International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Report - Fiscal Year Ending 2019

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May 25, 2018

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 2019 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 Consulting

By:

Ernie Naegele
Vice President and Consultant
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cc: *Linda DuVall*
Kathleen Phillips
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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 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, trend rates, and claims volatility. The accuracy and reliability of projections decrease as the projection period increases. Unless otherwise noted, these projections do not include any cost or savings impact resulting from The Patient Protection and Affordable Care Act (PPACA) or other recently passed state or federal regulations.

These projections do not reflect an estimate of the ACA Excise Tax for High Cost Health Plans beginning in 2022, unless otherwise explicitly noted. Since final regulatory guidance is not available regarding how the tax will be calculated, and because of the potential for future repeal of the tax, we do not routinely include the estimated tax liability expense in our expense projections. However, it is highly recommended that the Trustees begin to address any potential impact and options. At the direction of the Trustees, Segal is prepared to estimate ACA Excise Taxes based on the information available and incorporate any projected tax liabilities in future budget projections.

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 2016 and 2017 fiscal years are based on the audited financial statements, and the 2018 fiscal year is estimated based on unaudited financial statements through February 2018, with projections through the end of the fiscal year. Audited figures will vary.*

- *For fiscal year (FY) 2018, an operating deficit of $524K is estimated. After a net gain on investments of $126K, the net assets of the Fund are estimated to reduce by $398K to approximately $5.2M.*

- *The number of active employees eligible to enroll for medical coverage increased from 588 in FY 2017 to 602 in FY 2018. COBRA/Self-pay participants amounted to 5 in 2017 and 4 in FY 2018, and retirees amounted to 6 in FY 2017 and 7 in FY 2018.*

- *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 during January through March 2018, projections assume that approximately 98% of active employees eligible to enroll will actually enroll.*

- *Breakeven contribution rate calculations assume 98% 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 2018 – 2021 is shown on page 4 of this report. The projected enrollments are based on a review of the UnitedHealthcare Premium statements and Fund Office eligibility reports for January 2018 through March 2018.*

- *Contribution rate increases during the year for Crane (from $4.20 to $4.30 in July 2017), and Foundation (from $4.20 to $4.30 in May 2017) and others (besides Chuck's Backhoe and United Excavations) (from $4.00 to 4.20 in May 2017 and $4.30 in July 2017) resulted in an increase in the average contribution rate from $4.13 (FY 2017) to $4.25 (FY 2018).*

- *As of March 31, 2018, the employer contribution rates in effect were $4.30 for all employers with the exception of Chuck's Backhoe and United Excavations, which remain at $4.00 based on the February 2018 employer contribution report. In the absence of any future contribution increases, the average rate changes from $4.25 in FY 2018, to $4.27 in FY 2019 through FY 2021. If all employer's rates were increased by $.20 on July 1, 2019, and increased by $.10 on July 1, 2020, the average rates would increase to $4.42 in FY 2020 and $4.55 in FY 2021. Upon request by a Trustee, this is the basis upon which budget projections are shown.*

Key Findings, Recommendations

- *The average monthly employment level for active employees eligible to enroll for medical coverage during the past three fiscal years was 229 hours in FY 2016, 233 hours in FY 2017, and estimated at 211 in FY 2018. Projection years assume an average monthly employment level of 215 hours; however, alternate projections reflecting employment levels of 200 and 225 hours are also shown on page 7 of this report.*

- *The Fund changed carriers from Aetna to UnitedHealthcare on April 1, 2017. UnitedHealthcare 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% premium rate increase on April 1, 2019 and April 1, 2020 based on standard trend factors; however, actual increases will be subject to negotiation.*

- *The current monthly Life rate is $16.50 (for active, Self-Pay/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, 2019. Any actual rate change beyond that date is subject to negotiation and Trustee approval. Projections assume 603 members covered for Life and AD&D and 136 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 FY 2020. Due to deficits resulting from projected income and expenses, the Fund's assets are assumed to be depleted by the end of FY 2021 and the Fund will be insolvent unless measures are taken to increase revenue or reduce expenses.*

- *Targeted reserves do not reflect an allowance for accumulated eligibility for active participants. The audited obligation as of March 31, 2017 amounted to $1,686,912.*

- *Targeted reserves do not reflect an allowance for future retiree coverage. The audited obligation as of March 31, 2017 amounted to $4,368,909.*

- *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

				Projections		
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Average Number of Active Employees	518	588	602	592	592	592
Average Contribution Hours per Month	229	233	211	215	215	215
Aggregate Hours	1,423,599	1,645,392	1,520,975	1,527,360	1,527,360	1,527,360
Average Contribution Rate Per Hour	$4.00	$4.13	$4.25	$4.27	$4.42	$4.55
Total Income	$5,906,086	$6,945,287	$6,650,158	$6,668,727	$6,871,731	$7,048,688
Total Expenses	$5,489,301	$6,498,794	$7,173,921	$8,138,300	$8,681,900	$9,263,000
Average Income Per Active	$950.14	$984.32	$920.56	$938.73	$967.31	$992.21
Average Expenses Per Active	$883.10	$921.03	$993.07	$1,145.60	$1,222.12	$1,303.92
Breakeven Contribution Rate	$3.82	$3.78	$4.51	$5.21	$5.60	$6.00
Recommended Margin				$0.06	$0.06	$0.07
Breakeven Contribution Rate with Margin				$5.27	$5.66	$6.07
Fund Assets	$5,041,946	$5,625,663	$5,227,653	$3,787,880	$1,991,611	$(222,701)
Ratio of Net Assets to Targeted Reserves	183.7%	173.1%	145.7%	93.1%	45.9%	0.0%
Continuation Value (Months)	9.3	9.4	7.7	5.2	2.6	0.0

Projections assume that approximately 98% of the active members eligible to enroll will enroll for medical benefits.

Alternate employment assumptions are shown on page 7.

ASSUMPTIONS

12 Months Ending	Mar-19	Mar-20	Mar-21
Average Number of Actives			
Active-Eligible to Enroll	592	592	592
Active Estm. Enrolled	580	580	580
COBRA/Self Pay Estm. Enrolled	5	5	5
Retiree Estm. Enrolled	7	7	7
Total Estm. Enrolled	592	592	592
Average Contribution Hours per Month:			
Active-Eligible to Enroll	215	215	215
Aggregate Hours	1,527,360	1,527,360	1,527,360
Average Contribution Rate			
Active-Eligible to Enroll (Per Hour)	$4.27	$4.42	$4.55
Trend Factors			
Medical/Dental/Vision Premium	Renewal	6.9%	6.9%
Life Premium	Renewal	0.0%	0.0%
Operating Costs	3.0%	3.0%	3.0%
Investment Yield	2.0%	2.0%	2.0%
Rate of Return	3.0%	3.0%	3.0%

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

AGGREGATE

				Projections		
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Income						
Employer Contributions	$5,694,396	$6,795,470	$6,464,143	$6,521,827	$6,750,931	$6,949,488
Self-Pay Contributions	70,316	67,213	72,637	87,300	93,100	99,200
Other Income	143	204	7,781	0	0	0
Investment Income	141,231	82,400	105,597	59,600	27,700	0
Total Income	**$5,906,086**	**$6,945,287**	**$6,650,158**	**$6,668,727**	**$6,871,731**	**$7,048,688**
Expenses						
Medical/Dental/Vision Premium	$5,190,775	$6,149,153	$6,813,286	$7,774,600	$8,311,800	$8,886,300
Life Premium	129,832	154,828	153,719	150,600	150,600	150,600
Operating Costs	168,694	194,813	206,916	213,100	219,500	226,100
Total Expenses	**$5,489,301**	**$6,498,794**	**$7,173,921**	**$8,138,300**	**$8,681,900**	**$9,263,000**
Operating Surplus (Deficit)	**$416,785**	**$446,493**	**($523,763)**	**($1,469,573)**	**($1,810,169)**	**($2,214,312)**
Gains (Losses) on Investments	(161,304)	137,224	125,753	29,800	13,900	
Total Addition (Reduction) to Fund Asset	**$255,481**	**$583,717**	**($398,010)**	**($1,439,773)**	**($1,796,269)**	**($2,214,312)**
Beginning Fund Assets	**$4,786,465**	**$5,041,946**	**$5,625,663**	**$5,227,653**	**$3,787,880**	**$1,991,611**
Ending Fund Assets	**$5,041,946**	**$5,625,663**	**$5,227,653**	**$3,787,880**	**$1,991,611**	**($222,701)**
Breakeven Contribution Rate	**$3.82**	**$3.78**	**$4.51**	**$5.21**	**$5.60**	**$6.00**
Recommended Margin				**$0.06**	**$0.06**	**$0.07**
Breakeven Contribution Rate with Margin				**$5.27**	**$5.66**	**$6.07**
Average Contribution Rate	**$4.00**	**$4.13**	**$4.25**	**$4.27**	**$4.42**	**$4.55**

The contribution rate margin above reflects the additional UnitedHealthcare 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.

				Projections		
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Income						
Employer Contributions	$916.09	$963.08	$894.81	$918.05	$950.30	$978.25
Self-Pay Contributions	11.31	9.53	10.05	12.29	13.11	13.96
Other Income	0.02	0.03	1.08	0.00	0.00	0.00
Investment Income	22.72	11.68	14.62	8.39	3.90	0.00
Total Income	**$950.14**	**$984.32**	**$920.56**	**$938.73**	**$967.31**	**$992.21**
Expenses						
Medical/Dental/Vision Premium	$835.07	$871.48	$943.15	$1,094.40	$1,170.02	$1,250.89
Life Premium	20.89	21.94	21.28	21.20	21.20	21.20
Operating Costs	27.14	27.61	28.64	30.00	30.90	31.83
Total Expenses	**$883.10**	**$921.03**	**$993.07**	**$1,145.60**	**$1,222.12**	**$1,303.92**
Operating Surplus (Deficit)	**$67.04**	**$63.29**	**($72.51)**	**($206.87)**	**($254.81)**	**($311.71)**
Gains (Losses) on Investments	(25.95)	19.45	17.41	4.19	1.96	
Total Addition (Reduction) to Fund Asset	**$41.09**	**$82.74**	**($55.10)**	**($202.68)**	**($252.85)**	**($311.71)**
Average Number of Actives	**518**	**588**	**602**	**592**	**592**	**592**
Breakeven Contribution Rate	**$3.82**	**$3.78**	**$4.51**	**$5.21**	**$5.60**	**$6.00**
Recommended Margin				**$0.06**	**$0.06**	**$0.07**
Breakeven Contribution Rate with Margin				**$5.27**	**$5.66**	**$6.07**
Average Contribution Rate	**$4.00**	**$4.13**	**$4.25**	**$4.27**	**$4.42**	**$4.55**

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

VARIATIONS IN HOURS ASSUMPTIONS

12 Months Ending	Mar-19	Mar-20	Mar-21
Current Assumptions			
Average Monthly Hours	215	215	215
Ending Fund Assets	$3,787,880	$1,991,611	($222,701)
Continuation Value (Months)	5.2	2.6	0.0
Breakeven Contribution Rate	$5.21	$5.60	$6.00
Breakeven Contribution Rate with Margin	$5.27	$5.66	$6.07
Alternate Assumption 1			
Average Monthly Hours	200	200	200
Ending Fund Assets	$3,326,053	$1,037,853	($1,647,447)
Continuation Value (Months)	4.6	1.3	0.0
Breakeven Contribution Rate	$5.63	$6.04	$6.45
Breakeven Contribution Rate with Margin	$5.69	$6.10	$6.53
Alternate Assumption 2			
Average Monthly Hours	225	225	225
Ending Fund Assets	$4,095,853	$2,627,453	$731,053
Continuation Value (Months)	5.7	3.4	0.9
Breakeven Contribution Rate	$5.00	$5.35	$5.73
Breakeven Contribution Rate with Margin	$5.06	$5.41	$5.80
Average Contribution Rate Per Hour	$4.27	$4.42	$4.55

Contribution rates assume an increase on 7/1/2019 of $.20 per hour, and an increase on 7/1/2020 of $.10 per hour. These contribution rates are subject to negotiation.

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

FY 2019 year end assets are estimated to be adequate to cover the majority of targeted economic reserves amounting to 50% of annual expenses, with the funding percent dropping to a negative reserve position by the FY 2021 year end.

FUND ASSET POSITION

	Historical Results		Projections			
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Fund Assets as of Period End	$5,041,946	$5,625,663	$5,227,653	$3,787,880	$1,991,611	$(222,701)
Auditor's Statement of Fund Assets	$5,041,946	$5,625,663				

TARGETED RESERVES

	Historical Results		Projections			
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Economic	2,744,700	3,249,400	3,587,000	4,069,200	4,341,000	4,631,500
Total Targeted Reserves	$2,744,700	$3,249,400	$3,587,000	$4,069,200	$4,341,000	$4,631,500

Economic Reserve

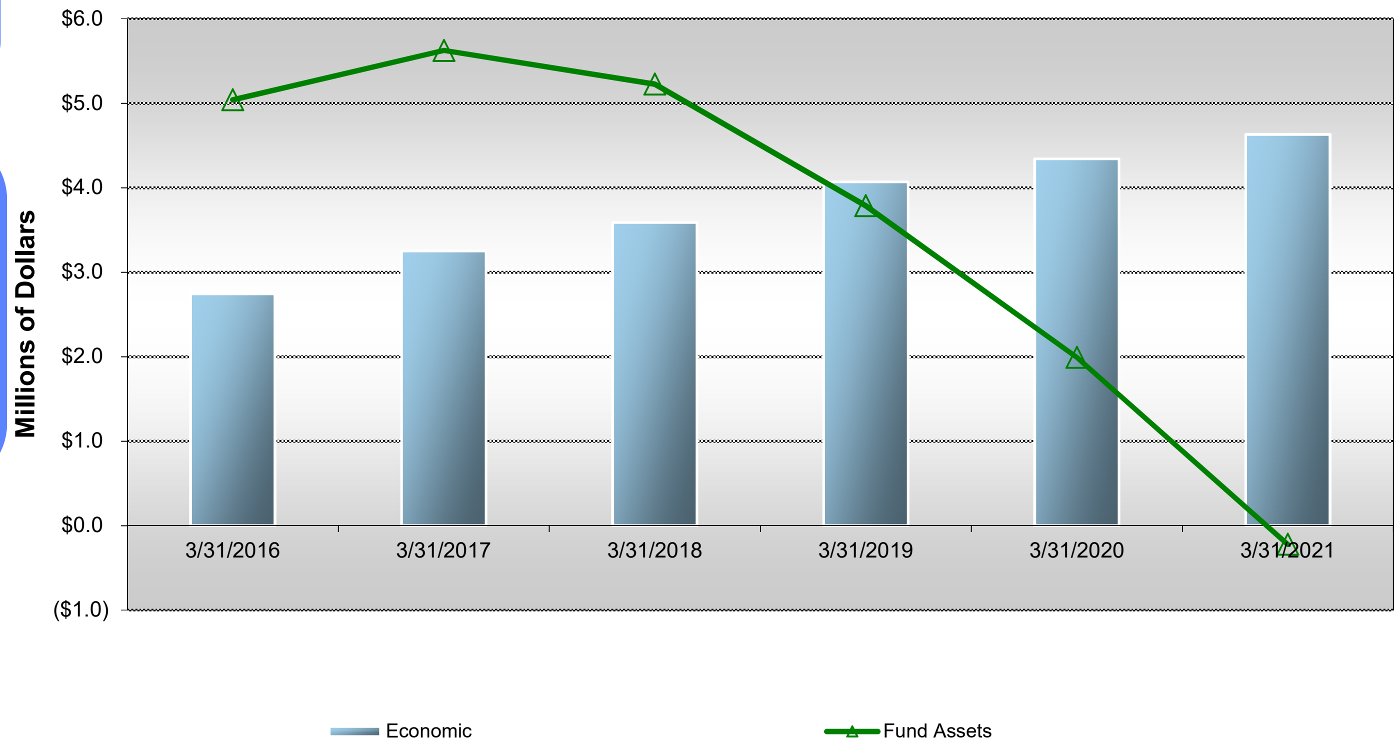
Purpose: Amount set aside to preserve financial solvency during a prolonged, adverse economic situation.

Due to the deficits resulting from projected income and expenses, the Fund's assets are assumed to be depleted by the end of the FY 2021 and the Fund will be insolvent unless measures are taken to increase revenue or reduce expenses.

Considerations could include: Employer contribution rate increase, contributions for dependent coverage, reduction of benefits, or increase eligibility rule requirements.

FUND ASSET POSITION AND TARGETED RESERVES GRAPH

	Historical Results			Projections		
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Ratio of Fund Assets to Targeted Reserves	183.7%	173.1%	145.7%	93.1%	45.9%	-4.8%
Ratio of Fund Assets to Next Year's Expenses	77.6%	78.4%	64.2%	43.6%	21.5%	-2.3%
Continuation Value (Months)	9.3	9.4	7.7	5.2	2.6	0.0



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.*

Economic Reserve *– Amount set aside to preserve financial solvency during a prolonged, adverse economic situation.*

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.*