International Union of Operating Engineers Local 487 Health and Welfare Fund

Health Benefits Reports - Fiscal Year Ending 2014

Segal Consulting

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November 12, 2013

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

Dear Trustees:

We are pleased to present these fiscal 2014 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,

THE SEGAL COMPANY

By:

Jeffrey Johnson
Senior Vice President

cc: *Linda DuVall*
Kathleen Phillips
Steven Gordon

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 2011 through 2013 fiscal years are based on the audited financial statements.*
- *For FY 2013, an operating surplus of approximately $92.8K resulted. After a net gain on investments of $107.2K, the net assets of the Fund are estimated to increase by $200K to approximately $3.9 million.*
- *The number of active employees enrolled for medical coverage increased from 334 in 2012 to 379 in 2013. COBRA/self-pay participants remained at 9 in 2012 and 2013, and retirees declined from 9 in 2012 to 8 in 2013.*
- *A recap of the projected medical eligible members by benefit category based on the April 2012 - July 2013 average enrollment is set forth below.*

	HMO	*PPO*	*Total*
Actives	*349*	*34*	*383*
COBRA/Self-Pay	*8*	*0*	*8*
Retirees	*8*	*0*	*8*
Total	*365*	*34*	*399*

- *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 2013 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 185 hours for 2011, 188 hours for 2012 and 186 hours for 2013. 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.*

Key Findings, Recommendations

- *The final negotiated rates with Coventry for April 1, 2013 were 1.3% higher than the prior year rates for both PPO and HMO plans. There were no benefit changes. Projections assume a 12% rate increase on April 1, 2014 and an 8.7% increase on April 1, 2015. The actual increases 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, 2015. Budget projections do not include any changes in the premium rates effective with the new renewal date of August 1, 2015. Projections assume 383 members covered for Life and AD&D and 154 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, 2016. 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, 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-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Average Number of Actives	349	334	379	383	383	383
Average Contribution Hours Per Month	185	188	186	185	185	185
Aggregate Hours	774,894	754,880	846,658	850,300	850,300	850,300
Average Contribution Rate	$3.99	$3.99	$3.99	$3.99	$3.99	$3.99
Total Income	$3,372,839	$3,130,880	$3,532,131	$3,557,600	$3,559,800	$3,554,800
Total Expenses	$3,427,906	$3,169,831	$3,439,354	$3,744,600	$4,169,200	$4,515,600
Average Income Per Active	$805.36	$781.17	$776.64	$774.07	$774.54	$773.45
Average Expenses Per Active	$818.51	$790.87	$756.23	$814.75	$907.14	$982.51
Breakeven Contribution Rate	$4.06	$3.95	$3.88	$4.21	$4.71	$5.12
Fund Assets	$3,660,744	$3,704,490	$3,904,482	$3,821,982	$3,308,382	$2,422,982
Continuation Value (Months)	13.9	12.9	12.5	11.0	8.8	5.8

The breakeven contribution rate is based on Fiscal 2014 projected expenses and a 185 employment level is $4.21 per hour.

A 195.2 hour monthly employment level would be needed during fiscal 2014 to breakeven on income and expenses at the current average $3.99 contribution rate.

Observations:

- *For each 10 hour increase or decrease in the employment level of 185 hours during 2014, the annual impact to Employer contribution would develop to approximately $183K.*
- *The continuation value of the Fund assets is projected to decline from 12.5 at the end of March 2013, to 5.8 months as of the end of March 2016. Increases in costs 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

Estimated trend factor for Coventry as of the 1/1/2014 renewal accomodates ACA fees of:
1. Temporary Reinsurance Fee - $5.25 PMPM
2.Comparative Effectiveness fee -$.17 PMPM
3. Health Insurance Industry fee - 2.25%
as well as regular cost trend.
The actual renewal may vary based on negotiations.

Administrative operating cost projections assume an annual increase of 4%.

ASSUMPTIONS

12 Months Ending	Mar-14	Mar-15	Mar-16
Average Number of Actives			
Actives	383	383	383
Average Contribution Hours per Month:			
Actives	185.00	185.00	185.00
Aggregate Hours	850,300	850,300	850,300
Average Contribution Rate			
Actives (Per Hour)	$3.99	$3.99	$3.99
Trend Factors			
Coventry Group Ins Premium	Renewal	12.00%	8.70%
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

Fiscal 2011 through 2013 operations are based on audited financials.

AGGREGATE

	Historical Results			Projections		
12 Months Ending	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Income						
Employer Contributions	$3,092,601	$2,944,561	$3,378,213	$3,392,500	$3,392,500	$3,392,500
Employee Contributions	188,029	115,652	86,274	95,400	103,400	112,100
Other Income	36,025	144	481	0	0	0
Investment Income	56,184	70,523	67,163	69,700	63,900	50,200
Total Income	**$3,372,839**	**$3,130,880**	**$3,532,131**	**$3,557,600**	**$3,559,800**	**$3,554,800**
Expenses						
Coventry Group Ins Premium	$3,154,316	$2,909,627	$3,184,065	$3,481,800	$3,899,600	$4,238,900
Mutual of Omaha Premium	95,929	83,235	91,507	92,500	92,500	92,500
Operating Costs	177,661	176,969	163,783	170,300	177,100	184,200
Total Expenses	**$3,427,906**	**$3,169,831**	**$3,439,354**	**$3,744,600**	**$4,169,200**	**$4,515,600**
Operating Surplus (Deficit)	**($55,067)**	**($38,950)**	**$92,777**	**($187,000)**	**($609,400)**	**($960,800)**
Gains on Investments	17,534	82,696	107,216	104,500	95,800	75,400
Total Addition (Reduction) to Fund Asset	**($37,533)**	**$43,746**	**$199,992**	**($82,500)**	**($513,600)**	**($885,400)**
Beginning Fund Assets	**$3,698,277**	**$3,660,744**	**$3,704,490**	**$3,904,482**	**$3,821,982**	**$3,308,382**
Ending Fund Assets	**$3,660,744**	**$3,704,490**	**$3,904,482**	**$3,821,982**	**$3,308,382**	**$2,422,982**
Breakeven Contribution Rate	**$4.06**	**$3.95**	**$3.88**	**$4.21**	**$4.71**	**$5.12**
Average Contribution Rate	**$3.99**	**$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

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 185-hour employment level.

PER ACTIVE PER MONTH

	Historical Results			Projections		
12 Months Ending	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Income						
Employer Contributions	$738.44	$734.67	$742.79	$738.14	$738.14	$738.14
Employee Contributions	44.90	28.86	18.97	20.76	22.50	24.39
Other Income	8.60	0.04	0.11	0.00	0.00	0.00
Investment Income	13.42	17.60	14.77	15.17	13.90	10.92
Total Income	**$805.36**	**$781.17**	**$776.64**	**$774.07**	**$774.54**	**$773.45**
Expenses						
Coventry Group Ins Premium	$753.18	$725.95	$700.10	$757.57	$848.48	$922.30
Mutual of Omaha Premium	22.91	20.77	20.12	20.13	20.13	20.13
Operating Costs	42.42	44.15	36.01	37.05	38.53	40.08
Total Expenses	**$818.51**	**$790.87**	**$756.23**	**$814.75**	**$907.14**	**$982.51**
Operating Surplus (Deficit)	**($13.15)**	**($9.70)**	**$20.41**	**($40.68)**	**($132.60)**	**($209.06)**
Gains on Investments	4.19	20.63	23.57	22.74	20.84	16.41
Total Addition (Reduction) to Fund Asset	**($8.96)**	**$10.93**	**$43.98**	**($17.94)**	**($111.76)**	**($192.65)**
Average Number of Actives	**349**	**334**	**379**	**383**	**383**	**383**
Breakeven Contribution Rate	**$4.06**	**$3.95**	**$3.88**	**$4.21**	**$4.71**	**$5.12**
Average Contribution Rate	**$3.99**	**$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

VARIATIONS IN HOURS ASSUMPTIONS

12 Months Ending	Mar-14	Mar-15	Mar-16
Current Assumptions			
Average Monthly Hours	185	185	185
Ending Fund Assets	$3,821,982	$3,308,382	$2,422,982
Continuation Value (Months)	11.0	8.8	5.8
Breakeven Contribution Rate	$4.21	$4.71	$5.12
Alternate Assumption 1			
Average Monthly Hours	180	180	180
Ending Fund Assets	$3,727,982	$3,115,682	$2,126,582
Continuation Value (Months)	10.7	8.3	5.1
Breakeven Contribution Rate	$4.33	$4.84	$5.27
Alternate Assumption 2			
Average Monthly Hours	175	175	175
Ending Fund Assets	$3,634,102	$2,923,122	$1,830,442
Continuation Value (Months)	10.5	7.8	4.4
Breakeven Contribution Rate	$4.45	$4.98	$5.42
Average Contribution Rate Per Hour	$3.99	$3.99	$3.99

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

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

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

Fiscal 2014 through 2016 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-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Fund Assets as of Period End	$3,660,744	$3,704,490	$3,904,482	$3,821,982	$3,308,382	$2,422,982
Auditor's Statement of Fund Assets	$3,660,744	$3,704,490	$3,904,482			

TARGETED RESERVES

	Historical Results			Projections		
12 Months Ending	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Economic	1,714,000	1,584,900	1,719,700	1,872,300	2,084,600	2,257,800
Total Targeted Reserves	$1,714,000	$1,584,900	$1,719,700	$1,872,300	$2,084,600	$2,257,800

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

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.

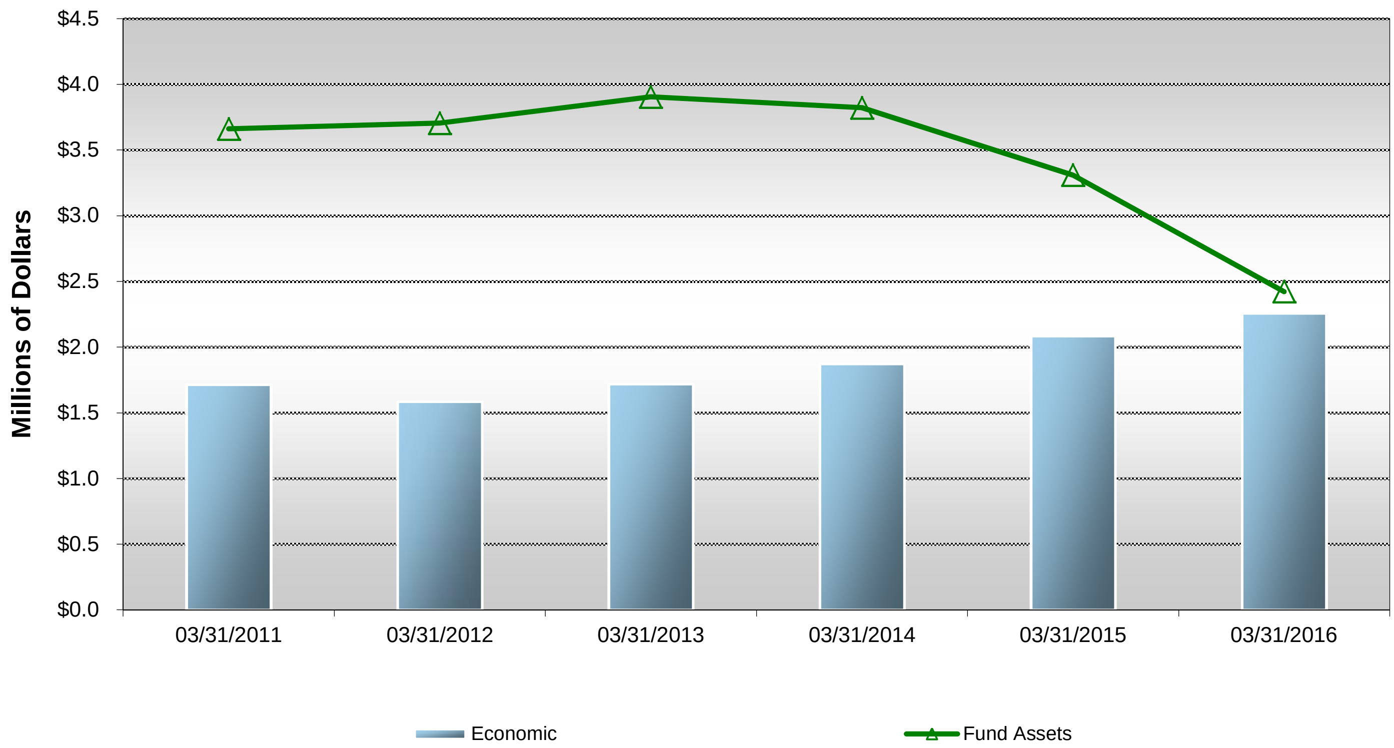
3. Reduction of benefits.

4. Increase eligibility hours requirements.

5. Bidding Medical Plan.

FUND ASSET POSITION AND TARGETED RESERVES GRAPH

	Historical Results			Projections		
12 Months Ending	**Mar-11**	**Mar-12**	**Mar-13**	**Mar-14**	**Mar-15**	**Mar-16**
Ratio of Fund Assets to Targeted Reserves	213.6%	233.7%	227.0%	204.1%	158.7%	107.3%
Ratio of Fund Assets to Next Year's Expenses	115.5%	107.7%	104.3%	91.7%	73.3%	48.2%
Continuation Value (Months)	13.9	12.9	12.5	11.0	8.8	5.8



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.