International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Reports - Fiscal Year Ending 2015

Segal Consulting

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May 20, 2014

Board of Trustees

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

Dear Trustees:

We are pleased to present these fiscal 2015 Health Benefits Reports for the International Union of Operating Engineers Local 487 Health

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,

THE SEGAL COMPANY

By: ______________________________
Jeffrey Johnson

cc: *Linda DuVall*
Kathleen Phillips
Steven Gordon
Robin Dusang

Financial Experience and Budget Projections
International Union of Operating Engineers Local 487 Health and Welfare Fund

The projections in this report are estimates of future costs and are based on information available to The Segal Company at the time the projections were made. The Segal Company 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, health trend rates and claims volatility. The accuracy and reliability of health projections decrease as the projection period increases. Unless otherwise noted, these projections do not include any cost or savings impact resulting from the new health care reform legislation or other recently passed state or federal regulations.

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.

Key Findings, Recommendations

- *Three years of historical Fund operations together with three years of projections are presented in this report. Operations for the 2012 through 2013 fiscal years are based on the audited financial statements and the 2014 fiscal year is based on the unaudited financial statements. Audited figures will vary.*
- *For FY 2014, an operating surplus of $323.0K resulted. After a net gain on investments of $104.2K, the net assets of the Fund are estimated to increase by $427.2K to approximately $4.3 M.*
- *The number of active employees eligible to enroll for medical coverage increased from 379 in 2013 to 396 in 2014. COBRA/Self-pay participants amounted to 11 in 2014 compared to 9 in 2013, and retirees declined from 8 in 2013 to 6 in 2014.*
- *Active employees are enrolled for medical coverage following receipt of an enrollment form; therefore, not all employees who are eligible to enroll actually enroll. Based on a review of the premium statements, and estimated counts of enrolled employees over the past year, projections assume that 93% of active employees eligible to enroll will actually enroll.*
- *Breakeven contribution rate calculations assume 93% of employees eligible to enroll actually enroll (no margin rates), and if 100% of employees eligible to enroll actually enroll (with margin rates).*
- *A comparison of the number of COBRA/Self pay, COBRA and active employees eligible to enroll and estimated to enroll during fiscal 2015 – 2017 is shown on page 4 of this report. The projected enrollments are based on a review of December 2013 – March 2014 premium and eligibility reports.*
- *As of March 31, 2014, the employer contribution rate was $4.00 for all but 53 employees that continue at the $3.90 employer contribution rate. The average employer contribution rate for the 2014 fiscal year was $3.99, which is also used for the budget projection years.*

Key Findings, Recommendations

- *The average monthly employment level for active employees eligible to enroll for medical coverage during the past three fiscal years was 188 hours for 2012, 186 hours for 2013 and 197 hours in 2014. Projection years assume an average monthly employment level of 185 hours; however, alternate projections reflecting employment levels of 195 and 180 hours are also shown on page 7 of this report.*
- *The final negotiated rates with Coventry for April 1, 2014 were approximately 7% higher than the prior year rates on average for the PPO and HMO plans due to the net impact of trend, benefit changes and ACA fees included in the premium rate expenses. Projections assume a 9.2% rate increase on April 1, 2015 and April 1, 2016 based on standard trend factors; however, actual increases will be subject to negotiation.*
- *The current monthly Life rate is $14.00 (for active, COBRA and retired employees) and the AD&D rate is $0.50 (for active employees only). These rates are guaranteed through July 31, 2015. Budget projections do not include any changes in the premium rates effective with the new renewal date of August 1, 2015. Projections assume 577 members covered for Life and AD&D and 145 members covered for Life only.*
- *Other assumptions are detailed on page 4 of this report.*
- *Based on current income and expense calculations and Segal standard forecasting assumptions, the Fund is estimated to have sufficient income and assets to meet current obligations through the fiscal year ended March 31, 2017. However, due to projected deficit spending during the budget periods, it is recommended that the Fund consider options to better align income and expense.*
- *Targeted reserves do not reflect an allowance for accumulated eligibility for active participants. The audited obligation as of March 31, 2013 amounted to $877,347.*
- *Targeted reserves do not reflect an allowance for future retiree coverage. The audited obligation as of March 31, 2013 amounted to $2,381,689.*
- *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 for
International Union of Operating Engineers Local 487 Health and Welfare Fund

SUMMARY

	Historical Results			Projections		
12 Months Ending	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**
Average Number of Actives	334	379	396	420	420	420
Average Contribution Hours Per Month	188	186	197	185	185	185
Aggregate Hours	754,880	846,658	938,360	932,397	932,397	932,397
Average Contribution Rate	$3.99	$3.99	$3.99	$3.99	$3.99	$3.99
Total Income	$3,130,880	$3,532,131	$3,891,362	$3,876,900	$3,880,600	$3,877,600
Total Expenses	$3,169,831	$3,439,355	$3,568,330	$4,001,300	$4,354,600	$4,740,300
Average Income Per Active	$781.17	$776.64	$818.89	$769.23	$769.96	$769.37
Average Expenses Per Active	$790.87	$756.23	$750.91	$793.90	$864.00	$940.53
Breakeven Contribution Rate	$3.95	$3.88	$3.65	$4.12	$4.50	$4.91
Recommended Margin				$0.30	$0.33	$0.36
Breakeven Contribution Rate with Margin				$4.42	$4.83	$5.27
Fund Assets	$3,704,490	$3,904,482	$4,331,718	$4,322,818	$3,958,918	$3,189,618
Continuation Value (Months)	12.9	13.1	13.0	11.9	10.0	7.4

Financial Experience and Budget Projections for
International Union of Operating Engineers Local 487 Health and Welfare Fund

Projections assume that 93% of the active members eligible to enroll will enroll for medical benefits.

Alternate employment level assumptions are shown on page 7.

ASSUMPTIONS

12 Months Ending	Mar-15	Mar-16	Mar-17
Average Number of Actives			
Active-Eligible to Enroll	420	420	420
Active- Estm. Enrolled	390	390	390
COBRA Estm. Enrolled	9	9	9
Retiree Estm. Enrolled	6	6	6
Total Estm. Enrolled	405	405	405
Average Contribution Hours per Month:			
Active-Eligible to Enroll	185	185	185
Aggregate Hours	932,397	932,397	932,397
Average Contribution Rate			
Active-Eligible to Enroll (Per Hour)	$3.99	$3.99	$3.99
Trend Factors			
Coventry Group Ins Premium	7.20%	9.28%	9.28%
Mutual of Omaha Premium	0.00%	0.00%	0.00%
Operating Costs	4.00%	4.00%	4.00%
Investment Yield	2.00%	2.00%	2.00%
Rate of Return	5.00%	5.00%	5.00%

Financial Experience and Budget Projections for
International Union of Operating Engineers Local 487 Health and Welfare Fund

AGGREGATE

	Historical Results			Projections		
12 Months Ending	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**
Income						
Employer Contributions	$2,944,561	$3,378,213	$3,742,213	$3,718,400	$3,718,400	$3,718,400
Employee Contributions	115,652	86,274	88,618	81,500	88,900	96,900
Other Income	144	481	7,028	0	0	0
Investment Income	70,523	67,163	53,503	77,000	73,300	62,300
Total Income	**$3,130,880**	**$3,532,131**	**$3,891,362**	**$3,876,900**	**$3,880,600**	**$3,877,600**
Expenses						
Coventry Group Ins Premium	$2,909,627	$3,184,065	$3,317,961	$3,739,100	$4,085,900	$4,464,800
Mutual of Omaha Premium	83,235	91,507	93,848	99,400	99,400	99,400
Operating Costs	176,969	163,783	156,521	162,800	169,300	176,100
Total Expenses	**$3,169,831**	**$3,439,355**	**$3,568,330**	**$4,001,300**	**$4,354,600**	**$4,740,300**
Operating Surplus (Deficit)	**($38,950)**	**$92,776**	**$323,032**	**($124,400)**	**($474,000)**	**($862,700)**
Gains on Investments	82,696	107,216	104,204	115,500	110,100	93,400
Total Addition (Reduction) to Fund Asset	**$43,746**	**$199,992**	**$427,236**	**($8,900)**	**($363,900)**	**($769,300)**
Beginning Fund Assets	**$3,660,744**	**$3,704,490**	**$3,904,482**	**$4,331,718**	**$4,322,818**	**$3,958,918**
Ending Fund Assets	**$3,704,490**	**$3,904,482**	**$4,331,718**	**$4,322,818**	**$3,958,918**	**$3,189,618**
Breakeven Contribution Rate	**$3.95**	**$3.88**	**$3.65**	**$4.12**	**$4.50**	**$4.91**
Recommended Margin				**$0.30**	**$0.33**	**$0.36**
Breakeven Contribution Rate with Margin				**$4.42**	**$4.83**	**$5.27**
Average Contribution Rate	**$3.99**	**$3.99**	**$3.99**	**$3.99**	**$3.99**	**$3.99**

The contribution rate margin shown at the bottom of this chart reflects the additional medical premium payable if all employees eligible to enroll actually enrolled.

Financial Experience and Budget Projections for
International Union of Operating Engineers Local 487 Health and Welfare Fund

This table shows total estimated annual income and expenses divided by the estimated average number of active members eligible to enroll for medical coverage.

PER ACTIVE PER MONTH

	Historical Results			Projections		
12 Months Ending	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**
Income						
Employer Contributions	$734.67	$742.79	$787.50	$737.78	$737.78	$737.78
Employee Contributions	28.86	18.97	18.65	16.17	17.64	19.23
Other Income	0.04	0.11	1.48	0.00	0.00	0.00
Investment Income	17.60	14.77	11.26	15.28	14.54	12.36
Total Income	**$781.17**	**$776.64**	**$818.89**	**$769.23**	**$769.96**	**$769.37**
Expenses						
Coventry Group Ins Premium	$725.95	$700.10	$698.22	$741.88	$810.69	$885.87
Mutual of Omaha Premium	20.77	20.12	19.75	19.72	19.72	19.72
Operating Costs	44.15	36.01	32.94	32.30	33.59	34.94
Total Expenses	**$790.87**	**$756.23**	**$750.91**	**$793.90**	**$864.00**	**$940.53**
Operating Surplus (Deficit)	**($9.70)**	**$20.41**	**$67.98**	**($24.67)**	**($94.04)**	**($171.16)**
Gains on Investments	20.63	23.57	21.93	22.92	21.85	18.53
Total Addition (Reduction) to Fund Asset	**$10.93**	**$43.98**	**$89.91**	**($1.75)**	**($72.19)**	**($152.63)**
Average Number of Actives	**334**	**379**	**396**	**420**	**420**	**420**
Breakeven Contribution Rate	**$3.95**	**$3.88**	**$3.65**	**$4.12**	**$4.50**	**$4.91**
Recommended Margin				**$0.30**	**$0.33**	**$0.36**
Breakeven Contribution Rate with Margin				**$4.42**	**$4.83**	**$5.27**
Average Contribution Rate	**$3.99**	**$3.99**	**$3.99**	**$3.99**	**$3.99**	**$3.99**

We look to the Trustees for guidence in employment level assumptions. Alternate scenarios can be provided upon request.

VARIATIONS IN HOURS ASSUMPTIONS

12 Months Ending	Mar-15	Mar-16	Mar-17
Current Assumptions			
Average Monthly Hours	185	185	185
Ending Fund Assets	$4,322,818	$3,958,918	$3,189,618
Continuation Value (Months)	11.9	10.0	7.4
Breakeven Contribution Rate	$4.12	$4.50	$4.91
Breakeven Contribution Rate with Margin	$4.42	$4.83	$5.27
Alternate Assumption 1			
Average Monthly Hours	195	195	195
Ending Fund Assets	$4,528,818	$4,381,218	$3,839,118
Continuation Value (Months)	12.5	11.1	8.9
Breakeven Contribution Rate	$3.91	$4.26	$4.65
Breakeven Contribution Rate with Margin	$4.19	$4.57	$4.99
Alternate Assumption 2			
Average Monthly Hours	180	180	180
Ending Fund Assets	$4,219,820	$3,747,722	$2,864,924
Continuation Value (Months)	11.6	9.5	6.7
Breakeven Contribution Rate	$4.24	$4.62	$5.06
Breakeven Contribution Rate with Margin	$4.55	$4.96	$5.43
	3.99	$3.99	$3.99

Observations:

- *Note that the breakeven contribution line does not include investment gains.*
- *For fiscal 2015, at a 185 hour employment level, the breakeven contribution rate is $4.12 if 93% of active employees enroll for medical coverage, or $4.42 (with margin) if 100% of active employees enroll for medical coverage.*
- *For fiscal 2015, at a 195 hours employment level, the breakeven contribution rate is $3.91 if 93% of active employees enroll for medical coverage, or $4.19 (with margin) if 100% of active employees enroll for medical coverage.*

Financial Experience and Budget Projections for
International Union of Operating Engineers Local 487 Health and Welfare Fund

Fiscal 2015 through 2017 year end assets are estimated to be adequate to cover an economic reserve amounting to 50% of annual expenses.

FUND ASSET POSITION

	Historical Results			Projections		
12 Months Ending	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**
Fund Assets as of Period End	$3,704,490	$3,904,482	$4,331,718	$4,322,818	$3,958,918	$3,189,618
Auditor's Statement of Fund Assets	$3,704,490	$3,904,482				

TARGETED RESERVES

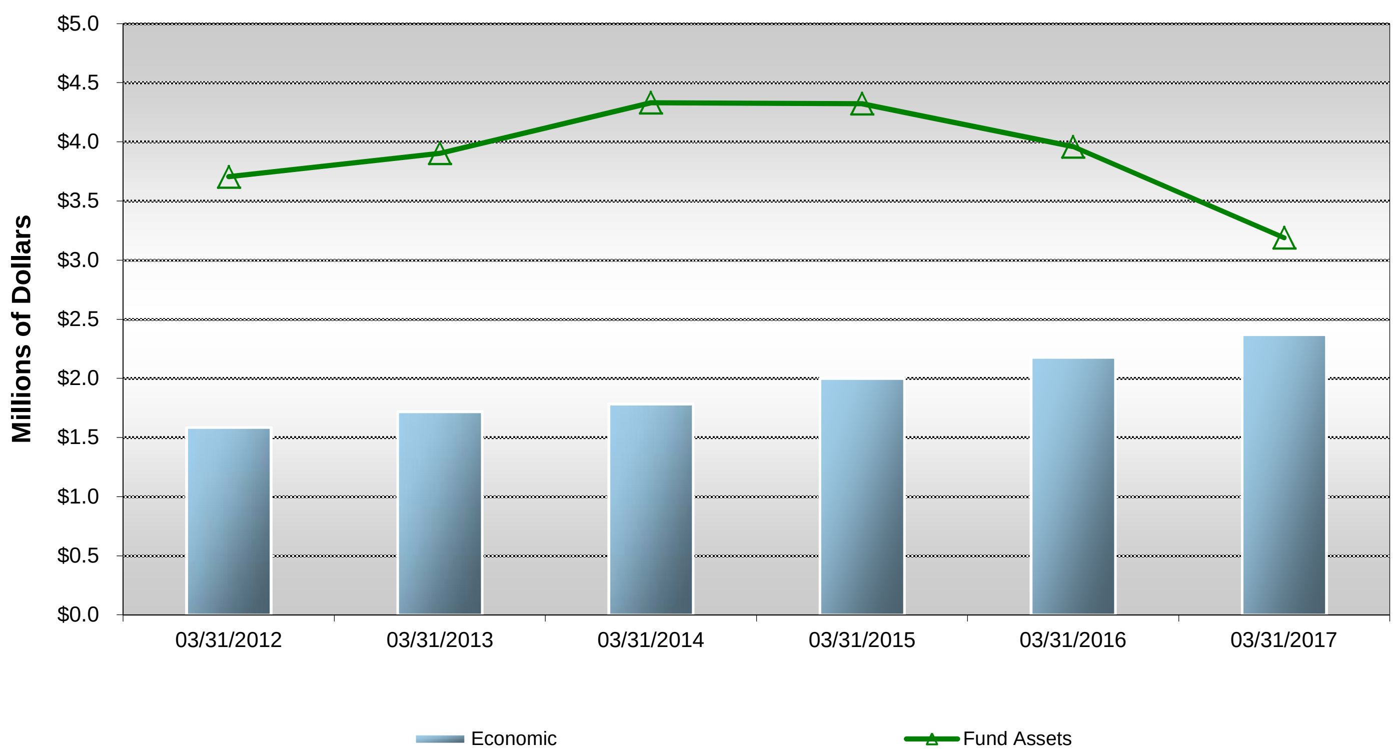
	Historical Results			Projections		
12 Months Ending	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**
Economic	1,584,900	1,719,700	1,784,200	2,000,700	2,177,300	2,370,200
Total Targeted Reserves	$1,584,900	$1,719,700	$1,784,200	$2,000,700	$2,177,300	$2,370,200

Economic Reserve

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

FUND ASSET POSITION AND TARGETED RESERVES GRAPH

	Historical Results			Projections		
12 Months Ending	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**	**Mar-17**
Ratio of Fund Assets to Targeted Reserves	233.7%	227.0%	242.8%	216.1%	181.8%	134.6%
Ratio of Fund Assets to Next Year's Expenses	107.7%	109.4%	108.3%	99.3%	83.5%	61.8%
Continuation Value (Months)	12.9	13.1	13.0	11.9	10.0	7.4



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.