

EMPLOYEE BENEFITS

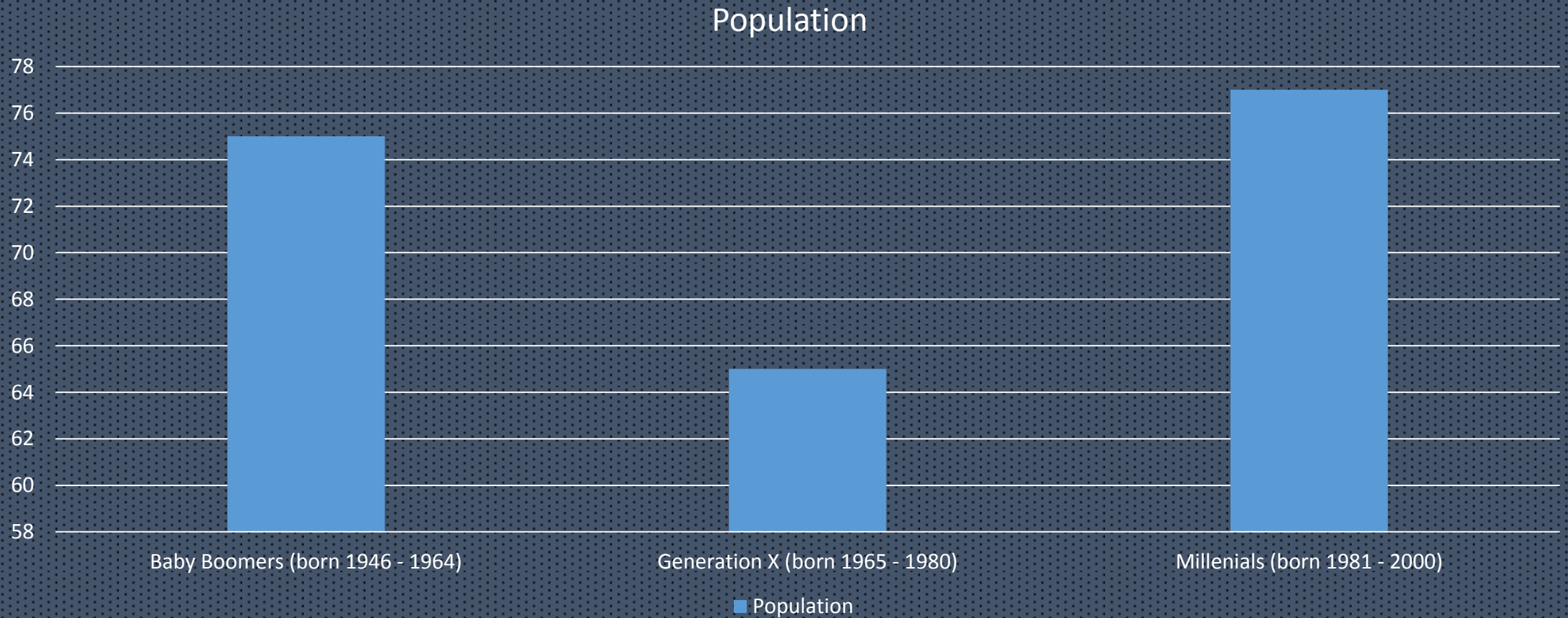


Agenda

- Competition for Talent = Need for Good Benefits
- The Good, Bad and Ugly Risk
- Best Accounting Practices
- Best Governance Practices
- Setting up an OPEB Fund and the Value of Pre-Funding



Workforce Gap



Addressing the Workforce Gap

Therefore, in the upcoming years, as we encounter more retirements, you will have to do the following:

- Pay more (due to the employee shortage)
- Pay more efficiently (through benefits which saves the City cash flow)
- Engage competition (with other organizations to make the City a better place to work)



Designing Your Plan to Manage Risk

- True or False – spouses cost more than employees?
 - False – spouses don't cost more; older members cost more
 - Older members cost your health plan more and older members are more likely to be married
- Excluding spouses could be removing good risk
 - Review your dependent subsidy instead as a strategy
 - Typically spouses who work do not cost as much as spouses who do not work



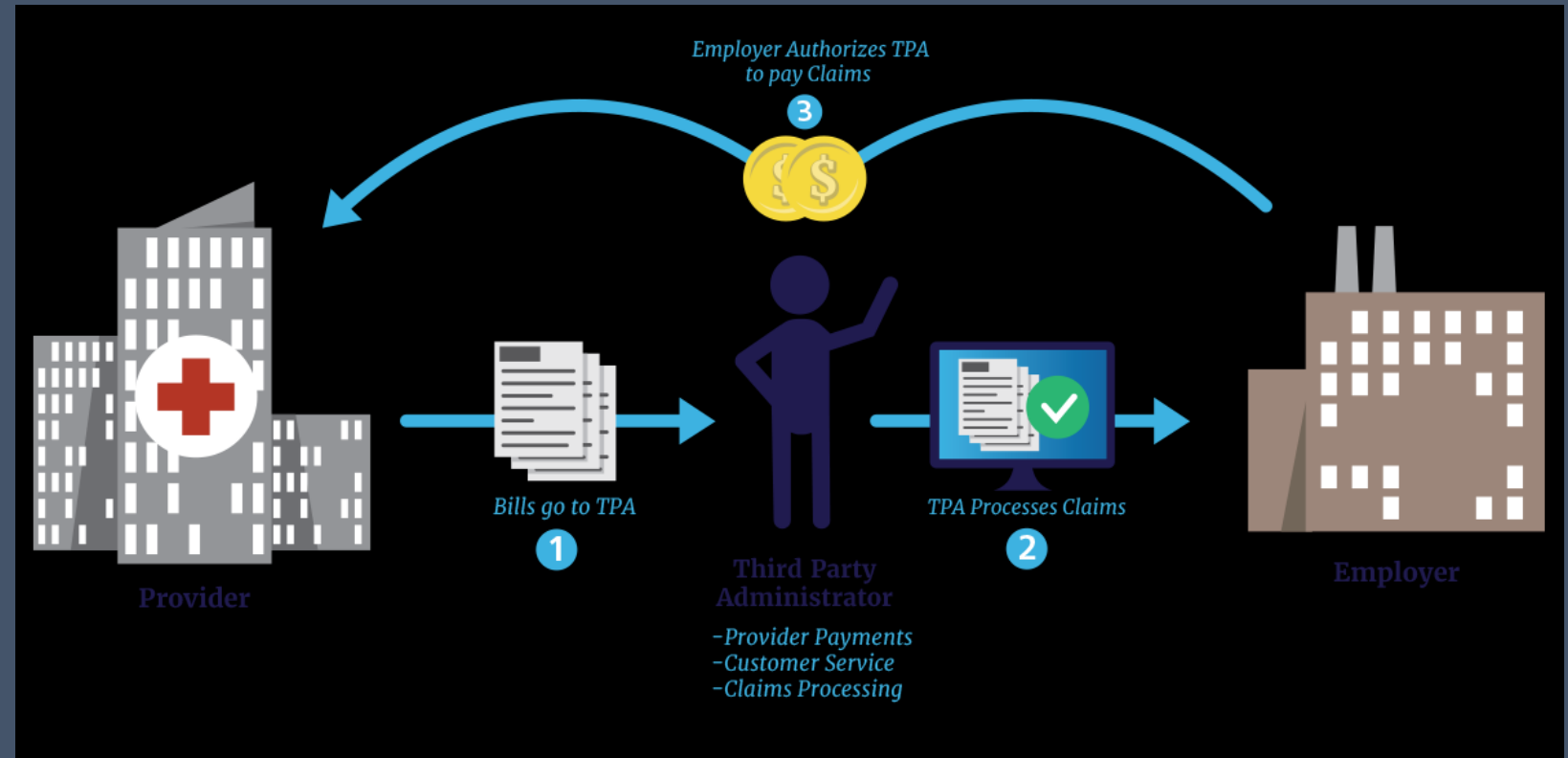
The Influential Extremes

	Dollars Spent (%)	Population (%)
Dental	70%	30%
Medical	80%	20%
Rx	90%	10%
Disability	100%	5%
Workers Compensation	100%	3%
Safety	100%	1%

- When you analyze data, do NOT look at average.
- Look at the median (more statistically sound).
- Influential extremes skew the average

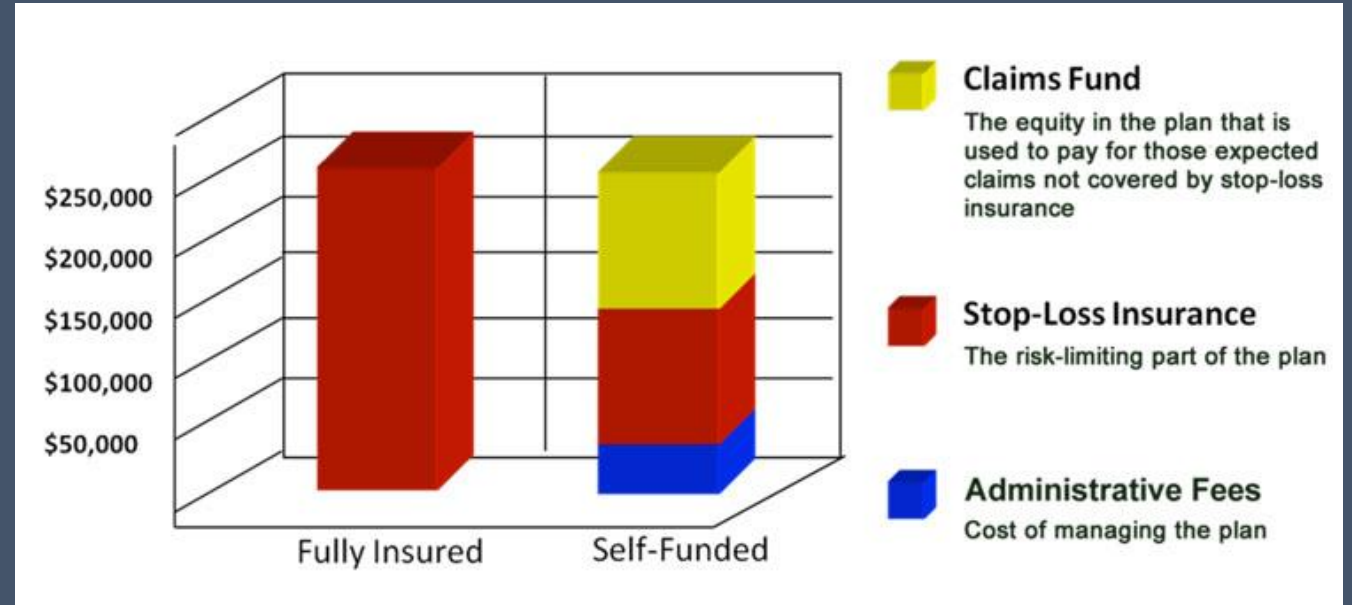
Options for your plan – Self Funded or Partially Self Funded

- Self-Funded
 - No protection against catastrophic claims
- Partially Self-Funded (Stop loss or reinsurance)
 - Offers flexibility but protection against large claimants



Options for Your Plan continued

- Participate in a pool (TMLIEBP or captive)
 - Offers pooling of risk for smaller municipalities that are not able to self-fund on their own
- Fully insured
 - Typically used by small organizations
 - Don't rule out if you are large; this may be more beneficial if you have a large population of catastrophic claimants.



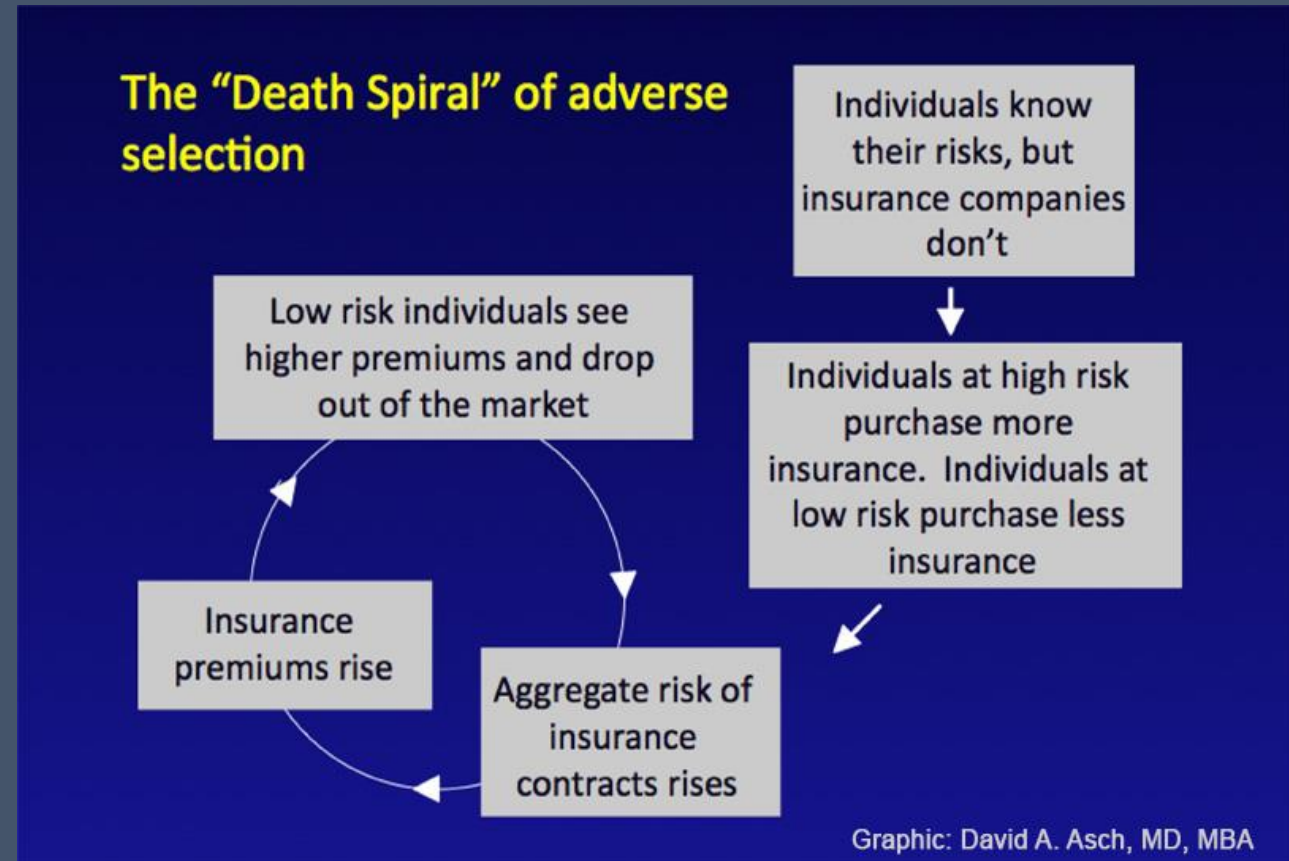
Determine Your Percent that is Waiving Coverage... And Why?

- Goal should be to have 90% or so enrolled
- Reasons people waive
 - On spouse's insurance
 - Parent's plan
 - Uninsured
 - Exchange
 - Tricare



If you offer more than one plan, consider the following....

- You are inviting adverse selection
- Your best risk makes decisions on premiums
- Your worst risk makes decisions on deductible, out of pocket
- 100% of your best risk will pick the plan with the lower premium
 - Make sure you have designed your other plans accordingly since all of your bad risk will flock to these



The impact of raising a deductible...

- You will see an increase in:
 - Workers compensation claims
 - Disability
 - Accidents/safety



Outcomes Based Wellness

- Outcomes based wellness allows member to achieve “incentive” by achieving certain biometric outcomes.
- For the influential extremes, one of three things will happen:
 - Modify behavior
 - Collect more in premiums
 - Choose another plan
- Must include spouses



Best Accounting Practices



Accounting Practices

- Use Internal Service fund for Active benefits; Fiduciary Fund for OPEB
- Ensure you are tracking in sufficient detail to have meaningful data
 - Track various claims separately in general ledger
 - Medical, Rx, Rebates, Dental, etc.
 - Ensure you are tracking retiree costs separately from active in general ledger (different funds or cost centers)
 - Push back on your carrier/TPA to show you how to get this if they say they cannot provide
- Track administrative fees across these separately
 - EAP, FSA, Medical, Dental, etc.
- Look at the costs by area to determine what is driving your cost (dental, COBRA, retiree, etc.)

Accounting Practices – Breakdown of Expenses Example

City of Plano
Health Claims Fund Dashboard
 September 30, 2018

Employee Medical (incl Rx)

	FY'17	FY'18
Admin Fees & Expenses		
Medical Fees	(1,007,922)	(1,040,122)
Dental Fees	-	-
Behavioral Health Fees	(57,187)	(58,813)
FSA	(37,290)	(37,091)
Shared Savings	(279,541)	(298,641)
Affordable Care Act	(108,052)	(9,028)
Other	(240,669)	(233,897)
Wellness	(84,891)	(15,387)
Biometric Screenings	(48,828)	(77,120)
Firefighter Physicals	-	(212,607)
Consulting	(144,376)	(161,756)
	<u>(2,008,756)</u>	<u>(2,144,463)</u>
Stop Loss		
Premiums	(1,584,133)	(1,757,998)
Reimbursements	1,209,196	802,675
	<u>(374,937)</u>	<u>(955,323)</u>

Accounting Practices – Breakdown by Area

City of Plano
Health Claims Fund Dashboard
 September 30, 2018

	Employee Medical (incl Rx)		Employee Dental		Cobra		Total			
	FY'17	FY'18	FY'17	FY'18	FY'17	FY'18	FY'17	FY'18	\$ Change	% Change
Revenues										
Contributions	28,189,106	28,795,924	1,865,235	1,917,951	34,910	45,431	30,089,251	30,759,306	670,055	2.23%
Investment Income							141,178	240,433	99,255	70.31%
Total Revenues							30,230,428	30,999,739	769,310	2.54%
Expenses										
Claims										
Medical	(20,780,758)	(20,846,967)	-	-	(26,999)	(5,925)	(20,807,757)	(20,852,892)	(45,135)	0.22%
Dental	-	-	(1,882,879)	(1,991,271)	(11,757)	(12,127)	(1,894,636)	(2,003,398)	(108,762)	5.74%
	(20,780,758)	(20,846,967)	(1,882,879)	(1,991,271)	(38,755)	(18,052)	(22,702,393)	(22,856,290)	(153,897)	0.68%
Net Rx Claims	(4,440,350)	(4,837,180)	-	-	(2,588)	(5,715)	(4,442,939)	(4,842,895)	(399,956)	9.00%
Total Claims	(25,221,109)	(25,684,147)	(1,882,879)	(1,991,271)	(41,344)	(23,767)	(27,145,331)	(27,699,185)	(553,853)	2.04%
Admin Fees & Expense	(2,008,756)	(2,144,463)	(92,755)	(95,482)	(2,862)	(3,060)	(2,104,373)	(2,243,005)	(138,631)	6.59%
Stop Loss, Net	(374,937)	(955,323)	-	-	(2,874)	(3,729)	(377,812)	(959,052)	(581,241)	153.84%
Total Expenses	(27,604,802)	(28,783,933)	(1,975,634)	(2,086,753)	(47,080)	(30,555)	(29,627,516)	(30,901,241)	(1,273,725)	4.30%
Other Transfers Out							9,453	(38,470)	(47,924)	
Net Increase (Decrease)	584,304	11,991	(110,400)	(168,802)	(12,170)	14,876	612,366	60,027	(552,339)	-90.20%
Fund Balance - October 1							21,283,245	21,895,611		
Fund Balance - September 30							21,895,611	21,955,638		

Ensure that all Retiree Costs are accounted for in OPEB Trust Fund

- Allocate fees associated with retirees (admin fees based upon headcount)
- Portion of consultant fees
- Life insurance
- Stop loss premiums and reimbursements
- Service credits for Medicare group plans

OPEB Trust Fund – Report Same Detail

<u>OPEB Trust Fund</u>	Total			
	FY'17	FY'18	\$ Change	% Change
Contributions				
Retiree Contributions	1,282,022	1,368,031	86,009	6.7%
Employer Contributions	5,530,675	5,045,075	(485,600)	-8.8%
Tobacco Surcharge	4,825	6,475	1,650	34.2%
	<u>6,817,522</u>	<u>6,419,581</u>	<u>(397,941)</u>	<u>-5.8%</u>
Investment Income	9,247,188	7,932,339	(1,314,850)	-14.2%
Total Revenues	<u>16,064,710</u>	<u>14,351,920</u>	<u>(1,712,791)</u>	<u>-10.7%</u>
Claims				
Medical Claims	(2,464,279)	(2,451,480)	12,799	-0.5%
Dental Claims	(146,856)	(155,786)	(8,930)	6.1%
Rx Claims	(958,809)	(900,685)	58,124	-6.1%
	<u>(3,569,944)</u>	<u>(3,507,950)</u>	<u>61,993</u>	<u>-1.7%</u>
Fees & Expenses				
Life Insurance	(24,424)	(26,086)	(1,662)	6.8%
Retiree Medical Fees	(116,659)	(122,419)	(5,760)	4.9%
Retiree Dental Fees	(10,784)	(11,194)	(410)	3.8%
Behavioral Health	(6,272)	(6,543)	(271)	4.3%
Contracts-Other	-	(8,978)	(8,978)	-
Miscellaneous	(7,016)	(477)	6,539	-93.2%
Medicare Part A Reimbursement	(3,561)	(6,654)	(3,093)	86.9%
Medicare Eligible Invoices--Post 65 Service Credits	-	(787,029)	(787,029)	-
Contracts-Professional Services	(164,881)	(337,212)	(172,330)	104.5%
	<u>(333,597)</u>	<u>(1,306,590)</u>	<u>(972,994)</u>	<u>291.7%</u>
Stop Loss				
Stop Loss Premiums	(166,772)	(207,008)	(40,236)	24.1%
Stop Loss Reimbursements	78,319	-	(78,319)	-100.0%
	<u>(88,453)</u>	<u>(207,008)</u>	<u>(118,555)</u>	<u>134.0%</u>
Total Expenses	<u>(3,991,994)</u>	<u>(5,021,549)</u>	<u>(1,029,555)</u>	<u>25.8%</u>
Net increase (decrease)	<u>12,072,717</u>	<u>9,330,371</u>	<u>(2,742,346)</u>	<u>-22.7%</u>
Fund Balance - October 1	68,443,273	80,515,990		
Fund Balance - September 30	80,515,990	89,846,361		

Does Your Accounting/Budget Team Understand the Benefits?

- If not, then it's likely that might not being reported correctly.
- Make sure your HR and Finance teams can walk through all transactions and both parties understand how they are recorded.
- Document your walkthrough of all accounts within employee benefits so that Accounting, Budget, and HR all have a full understanding of how it works
- Provide your budget analyst/accounting team an acceptable range of what the monthly charges should be for each account and to question any that fall outside of the parameters
- Walk through how this works with City Manager's Office or Oversight Committee annually as well

Best Governance Practices



Governance/Oversight

- Who approves your benefit design?
 - HR? City Manager's Office? Committee?
- Best practice – form an oversight committee
 - Key areas to include as members: HR, Finance, Budget, City Manager/Deputy CM, Legal
- Meet at least quarterly and go over financials
 - Discuss both OPEB and active financials
- Hire a consultant to help you set up your initial investment policy statement and asset allocation, even if you don't want to have a consultant in an ongoing role

Governance/Oversight – Funding Philosophy

- Determine your funding philosophy for employees and dependents
 - For example, the City of Plano's philosophy is to subsidize 90% of the cost of the premium for employees and 75% for dependents.
 - If your philosophy changes, this needs to be taken to Committee and broadly communicated so employees understand the change (vs. just an increase to premiums)
 - Changing the funding % for dependents could be a compromise in dealing with costs of spouses
 - Consider a plan design with three options:
 - Employee only
 - Employee + one
 - Family
 - The philosophy is a guidepost – you won't match these every year

Governance/Oversight - Reserves

- How many days working capital do you have in your health claims fund?
 - Should have at least 2 – 3 to cover IBNR
- Consider setting a policy for your fund balance for actives and transfer any excess into an OPEB trust

OPEB Pre-Funding: Getting Started

OPEB – also a great recruiting tool

- Set a blended rate for all members (active and retiree)
 - Most people won't retire if they don't have affordable healthcare as an option
 - By setting a separate rate for retirees, you are unintentionally keeping them at your organization longer.
 - Keeping employees in field positions impacts your overall cost – increased workers compensation, disability and accidents.
 - (These jobs are meant to have a finite shelf life.)
- For experienced positions, use your OPEB benefits as a recruiting tool. Many seasoned employees are willing to jump ship if you offer them better health coverage as a retiree.

Service Credits

- Consider whether you want to offer retirees a discount off of their retiree pre-65 rate or Medicare group plans based upon their years of service
- Cap the amount they can earn and set a minimum number of years to qualify
 - City of Plano uses 10 years minimum (\$110/month) and 30 years maximum (\$330/month)
- Ensure your actuary incorporates this into the actuarially determined contribution

Questions?

Andrea Cockrell – andreac@plano.gov