International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Report - Fiscal Year Ending 2019

Segal Consulting

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February 5, 2019

Board of Trustees
International Union of Operating Engineers
Local 487 Health & Welfare Trust Fund
Miami, Florida

Dear Trustees:

We are pleased to submit this updated fiscal 2019 Health Benefits Report for the International Union of Operating Engineers Local 487 Health & 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, a Member of The Segal Group, Inc.

By:

Ernest Naegele
Vice President and Consultant

cc: Linda DuVall
Kathleen Phillips

Section 1

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, 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 - 2018 fiscal years are based on the audited financial statements, and the 2019 fiscal year is estimated based on unaudited financial statements through November 2018, with projections through the end of the fiscal year.*
- *For fiscal year (FY) 2019, an operating deficit of $902K is projected. After a net loss on investments of $88K, the net assets of the Fund are estimated to reduce by $989K to approximately $4.1M.*
- *The number of active employees eligible to enroll for medical coverage increased from 602 in FY 2018 to 614 in FY 2019. COBRA/Self-pay participants increased from 4 in 2018 to 5 in FY 2019, and retirees decreased from 7 in FY 2018 to 5 in FY 2019.*
- *Active employees are enrolled for medical coverage following receipt of an enrollment form; 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 November 2018 through January 2019, projections assume that 99.9% of active employees eligible to enroll will actually enroll.*
- *A comparison of the number of COBRA/Self-pay, COBRA and active employees eligible to enroll and estimated to enroll during fiscal 2019 – 2021 is shown on page 4 of this report. The projected enrollments are based on a review of the UnitedHealthcare Premium statements for October 2018 through January 2019 and Fund Office eligibility reports for October 2018 through November 2018 and assuming employees eligible to enroll in November 2018 will also be enrolled December 2018 through January 2019.*
- *Contribution rate increases during the year for Enterprise Construction, Chuck's Backhoe, and United Excavations (from $4.00 to $4.15 in July 2018) resulted in an increase in the average contribution rate from $4.25 (FY 2018) to $4.28 (FY 2019).*
- *The projected average monthly employment for FY 2019 is 226 hours. For FY 2020 and FY 2021, we 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.*

Key Findings, Recommendations

- *As of January 31, 2019, the employer contribution rates in effect were $4.30 for all employers with the exception of Enterprise Construction, Chuck's Backhoe and United Excavations, which remain at $4.15 based on the November 2018 employer contribution report. In the absence of any future contribution increases, the average rate changes from $4.28 in FY 2019, to $4.29 in FY 2020 through FY 2021. If all employers' rates were increased by $0.20 on July 1, 2020, and increased by $0.20 on July 1, 2021, the average rates would increase to $4.44 in FY 2020 and $4.64 in FY 2021. Upon guidance from the Fund, this is the basis upon which budget projections are shown.*
- *UnitedHealthcare premium projections assume an 18% premium rate increase in medical rates and no change in vision and dental rates on April 1, 2019 based on guidance from the broker and a 7.1% average increase effective 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 assume rates will not change; however future rate changes are subject to negotiation and Trustee approval.*
- *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 after the end of FY 2020 and the Fund will be insolvent unless measures are taken to increase revenue or reduce expenses.*
- *Targeted reserves do not reflect the audited obligation as of March 31, 2018 for accumulated eligibility for active participants ($1,918,545) and for future retiree coverage ($4,002,668).*
- *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.*

SUMMARY

	Historical Results			Projections		
12 Months Ending	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Average Number of Active Employees	518	588	602	614	627	627
Average Contribution Hours per Month	229	233	209	226	215	215
Aggregate Hours	1,423,599	1,645,392	1,510,022	1,664,581	1,617,660	1,617,660
Average Contribution Rate Per Hour	$4.00	$4.13	$4.25	$4.28	$4.44	$4.64
Total Income	$5,906,086	$6,945,287	$6,584,690	$7,304,626	$7,292,519	$7,575,251
Total Expenses	$5,489,301	$6,498,794	$7,190,805	$8,206,300	$9,829,000	$10,510,200
Average Income Per Active	$950.14	$984.32	$911.50	$991.39	$969.24	$1,006.82
Average Expenses Per Active	$883.10	$921.03	$995.41	$1,113.78	$1,306.36	$1,396.89
Breakeven Contribution Rate	$3.71	$3.86	$4.65	$4.83	$6.01	$6.45
Recommended Margin				$0.00	$0.02	$0.02
Breakeven Contribution Rate with Margin				$4.83	$6.03	$6.47
Fund Assets	$5,041,946	$5,625,663	$5,131,464	$4,141,990	$1,628,208	$(1,306,741)
Ratio of Net Assets to Targeted Reserves	183.7%	173.1%	142.7%	100.9%	33.1%	0.0%
Continuation Value (Months)	9.3	9.4	7.5	5.1	1.9	0.0

Projections assume that approximately 99.9% 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	614	627	627
Active Estm. Enrolled	613	625	625
COBRA/Self Pay Estm. Enrolled	5	5	5
Retiree Estm. Enrolled	5	3	3
Total Estm. Enrolled	623	633	633
Average Contribution Hours per Month:			
Active-Eligible to Enroll	226	215	215
Aggregate Hours	1,664,581	1,617,660	1,617,660
Average Contribution Rate			
Active-Eligible to Enroll (Per Hour)	$4.28	$4.44	$4.64
Trend Factors			
Medical/Dental/Vision Premium	Actual	Renewal	7.1%
Life/AD&D Premium	Actual	0.0%	0.0%
Operating Costs	Actual	3.0%	3.0%
Investment Yield	2.0%	2.0%	0.0%
Rate of Return	3.0%	3.0%	0.0%

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

Life and AD&D premium projections assume 640 members covered for Life and AD&D and 137 members covered for Life only.

AGGREGATE

	Historical Results			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	$6,417,593	$7,130,926	$7,179,219	$7,502,751
Self-Pay Contributions	70,316	67,213	69,659	65,900	67,800	72,500
Other Income	143	204	0	6,900	0	0
Investment Income	141,231	82,400	97,438	100,900	45,500	0
Total Income	**$5,906,086**	**$6,945,287**	**$6,584,690**	**$7,304,626**	**$7,292,519**	**$7,575,251**
Expenses						
Medical/Dental/Vision Premium	$5,190,775	$6,149,153	$6,827,478	$7,843,200	$9,454,200	$10,128,900
Life/AD&D Premium	129,832	154,828	153,414	153,100	158,500	158,500
Operating Costs	168,694	194,813	209,913	210,000	216,300	222,800
Total Expenses	**$5,489,301**	**$6,498,794**	**$7,190,805**	**$8,206,300**	**$9,829,000**	**$10,510,200**
Operating Surplus (Deficit)	**$416,785**	**$446,493**	**($606,115)**	**($901,674)**	**($2,536,481)**	**($2,934,949)**
Gains (Losses) on Investments	(161,304)	137,224	111,916	(87,800)	22,700	
Total Addition (Reduction) to Fund Assets	**$255,481**	**$583,717**	**($494,199)**	**($989,474)**	**($2,513,781)**	**($2,934,949)**
Beginning Fund Assets	**$4,786,465**	**$5,041,946**	**$5,625,663**	**$5,131,464**	**$4,141,990**	**$1,628,208**
Ending Fund Assets	**$5,041,946**	**$5,625,663**	**$5,131,464**	**$4,141,990**	**$1,628,208**	**($1,306,741)**
Breakeven Contribution Rate	**$3.71**	**$3.86**	**$4.65**	**$4.83**	**$6.01**	**$6.45**
Recommended Margin				**$0.00**	**$0.02**	**$0.02**
Breakeven Contribution Rate with Margin				**$4.83**	**$6.03**	**$6.47**
Average Contribution Rate	**$4.00**	**$4.13**	**$4.25**	**$4.28**	**$4.44**	**$4.64**

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

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-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Income						
Employer Contributions	$916.09	$963.08	$888.37	$967.82	$954.18	$997.18
Self-Pay Contributions	11.31	9.53	9.64	8.94	9.01	9.64
Other Income	0.02	0.03	0.00	0.94	0.00	0.00
Investment Income	22.72	11.68	13.49	13.69	6.05	0.00
Total Income	**$950.14**	**$984.32**	**$911.50**	**$991.39**	**$969.24**	**$1,006.82**
Expenses						
Medical/Dental/Vision Premium	$835.07	$871.48	$945.11	$1,064.50	$1,256.54	$1,346.21
Life/AD&D Premium	20.89	21.94	21.24	20.78	21.07	21.07
Operating Costs	27.14	27.61	29.06	28.50	28.75	29.61
Total Expenses	**$883.10**	**$921.03**	**$995.41**	**$1,113.78**	**$1,306.36**	**$1,396.89**
Operating Surplus (Deficit)	**$67.04**	**$63.29**	**($83.91)**	**($122.39)**	**($337.12)**	**($390.07)**
Gains (Losses) on Investments	(25.95)	19.45	15.49	(11.92)	3.02	
Total Addition (Reduction) to Fund Assets	**$41.09**	**$82.74**	**($68.42)**	**($134.31)**	**($334.10)**	**($390.07)**
Average Number of Actives	**518**	**588**	**602**	**614**	**627**	**627**
Breakeven Contribution Rate	**$3.71**	**$3.86**	**$4.65**	**$4.83**	**$6.01**	**$6.45**
Recommended Margin				**$0.00**	**$0.02**	**$0.02**
Breakeven Contribution Rate with Margin				**$4.83**	**$6.03**	**$6.47**
Average Contribution Rate	**$4.00**	**$4.13**	**$4.25**	**$4.28**	**$4.44**	**$4.64**

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	226	215	215
Ending Fund Assets	$4,141,990	$1,628,208	($1,306,741)
Continuation Value (Months)	5.1	1.9	0.0
Breakeven Contribution Rate	$4.83	$6.01	$6.45
Breakeven Contribution Rate with Margin	$4.83	$6.03	$6.47
Alternate Assumption 1			
Average Monthly Hours	200	200	200
Ending Fund Assets	$3,295,886	$265,986	($3,169,814)
Continuation Value (Months)	4.0	0.3	0.0
Breakeven Contribution Rate	$5.47	$6.47	$6.94
Breakeven Contribution Rate with Margin	$5.47	$6.49	$6.96
Alternate Assumption 2			
Average Monthly Hours	225	225	225
Ending Fund Assets	$4,092,886	$1,904,786	($696,214)
Continuation Value (Months)	5.0	2.2	0.0
Breakeven Contribution Rate	$4.86	$5.74	$6.17
Breakeven Contribution Rate with Margin	$4.86	$5.76	$6.19
Average Contribution Rate Per Hour	$4.28	$4.44	$4.64

Observations:

- *Contribution rates assume an increase on 7/1/2019 of $0.20 per hour, and an increase on 7/1/2020 of $0.20 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 targeted economic reserves amounting to 50% of annual expenses, with the funding percent dropping to a negative reserve position after the FY 2020 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	$5,131,464	$4,141,990	$1,628,208	$(1,306,741)
Auditor's Statement of Fund Assets	$5,041,946	$5,625,663	$5,131,464			

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	3,595,400	4,103,200	4,914,500	5,255,100
Total Targeted Reserves	$2,744,700	$3,249,400	$3,595,400	$4,103,200	$4,914,500	$5,255,100

Economic Reserve

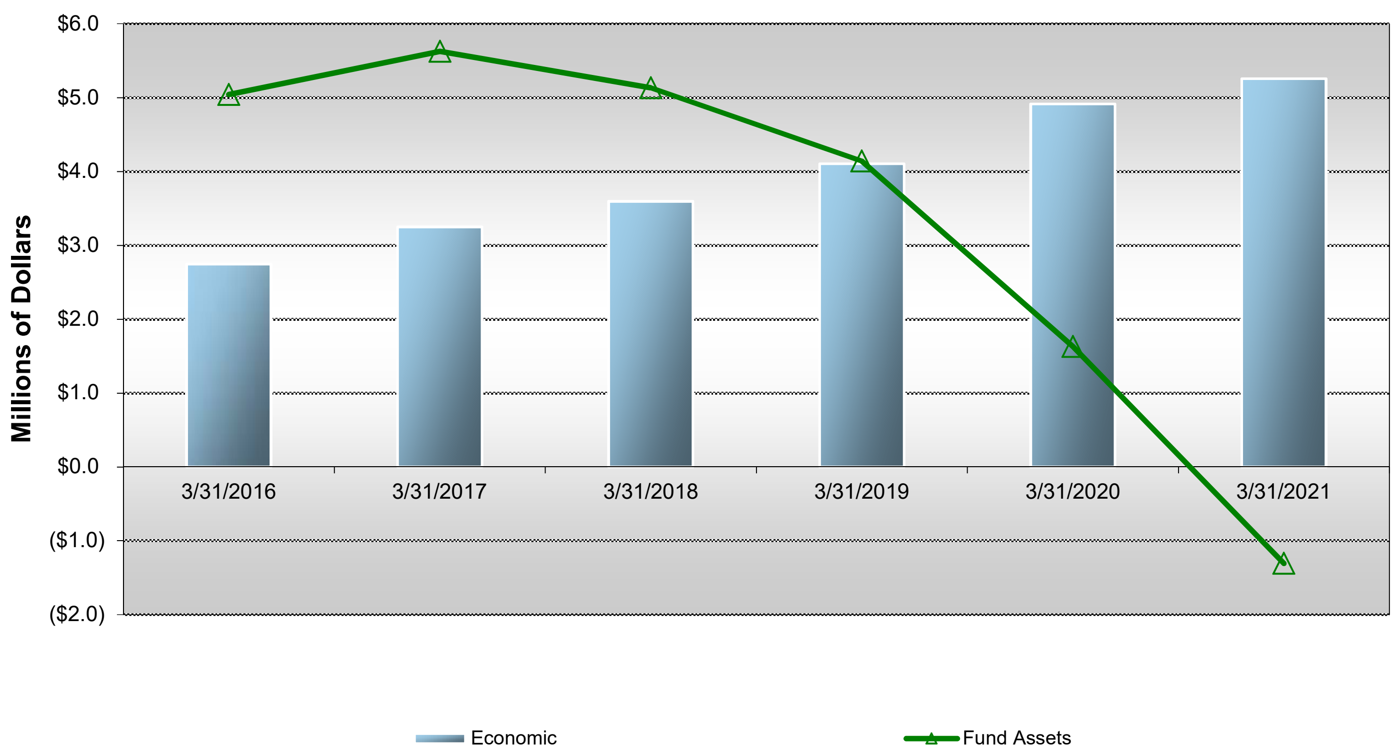
Purpose: Amount set aside to preserve financial solvency during a prolonged, adverse economic situation.

Due to the deficits resulting from projections, the Fund's assets are assumed to be depleted soon after the end of FY 2020 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%	142.7%	100.9%	33.1%	-24.9%
Ratio of Fund Assets to Next Year's Expenses	77.6%	78.2%	62.5%	42.1%	15.5%	-10.7%
Continuation Value (Months)	9.3	9.4	7.5	5.1	1.9	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.*