



# Lake Havasu Schools Employee Benefit Trust (LHSEBT)

**End to End Review Update**

August 20, 2018

# Background

- Erin P. Collins & Associates, Inc. (ECA) retained October 2017
  - Jaime Schulenberg, Senior Account Manager
  - Erin Collins, President
- Part of our proposal:
  - Completion of an End to End Review of the Trust's operations and finances
- Report issued December 6, 2017
  - Serves as a working document with items being completed and new ones added
- Today's presentation
  - Bring all Trustees up to speed on the issues identified and current status

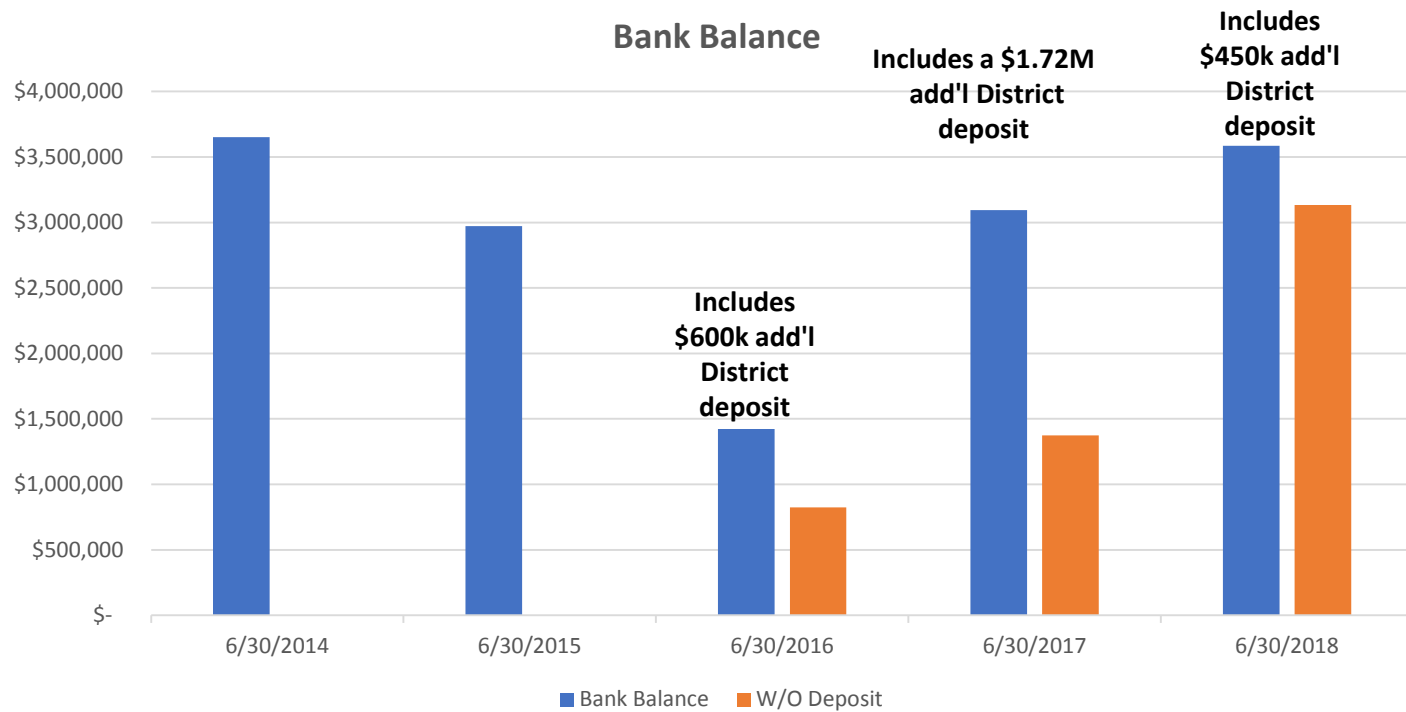
# Financial Issues

- Reporting
  - Then: No single place where all Trust operations were reported in any meaningful way
    - Data points on expenses (claims, clinic operations, etc.) segregated and sometimes missing
      - Ex. Rx claims deducted from checking account but not integrated into Gilsbar report of claims expenses
      - Ex. Dental reports did not break out network leasing expenses from claims expenses
    - No measurement of experience or expenses against budgets
    - “Significant” audit finding triggered changes
  - Now: All revenue and expenses compiled and reported in one monthly report vs. adopted budget
    - Emailed to Trustees and district Monthly
    - Reported at quarterly meetings of Trust

# Rate Setting

- Then:
  - Actuarially set?
  - Including ALL costs?
  - Reliant on subsidization from 301 money from State of AZ
- Significance?
  - Trust was underfunded and in a situation of declining balance
- Now:
  - Rates actuarially set and include all operating revenue and expenses
  - Funding gap remains and estimated to be in the vicinity of \$472,000 for 2018-19

# Bank Balance Through 06/30/18



# 2018-19 Budget - Premiums

## LHSEBT

### 2018-19 FINAL Budget

	Census Assumptions					
	Emp	Emp + Sp	Emp + Child	Emp + Children	Emp + Fam	Total
Medical/Rx (Gold Plan) - Active	304	43	20	24	64	455
Medical/Rx (Gold Plan) - Retiree	26	8	0	0	0	34
Medical/Rx (Silver/Retiree Plan)	6	1	0	0	0	7
Dental	362	44	18	25	58	507
Vision	369	54	16	20	49	508
FSA						14

2018-19 Adopted Premium Rates	Adopted Emp	Adopted Emp + Sp	Adopted Emp + Child	Adopted Emp + Children	Adopted Emp + Fam
Medical/Rx (Gold Plan) - Actives/Retirees	\$ 751.89	\$ 1,292.81	\$ 1,158.38	\$ 1,468.81	\$ 1,896.13
Medical/Rx (Silver/Retirees Plan)	\$ 678.57	\$ 1,160.87	\$ 1,041.13	\$ 1,314.83	\$ 1,698.20
Dental	\$ 27.00	\$ 56.00	\$ 47.00	\$ 73.00	\$ 102.00
Vision	\$ 5.18	\$ 10.35	\$ 9.41	\$ 9.41	\$ 16.94

Dollar Difference vs 2017-18	Emp	Emp + Sp	Emp + Child	Emp + Child(ren)	Emp + Fam
Medical/Rx (Gold Plan) - Actives/Retirees	\$ 144.89	\$ 199.81	\$ 187.38	\$ 173.81	\$ 256.13
Medical/Rx (Silver/Retirees Plan)	\$ 107.57	\$ 133.87	\$ 128.13	\$ 115.83	\$ 157.20
Dental	\$ -	\$ -	\$ -	\$ -	\$ -
Vision	\$ -	\$ -	\$ -	\$ -	\$ -

Percentage Difference vs 2017-18	Emp	Emp + Sp	Emp + Child	Emp + Child(ren)	Emp + Fam
Medical/Rx (Gold Plan) - Actives/Retirees	23.87%	18.28%	19.30%	13.42%	15.62%
Medical/Rx (Silver/Retirees Plan)	18.84%	13.04%	14.03%	9.66%	10.20%
Dental	0.0%	0.0%	0.0%	0.0%	0.0%
Vision	0.0%	0.0%	0.0%	0.0%	0.0%

2018-19 Funded Premium Rates	Funded Emp	Adopted Emp + Sp	Adopted Emp + Child	Adopted Emp + Children	Adopted Emp + Fam
Medical/Rx (Gold Plan) - Actives/Retirees	\$ 667.70	\$ 1,202.30	\$ 1,068.10	\$ 1,424.50	\$ 1,804.00
Medical/Rx (Silver/Retirees Plan)	\$ 599.55	\$ 996.43	\$ 749.59	\$ 880.97	\$ 1,125.48
Dental	\$ 29.70	\$ 61.60	\$ 51.70	\$ 80.30	\$ 112.20
Vision	\$ 5.70	\$ 11.38	\$ 10.36	\$ 10.36	\$ 18.84

Dollar Difference Adopted v. Funded	Emp	Emp + Sp	Emp + Child	Emp + Child(ren)	Emp + Fam	Total Estimated Gap
Medical/Rx (Gold Plan) - Actives/Retirees	\$ 84.19	\$ 90.51	\$ 90.28	\$ 44.31	\$ 92.13	\$ 493,969
Medical/Rx (Silver/Retirees Plan)	\$ 79.02	\$ 164.44	\$ 291.54	\$ 433.86	\$ 572.72	\$ 7,663
Dental	\$ (2.70)	\$ (5.60)	\$ (4.70)	\$ (7.30)	\$ (10.20)	\$ (24,990)
Vision	\$ (0.52)	\$ (1.03)	\$ (0.95)	\$ (0.95)	\$ (1.90)	\$ (4,498)
						\$ 472,144

# 2018-19 Budget - Expenses

	Emp	Emp + Sp	Emp + Child	Emp + Children	Emp + Fam	Annual Budget	% of Total
<b>CLAIM FUNDS</b>						<b>\$ 4,571,912.04</b>	<b>71.73%</b>
Medical/Rx (Gold Plan) - Actives	\$ 472.30	\$ 961.13	\$ 838.72	\$ 1,149.15	\$ 1,511.94	\$ 3,912,311.40	
Medical/Rx (Gold Plan) - Retirees	\$ 472.30	\$ 961.13	\$ 838.72	\$ 1,149.15	\$ 1,511.94	\$ 239,626.08	
Medical/Rx (Silver/Retirees Plan)	\$ 398.98	\$ 829.19	\$ 721.47	\$ 995.17	\$ 1,314.01	\$ 38,676.84	
Clinic Labs	\$ 16.98	\$ 16.98	\$ 16.98	\$ 16.98	\$ 16.98	\$ 101,064.96	
Clinic Rx	\$ 11.93	\$ 11.93	\$ 11.93	\$ 11.93	\$ 11.93	\$ 71,007.36	
Dental	\$ 22.61	\$ 46.88	\$ 39.34	\$ 61.11	\$ 85.38	\$ 209,225.40	
Vision	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>INSURANCE/REINSURANCE</b>						<b>\$ 619,302.00</b>	<b>9.72%</b>
Med/Rx Specific Stop-Loss (American Fidelity)	\$ 52.51	\$ 104.60	\$ 92.58	\$ 92.58	\$ 157.11	\$ 446,533.44	
Med/Rx Aggregate Stop-Loss (American Fidelity)	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 2.87	\$ 17,082.24	
Vision (United Health Care)	\$ 5.18	\$ 10.35	\$ 9.41	\$ 9.41	\$ 16.94	\$ 43,669.68	
Life Insurance (Guardian)	\$ 18.82	\$ 18.82	\$ 18.82	\$ 18.82	\$ 18.82	\$ 112,016.64	
<b>CLAIM ADMINISTRATION</b>						<b>\$ 240,490.44</b>	<b>3.77%</b>
TPA Medical (Gilsbar)	\$ 17.90	\$ 17.90	\$ 17.90	\$ 17.90	\$ 17.90	\$ 106,540.80	
TPA COBRA (Gilsbar)	\$ 1.60	\$ 1.60	\$ 1.60	\$ 1.60	\$ 1.60	\$ 9,523.20	
PBM (CVS Caremark/Wisconsin Rx)	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.47	\$ 0.47	\$ 2,797.44	
TPA Dental (Ameritas)	\$ 3.25	\$ 3.25	\$ 3.25	\$ 3.25	\$ 3.25	\$ 19,773.00	
TPA Vision	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TPA FSA (Gilsbar)	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00	\$ 672.00	
Medical PPO (BCBSAZ)	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 89,280.00	
Medical UR (American Health Group)	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.00	\$ 11,904.00	
<b>GENERAL OPERATING</b>						<b>\$ 942,380.16</b>	<b>14.78%</b>
Consultant (Dave Stewart/American Healthcare Plans)						\$ -	
Broker/Consultant (ECA)	\$ 12.10	\$ 12.10	\$ 12.10	\$ 12.10	\$ 12.10	\$ 72,019.20	
Cerner Management Fee	\$ 111.34	\$ 111.34	\$ 111.34	\$ 111.34	\$ 111.34	\$ 662,695.68	
Clinic Operating Expenses	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 14.40	\$ 85,708.80	
Wellness Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Actuary (Cheiron)	\$ 2.11	\$ 2.11	\$ 2.11	\$ 2.11	\$ 2.11	\$ 12,558.72	
Actuary (Cheiron) - GASB	\$ 2.95	\$ 2.95	\$ 2.95	\$ 2.95	\$ 2.95	\$ 17,558.40	
Accountant (GDK CPA LLC)	\$ 0.61	\$ 0.61	\$ 0.61	\$ 0.61	\$ 0.61	\$ 3,630.72	
Auditor (Heinfeld Meech)	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01	\$ 1.01	\$ 6,011.52	
Legal (Cavanagh Law Firm)	\$ 2.04	\$ 2.04	\$ 2.04	\$ 2.04	\$ 2.04	\$ 12,142.08	
PCORI Fees	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 2,023.68	
General Admin Expenses	\$ 11.43	\$ 11.43	\$ 11.43	\$ 11.43	\$ 11.43	\$ 68,031.36	
<b>GRAND TOTAL BUDGET</b>						<b>\$ 6,374,084.64</b>	<b>100.00%</b>

# Other Significant Financial Issues

- Banking and Investment Services
  - Morgan Stanley drops out unexpectedly in mid-October
  - Replaced by Wells Fargo and Claremont Capital
- Incurred but Not Paid (IBNP) Liabilities
  - Not previously calculated
    - Will now be reported at fiscal year end
- Retiree Liabilities
  - Valuation as of 7/1/15 - \$11,366,258 (GASB 45)
    - Undervalued?
  - Current valuation being recalculated under GASB 75 standard



# Management Controls - Then

- Public Meeting Issues
  - Meeting not held per Arizona Open Meeting Law (OML) until 2016
- Trustee Education
  - None
- Vendor Contracts
  - Not uniformly aligned with plan years
  - No clear process of drafting, review, approval, signature, monitoring and/or storage

# Management Controls - Now

- Meetings held per Arizona OML
  - Trustee packets sent out a week ahead
- Trustee Education (pending selection of legal counsel)
  - Fiduciary Liability
  - HIPAA Confidentiality
  - Conflict of Interest
  - Other?

# Management Controls - Now

- Vendor Contracts
  - Aligned with fiscal year
  - Approved in public meetings
  - Subject to legal review
  - Signed by Trust Chairperson

# Other Significant Management and Operational Issues

- Fiduciary Liability Insurance
  - Then: No record of ever having been placed
  - Now: Policy in force
- Rx in Stop-Loss
  - Then: Excluded from prior years coverages
    - Cost fiscal year ended June 30, 2018 – \$313,095
  - Now: Rx in both specific and aggregate stop-loss for 2018-19 year
    - Premium cost differential – \$26,603 attributable to Rx\*
      - \*Rx Quote included some variations in coverage due to specific claims activity
- Electronic communications with Trustees
  - Then: Personal email accounts
  - Now: District email accounts

# Major Issues Going Forward

- Finances
  - Close gap on funding versus expenses
  - Move to accrual accounting
  - Calculate and clarify GASB liabilities
  - Calculate and book IBNP
  - Implement reconciliation processes with District staff
- Negotiating Void Vendor Contracts
  - Cerner Clinic
  - Gilsbar
  - American Health Group
  - Ameritas
  - BCBSAZ
  - Wisconsin/Rx – CVS/Caremark

# Major Issues Going Forward

- Cerner Clinic - Keep or Close?
  - In process of negotiations with 08/31/18 target date for completion
    - Keep?
      - Re-negotiate pricing and other terms of the contract
      - Bring back to Trustees for approval
    - Close?
      - Phase out operations by 12/31/18
      - Re-design benefits effective 01/01/19
  - Parallel process of pricing alternative benefit structures with actuary
    - Benefits through June 30, 2019
    - Offerings thereafter
- Meeting with District Governing Board in September

# Cerner Clinic Cost Comparison

- 2018-19 LHSEBT Budget for Cerner Clinic:
  - Management - \$663,000
  - Operations - \$86,000
- Cost Per Visit Comparison:
  - “Community visit” – Approximately \$130
  - H&W Clinic
    - Now: Approximately \$244
    - Revised (1NP, 2MA, 40 hrs/wk) - \$225\* to \$178\* (Depending on # of Visits Calculation)
      - \* 3-Year Agreement

# Discussion Points

- Community visits versus clinic philosophy
- Benefit structure (today) anchored around clinic
  - Lower costs to participants using clinic
    - Primary care
    - Rx's
  - Higher costs to participants outside of the clinic
    - Primary care
    - Specialist care
    - Rx's
- Community costs per visit versus clinic costs per visit



# Benefit Re-Design Considerations

- Starting Point – Approx. \$685,000 Annualized
- Close the annualized funding gap between expected claims and revenue – Est. @ \$472,000
- Redistribute some portion of the remaining dollars (\$213,000) to lower out of pocket costs for participants
- Two-step process:
  - Benefits January 01 – June 30, 2019
  - Benefits July 01, 2019 - Forward

# Options being Priced – January to June 2019

## Gold Plan

- Reduce Deductible from \$2,500 / \$5,000 to:
  - \$500 / \$1,500
  - \$750 / \$2,250
  - \$1,000 / \$3,000
  - \$1,500 / \$4,500
- Reduce Maximum Out-of-Pocket from \$6,500 / \$13,000 to:
  - \$3,000 / \$9,000
  - \$4,000 / \$12,000
  - \$5,000 / (Current Max)

# Options being Priced – January to June 2019 (continued)

## Gold Plan

- Reduce Office Visit Co-Pays from \$55 to:
  - \$25 / \$50 (PCP / Specialist)
  - \$30 / \$60
  - \$50 / \$75
    - Assume OB/GYN = PCP
    - Assume Chiropractic = Specialist (Maintain 30 Visit Limit & Add \$100/Visit Limit)

# Options being Priced – January to June 2019 (continued)

## Gold Plan

- Add Teladoc – Trust to Pay 100% of Consultation Fee
- Increase Urgent Care Co-Pay from \$55 to \$75
- Reduce Free-Standing Lab/X-Ray from Deductible w/ No Co-Insurance to:
  - \$50 Co-Pay
  - \$60 Co-Pay
  - \$75 Co-Pay
- Increase Hospital-Based Lab/X-Ray & All Imaging from Deductible w/ No Co-Insurance to Deductible + 20% Co-Insurance
- Change Sterilization from 80% After Deductible to No Cost-Sharing for Member

# Options being Priced – January to June 2019 (continued)

## Gold Plan

- Rx – Change Retail 90 and Mail Order Co-Pays as follows:
  - Generic - \$20
  - Preferred Brand - \$70
  - Non-Preferred - \$130

# Options being Priced – July 2019 Forward

- Eliminate Silver Plan
- Eliminate Case Management Penalty
- Eliminate Requirement for Mammograms through MOM
- Implement New HDHP Plan:
  - \$2,600 / \$5,200 then 100% (Adjust if necessary based on IRS)
  - \$3,000 / \$6,000 then 100%

# Administrative Considerations

- Remaining vendor void contracts still need to be re-negotiated
- Close clinic 12/31/18?
  - Agreement on wind-down with Cerner
  - Employee education and communication
  - Gilsbar reprogramming time for changes
  - Stop-Loss renegotiation
  - Mid-Year Open Enrollment

Questions?