International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Report

Fiscal Year Ending 2021

February 4, 2021 / Ernie Naegele

Segal

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February 4, 2021

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. However, if there are any questions that need to be addressed prior to the meeting, please do not hesitate to contact us.

Sincerely,

Segal

By:

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cc: Linda DuVall
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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 fiscal year ending (FYE) 2023. 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 remain 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, and 2020 fiscal years are based on the audited financial statements. The 2021 fiscal year is based on unaudited financial statements through November 2020, with projections through the end of the fiscal year.

- Loans from the Local Union totaling $1,500,000 have been included in this report as an addition to Fund Assets in the fiscal year ending (FYE) March 31, 2021. Repayment is not addressed in these projections.

- For fiscal year ending (FYE) 2021, an operating deficit of $2.05 million is projected. The net assets of the Fund are estimated to be $1.31 million on March 31, 2021. This calculation of assets includes credit for receipt of the $1,500,000 loan, but has not been reduced to acknowledge the amount owed to the Local Union.

- The number of active employees eligible to enroll for medical coverage decreased from 627 in FYE 2020 to an average of 589 for April through December 2020. COBRA and self-pay participants increased from 5 in FYE 2020 to an average of 9 for April through December 2020, and retirees decreased from 1 in FYE 2020 to 0 in FYE 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 December 2020. The projections starting in January 2021 assume 549 actives enrolled per month.

- Contribution rate increases during 2020 resulted in an increase in the average contribution rate from $4.71 (FYE 2020) to $6.06 (FYE 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 FYE 2021 is based on the actual average of 176 hours per eligible employee for April 2020 – October 2020, and assumes the same level starting in November 2020 and through FYE 2022 and FYE 2023. Alternate projections reflecting employment levels of 200 and 160 hours are also shown on page 7 of this report.

- Effective January 1, 2021, medical and prescription drug benefits were reduced. UnitedHealthcare premium projections are based on the reduced rates for January 1, 2021 - March 31, 2021 and the renewal rates effective April 1, 2021 – March 31, 2022. Effective April 1, 2022, we have assumed an 8.0% average increase in premium based on standard trend factors; however, actual increases will be subject to negotiation.

- Dental premium rates are guaranteed through March 31, 2022, and Vision premium rates are guaranteed through March 31, 2023. We assume dental premium increases by 3% effective April 1, 2022.

- 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, 2020 for accumulated eligibility for active participants ($2,324,966) and for future retiree coverage ($3,080,957). Targeted reserves also do not include the loans from the Local Union ($1,500,000).

- 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

12 Months Ending	Historical Results Mar-18	Mar-19	Mar-20	Projections Mar-21	Mar-22	Mar-23
Average Number of Active Employees	602	612	627	579	549	549
Average Contribution Hours per Month	209	221	206	176	176	176
Aggregate Hours	1,510,022	1,621,003	1,546,976	1,222,848	1,159,488	1,159,488
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	$7,391,354	$6,831,643	$7,370,174	$7,375,174
Total Expenses	$7,190,805	$8,170,013	$9,617,627	$8,886,000	$8,186,000	$8,807,400
Average Income Per Active Per Month	$911.50	$965.27	$982.37	$983.25	$1,118.73	$1,119.49
Average Expenses Per Active Per Month	$995.41	$1,112.48	$1,278.26	$1,278.93	$1,242.56	$1,336.88
Breakeven Contribution Rate	$4.65	$4.95	$6.15	$7.20	$7.00	$7.54
Breakeven Contribution Rate with Margin				$7.20	$7.00	$7.54
Fund Assets	$5,131,464	$4,028,805	$1,860,195	$1,305,838	$490,013	$(942,213)
Ratio of Net Assets to Targeted Reserves	142.7%	98.6%	38.7%	29.4%	12.0%	0.0%
Continuation Value (Months)	7.5	5.0	2.5	1.9	0.7	0.0

Segal

Financial Experience and Budget Projections

Assumptions

Alternate employment assumptions are shown on page 7.

Life and AD&D premium projections assume 549 members covered for life and AD&D and 162 members covered for life only.

12 Months Ending	Mar-21	Mar-22	Mar-23
Average Number of Actives			
Active - Eligible to Enroll	579	549	549
COBRA/Self-Pay	9	8	8
Retirees (Medical Only)	0	0	0
Total	588	557	557
Average Contribution Hours per Month:			
Active - Eligible to Enroll	176.00	176.00	176.00
Aggregate Hours	1,222,848	1,159,488	1,159,488
Average Contribution Rate			
Active - Eligible to Enroll (Per Hour)	$6.06	$6.30	$6.30
Trend Factors			
Medical/Dental/Vision Premium	Actual	Renewal	7.85%
Life/AD&D Premium	Actual	0.00%	0.00%
Operating Costs	Actual	3.00%	3.00%
Investment Yield	0.00%	0.00%	0.00%
Rate of Return	0.00%	0.00%	0.00%

Financial Experience and Budget Projections

Aggregate

Effective 1/1/2021, medical and prescription drug premium decreased 14.0% as benefits were reduced. The renewal effective 4/1/2021 includes a 6.6% increase in premium.

	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	$7,287,128	$6,747,643	$7,304,774	$7,304,774
Self-Pay Contributions	69,659	57,187	64,465	70,300	65,400	70,400
Other Income	0	0	0	13,700	0	0
Investment Income	97,438	93,822	39,761	0	0	0
Total Income	**$6,584,690**	**$7,088,902**	**$7,391,354**	**$6,831,643**	**$7,370,174**	**$7,375,174**
Expenses						
Medical/Dental/Vision Premium	$6,827,478	$7,825,403	$9,260,073	$8,533,100	$7,832,700	$8,447,400
Life/AD&D Premium	153,414	154,633	148,860	137,200	131,100	131,100
Operating Costs	209,913	189,977	208,694	215,700	222,200	228,900
Total Expenses	**$7,190,805**	**$8,170,013**	**$9,617,627**	**$8,886,000**	**$8,186,000**	**$8,807,400**
Operating Deficit	**($606,115)**	**($1,081,111)**	**($2,226,273)**	**($2,054,357)**	**($815,826)**	**($1,432,226)**
Loan from Local Union	0	0	0	1,500,000		
Gains (Losses) on Investments	111,916	(21,548)	57,663			
Total Reduction to Fund Assets	**($494,199)**	**($1,102,659)**	**($2,168,610)**	**($554,357)**	**($815,826)**	**($1,432,226)**
Beginning Fund Assets	**$5,625,663**	**$5,131,464**	**$4,028,805**	**$1,860,195**	**$1,305,838**	**$490,013**
Ending Fund Assets	**$5,131,464**	**$4,028,805**	**$1,860,195**	**$1,305,838**	**$490,013**	**($942,213)**
Breakeven Contribution Rate	**$4.65**	**$4.95**	**$6.15**	**$7.20**	**$7.00**	**$7.54**
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	$968.52	$971.16	$1,108.80	$1,108.80
Self-Pay Contributions	9.64	7.79	8.57	10.12	9.93	10.69
Other Income	0.00	0.00	0.00	1.97	0.00	0.00
Investment Income	13.49	12.78	5.28	0.00	0.00	0.00
Total Income	**$911.50**	**$965.27**	**$982.37**	**$983.25**	**$1,118.73**	**$1,119.49**
Expenses						
Medical/Dental/Vision Premium	$945.11	$1,065.55	$1,230.74	$1,228.14	$1,188.93	$1,282.24
Life/AD&D Premium	21.24	21.06	19.78	19.75	19.90	19.90
Operating Costs	29.06	25.87	27.74	31.04	33.73	34.74
Total Expenses	**$995.41**	**$1,112.48**	**$1,278.26**	**$1,278.93**	**$1,242.56**	**$1,336.88**
Operating Deficit	**($83.91)**	**($147.21)**	**($295.89)**	**($295.68)**	**($123.83)**	**($217.39)**
Loan from Local Union	0.00	0.00	0.00	215.89		
Gains (Losses) on Investments	15.49	(2.93)	7.66			
Total Reduction to Fund Assets	**($68.42)**	**($150.14)**	**($288.23)**	**($79.79)**	**($123.83)**	**($217.39)**
Average Number of Actives	**602**	**612**	**627**	**579**	**549**	**549**
Breakeven Contribution Rate	**$4.65**	**$4.95**	**$6.15**	**$7.20**	**$7.00**	**$7.54**
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	176.0	176.0	176.0
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%
Total Actives	579	549	549
Ending Fund Assets	$1,305,838	$490,013	($942,213)
Continuation Value (Months)	1.9	0.7	0.0
Breakeven Contribution Rate	$7.20	$7.00	$7.54
Alternate Assumption 1			
Average Monthly Hours	176.0	200.0	200.0
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%
Total Actives	579	623	623
Ending Fund Assets	$1,305,795	$382,795	($1,240,405)
Continuation Value (Months)	1.7	0.5	(1.6)
Breakeven Contribution Rate	$7.20	$6.17	$6.64
Alternate Assumption 2			
Average Monthly Hours	176.00	160.00	160.00
Investment Yield	0.0%	0.0%	0.0%
Rate of Return	0.0%	0.0%	0.0%
Total Actives	579	500	500
Ending Fund Assets	$1,305,795	$556,495	($753,805)
Continuation Value (Months)	2.1	0.8	(1.0)
Breakeven Contribution Rate	$7.20	$7.70	$8.28
Average Contribution Rate Per Hour	$6.06	$6.30	$6.30

Observations:

- The Current Assumption blends actual and projected levels of enrollment and hours. Actual enrollment is known through December 2020 and actual hours are known through October 2020. Projected enrollment assumes the December 2020 level of 549 actives. Projected hours are based on the average monthly level of 176 hours for April 2020 – October 2020.
- Beginning in April 2021, Alternate Assumption 1 represents the pre-covid level of hours: 200 hours per active based on the average during the year ending March 2020.
- Beginning in April 2021, Alternate Assumption 2 represents a lower level of hours: 160 hours per active, based on the lowest monthly level experienced in 2020 (through October).
- Enrollment levels align to the hours assumptions.

Financial Experience and Budget Projections

Fund Asset Position

	Historical Results			Projections		
12 Months Ending	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Fund Assets as of Period End	$5,131,464	$4,028,805	$1,860,195	$1,305,838	$490,013	$(942,213)
Auditor's Statement of Fund Assets	$5,131,464	$4,028,805	$1,860,195			

Targeted Reserves

	Historical Results			Projections		
12 Months Ending	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**	**Mar-22**	**Mar-23**
Economic	$3,595,400	$4,085,000	$4,808,800	$4,443,000	$4,093,000	$4,403,700
Total Targeted Reserves	$3,595,400	$4,085,000	$4,808,800	$4,443,000	$4,093,000	$4,403,700

* Targeted reserves do not reflect an allowance for accumulated eligibility for active participants.

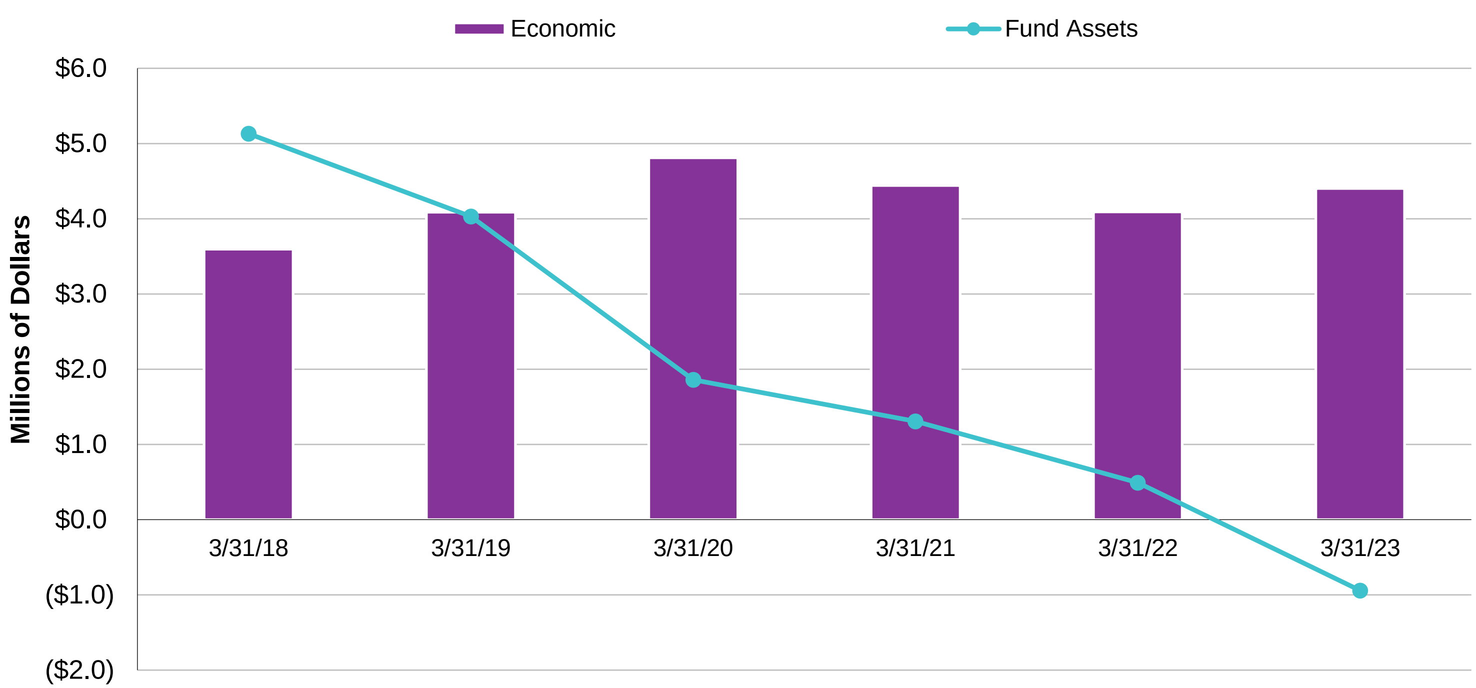
Economic Reserve

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%	38.7%	29.4%	12.0%	-21.4%
Ratio of Fund Assets to Next Year's Expenses	62.8%	41.9%	20.9%	16.0%	5.6%	-9.9%
Continuation Value (Months)	7.5	5.0	2.5	1.9	0.7	0.0



Financial Experience and Budget Projections

Key Links

Segal's Website	Explore Segal's website to learn about recent news, upcoming events, articles, presentations, webinars and hot topics. You may also access specific items of interest via the links below.
Health & Welfare Benefits	This page details the range of services we provide to our health clients as well as an overview of our general consulting perspective to multiemployer funds.
Our Services	This page details the range of services we provide beyond Healthcare including Retirement Benefits, Compliance, Communications, Administration and Technology, Investment Solutions, and Insurance Brokerage Services.
Insights	These periodic publications highlights Segal's expertise and insights on plan design, communications, administration, technology and insurance.
Compliance Consulting	Publication that cover new and proposed compliance requirements, including accounting standards and summaries of key judicial decisions.
Reports & Surveys	These periodic publications report findings of surveys and studies and other statistics of interest to multiemployer plan sponsors.
TRENDS	*TRENDS* is a quarterly one-page snapshot of important activity in the health plan environment. It includes current and recent graphs of health care inflation and utilization, summaries of hot topics, and descriptions of plan sponsor solutions to current challenges.
Retirement Benefits	Publications which cover developments of interest to sponsors of multiemployer retirement plans.
2020 Reporting & Disclosure Calendar for Multiemployer Plans	This annual publication summarizes compliance requirements and key dates for multiemployer plans. This publication is available in three versions (interactive, PDF, and Print).

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 Value – 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.