International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Reports - Fiscal Year Ending 2013

SEGAL

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Board of Trustees
International Union of Operating Engineers
Local 487 Health and Welfare Fund
New Orleans, Louisiana

Dear Trustees:

We are pleased to present these fiscal 2013 Health Benefits Reports for the International Union of Operating Engineers Local 487 Health and Welfare Fund.

I look forward to reviewing this report with you at the Board of Trustees meeting today and answering any questions you may have.

Sincerely,

THE SEGAL COMPANY

By: ______________________

Jeffrey L. Johnson
Senior Vice President

cc: *Linda DuVall*
Kathleen Phillips
Steven Gordon

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 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.

Key Findings, Recommendations

- *Three years of historical Fund operations together with three years of projections are presented in this report. Operations for the 2010 and 2011 fiscal years are based on the audited financial statements. Fiscal year 2012 operations are based on the 12-months unaudited financial statements ending March 31, 2012.*
- *For FY 2012, an operating surplus of approximately $34.5K resulted. After a net gain on investments of $87.7K, the net assets of the Fund are estimated to increase by $122.2K to approximately $3.78 million.*
- *The number of active employees enrolled for medical coverage declined from 349 in 2011 to 337 in 2012. COBRA/self participants declined from 34 in 2011 to 21 in 2012, and retirees declined from three in 2011 to two in 2012.*
- *A recap of the projected medical eligible members by benefit category based on the April 2012 - July 2012 average enrollment is set forth below. Note, no retirees were participating during April 2012 - July 2012.*

	HMO	*PPO*	*Total*
Actives	*334*	*28*	*362*
COBRA/Self-Pay	*18*	*0*	*18*
Retirees	*0*	*0*	*0*
Total	*352*	*28*	*380*

- *The employer contribution rate is $4.00 for all but 36 employees who are still at the $3.90 employer contribution rate. The average employer contribution rate for the 2012 fiscal year was $3.99, which is also used for the budget projection years.*
- *The average monthly employment level for active employees enrolled for medical coverage during the past three fiscal years was 157 hours for 2010, 185 hours for 2011, and 187 hours for 2012. Projection years assume an average monthly employment level of 185 hours; however, alternate projections reflecting employment levels of 180 and 175 hours are also shown on page 7 of this report.*
- *Projections consider the Associated Administrators monthly fee $5,548, effective January 1, 2012 with no changes for future budget periods. Actual renewals are subject to negotiation.*

Key Findings, Recommendations

- *Coventry initially requested a 6% increase to the HMO premium rates and a 1.6% increase to the PPO premium rates, effective on April 1, 2012. The final negotiated rate change was a reduction of 0.6% to the HMO rates and an increase of 1.6% to the PPO rates in addition to one benefit change for the HMO. That change was to increase the annual hospital deductible from $1,000 to $1,500. Projections assume a 9% increase in each future year. The actual increase will be subject to negotiation.*
- *The current monthly Life rate is $14.00 (for active and retired employees) and the AD&D rate is $0.50 (for active employees only). These rates are guaranteed through July 31, 2013. Budget projections do not include any changes in the premium rates effective with the new renewal date of August 1, 2013. Projections assume 362 members covered for Life and AD&D and 148 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, 2015. However, due to projected deficit spending during the budget periods, it is recommended that the Fund consider an alignment of income and expense. The reserve graph on page 9 illustrates the decline in assets projected and provides some ideas for consideration.*
- *Targeted reserves do not reflect an allowance for accumulated eligibility for active participants. The audited obligation as of March 31, 2011 amounted to $827,889.*
- *Targeted reserves do not reflect an allowance for future retiree coverage. The audited obligation as of March 31, 2011 amounted to $1,989,025.*
- *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

The breakeven contribution rate based on Fiscal 2013 projected expenses and a 185 employment level is $4.03 per hour.

A 186.8 hour monthly employment level would be needed to breakeven on income and expenses at the current average $3.99 contribution rate.

SUMMARY

	Historical Results			Projections		
12 Months Ending	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**
Average Number of Actives	356	349	337	362	362	362
Average Contribution Hours Per Month	157	185	187	185	185	185
Aggregate Hours	670,660	774,894	754,880	803,640	803,640	803,640
Average Contribution Rate	$3.92	$3.99	$3.99	$3.99	$3.99	$3.99
Total Income	$2,992,505	$3,372,839	$3,211,052	$3,407,000	$3,416,800	$3,421,800
Total Expenses	$3,640,263	$3,427,906	$3,176,552	$3,437,400	$3,726,500	$4,040,300
Average Income Per Active	$700.49	$805.36	$794.02	$784.29	$786.55	$787.71
Average Expenses Per Active	$852.12	$818.51	$785.49	$791.30	$857.85	$930.09
Breakeven Contribution Rate	$4.89	$4.06	$3.94	$4.03	$4.38	$4.76
Fund Assets	$3,698,277	$3,660,744	$3,782,940	$3,864,940	$3,665,840	$3,147,440
Continuation Value (Months)	12.9	13.8	13.2	12.4	10.9	8.6

Observations:

- *For each 10-hour increase or decrease in the employment level of 185 hours during 2013, the annual impact to Employer contributions would develop at approximately $173K.*
- *The continuation value of the Fund assets is projected to decline from 13.2 months as of the end of March 2012, to 8.6 months as of the end of March 2015. Increases in cost or reductions in employment level from that projected may speed this decline.*

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

ACA Comparative Research Fee - $1.00 per employee and dependent per year beginning in the fiscal 2013 plan year, increasing to $2.00 for fiscal 2014, and estimated to be $2.07 for 2015.

Administrative operating cost projections reflect the actual TPA fees negotiated through December 31, 2012. Other administrative operating costs assume an annual increase of 3%.

ASSUMPTIONS

12 Months Ending	Mar-13	Mar-14	Mar-15
Average Number of Actives			
Active	362	362	362
Average Contribution Hours per Month:			
Active	185.0	185.0	185.0
Aggregate Hours	803,640	803,640	803,640
Average Contribution Rate			
Active (Per Hour)	$3.99	$3.99	$3.99
Trend Factors			
Coventry Group Ins Premium	-0.3%	9.0%	9.0%
Mutual of Omaha Premium	0.0%	0.0%	0.0%
ACA Comparative Research Fee	$1.00 per EE/Dep	$2.00 per EE/Dep	3.70%
Operating Costs	2.0%	2.0%	2.0%
Investment Yield	2.0%	2.0%	2.0%
Rate of Return	5.0%	5.0%	5.0%

Section 1

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

Fiscal 2010 and 2011 operations are based on audited financials.

Fiscal 2012 is based on unaudited cash report financial statements from April 1, 2011 through March 31, 2012.

AGGREGATE

	Historical Results			Projections		
12 Months Ending	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**
Income						
Employer Contributions	$2,628,989	$3,092,601	$3,011,218	$3,206,500	$3,206,500	$3,206,500
Employee Contributions	264,610	188,029	115,652	125,600	136,500	148,500
Other Income	5,349	36,025	19,141	0	0	0
Investment Income	93,557	56,184	65,040	74,900	73,800	66,800
Total Income	**$2,992,505**	**$3,372,839**	**$3,211,052**	**$3,407,000**	**$3,416,800**	**$3,421,800**
Expenses						
Coventry Group Ins Premium	$3,357,250	$3,154,316	$2,908,212	$3,158,900	$3,443,200	$3,753,100
Mutual of Omaha Premium	78,256	95,929	83,235	88,700	88,700	88,700
ACA Comparative Research Fee	0	0	0	1,100	2,200	2,300
Operating Costs	204,757	177,661	185,106	188,700	192,400	196,200
Total Expenses	**$3,640,263**	**$3,427,906**	**$3,176,552**	**$3,437,400**	**$3,726,500**	**$4,040,300**
Operating Surplus (Deficit)	**($647,758)**	**($55,067)**	**$34,500**	**($30,400)**	**($309,700)**	**($618,500)**
Gains on Investments	700,425	17,534	87,696	112,400	110,600	100,100
Total Addition (Reduction) to Fund Asset	**$52,667**	**($37,533)**	**$122,196**	**$82,000**	**($199,100)**	**($518,400)**
Beginning Fund Assets	**$3,645,610**	**$3,698,277**	**$3,660,744**	**$3,782,940**	**$3,864,940**	**$3,665,840**
Ending Fund Assets	**$3,698,277**	**$3,660,744**	**$3,782,940**	**$3,864,940**	**$3,665,840**	**$3,147,440**
Breakeven Contribution Rate	**$4.89**	**$4.06**	**$3.94**	**$4.03**	**$4.38**	**$4.76**
Average Contribution Rate	**$3.92**	**$3.99**	**$3.99**	**$3.99**	**$3.99**	**$3.99**

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

PER ACTIVE PER MONTH

The "Breakeven Contribution Rate" line does not include investment gains, and reflects that the current $3.99 employee contribution is not sufficient to cover projected expenses based on a 185-hour employment level.

	Historical Results			Projections		
12 Months Ending	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**
Income						
Employer Contributions	$615.40	$738.44	$744.61	$738.14	$738.14	$738.14
Employee Contributions	61.94	44.90	28.60	28.91	31.42	34.19
Other Income	1.25	8.60	4.73	0.00	0.00	0.00
Investment Income	21.90	13.42	16.08	17.24	16.99	15.38
Total Income	**$700.49**	**$805.36**	**$794.02**	**$784.29**	**$786.55**	**$787.71**
Expenses						
Coventry Group Ins Premium	$785.87	$753.18	$719.14	$727.19	$792.63	$863.97
Mutual of Omaha Premium	18.32	22.91	20.58	20.42	20.42	20.42
ACA Comparative Research Fee	0.00	0.00	0.00	0.25	0.51	0.53
Operating Costs	47.93	42.42	45.77	43.44	44.29	45.17
Total Expenses	**$852.12**	**$818.51**	**$785.49**	**$791.30**	**$857.85**	**$930.09**
Operating Surplus (Deficit)	**($151.63)**	**($13.15)**	**$8.53**	**($7.01)**	**($71.30)**	**($142.38)**
Gains on Investments	163.96	4.19	21.69	25.87	25.46	23.04
Total Addition (Reduction) to Fund Asset	**$12.33**	**($8.96)**	**$30.22**	**$18.86**	**($45.84)**	**($119.34)**
Average Number of Actives	**356**	**349**	**337**	**362**	**362**	**362**
Breakeven Contribution Rate	**$4.89**	**$4.06**	**$3.94**	**$4.03**	**$4.38**	**$4.76**
Average Contribution Rate	**$3.92**	**$3.99**	**$3.99**	**$3.99**	**$3.99**	**$3.99**

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

Alternate hours projections are shown to illustrate the impact on the breakeven contribution rate with 5 hour variations in employment levels from that projected.

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-13	Mar-14	Mar-15
Current Assumptions			
Average Monthly Hours	185.0	185.0	185.0
Ending Fund Assets	$3,864,940	$3,665,840	$3,147,440
Continuation Value (Months)	12.45	10.89	8.63
Breakeven Contribution Rate	$4.03	$4.38	$4.76
Alternate Assumption 1			
Average Monthly Hours	180.0	180.0	180.0
Ending Fund Assets	$3,776,040	$3,483,640	$2,867,240
Continuation Value (Months)	12.16	10.35	7.86
Breakeven Contribution Rate	$4.14	$4.50	$4.90
Alternate Assumption 2			
Average Monthly Hours	175.00	175.00	175.00
Ending Fund Assets	$3,687,214	$3,301,588	$2,587,362
Continuation Value (Months)	11.87	9.81	7.09
Breakeven Contribution Rate	$4.26	$4.63	$5.04
Average Contribution Rate Per Hour	$3.99	$3.99	$3.99

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

Fiscal 2013 through 2015 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-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**
Fund Assets as of Period End	$3,698,277	$3,660,744	$3,782,940	$3,864,940	$3,665,840	$3,147,440
Auditor's Statement of Fund Assets	$3,698,277	$3,660,744				

TARGETED RESERVES

	Historical Results			Projections		
12 Months Ending	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**
Economic	$ 1,820,100	$ 1,714,000	$ 1,588,300	$ 1,718,700	$ 1,863,300	$ 2,020,200
Total Targeted Reserves	$ 1,820,100	$ 1,714,000	$ 1,588,300	$ 1,718,700	$ 1,863,300	$ 2,020,200

Economic Reserve

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

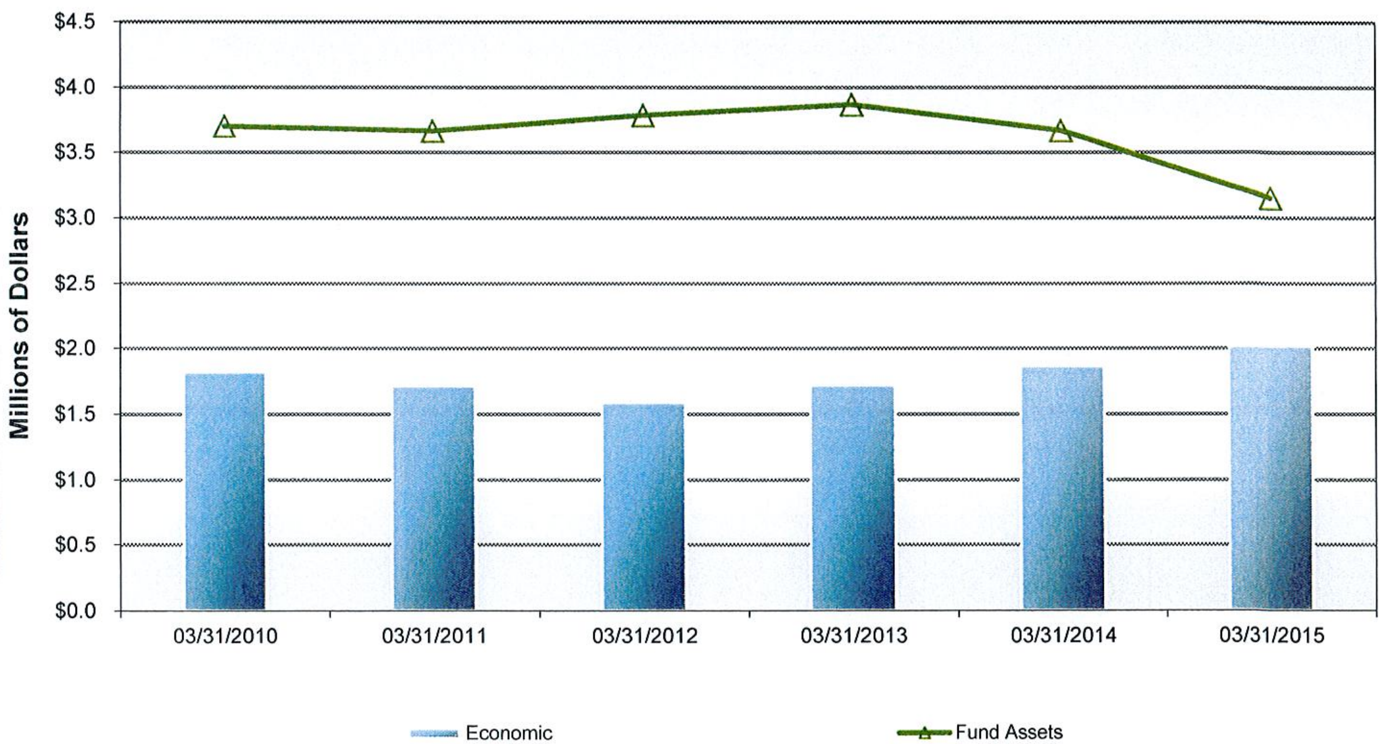
Financial Experience and Budget Projections for
International Union of Operating Engineers Local 487 Health and Welfare Fund

FUND ASSET POSITION AND TARGETED RESERVES GRAPH

	Historical Results			Projections		
12 Months Ending	**Mar-10**	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**
Ratio of Fund Assets to Targeted Reserves	203.2%	213.6%	238.2%	224.9%	196.7%	155.8%
Ratio of Fund Assets to Next Year's Expenses	107.9%	115.2%	110.1%	103.7%	90.7%	71.9%
Continuation Value (Months)	12.9	13.8	13.2	12.4	10.9	8.6

We recommend that the Fund consider actions to align income and expenses.

Considerations could include:
1. Employer contribution rate increase.
2. Implement employee contribution for dependent coverage.
3. Reduction of benefits.
4. Increase eligibility hours requirements.
5. Bidding Medical Plan.



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. This is 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.