International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Report

Fiscal Year Ending 2021

November 12, 2020 / Ernie Naegele

Segal

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November 12, 2020

Board of Trustees
International Union of Operating Engineers Local 487 Health and Welfare Fund
Miami, Florida

Dear Trustees:

We are pleased to present this fiscal 2021 Health Benefits Report for the International Union of Operating Engineers Local 487 Health and Welfare Fund.

We look forward to reviewing this report with you and answering any questions you may have at the next meeting of the Board of Trustees.

Sincerely,

Segal

By:

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cc: Linda DuVall
Kathleen Phillips
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Financial Experience and Budget Projections

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The projections in this report are estimates of future costs and are based on information available to Segal at the time the projections were made. Segal has not audited the information provided. Projections are not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, trend rates, and claims volatility. The accuracy and reliability of projections decrease as the projection period increases.

The Fund Assets do not take into account the cost of paying for benefits which are based on the participants' accumulated eligibility under the Fund's extended eligibility rules.

Projection of retiree costs takes into account only the dollar value of providing benefits for retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled or terminated employees during a period other than that which is referred to in the projection.

The Coronavirus (COVID-19) pandemic is rapidly evolving and will likely impact the 2020 US economy and health plan claims projections for most Health Plan Sponsors. As a result, projections of near-term income and claim expenses could be significantly altered by emerging events. At this point, it is unclear what the income and cost impact will be for Health Plan Sponsors. Segal is working to develop plan cost adjustment factors and reports to apply to both short-term and long-term financial projections. However, unless specifically noted, this current report does not include any adjustments such as changes in eligibility, income, increases in healthcare costs or decreased investment returns. Additionally, the potential for federal or state fiscal relief is also not contemplated in these budget projections. Given the high level of uncertainty and fluidity of the current events, some plans may seek periodic updated estimates throughout the year to closely monitor health plan budget projections this year. Additional projections may be out of scope.

Financial Experience and Budget Projections

Key Findings & Recommendations

- **Our financial projections predict that the IUOE 487 Health and Welfare Fund does not have sufficient Fund assets and income to meet its current contractual claim and expense obligations during the projection period. Based on current income and expense calculations and Segal standard forecasting assumptions, the Fund will have insufficient income and assets to meet current obligations early in the year beginning April 1, 2021. This does not reflect accumulated eligibility obligations for active participants. Unless new sources of income or dramatic reductions in expenses are secured, the plan will become vulnerable to adverse economic conditions and possible insolvency.**

- Three complete years of historical Fund operations together with three years of projections are presented in this report. Operations for the 2018 – 2019 fiscal years are based on the audited financial statements, and the 2020 fiscal year is based on unaudited financial statements. The 2021 fiscal year is based on unaudited financial statements through September 2020, with projections through the end of the fiscal year.

- For fiscal year (FY) 2021, an operating deficit of $1.78M is projected. The net assets of the Fund are estimated to reduce to $31,000 by March 31, 2021.

- The number of active employees eligible to enroll for medical coverage decreased from 627 in FY 2020 to an average of 604 for April through September 2020. COBRA and self-pay participants increased from 5 in FY 2020 to an average of 9 for April through September 2020, and retirees decreased from 1 in FY 2020 to 0 in FY 2021.

- The enrollment assumptions used to project expenses and income during fiscal 2021 – 2023 are shown on page 4 of this report. The projected enrollments for Actives, COBRA, Self-Pay, and Retirees are based on a review of Fund Office eligibility reports through September 2020. The projections starting in October 2020 assume 627 actives enrolled per month.

- Contribution rate increases during the year resulted in an increase in the average contribution rate from $4.71 (FY 2020) to $6.06 (FY 2021). The current contribution rate is $6.30. This is the basis for the budget projections shown in this report.

Financial Experience and Budget Projections

Key Findings & Recommendations

- The projected average monthly employment for FY 2021 is based on the actual average of 175 hours per eligible employee for April 2020 – September 2020, then returning to pre-covid level of 200 hours starting in October 2020. For FY 2022 and FY 2023, we assume an average monthly employment level of 200 hours; however, alternate projections reflecting employment levels of 188 and 174 hours are also shown on page 7 of this report.

- UnitedHealthcare premium projections are based on the current rates remaining in effect through March 31, 2021, based on guidance from the broker. Effective April 1, 2021, we have assumed a 7.9% average increase in premium based on standard trend factors; however, actual increases will be subject to negotiation.

- The current monthly Life rate is $14.90 (for active, self-pay/COBRA and retired employees) and the AD&D Rate is $0.60 (for active employees only). These rates became effective August 1, 2019 and will be in effect through July 31, 2021. Budget projections assume rates will not change; however, future rates are subject to negotiation and Trustee approval.

- Other assumptions are detailed on page 4 of this report.

- Targeted reserves do not reflect the audited obligation as of March 31, 2019 for accumulated eligibility for active participants ($2,284,997) and for future retiree coverage ($3,529,572).

- Targeted reserve levels shown in this report reflect economic reserves estimated based on 50% of annual expenses. We set forth these reserve levels in an effort to promote a reserve policy discussion among the Board of Trustees. Reserve levels may be adjusted according to the Board policy.

Financial Experience and Budget Projections

Summary

	Historical Results			Projections		
12 Months Ending	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Average Number of Active Employees	602	612	627	615	627	627
Average Contribution Hours per Month	209	221	204	187	200	200
Aggregate Hours	1,510,022	1,621,003	1,535,618	1,380,060	1,504,800	1,504,800
Average Contribution Rate Per Hour	$4.25	$4.28	$4.71	$6.06	$6.30	$6.30
Total Income	$6,584,690	$7,088,902	$7,353,056	$7,944,549	$9,560,740	$9,567,040
Total Expenses	$7,190,805	$8,170,013	$9,627,343	$9,725,900	$10,744,400	$11,569,800
Average Income Per Active Per Month	$911.50	$965.27	$977.28	$1,076.50	$1,270.70	$1,271.54
Average Expenses Per Active Per Month	$995.41	$1,112.48	$1,279.55	$1,317.87	$1,428.02	$1,537.72
Breakeven Contribution Rate	$4.65	$4.95	$6.19	$6.99	$7.09	$7.63
Fund Assets	$5,131,464	$4,028,805	$1,812,182	$30,832	$(1,152,828)	$(3,155,588)
Ratio of Net Assets to Targeted Reserves	142.7%	98.6%	37.6%	0.6%	0.0%	0.0%
Continuation Value (Months)	7.5	5.0	2.2	0.0	0.0	0.0

Financial Experience and Budget Projections

Assumptions

Projections assume that all active members eligible to enroll will enroll for medical benefits.

Alternate employment assumptions are shown on page 7.

12 Months Ending	Mar-21	Mar-22	Mar-23
Average Number of Actives			
Active-Eligible to Enroll	615	627	627
COBRA/Self-Pay	9	9	9
Retirees (Medical Only)	0	0	0
Total	624	636	636
Average Contribution Hours per Month:			
Active-Eligible to Enroll	187	200	200
Aggregate Hours	1,380,060	1,504,800	1,504,800
Average Contribution Rate			
Active-Eligible to Enroll (Per Hour)	$6.06	$6.30	$6.30
Trend Factors			
Medical/Dental/Vision Premium	Renewal	7.9%	7.9%
Life/AD&D Premium	Renewal	0.0%	0.0%
Operating Costs	3.0%	3.0%	3.0%
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%

Financial Experience and Budget Projections

Aggregate

The projection assumes that ACA fees are included in the medical premium rates.

Life and AD&D premium projections assume 627 members covered for life and AD&D and 144 members covered for life only.

	Historical Results			Projections		
12 Months Ending	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Income						
Employer Contributions	$6,417,593	$6,937,893	$7,233,627	$7,870,449	$9,480,240	$9,480,240
Self-Pay Contributions	69,659	57,187	66,922	74,100	80,500	86,800
Other Income	0	0	7,840	0	0	0
Investment Income	97,438	93,822	44,668	0	0	0
Total Income	**$6,584,690**	**$7,088,902**	**$7,353,056**	**$7,944,549**	**$9,560,740**	**$9,567,040**
Expenses						
Medical/Dental/Vision Premium	$6,827,478	$7,825,403	$9,260,073	$9,387,800	$10,399,500	$11,218,800
Life/AD&D Premium	153,414	154,633	148,860	141,500	142,400	142,400
Operating Costs	209,913	189,977	218,409	196,600	202,500	208,600
Total Expenses	**$7,190,805**	**$8,170,013**	**$9,627,343**	**$9,725,900**	**$10,744,400**	**$11,569,800**
Operating Deficit	**($606,115)**	**($1,081,111)**	**($2,274,286)**	**($1,781,351)**	**($1,183,660)**	**($2,002,760)**
Gains (Losses) on Investments	111,916	(21,548)	57,664			
Total Reduction to Fund Assets	**($494,199)**	**($1,102,659)**	**($2,216,623)**	**($1,781,351)**	**($1,183,660)**	**($2,002,760)**
Beginning Fund Assets	**$5,625,663**	**$5,131,464**	**$4,028,805**	**$1,812,182**	**$30,832**	**($1,152,828)**
Ending Fund Assets	**$5,131,464**	**$4,028,805**	**$1,812,182**	**$30,832**	**($1,152,828)**	**($3,155,588)**
Breakeven Contribution Rate	**$4.65**	**$4.95**	**$6.19**	**$6.99**	**$7.09**	**$7.63**
Average Contribution Rate	**$4.25**	**$4.28**	**$4.71**	**$6.06**	**$6.30**	**$6.30**

Financial Experience and Budget Projections

Per Active Per Month

This exhibit reflects total income and expenses for all participants (active, COBRA members and retirees) divided by only the number of active employees (*i.e.*, COBRA members and retirees are not included in the average number of actives shown on this page).

	Historical Results			Projections		
12 Months Ending	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Income						
Employer Contributions	$888.37	$944.70	$961.41	$1,066.46	$1,260.00	$1,260.00
Self-Pay Contributions	9.64	7.79	8.89	10.04	10.70	11.54
Other Income	0.00	0.00	1.04	0.00	0.00	0.00
Investment Income	13.49	12.78	5.94	0.00	0.00	0.00
Total Income	**$911.50**	**$965.27**	**$977.28**	**$1,076.50**	**$1,270.70**	**$1,271.54**
Expenses						
Medical/Dental/Vision Premium	$945.11	$1,065.55	$1,230.74	$1,272.06	$1,382.18	$1,491.07
Life/AD&D Premium	21.24	21.06	19.78	19.17	18.93	18.93
Operating Costs	29.06	25.87	29.03	26.64	26.91	27.72
Total Expenses	**$995.41**	**$1,112.48**	**$1,279.55**	**$1,317.87**	**$1,428.02**	**$1,537.72**
Operating Deficit	**($83.91)**	**($147.21)**	**($302.27)**	**($241.37)**	**($157.32)**	**($266.18)**
Gains (Losses) on Investments	15.49	(2.93)	7.66			
Total Reduction to Fund Assets	**($68.42)**	**($150.14)**	**($294.61)**	**($241.37)**	**($157.32)**	**($266.18)**
Average Number of Actives	**602**	**612**	**627**	**615**	**627**	**627**
Breakeven Contribution Rate	**$4.65**	**$4.95**	**$6.19**	**$6.99**	**$7.09**	**$7.63**
Average Contribution Rate	**$4.25**	**$4.28**	**$4.71**	**$6.06**	**$6.30**	**$6.30**

Financial Experience and Budget Projections

Variations In Hours Assumptions

Note that these changes in hours would likely trigger increases or decreases in the number of insured and total expenses, which is reflected here, but the impact could be more or less significant. This estimation is a simple sensitivity test on the impact to income from a change in hours.

Given the current economic and industry outlook, we look to the Trustees for guidance on making the appropriate work-level assumption.

12 Months Ending	Mar-21	Mar-22	Mar-23
Current Assumptions			
Average Monthly Hours	187.0	200.0	200.0
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%
Total Actives	615	627	627
Ending Fund Assets	$30,832	($1,152,828)	($3,155,588)
Continuation Value (Months)	0.0	0.0	0.0
Breakeven Contribution Rate	$6.99	$7.09	$7.63
Alternate Assumption 1			
Average Monthly Hours	181.0	187.0	187.0
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%
Total Actives	605	604	604
Ending Fund Assets	($79,818)	($1,486,718)	($3,682,518)
Continuation Value (Months)	(0.1)	(1.6)	(3.5)
Breakeven Contribution Rate	$7.23	$7.58	$8.16
Alternate Assumption 2			
Average Monthly Hours	174.00	174.00	174.00
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%
Total Actives	594	580	580
Ending Fund Assets	($219,318)	($1,832,218)	($4,202,518)
Continuation Value (Months)	(0.3)	(2.1)	(4.0)
Breakeven Contribution Rate	$7.52	$8.14	$8.77
Average Contribution Rate Per Hour	$6.06	$6.30	$6.30

Observations:

- The Current Assumption represents actual enrollment and hours through September 2020, then assumes enrollment and hours at pre-covid levels for the remainder of the year and thereafter. The pre-covid levels are assumed to be the average of 200 hours and active enrollment of 627 for the year ending March 31, 2020.
- Alternate Assumption 1 represents a decrease in hours and enrollment from the Current Assumptions.
- Alternate Assumption 2 represents continuation of the average hours worked for April 2020 – September 2020 of 174 hours per active, and enrollment declining to 580 actives.

Financial Experience and Budget Projections

Fund Asset Position

12 Months Ending	Historical Results Mar-18	Mar-19	Mar-20	Projections Mar-21	Mar-22	Mar-23
Fund Assets as of Period End	$5,131,464	$4,028,805	$1,812,182	$30,832	$(1,152,828)	$(3,155,588)
Auditor's Statement of Fund Assets	$5,131,464	$4,028,805				

Targeted Reserves

12 Months Ending	Historical Results Mar-18	Mar-19	Mar-20	Projections Mar-21	Mar-22	Mar-23
Economic	3,595,400	4,085,000	4,813,700	4,863,000	5,372,200	5,784,900
Total Targeted Reserves	$3,595,400	$4,085,000	$4,813,700	$4,863,000	$5,372,200	$5,784,900

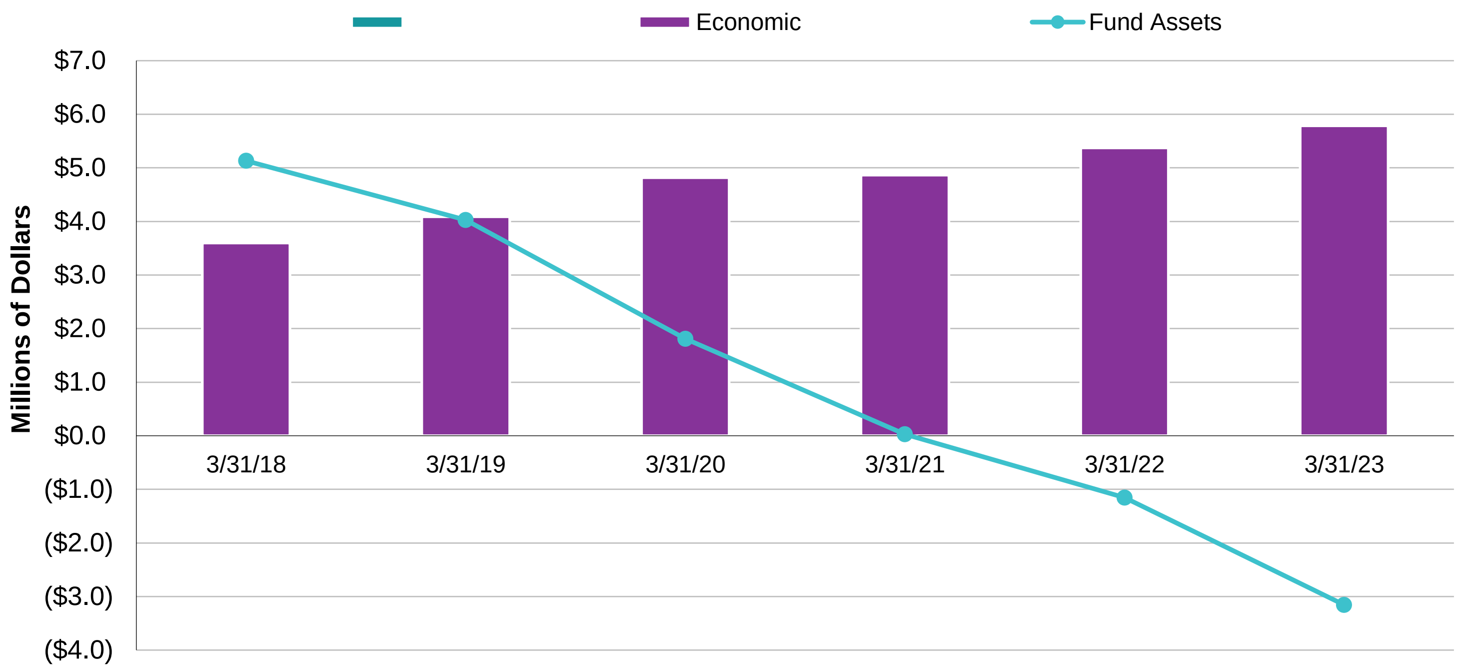
Economic Reserve

Purpose: Amount set aside to preserve financial solvency during a prolonged, adverse economic situation.

Financial Experience and Budget Projections

Fund Asset Position And Targeted Reserves Graph

	Historical Results			Projections		
12 Months Ending	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Ratio of Fund Assets to Targeted Reserves	142.7%	98.6%	37.6%	0.6%	-21.5%	-54.5%
Ratio of Fund Assets to Next Year's Expenses	62.8%	41.8%	18.6%	0.3%	-10.0%	-25.3%
Continuation Value (Months)	7.5	5.0	2.2	0.0	0.0	0.0



Financial Experience and Budget Projections

Definition Of Key Terms

Accumulated Eligibility Credits Reserve – Amount needed to cover eligibility earned by active members but not yet provided as of the end of the period, commonly due to the lag between hours worked and eligibility for benefits.

Breakeven Contribution Rate – The income needed to cover benefit expenses, net of participant contributions and investment income. It does not include the amount needed to maintain or achieve targeted reserves.

Claims Fluctuation Reserve – Amount set aside to cover the possibility of actual benefit payments exceeding projected claims, commonly due to variations in large claims, claims trend patterns, legislative changes, and other factors.

Continuation – Fund Assets divided by the following year Benefit Expenses times 12 months. A measure of reserve strength.

Economic Reserve – Amount set aside to preserve financial solvency during a prolonged, adverse economic situation.

Incurred But Not Reported Claims – Reserve needed to cover claims that are known but not yet paid (pending), as well as unknown claims that have been incurred but not yet submitted (unrevealed), as of the end of the period.

Investment Income – Amount of interest from fixed income securities and dividends from equities. This does not include other realized or unrealized gains or losses on investments.

A realized gain or loss is the difference between the proceeds from the sale of an asset and the cost of acquiring the asset. An unrealized gain or loss is the difference between the market value of an asset that is still being held and the cost of acquiring the asset.

Margin – A recommended amount added to the breakeven contribution rate to cover future fluctuations in expenses.

Operating Surplus / (Deficit) – Income less expenses, not including impact of unpredictable items such as realized or unrealized gains or losses on investments.

Fund Assets – Net assets available for benefits, less Incurred But Not Reported Claims reserves.

Targeted Reserves Minimum desired level of Fund Assets, generally including Accumulated Eligibility Credit Reserves, Claims Fluctuation Reserves, Economic Reserves, and other reserves as determined by Trustee policy.

Trend Factors – Expected future increases in benefit and other expenses, expressed as a percentage of the prior year's expense. For insurance premiums and vendor fees, trend is the projected or estimated increases in rates or fees.

For self-insured benefit expenses, trend is the projected change in per capita claims costs and is influenced by price inflation, utilization changes, the leveraging impact of fixed deductibles and copayments, legislative changes and advances in health care technology.