Industry and Local 338 Welfare Fund

Health Benefits Report

Fiscal Year Ending 2020

June 23, 2020 / John P. Urbank

Segal

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June 23, 2020

Board of Trustees
Industry and Local 338 Welfare Fund
911 Ridgebrook Road
Sparks, MD 21152

Dear Trustees:

We are pleased to present this fiscal 2020 Health Benefits Report for the Industry and Local 338 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: ____________________________

John P. Urbank
Vice President
jurbank@segalco.com

cc: Associated-Administrators Inc.
Fund Counsel

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

- Based on the audited financial statements for the year ended June 30, 2019, total income of $2,437,229 consisted of $2,204,701 in employer contributions, $18,621 in COBRA and other income, and $213,907 in investment income. For fiscal 2019, total expenses exceeded total income by $37,838 thereby generating an operating deficit. After accounting for unrealized gains on investments of $187,055, the Fund experienced a Total Addition to Net Assets of $149,217. As of June 30, 2019, Net Assets, excluding Incurred but Not Reported claims reserves, totaled $8,116,657.

- Projected employer contributions for fiscal 2020, 2021, and 2022 are based on the known weekly rates in effect for each employer and current lives provided by the Associated Administrators. Projected COBRA contributions are based on actual COBRA contributions increasing each year at the same rate as benefit expenses increase adjusted for enrollment.

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- The projected Hospital, Medical, Prescription Drug, Dental and Optical costs are based on three years of claims experience through February 2020, adjusted for trend. The projections for drug claims include the new pricing with improved rebates effective July 1 2018 through June 30, 2021. In addition, the new JAA admin fee pricing effective May 1, 2020 has been included in this report.

- Projected cost for Specific Stop Loss coverage is based on the renewal rate of $73.19 per participant per month effective April 1, 2020. There was a stop loss reimbursements received in the amount of $58,297 during the current period.

- The projected Life and AD&D expenses are based on Amalgamated renewal rate of $0.20 per $1,000 for the Active Life and $0.035 per $1,000 for the AD&D effective January 1, 2020. The projected Disability expenses reflect the negotiated rate reduction effective January 1, 2020 from $7.00 to $6.81 per participant per month guaranteed for one year. The January 1, 2020 renewal for Paid Family Leave coverage increased from 0.126% to 0.153% of covered payroll.

- During fiscal years 2020 through 2022, the projected breakeven contribution hourly rates including margin (based on 40 hours worked per week) are $9.01, $10.39, and $11.28 respectively. The margin included in the breakeven contribution rates allows for the continual buildup of reserves assuming that expenses increase in future fiscal years.

- Assuming the projections reach fruition, we are estimating operating deficits of $344,900 in 2020, $480,800 in 2021 and $659,000 in 2022 and ending Fund Assets net of IBNR of $7,771,757, $7,290,957, and $6,631,957 for fiscal years ending June 30, 2020, 2021, and 2022 respectively. If all employer contribution income ceased, the Fund would have a continuation value equivalent to 26.9 months of expenses as of June 30, 2022.

- Although it is too early to evaluate the impact of the coronavirus pandemic on the Funds projected financial status, it is important to anticipate the impact on the members' eligibility and the Fund's ability to meet the current accumulated eligibility obligations, if there is a sudden and dramatic reduction in work force hours and income from employer contributions.

Financial Experience and Budget Projections

Key Findings & Recommendations

- The table below shows the weekly employer contribution rates used in our projections:

First Student/OC (Valley) #57	1/1/2019 $280.00	3/23/2020 $294.80	1/1/2021 $294.80
First Student/OCT (Wallkill) #51	1/1/2019 $280.00	1/1/2020 $294.80	1/1/2021 $294.00
First Student (Kingston) #59	1/1/2019 $284.80	1/1/2020 $293.20	1/1/2021 $294.80
First Student (Roundout) #65	9/1/2019 $294.80	9/1/2020 $294.80	9/1/2021 $294.80
Kraft Foods Global #49	9/1/2019 $294.80	9/1/2020 $296.00	9/1/2021 $296.00
LP Transportation #43	8/16/2019 $280.00	8/16/2020 $280.00	8/16/2021 $296.00
Precast Concrete #54	1/1/2019 $290.40	1/1/2020 $290.40	1/1/2021 $290.40
Paraco Gas	2/1/2019 $296.00	2/1/2020 $296.00	2/1/2021 $296.00

Financial Experience and Budget Projections

Summary

12 Months Ending	Historical Results Jun-17	Jun-18	Jun-19	Projections Jun-20	Jun-21	Jun-22
Average Number of Active Employees	152	154	149	119	118	118
Average Contribution Rate Per Week	$284	$277	$285	$291	$303	$307
Average Contribution Rate Per Hour	$7.09	$6.94	$7.12	$7.28	$7.56	$7.66
Total Income	$2,383,812	$2,429,852	$2,437,229	$2,020,800	$2,065,200	$2,082,200
Total Expenses	$1,768,965	$2,800,179	$2,475,067	$2,365,700	$2,546,000	$2,741,200
Average Income Per Active Per Month	$1,306.91	$1,314.86	$1,363.09	$1,415.13	$1,458.47	$1,470.48
Average Expenses Per Active Per Month	$969.84	$1,515.25	$1,384.27	$1,656.66	$1,798.02	$1,935.88
Breakeven Contribution Rate per Week	$205.67	$323.76	$289.66	$346.97	$381.01	$414.01
Breakeven Contribution Rate per Hour				$8.67	$9.53	$10.35
Fund Assets	$8,297,425	$7,967,440	$8,116,657	$7,771,757	$7,290,957	$6,631,957
Continuation Value (Months)	35.6	38.6	41.2	36.6	31.9	26.9

Financial Experience and Budget Projections

Assumptions

12 Months Ending	Jun-20	Jun-21	Jun-22
Average Number of Actives			
Actives	119	118	118
COBRA Participants	6	6	6
Trend Factors			
Hospital and Medical	8.00%	8.00%	8.00%
Stop Loss Premium	Renewal	12.00%	12.00%
Prescription Drug	9.00%	9.00%	9.00%
Dental	5.00%	5.00%	5.00%
Optical	3.00%	3.00%	3.00%
Life, AD&D and Disability	Renewal	0.00%	0.00%
Joint Council #16 Fees	3.00%	3.00%	3.00%
Empire JAA Leasing Fee	Renewal	3.00%	3.00%
Associated Admin Claim Processing Fees	2.98%	2.98%	2.98%
Operating Costs	5.00%	5.00%	5.00%
Investment Yield	2.00%	2.00%	2.00%
	0.00%	0.00%	0.00%

Financial Experience and Budget Projections

Aggregate

The first projection period through June 2020 includes the 8-month actual results through February 2020 based on the cash flow reports provided by the Fun Office.

The projections for Empire JAA Leasing Fee is based on the JAA renewal effective May 1, 2020.The renewal rate approved was $16.72 per person.

	Historical Results			Projections		
12 Months Ending	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	**Jun-22**
Income						
Employer Contributions	$2,239,223	$2,220,364	$2,204,701	$1,800,500	$1,855,300	$1,879,400
Employee Contributions	12,059	16,227	18,621	57,000	54,800	59,000
Investment Income	132,530	193,261	213,907	163,300	155,100	143,800
Total Income	**$2,383,812**	**$2,429,852**	**$2,437,229**	**$2,020,800**	**$2,065,200**	**$2,082,200**
Expenses						
Hospital and Medical	$948,564	$1,811,614	$1,368,313	$1,464,300	$1,581,400	$1,708,000
Stop Loss Premium	101,152	108,908	86,278	98,500	112,200	125,600
Prescription Drug	311,369	479,839	588,123	420,700	454,200	495,000
Dental	78,488	79,661	81,753	69,200	72,500	76,100
Optical	5,809	5,530	5,381	4,800	4,900	5,000
Life, AD&D and Disability	26,280	31,909	34,239	31,500	37,100	37,100
Joint Council #16 Fees	3,319	3,541	3,428	2,800	2,900	3,000
Empire JAA Leasing Fee	92,377	99,030	109,652	66,700	64,700	66,100
Associated Admin Claim Processing Fees	66,660	69,326	71,920	74,100	76,300	78,600
ACA Fees	0	0	0	800	900	900
Operating Costs	134,947	110,821	125,980	132,300	138,900	145,800
Total Expenses	**$1,768,965**	**$2,800,179**	**$2,475,067**	**$2,365,700**	**$2,546,000**	**$2,741,200**
Operating Surplus (Deficit)	**$614,847**	**($370,327)**	**($37,838)**	**($344,900)**	**($480,800)**	**($659,000)**
Gains on Investments	138,140	40,342	187,055			
Total Addition (Reduction) to Fund Assets	**$752,987**	**($329,985)**	**$149,217**	**($344,900)**	**($480,800)**	**($659,000)**
Beginning Fund Assets	**$7,544,438**	**$8,297,425**	**$7,967,440**	**$8,116,657**	**$7,771,757**	**$7,290,957**
Ending Fund Assets	**$8,297,425**	**$7,967,440**	**$8,116,657**	**$7,771,757**	**$7,290,957**	**$6,631,957**
Breakeven Contribution Rate per Week	**$205.67**	**$323.76**	**$289.66**	**$346.97**	**$381.01**	**$414.01**
Average Contribution Rate	**$283.52**	**$277.48**	**$284.77**	**$291.19**	**$302.60**	**$306.53**

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	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	**Jun-22**
Income						
Employer Contributions	$1,227.64	$1,201.50	$1,233.05	$1,260.85	$1,310.24	$1,327.26
Employee Contributions	6.61	8.78	10.41	39.92	38.70	41.67
Investment Income	72.66	104.58	119.63	114.36	109.53	101.55
Total Income	**$1,306.91**	**$1,314.86**	**$1,363.09**	**$1,415.13**	**$1,458.47**	**$1,470.48**
Expenses						
Hospital and Medical	$520.05	$980.31	$765.28	$1,025.42	$1,116.81	$1,206.21
Stop Loss Premium	55.46	58.93	48.25	68.98	79.24	88.70
Prescription Drug	170.71	259.65	328.93	294.61	320.76	349.58
Dental	43.03	43.11	45.72	48.46	51.20	53.74
Optical	3.18	2.99	3.01	3.36	3.46	3.53
Life, AD&D and Disability	14.41	17.27	19.15	22.06	26.20	26.20
Joint Council #16 Fees	1.82	1.92	1.92	1.96	2.05	2.12
Empire JAA Leasing Fee	50.65	53.59	61.33	46.71	45.69	46.68
Associated Admin Claim Processing Fees	36.55	37.51	40.22	51.89	53.88	55.51
ACA Fees	0.00	0.00	0.00	0.56	0.64	0.64
Operating Costs	73.98	59.97	70.46	92.65	98.09	102.97
Total Expenses	**$969.84**	**$1,515.25**	**$1,384.27**	**$1,656.66**	**$1,798.02**	**$1,935.88**
Operating Surplus (Deficit)	**$337.07**	**($200.39)**	**($21.18)**	**($241.53)**	**($339.55)**	**($465.40)**
Gains on Investments	75.73	21.83	104.62			
Total Addition (Reduction) to Fund Assets	**$412.80**	**($178.56)**	**$83.44**	**($241.53)**	**($339.55)**	**($465.40)**
Average Number of Actives	**152**	**154**	**149**	**119**	**118**	**118**

Financial Experience and Budget Projections

Fund Asset Position

	Historical Results			Projections		
12 Months Ending	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	**Jun-22**
Fund Assets as of Period End	$8,297,425	$7,967,440	$8,116,657	$7,771,757	$7,290,957	$6,631,957
Incurred But Not Reported Claims	193,600	334,500	292,000	288,700	311,300	336,000
Auditor's Statement of Fund Assets	$8,491,025	$8,301,940	$8,408,657			

Targeted Reserves

	Historical Results			Projections		
12 Months Ending	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	**Jun-22**
Claims Fluctuation	$969,000	$1,556,800	$1,382,700	$1,228,000	$1,303,200	$1,385,200
Economic	884,500	1,400,100	1,237,500	1,182,900	1,273,000	1,370,600
Total Targeted Reserves	$1,853,500	$2,956,900	$2,620,200	$2,410,900	$2,576,200	$2,755,800

Claims Fluctuation Reserve

Purpose: 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.

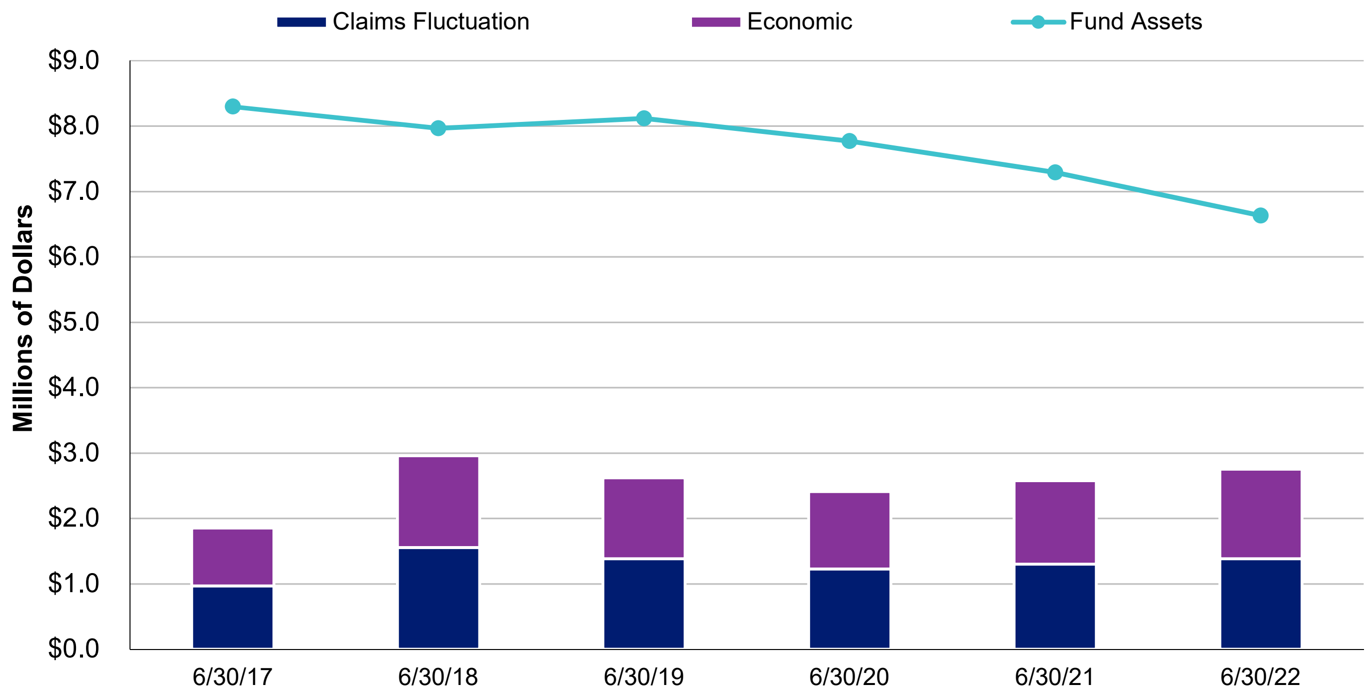
Economic Reserve

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	**Jun-17**	**Jun-18**	**Jun-19**	**Jun-20**	**Jun-21**	**Jun-22**
Ratio of Fund Assets to Targeted Reserves	447.7%	269.5%	309.8%	322.4%	283.0%	240.7%
Ratio of Fund Assets to Next Year's Expenses	296.3%	321.9%	343.1%	305.3%	266.0%	224.6%
Continuation Value (Months)	35.6	38.6	41.2	36.6	31.9	26.9



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.
The Segal Group's Website	Explore The Segal Group'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.
Segal Marco Advisors Website	Explore Segal Marco Advisor'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.
DC Digest	*DC Digest* is a quarterly compendium of trends, developments and professional insights that our DC experts believe may be of interest to plan sponsors for further review and analysis.
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).
Articles by Segal Experts	Segal actuaries and consultants publish articles in periodicals, in addition to conducting presentations and classes for various professional and industry forums. This page lists articles of interest to sponsors of multiemployer plans in reverse chronological order.

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.