Tucson Unified School District No. 1  
Employee Benefits Trust Meeting  
Grey Room, Morrow Education Center  
1010 East Tenth Street  
Tucson, Arizona 85719  

April 28, 2014  
5:30 p.m.  

MINUTES

**Committee Members Present**  
Dr. Neil West  
Yousef Awwad  
Dr. Stegeman  
Mark Mansfield  
Robert Harbour

**Others Present:**  
Anna Maiden – Chief Human Resources Officer  
Karla Soto – Chief Financial Officer  
Shannon Roberts – Director, Employee Relations  
Janet Underwood – Recordkeeper  
Cliff Wadhams – Trust Accountant  
Joseph Murrieta – Employee Relations Representative  
Debbie Hainke – Account Representative AmeriBen  
Robin Reeves – Director, Buck Consultants  
Robert Ferraro – National Pharmacy Practice Leader, Buck Consultants  
Tom Hedges – Wells Fargo Investments

### MEETING CALLED TO ORDER
Meeting called to order at 5.30 p.m.

### CALL TO THE AUDIENCE
No one requested to speak.

### QUORUM - A quorum is present.

### INFORMATION / ACTION ITEMS

#### Meeting Minutes
A motion was to approve the minutes was made by Mark Mansfield and seconded by Mark Stegeman; passed 4-0.

#### Appeals or Subrogation
Appeals or Subrogation – no 2nd level and no subrogation. TUSD attorney is reviewing subrogation clause.

#### Financials

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*Subrogation will be added to the next meeting on 6/23/14.*
Cliff Wadhams presented the final March 2014 financials.

Bob Harbour asked for clarification if the Trust Contribution should be counted as Revenue; per Cliff Wadhams it is consider a contra-revenue account. Cliff also reported that the most significant change in enrollment was in 2012. There was discussion that the trust is increasing net assets each month; while there were a couple months last year where there were negatives, on average almost every month the past two (2) years there has been an increase. The PPO deductible has an impact on this, as well as the movement into the HDHP. There is almost $700k in deductible savings between the PPO and HDHP. Approval of the Financials passed with a motion by Bob Harbour, seconded by Yousef Awwad; motion passed 5-0.

Premiums (revenue) for the month were $2.4M with interest income of $2.7k. Expenditures for the month were $1.4m for medical and $425k for prescription. Administrative costs were $262k.

**Old Business**

*Wells Fargo Investment Update – Tom Hedges*

Lag time of Investments: Approval from the FDIC was required due to TUSD’s two trusts (Benefits Trust and Workers Compensation Trust) having the same Employer Identification Number (EIN).

Any bank is separately FDIC insured as long as each investment is under $250k. The $15m went in to the Exceptional Rate Acct at 25 basis points. The FDIC approval allowed Wells Fargo to move forward with the investments, with initial purchase of four (4) CD’s. Tom sees that there was a spike in September where the market got ahead of itself, but funds had not been invested. Yields came down and each Fed meeting after that shows the yield came down. The Feds may cut another $10b out, and Wells Fargo will be watching the interest rates.

Tom reported that paper and mortgage balance may get a lift and thinks there may be a flattening of the curve. The Federal Reserve’s stance, Chairperson Janet Yellen, plays a part in the ups and downs as the market speculates on what the Feds rates are. Bloomberg data was reviewed. Investments = Treasury and CDs; two more were purchased; $2.5m this month but the remainder of TUSD’s investment is still sitting at 25 basis points. Wells Fargo feels the ideal curve will be 3 to 3.5 year range while other ranges were explained. CD’s are a 3 or 5 year commitment (laddered). At this time, Wells Fargo is picking up the pace for the investments, now that the EIN issue is closed and the Workers Compensation Trust was adopted by the TUSD Governing Board.

Mr. Hedges provided the current portfolio:

- CDs 44.25% and 55.48% in government agencies.
- $5.4m is invested. Effective maturity range is 3.23 years.
- Mark Mansfield asked if the $240k are CD’s, and Wells Fargo confirmed.
• These are kept under $250k to ensure FDIC insured per Tom.
• The $1m is government Agency securities.
• Wells Fargo reviewed ratings as they relate to the Arizona Revised Statutes.
• Corp bonds and commercial paper could be purchased, but can’t get 25 basis points (could be 8-12 basis points).
• Equity funds are not permitted; a CD can be equity linked.
• Dr. West asked if the funds can be invested n TUSD bonds. Per Wells Fargo, can buy Arizona paper, but is trading lower. TUSD does not have the bond council opinion; Yousef will provide a response at the next meeting.
• If these are tax free the yield is low when kept within the five year maximum. Wells Fargo will invest the remainder of TUSD’s funds over the next several months; feels the current investments will roll down the curve, and be called. The $3m agency paper will be “flipping over;” would rather not see the call.
• Tom reviewed the TUSD investments; CD’s are non-callable; bulleted has a target date.
• Tom’s strategy is he still believes in the 3 year curve though it could change (Yellen). Wants to see the investments still take advantage of the spikes, and is in regular communication with Yousef Awwad.
• Tom is not an Investment Advisor, so there is no charge for these services.
• Can funds be invested in longer term than five years (YA will address this and notify the Trust Board.)

2014 Plan Design
Pharmacy:
As part of the pharmacy plan, Buck has proposed a Statement of Work (SOW) for a pharmacy audit. Bob Ferraro indicated that the audit would show that the pharmacy benefit manager (PBM) is adhering to the plan design, and the performance guarantees related to all the financial components. The proposal is $35k, with 70% payment due in August, and the remainder due at the audit conclusion. The audit team is separate audit group based in Ohio. This is an electronic audit that is run through the Buck system.

Bob Harbour felt that this would involve written documentation as well, and asked how the audit done without the core evidence; per Bob Ferraro, for particular findings they may go back to the PBM, but Caremark is not necessarily receiving the paper prescriptions taken to pharmacies. It was noted that the Plan has various rules for Prior Authorization (PA) and quantity limits.

Mark Mansfield asked if it was reasonable to find a break even savings to the cost of the audit and while this is typically cost effective there is no guarantee. Dr. West’s concern is that we have a very small percentage of patients who are generating seven figures of cost; are they given larger quantities rather than a shorter period? This has more to do with the plan design per Bob Ferraro, and the board would like to see this addressed; Buck confirmed this analysis does not have to be part of the audit and can be done now. Bob Ferraro emphasized that the key is to make sure that the PBM is hitting its aggregate targets. Mark Mansfield made a motion to go ahead with the audit and Dr. Stegeman seconded; the motion passed 5-0. Janet

Yousef will provide a response at the next meeting regarding the Bond opinion.

Yousef Awwad will address if funds can be invested in longer term than five years and notify the Trust Board.

Janet will work with the Purchasing Dept to sign off on the SOW.
Medical Plan:
The medical plan scenarios were presented:

- Adding misc coverage as per their page 1 and with Trust absorbing these costs by the Trust; about 4% ($1, 144,000) which will lower the reserves.
- 2014 column is current rates. The 2015 column shows new rates with the benefit additions. This reduces the reserves by 3.5%. Dr. West asked about the medical trend that Buck uses, as TUSD costs have been flat. Kristi explained that they do not expect trend to remain flat; they rely also on referencing national data. Arizona trend is about 5-6% range. It would not be prudent for Buck to assume costs would remain flat.
- Questions from the Trust Board included:
  - With moving the cost to EE in the deductible, what is that effect?
  - How can we make the District plan more competitive for dependents (use reserves?).
  - Difference in current to new is 15%; if the increase is 4%, where is the other 11% coming from? Kristi will check (trend, HCR).
- Kristi shows the cost sharing toward OOP max has a cost to the Plan beginning 9/1/14 of an increased cost of 5.1% for the next Plan Year mostly due to the PPO Plan. Medications will be merged in for 9/1/15. Page 2 is the status quo which can be compared to the remaining pages. Page 3 is a Rate Pass to the Employee and District, with an increase to the Trust Board, with higher contribution toward dependents (12% to Trust and decrease to employee by 2.7%). The Wellness Rebate is factored in also using an assumed 20% of the population met the wellness criteria. The 2nd scenario (next page) shows a contribution of $2k if on HDHP with dependents. In this case either the district or trust would fund this.
- The Rate Pass High Contribution $1500 HSA): Same HSA for everyone; this is a rate pass on premium and same HSA contribution. This has an increase in Dependent contribution by the Trust.
- The Board asked for input from the CHRO and CFO on how the increased Dependent contribution may help the District. Karla’s concern is it could be considered a gift of public funds; typically sees it as a flat contribution for all levels. There is a question if this is truly a gift of public funds, and if there is a legal interpretation for this. Buck has many clients in AZ and this has not been an issue. TUSD will consult the Legal Department.
- Discussion regarding tier % strategy to provide relief to the Dependent costs. Can TUSD can set the rate due to our self insured status.
- Bob Harbour made a motion for the option of Rate Pass $1500/HSA Individual and $2000 HSA/Family and Mark Mansfield seconded this; this includes additional dependent contribution as shown in the Buck model; motion passed 4-0 with one dissenting vote. This motion includes the plan design additions.
  - There is a substantial amount for the employee to pay with the co-insurance and the OOP max. Additional discussion regarding the way to address the premium rates included taking from the Trust and remove it from the premiums on all levels.
  - Spreading the subsidy across the tiers to maintain the ratio. This will reduce the rates.
  - Reducing the rates will blur the true cost; could increase the District Contribution; leave the employee rate as is with subsidy toward EE level.
• Must maintain communication and strategy. Keep a certain cost sharing ratio, with a secondary loss ratio strategy as the design (the trust manages the reserves to an appropriate level).

Excessive Reserves:
Bob Harbour introduced discussion regarding the excessive reserves in the Plan. With $15M initially in the Trust, it has grown to $28m in assets. IBNR was just under $3m. For the Reserve Account of about $11m that was established, the Trust now has three times the IBNR.

Comments included:
• The Trust is over-funded and the District has been in financial straits. The District should be able to cease their contribution to the Plan until the Reserves revert back to normal levels. In Mr. Harbour’s opinion, these are public funds that could be used for kids, repairs, and raises for employees.
• Dr. Stegeman noted that they all agree the Trust is overfunded; his interpretation is that this is the employee’s money and the Trust is holding it in reserve for them and future medical plan premium increases to the Employee; he feels the employee groups would disagree {with it being considered public funds}; and we’re in an uncertain health cost environment.
• Yousef noted that most of the money in the reserves is from the District’s front loading the Trust.
• Dr. West added that he would like a more family-friendly cost plan.
• Historically the way the money was funded was to hold on to it.
• Must move in a controlled manner.
• Be more intentional on how to support young families.
• As a board, there needs to be a strategy and Stop Loss must be considered.
• The reality is that the trust has made $2m in 7 months. The amount of money taken in still exceeds the increase in the absorbed cost.
• Discussion on the expected costs in health care trend, etc.
Dr. West suggested that the Board develop a strategy at the August meeting for drawing the excess down.

The next meeting is June 23rd, at 5:30 pm.
The meeting adjourned at 8:30 pm.

Approved this ______ 23rd _______ day of _______ June, 2014 ________.

TUSD EMPLOYEE BENEFITS TRUST BOARD

By __________________________

Dr. Neil R. West, Chairperson