



Revised #3 Report and Proposal Concerning Insurance Trust Funds

Interim CFO – Jeff Gadd
April 16th, 2019



Program Goals

- Safety of Funds – Assure investments adhere to State Statute (*A.R.S. 15-382 Authorizing Trust, A.R.S. 35-323 Authorizing Investments*)
- Liquidity – Cash available when needed (maximize interest earnings)
- Management – Bringing all accounts into one place
- Yield – Allowing interest earnings to provide improved benefits to the District

Current Unencumbered Balance



- Balances as of 3/18/2019
 - Property/Casualty (included in current Trust) \$6,612,015
 - Worker's Compensation (included in current Trust) \$3,718,982
 - Medical Insurance (Wells Fargo) \$10,851,808
 - \$21,182,805

Note: The Alliance and Risk Retention Trust are separate entities in which we pay an annual premium; these entities do not hold District investments.

Detailed Financial Information (1/3)



Property/Casualty Insurance

3/18/2019 – Beginning Balance	\$9,016,019
Less: Reserve for deductible (per occurrence)	\$(100,000)
Less: Reserve for premium increase	\$(50,000)
Less: Planned carryforward (25%)	<u>\$(2,254,004)</u>
*Unencumbered Balance	\$6,612,015

Note: Premium for fiscal year 18/19 - \$1,548,614

*Reference 'Attachment A'

Detailed Financial Information (2/3)



Worker's Compensation Insurance

3/18/2019 – Beginning Balance	\$5,071,975
Less: Reserve for deductible	\$(10,000)
Less: Reserve for premium increase	\$(75,000)
Less: Planned carryforward (25%)	<u>\$(1,267,993)</u>
*Unencumbered balance	\$3,718,982

Note: Premium for fiscal year 18/19 - \$973,325

*Reference 'Attachment A'

Detailed Financial Information (3/3)



Medical Insurance

3/18/2019 – Beginning Balance	\$27,075,265
Less: Reserve for premium increase	\$(1,000,000)
Less: Incurred but not reported (IBNR)	\$(4,000,000)*
Less: Enhancements (Life Insurance)	\$(75,000)
Less: Purchase Stop Loss Reinsurance	\$(30,000)
Less: Enhancement (HDHP costs moved to District)	\$(400,000)
Less: Planned carryforward (25%)	\$(6,750,000)*
Less: Remaining Premium to be paid	<u>\$(3,968,457)</u>
Unencumbered Balance	\$10,851,808

Note: Premium for fiscal year 18/19 - \$15,960,000

**Worst case scenario \$10.7m – Change in carrier and funding needs of dramatic increases.*

Property Casualty Insurance

Property Casualty Insurance	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	Fiscal Year 2023/2024
(1) Projected Beginning Balances	\$ 8,866,018	\$ 8,526,018	\$ 8,174,018	\$ 7,809,418	\$ 7,431,588
Minimum Amount of Contingency Needed (25%)	\$ 2,216,505	\$ 2,131,505	\$ 2,043,505	\$ 1,952,355	\$ 1,857,897
(2) Estimated Revenue	\$ 1,100,000	\$ 1,155,000	\$ 1,212,750	\$ 1,273,388	\$ 1,337,057
Deductible Estimates (Per Year)	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Expenses - Property Casualty Increase (5% Yearly Increase)	\$ 1,340,000	\$ 1,407,000	\$ 1,477,350	\$ 1,551,218	\$ 1,628,778
Projected Ending Balances	\$ 6,309,514	\$ 6,042,514	\$ 5,765,914	\$ 5,479,234	\$ 5,181,970

(1) Amounts prorated based upon annual premium, consists of both Schwab and Wells Fargo Investments (reference 'Attachment A' adding back planned carryforward).

(2) Assumes District pays and additional 5% per year (Budgeted M&O Expense)

Worker's Compensation Insurance

Worker's Compensation Insurance	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	Fiscal Year 2023/2024
(1) Projected Beginning Balances	\$ 4,986,974	\$ 4,856,974.00	\$ 4,674,474.00	\$ 4,436,849.00	\$ 4,141,342.75
Minimum Amount of Contingency Needed (25%)	\$ 1,246,744	\$ 1,214,244	\$ 1,168,619	\$ 1,109,212	\$ 1,035,336
(2) Estimated Revenue	\$ 1,020,000	\$ 1,020,000	\$ 1,020,000	\$ 1,020,000	\$ 1,020,000
Expenses - Worker's Comp. Premium (5% Yearly Increase)	\$ 1,050,000	\$ 1,102,500	\$ 1,157,625	\$ 1,215,506	\$ 1,276,282
Expenses - Estimated Deductible at 10 Occurrences Per Year	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Projected Ending Balances	\$ 3,610,231	\$ 3,460,231	\$ 3,268,231	\$ 3,032,131	\$ 2,749,726

(1) Amounts prorated based upon annual premium, consists of both Schwab and Wells Fargo Investments (reference 'Attachment A' adding back planned carryforward).

(2) Budgeted M&O Expense

Medical Insurance Forecast

Medical	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	Fiscal Year 2023/2024
(1) Projected Beginning Balances	\$ 21,601,808	\$ 21,897,773	\$ 21,137,048	\$ 19,256,533	\$ 16,189,339
(2) Minimum Amount of Reserve Needed	\$ 5,400,000	\$ 5,400,000	\$ 5,400,000	\$ 5,400,000	\$ 5,400,000
(3) Estimated Revenue Employee + Dependents	\$ 18,329,125	\$ 18,329,125	\$ 18,329,125	\$ 18,329,125	\$ 18,329,125
Expenses - Medical Premiums (6% Yearly Increase)	\$ 17,528,160	\$ 18,579,850	\$ 19,694,641	\$ 20,876,319	\$ 22,128,898
(4) Insurance Enhancements	\$ 505,000	\$ 510,000	\$ 515,000	\$ 520,000	\$ 525,000
Projected Ending Balances	\$ 16,497,773	\$ 15,737,048	\$ 13,856,533	\$ 10,789,339	\$ 6,464,566

(1) Projected balance is from 'Attached A' adding back in IBNR and planned carryforward

(2) Reserve amount is for IBNR and carryforward estimated considerably lower at \$5.4m (\$4m IBNR + \$1.4 Contingency)

(3) Revenue illustrates the District will offset future increases to Medical Insurance premium

(4) Enhancements include additional life insurance & removal of employee premium from HDHP

Trust Documents



Current Trust Document (2/20/2001)

- Includes Property/Casualty and Worker's Compensation Insurances (no medical).
- Separation of funds
- No clarity and location

Proposed Trust Document

- Include all Insurances (Medical, Property/Casualty, and Worker's Compensation)
- Requires monthly financial reports.
- Requires investments to adhere to State Statues (A.R.S. 15-323)



Proposed Calendar

- 4/16 – Discuss report and recommendations including New Trust Document (Gust Rosenfeld)
- 5/9 – Provide for additional discussion and invite others (Wells Fargo Investment Team)
- 5/14 – Approval of Trust Document and selection of Trustees
- 5/20 – 6/30 – Finalize banking arrangements including investment plan with Wells Fargo