chair

CHAIR TOMLINSON NOMINATED VICE CHAIR STABILITO AS CHAIR FOR 2015. BOARD MEMBER HECKER SECONDED THE NOMINATION, WHICH CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).

BOARD MEMBER HECKER NOMINATED BOARD MEMBER KLEIFIELD AS VICE CHAIR FOR 2015. VICE CHAIR STABILITO SECONDED THE NOMINATION, WHICH CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).

- 2) Discussion and Approval of FY 2015/16 Medical Plan Premiums

Human Resources Manager Ms. Lauran Beebe noted that the department made many changes last year, as they switched vendors to save administrative costs. They now have six months of claims history. She added that Mr. Charlie Broucek of Hayes Consulting had analyzed the claims.

Mr. Broucek discussed the analysis of claims history. Medical claims have trended upwards at a rate of 7.8 percent and prescription drug claims have trended upwards at 9.7 percent over the last 18 months. He explained that the increase in prescription drug claims is not confined to the City, as a number of specialty drugs have been introduced to the marketplace. They predict annual claims will be around \$25 million.

Mr. Broucek said they have issued an RFP for the stop loss insurance, so the amount of \$325,000 is a placeholder and will change. The City's wellness incentive fees are included in the plan costs. Total cost per employee is \$1,001 per month. The total annualized cost is estimated at \$26,825,000.

In response to a question from Vice Chair Stabilito, Mr. Broucek confirmed that the Aetna run-out claims are included in the most recent time period analyzed. He assured the Board that the stop loss insurance fully covers the City.

Board Member Hecker inquired whether the anticipated increase of 15 percent for stop loss coverage is driven by the marketplace or by the City's experience. Mr. Broucek said it is primarily market driven. No large claims are coming up. His expectation is that the marketplace is competitive and the 15 percent increase is conservative.

Vice Chair Stabilito pointed out that if the levels at which the stop loss claims are triggered remain constant while medical claims inflate at around 8 percent each year, eventually more claims will trigger the stop loss.

Ms. Beebe explained that the Benefits Coordinating Committee, which is composed of staff from Financial Services and Human Resources, has considered the option of a local plus network offered by CIGNA. However about 13 percent of the claims in the past six months of claims history would have been ineligible under this plan. On the other hand the increase would be about 3.4 percent instead of 6.8 percent. The Benefits Coordinating Committee members had intense discussions. They noted that the City had only just switched from Aetna to CIGNA. They had introduced precertification, which was not a feature of the Aetna contract. Co-pays and deductibles had been increased for the first time in five years. Eventually they decided to make no changes until they have a full year of claims history with CIGNA.

City Treasurer Mr. Jeff Nichols asked why the 6.8 percent increase will apply across the board. Mr. Broucek explained that they consider all of the claims and then calculate the relative actuarial value difference between each plan design. Then they apply those values to the actual need for the premium and assign the rates accordingly. Their aim is to create a net neutral environment so that employees do not migrate en masse from one plan to another. He noted that there is a slight incentive for people to migrate from the OAP In-Network to the OAP and from the OAP to the HSA. The plans are appropriately priced and in his opinion it is a mistake to over incent people to migrate.

Councilman Smith asked if there is a goal for how many employees the City would like in the HSA plan. Ms. Beebe pointed out that the Cadillac tax starting in 2018 may affect the in-network plan. It may be necessary to encourage people to move into the PPO plan. She noted that Chandler and Gilbert no longer have EPO plans.

Councilman Smith suggested loading the entire increase onto the OAP In-Network Plan and leave the others unchanged. Mr. Broucek said the challenge with artificially creating a value difference is that the City would lose money on the people who migrate. They are currently looking at a total increase of approximately \$1.7 million. About \$1.5 million is being applied to the OAP In-Network and \$200,000 to the other plans. If the entire \$1.7 million were to be applied to the OAP In-Network this could lead to underfunding.

Chair Tomlinson asked if the OAP plan is subject to the Cadillac tax how the City would handle mass migration. Ms. Beebe agreed that that might happen. Vice Chair Stabilito said if the City had to discontinue the OAP in network plan, the City would contemplate its budget needs prior to eliminating the plan. Mr. Broucek assured the Board that all of the plans are priced in a sustainable manner. He added that they are pretty far from a Cadillac tax situation at this point.

Ms. Beebe told Vice Chair Stabilito that staff will take this proposal to City Council on February 17. She noted that employee contributions will also rise by 6.8 percent.

Vice Chair Stabilito asked for a presentation at a future meeting on how the City is managing costs of the new specialty drugs. Ms. Beebe said staff has looked at this extensively and has discussed increasing co-pays for these. The problem is that then people will stop using the medication which is ultimately worse. Ms. Beebe said they will meet in September to review an in-depth analysis of the full year of claims history.

VICE CHAIR STABILITO MADE A MOTION TO APPROVE THE FY 2015/2016 MEDICAL PLAN PREMIUMS TO BE PRESENTED TO CITY COUNCIL ON FEBRUARY 17, 2015. BOARD MEMBER KLEIFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).

3) Review and Discussion of the Annual Actuarial Report for Fiscal Year 2013/2014

Vice Chair Stabilito said it is important for City Council to be aware that the Board is discussing its challenges and issues and what its plan should be, in the light of finding a Board Member for the open position.

Mr. Nichols undertook to alert Risk Management Director Ms. Katie Callaway to this addition to the annual report.

Vice Chairman Stabilito requested that the term ending dates for each member be shared, with an indication of whether or not each member can be appointed to a subsequent term. Mr. Nichols noted that members can currently serve for two consecutive three-year terms.

Mr. Nichols summarized that the Board Members had also wondered if the Board could operate with three members; whether previous members whose terms expired could return to the Board, whether a past Chair can continue as a Board Member, whether both current Board Members and staff can reach out to potential Board Members. Mr. Nichols undertook to reach out to a personal acquaintance, Mike Miller of Scottsdale Insurance, to see if anyone on his staff would be interested in joining the Board.

Vice Chair Stabilito suggested discussing the profile for Board Members. He suggested that they consider the expertise the Board has lost with the departure of Mr. Powell and Mr. Petulla and try to replace that missing experience and expertise. Conversely, the current members could take stock of their collective expertise and analyze the gaps to be filled.

Ms. Hecker said the two biggest areas the Board deals with are property casualty and benefits, so recruiting members with those backgrounds would make sense. She pointed out that City staff has financial expertise and a thorough understanding of what the City can and cannot do, which is not the same as in the private sector.

Chair Tomlinson said there should still be some diversity in terms of business and insurance background to ensure the Board is balanced.

Mr. Nichols commented that someone with a background in human resources could be a valuable asset to the Board.

BOARD MEMBER KLEIFIELD MADE A MOTION TO APPROVE THE ANNUAL ACTUARIAL REPORT TO THE BOARD AS AMENDED. SECONDED BY VICE CHAIR STABILITO, THE MOTION CARRIED BY A UNANIMOUS VOTE OF FOUR (4) TO ZERO (0).

OPEN CALL TO THE PUBLIC

No members of the public wished to address the Board.

ADJOURNMENT

With no further business to discuss, being duly moved and seconded, the meeting adjourned at 8:53 a.m.

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