International Union of Operating Engineers Local 487
Health and Welfare Fund

Health Benefits Reports - Fiscal Year Ending 2017

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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 2017 Health Benefits Reports 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 Consulting

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

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The projections in this report are estimates of future costs and are based on information available to Segal Consulting at the time the projections were made. Segal Consulting 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.

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.

- *Three years of historical Fund operations together with three years of projections are presented in this report. Operations for the 2015 through 2016 fiscal years are based on the audited financial statements and the 2017 fiscal year is estimated based on unaudited financial statements through January 31, 2017, with projections through the end of the fiscal year. Audited figures will vary.*

- *For FY 2017, an operating surplus of $449K is estimated. After a net gain on investments of $89K, the net assets of the Fund are estimated to increase by $537K to approximately $5.6M.*

- *The number of active employees eligible to enroll for medical coverage increased from 518 in 2016 to 590 in 2017. COBRA/Self-pay participants amounted to 7 in 2016 and 5 in 2017, and retirees amounted to 4 in 2016 and 6 in 2017.*

- *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 approximately 96% of active employees eligible to enroll will actually enroll.*

- *Breakeven contribution rate calculations assume 96% 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 2017 – 2020 is shown on page 4 of this report. The projected enrollments are based on a review of the April 2017 United HealthCare enrollment and eligibility reports through January 2017.*

- *As of March 31, 2017, the employer contribution rates in effect were $4.20 (for Crane Operators and Foundation Contractors), and $4.00 (for others). The rate increases to $4.30 for Foundation Contractors on May 1, 2017, and for Crane Operators on July 1, 2017. Chuck's Backhoe remains at $4.00, and other rates increase to $4.20 on July 1, 2017. Based on an assumed distribution of contribution volume from these employers, projections assume increases in the average employer contribution rate from $4.13 in fiscal year 2017, to $4.24 in fiscal year 2018 and $4.27 in fiscal year 2019 and fiscal 2020.*

- *The average monthly employment level for active employees eligible to enroll for medical coverage during the past three fiscal years was 198 hours for 2014, 214 hours in 2015, 229 in both 2016, and 2017. Projection years assume an average monthly employment level of 200 hours; however, alternate projections reflecting employment levels of 190 and 210 hours are also shown on page 7 of this report.*

- *The Fund changed carriers from Aetna to United Healthcare on April 1, 2017. United Healthcare coverage includes the Neighborhood HMO, regular HMO, and PPO plan for medical, the Dental HMO and Dental PPO as well as a Vision PPO. Projections assume a 6.9% rate increase on April 1, 2018 and April 1, 2019 based on standard trend factors; however, actual increases will be subject to negotiation.*

- *The current monthly Life rate is $17.40 (for active, COBRA and retired employees) and the AD&D rate is $0.60 (for active employees only). Budget projections include the current life and AD&D rates effective through July 31, 2017. Any actual rate change beyond that date is subject to negotiation and Trustee approval. Projections assume 625 members covered for Life and AD&D and 126 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, 2020. 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, 2016 amounted to $1,517,787.*

- *Targeted reserves do not reflect an allowance for future retiree coverage. The audited obligation as of March 31, 2016 amounted to $4,383,275.*

- *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-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Average Number of Actives	457	518	590	615	615	615
Average Contribution Hours Per Month	214	229	229	200	200	200
Aggregate Hours	1,172,137	1,423,599	1,624,528	1,476,000	1,476,000	1,476,000
Average Contribution Rate	$4.00	$4.00	$4.13	$4.24	$4.27	$4.27
Total Income	$4,896,912	$5,906,086	$6,901,300	$6,445,200	$6,480,200	$6,461,600
Total Expenses	$4,469,319	$5,489,301	$6,452,800	$7,071,800	$7,540,900	$8,042,400
Average Income Per Active	$892.95	$950.14	$974.77	$873.33	$878.08	$875.56
Average Expenses Per Active	$814.97	$883.10	$911.41	$958.24	$1,021.81	$1,089.76
Breakeven Contribution Rate	$3.64	$3.71	$3.85	$4.66	$4.99	$5.34
Recommended Margin			$0.00	$0.19	$0.20	$0.22
Breakeven Contribution Rate with Margin			$3.85	$4.85	$5.19	$5.56
Fund Assets	$4,786,465	$5,041,946	$5,579,346	$4,999,446	$3,977,446	$2,422,646
Continuation Value (Months)	10.5	9.4	9.5	8.0	5.9	3.4

Financial Experience and Budget Projections for
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Projections assume that approximately 96% 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-17	Mar-18	Mar-19	Mar-20
Average Number of Actives				
Active-Eligible to Enroll	590	615	615	615
Active- Estm. Enrolled	567	590	590	590
COBRA & Self Pay Estm. Enrolled	5	4	4	4
Retiree Estm. Enrolled	6	6	6	6
Total Estm. Enrolled	578	600	600	600
Average Contribution Hours per Month:				
Active-Eligible to Enroll	229	200	200	200
Aggregate Hours	1,624,528	1,476,000	1,476,000	1,476,000
Average Contribution Rate				
Active-Eligible to Enroll (Per Hour)	$4.13	$4.24	$4.27	$4.27
Trend Factors				
Medical/Dental/Vision Premium	Actual	Renewal	6.9%	6.9%
Life Premium	Actual	0.0%	0.0%	0.0%
Operating Costs	3.0%	3.0%	3.0%	3.0%
Investment Yield	1.7%	2.0%	2.0%	2.0%
Rate of Return	1.9%	3.0%	3.0%	3.0%

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-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Income						
Employer Contributions	$4,688,035	$5,694,396	$6,709,300	$6,258,200	$6,302,500	$6,302,500
Employee Contributions	85,130	70,316	75,300	93,800	100,200	107,000
Other Income	13,472	143	36,500	0	0	0
Investment Income	110,275	141,231	80,200	93,200	77,500	52,100
Total Income	**$4,896,912**	**$5,906,086**	**$6,901,300**	**$6,445,200**	**$6,480,200**	**$6,461,600**
Expenses						
Medical/Dental/Vision Premium	$4,183,470	$5,190,775	$6,112,000	$6,717,700	$7,181,000	$7,676,500
Life Premium	105,630	129,832	153,600	161,300	161,300	161,300
Operating Costs	180,219	168,694	187,200	192,800	198,600	204,600
Total Expenses	**$4,469,319**	**$5,489,301**	**$6,452,800**	**$7,071,800**	**$7,540,900**	**$8,042,400**
Operating Surplus (Deficit)	**$427,593**	**$416,785**	**$448,500**	**($626,600)**	**($1,060,700)**	**($1,580,800)**
Gains (Losses) on Investments	6,098	(161,304)	88,900	46,700	38,700	26,000
Total Addition (Reduction) to Fund Asset	**$433,691**	**$255,481**	**$537,400**	**($579,900)**	**($1,022,000)**	**($1,554,800)**
Beginning Fund Assets	**$4,352,774**	**$4,786,465**	**$5,041,946**	**$5,579,346**	**$4,999,446**	**$3,977,446**
Ending Fund Assets	**$4,786,465**	**$5,041,946**	**$5,579,346**	**$4,999,446**	**$3,977,446**	**$2,422,646**
Breakeven Contribution Rate	**$3.64**	**$3.71**	**$3.85**	**$4.66**	**$4.99**	**$5.34**
Recommended Margin				**$0.19**	**$0.20**	**$0.22**
Breakeven Contribution Rate with Margin			**$3.85**	**$4.85**	**$5.19**	**$5.56**
Average Contribution Rate	**$4.00**	**$4.00**	**$4.13**	**$4.24**	**$4.27**	**$4.27**

The contribution rate margin above reflects the additional United Healthcare 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

PER ACTIVE PER MONTH

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

	Historical Results			Projections		
12 Months Ending	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Income						
Employer Contributions	$854.86	$916.09	$947.64	$847.99	$854.00	$854.00
Employee Contributions	15.52	11.31	10.64	12.71	13.58	14.50
Other Income	2.46	0.02	5.16	0.00	0.00	0.00
Investment Income	20.11	22.72	11.33	12.63	10.50	7.06
Total Income	**$892.95**	**$950.14**	**$974.77**	**$873.33**	**$878.08**	**$875.56**
Expenses						
Medical/Dental/Vision Premium	$762.85	$835.07	$863.28	$910.26	$973.04	$1,040.18
Life Premium	19.26	20.89	21.69	21.86	21.86	21.86
Operating Costs	32.86	27.14	26.44	26.12	26.91	27.72
Total Expenses	**$814.97**	**$883.10**	**$911.41**	**$958.24**	**$1,021.81**	**$1,089.76**
Operating Surplus (Deficit)	**$77.98**	**$67.04**	**$63.36**	**($84.91)**	**($143.73)**	**($214.20)**
Gains (Losses) on Investments	1.11	(25.95)	12.56	6.33	5.24	3.52
Total Addition (Reduction) to Fund Assets	**$79.09**	**$41.09**	**$75.92**	**($78.58)**	**($138.49)**	**($210.68)**
Average Number of Actives	**457**	**518**	**590**	**615**	**615**	**615**
Breakeven Contribution Rate	**$3.64**	**$3.71**	**$3.85**	**$4.66**	**$4.99**	**$5.34**
Recommended Margin				**$0.19**	**$0.20**	**$0.22**
Breakeven Contribution Rate with Margin				**$4.85**	**$5.19**	**$5.56**
Average Contribution Rate	**$4.00**	**$4.00**	**$4.13**	**$4.24**	**$4.27**	**$4.27**

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-18	Mar-19	Mar-20
Current Assumptions			
Average Monthly Hours	200	200	200
Ending Fund Assets	$4,999,446	$3,977,446	$2,422,646
Continuation Value (Months)	8.0	5.9	3.4
Breakeven Contribution Rate	$4.66	$4.99	$5.34
Breakeven Contribution Rate with Margin	$4.85	$5.19	$5.56
Alternate Assumption 1			
Average Monthly Hours	190	190	190
Ending Fund Assets	$4,681,868	$3,330,468	$1,436,468
Continuation Value (Months)	7.5	5.0	2.0
Breakeven Contribution Rate	$4.91	$5.26	$5.63
Breakeven Contribution Rate with Margin	$5.11	$5.47	$5.86
Alternate Assumption 2			
Average Monthly Hours	210	210	210
Ending Fund Assets	$5,316,980	$4,624,306	$3,408,732
Continuation Value (Months)	8.5	6.9	4.8
Breakeven Contribution Rate	$4.44	$4.74	$5.08
Breakeven Contribution Rate with Margin	$4.62	$4.93	$5.29
Average Contribution Rate Per Hour	$4.24	$4.27	$4.27

Fiscal 2018 year end assets are estimated to be adequate to cover an economic reserve amounting to 50% of annual expenses, with the funding percent dropping to approximately 60% of the targeted reserve by the FY 2020 year end.

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

FUND ASSET POSITION

	Historical Results			Projections		
12 Months Ending	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Fund Assets as of Period End	$4,786,465	$5,041,946	$5,579,346	$4,999,446	$3,977,446	$2,422,646
Auditor's Statement of Fund Assets	$4,786,465	$5,041,946				

TARGETED RESERVES

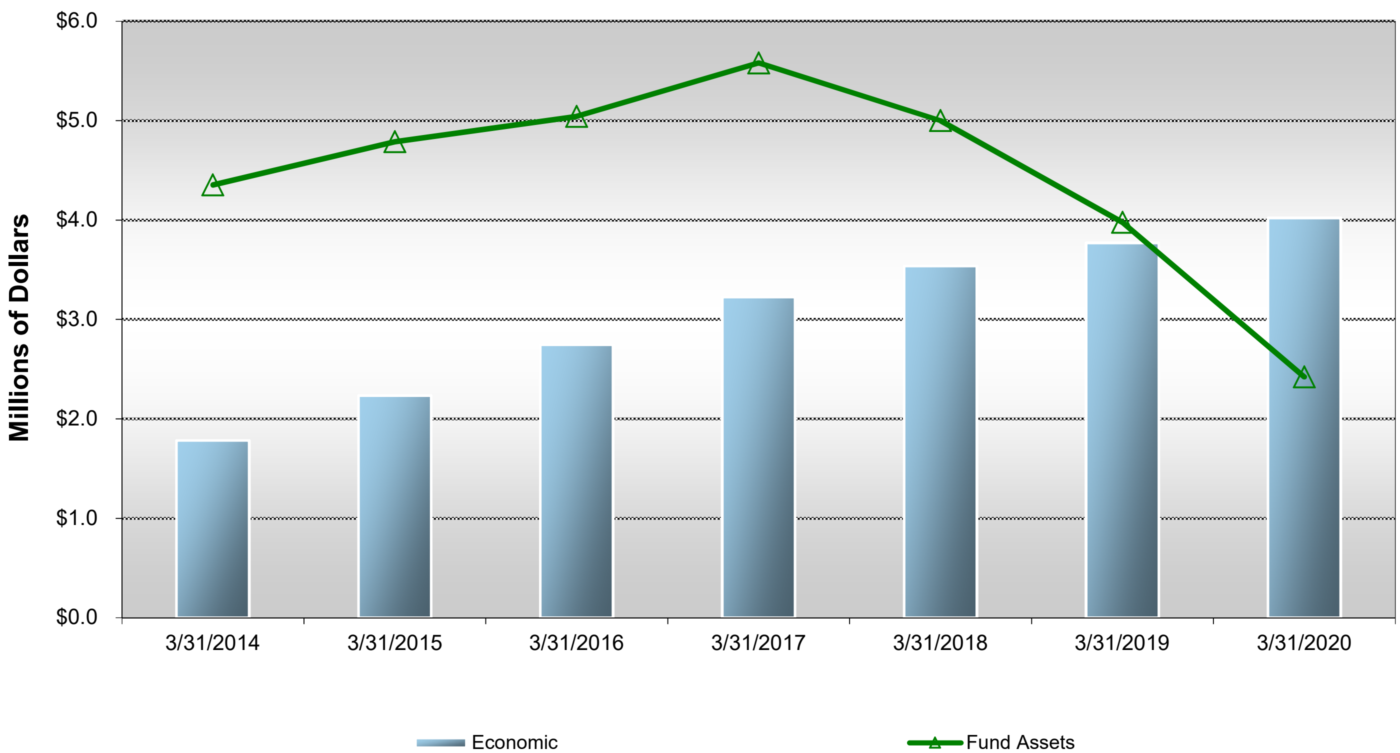
	Unaudited			Projections		
12 Months Ending	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Economic	$2,234,700	$2,744,700	$3,226,400	$3,535,900	$3,770,500	$4,021,200
Total Targeted Reserves	$2,234,700	$2,744,700	$3,226,400	$3,535,900	$3,770,500	$4,021,200

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-14**	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Ratio of Fund Assets to Targeted Reserves	244.3%	214.2%	183.7%	172.9%	141.4%	105.5%	60.2%
Ratio of Fund Assets to Next Year's Expenses	97.4%	87.2%	78.1%	78.9%	66.3%	49.5%	28.2%
Continuation Value (Months)	11.7	10.5	9.4	9.5	8.0	5.9	3.4



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.