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MEMORANDUM

To: Board of Trustees
Bakers and FELRA Health and Welfare Fund

From: Robert J. Logue

Date: September 13, 2013

Re: Budget Projections

This memorandum and the attached exhibits will summarize Segal's analysis of the Fund's current financial status and projections through calendar year 2014. We want to thank Associated Administrators for their valuable assistance in providing the data needed to do this analysis.

New Contribution Rates

We understand that the current hourly employer contribution rates were replaced with monthly contribution rates effective August 2013 as shown below. Per the Memorandum of Agreement, employee contribution rates are to be determined and will be handled via payroll deduction. The MOA states an employee rate only for Plan 1 Part-Time Family.

	Employer Contribution	Employee Contribution	Number of Participants
Plan 1 Full Time	$844.00	TBD	296
Plan 1 Part Time - Single	$470.00	TBD	51
Plan 1 Part Time - Family	$848.00	$212.00	81
Plan 2 Full Time	$486.00	TBD	28
Plan 2 Part Time	$120.00	TBD	98

The following tables compares the average new monthly rates to actual employer contributions for the last 2½ years. Historical was calculated by using actual total employer contributions divided by the average participant counts.

	Plan 1	Plan 2
Average New Monthly Rate	$800.19	$201.33
Average Historical		
2011	$813.22	$323.11
2012	$784.27	$334.05
2013 (6 months)	$785.87	$372.63

Baseline Projection

Segal created a baseline budget projections through calendar year 2014 assuming no changes except the modification in employer contribution rates and those needed to comply with the Patient Protection and Affordable Care Act of 2010 (ACA). We used the following key assumptions in this analysis:

- Fund reserves equal Net Assets Available for Benefits less Incurred But Not Reported Claim Reserves (IBNR) and are targeted to equal three months of current year total expense.

- IBNR is calculated at 12.4% of self-insured claims. Segal did not perform a detailed analysis of claims lag but derived the value from the 2012 Audit. The value equates to a claims lag of approximately 1½ months and that is within typical ranges.

- The plans will be brought into compliance with ACA.

- The plans will no longer be grandfathered under ACA.

- Employer contributions will be only those based on the new monthly rates. It is our understanding the employers have no remaining Maintenance of Benefits or other financial obligations under the Memorandum of Agreement.

- The rates are those currently payable by employers participating in plans X and XX of the UFCW and FELRA Health and Welfare Fund and may change July 2014. No information is available on any change in the current contribution rates. Therefore, for projection purposes we assumed the new monthly rates will remain in effect through December 2014.

- The number of participants on whom contributions are made, and the number of eligible member for each benefit plan, will remain constant through 2014. With the introduction of employee contribution rates, it is likely that some participants will choose not to enroll in the Fund's benefit plans. If there is significant non-enrollment, it is likely that adverse selection will increase the average cost of the plans.

The first three exhibits attached show our baseline projections for Plans 1 and 2 and for the total Fund. We also include historical data for calendar years 2011 and 2012 for reference. The projections for self-funded claims are based on our analysis of claims paid January 2011 through June 2013 and assume future annual claims trend of 7% for medical and 6% for pharmacy benefits. Insurance carrier premiums and vendor fees for 2014 are based on current rates, except that we assumed renewal rates for dental coverage will increase 5% and for stop loss coverage will increase 15%.

The last two lines of our expense projections are for new ACA-related costs.

- Comparative Effectiveness Research Fees started in 2012 at $1 per year per individual (employee and each dependent) and increased to $2 per individual in 2013.

- Transitional Reinsurance Fees will start in 2014 at $63 per year per individual.

- Claims will increase because of the loss of grandfather status and the resulting requirement that many preventive services be covered at 100% with no participant cost share.

- Claims will increase for Plan 2 because the annual limits will need to be removed. We also assumed Plan 2 will be added to the stop loss coverage currently purchased on Plan 1.

The cost projection includes $206,200 for new ACA-related costs in 2014.

We are projecting an operating loss of $390,709 for 2013. Year-to-date financial data showed a loss of $360,372 as of June, largely due to a spike in medical claims in the second quarter. Our projections assume the second half of the year will return to more typical expense levels, but there will also be some deterioration in results due to reduction in employer contributions beginning in August.

Employee Contribution Rates

The operating loss in 2014 is projected to be $775,936. This will reduce Fund reserves to a negative position. As we understand the Memorandum of Agreement, any shortfall in Fund reserves will be made up either through new employee contributions or through plan changes to reduce expenses.

In order to make up the shortfall solely through employee contributions, a total of $1,441,954 is needed. Assuming this is spread equally to all 554 participants, and will become effective January 2014, the needed additional contribution is $217 per employee per month. Note this would need to be added to the new $212 employee contribution rate for Plan 1 Part Time Family coverage, resulting in a monthly rate of $429 for that class of participants. Exhibits 4-6 illustrate revised projections with new employee contributions added.

	Employer Contribution	Employee Contribution	Total Contribution
Plan 1 Full Time	$844.00	$217.00	$1,061.00
Plan 1 Part Time - Single	$470.00	$217.00	$ 687.00
Plan 1 Part Time - Family	$848.00	$429.00	$1,277.00
Plan 2 Full Time	$486.00	$217.00	$ 703.00
Plan 2 Part Time	$120.00	$217.00	$ 337.00

Conclusion

The shortfall can also be made up through reduction in Fund expenses. We are working on developing specific recommendations and will provide this next week.

We look forward to discussing our analysis in more detail on September 25. In the meantime, please let us know if you have any questions or require additional analysis.

cc: Anne-Marie Sims
Josh Timm