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

August 30, 2011  
6:00 p.m.

MINUTES

Committee Members Present:  
Dr. Neil (telephonic)  
Dr. Stegeman  
Mark Mansfield  
Mr. Awwad

Committee Members Absent:  
Robert Harbour

Others Present:  
John Povinelli – Segal  
Alice Amator – Segal  
Debbie Hainke – AmeriBen  
Leon George – TUSD  
Janet Underwood – Recordkeeper

<table>
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<th>ITEM</th>
<th>ACTION</th>
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<td>MEETING CALLED TO ORDER</td>
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<td>Meeting called to order at 6:10 p.m.</td>
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<td>CALL TO THE AUDIENCE</td>
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<td>No one requested to speak.</td>
<td>No action required.</td>
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<td>INFORMATION / ACTION ITEMS</td>
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<td>1. The Board affirmed that a quorum was present</td>
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<td>2. Minutes for the prior meeting were approved but with correction to Called to Order section; minutes to be signed at next meeting.</td>
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3. Old Business

A. Reserve Policy

The Trust Board reviewed the updated Reserve policy – John Povinelli reminded the group that the wording was made more specific per their request. Dr. Stegeman commented that he preferred that Mr. Harbor was present as the person closest to this item; however Povinelli confirmed the policy structure and Mark Mansfield agreed the policy looked very good. Mr. Mansfield motioned to approve the Reserve Policy and Dr. Stegeman seconded the motion.

B. Annual Audit

Mr. Awwad explained that in his discussions with Heinfeld & Meech and other school districts that typically this audit is included in the District’s regular audit since this fund is part of the District’s current funds.

Mr. Mansfield inquired if this was subject to Taft Hartley and Mr. Povinelli responded that it is not. Dr. West asked Mr. Mansfield if he felt with his experience if a separate audit would be needed, but his experience was in a Taft Hartley. Mr. Mansfield feels that if this is going to be audited as part of the District then this is suitable. Once the Trust Board sees the audit results, it can be determined if a separate audit is needed. The Trust Board would rather see a claims audit at some point as a better use of funds.

Dr. Stegeman deferred to Mr. Mansfield on this point after being asked by Dr. West and it was agreed that the Trust Board could make a change next year if warranted. Dr. West felt with 10 months into this plan that in the interest of transparency may want separate audit later. Mr. Awwad said Heinfeld & Meech would go thoroughly through the Plan, and expects it would be a separate accounting.

Dr. Stegeman inquired if it makes sense to have a separate document, and Mr. Awwad thought so as an “enterprise” account. Mr. Mansfield added that even though the Plan is funded by the District, once funds are moved into the Trust that accountants can’t blend this into regular statements; it must be easily identifiable and will be transparent. That is Mr. Awwad’s opinion as well and agreed that if the Board is not satisfied with the results this year then can make a change.

Dr. West referred back to Dr. Stegeman’s earlier comment as to perhaps delving into an actual claim audit, but agreed to combine the Plan’s financial audit with the District’s audit. Dr. West asked for the deadline and Mr. Awwad said it should be finalized in December/January. Dr. West asked if rest of Board agreed with combining with the District - Mr. Mansfield made the motion and Dr. Stegeman seconded the motion.
C. Trust Agreement

The group reviewed the Trust Agreement language with regard to entering into contracts. Leon George, Purchasing Director, said the Procurement Department is able to provide their services to the Trust Board. Dr. West commented about TUSD’s hard-line structure, and that the Trust Board would like a little more input before things are finalized. Mr. George says he understands the concern and that the Trust Board does actually authorize the District (via Procurement) and District has to follow its policies and procedure.

If contracts go through the Governing Board, then the issue is the Trust Board’s role in making these decisions – is the role for the TB to approve/disapprove? Dr. Stegeman felt that Mr. Harbor’s suggested language only meant that Trust Board would proceed within statutes. Mr. Awwad commented that we have to follow state statutes and Attorney General rules, and if we contract directly its complicated and although rigid, would rather keep it in the hands of the experts (Procurement) to keep TUSD in compliance. Mr. Mansfield commented that the consultant would prepare the RFI, etc. and evaluate, and make a recommendation. Mr. Povinelli commented that they do a lot of procurement work with cities, counties, etc and in conjunction with the entities involved and as such, always abides by the rules of school district’s procurement office. Procurement may get consultant in each and every aspect and would generally not proceed without procurement.

Dr. West was worried about escalating prices in contracts. Mr. Povinelli replied they do have the ability to review the renewals and make a recommendation to the Governing Board, and appreciates the fact that Dr. West did not like the escalators.

Dr. Stegeman’s concerned that we’re having a fruitful discussion but would rather wait for Mr. Harbor to be here and recommended we defer this; Mr. Povinelli commented on how long we’ve been without a Trust Agreement. Mr. Mansfield concerned that the Governing Board could enter into contract but Trust Board has the fiduciary responsibility. Mr. Povinelli provided additional comments to this with regard to how, yes, the Trust Board is the check and balance. Dr. West says other than this section 3.01g, are there any other concerns? The wording that Mr. Harbor suggested is what should be adopted and to change to “statutory and regulatory.” Mr. Povinelli says the fundamental language is that Trust Board can enter into contracts but Trust Board does not have ability to do that. Janet offered that the language either way is fine as we have to follow the Procurement process. Mr. Povinelli offered that in their experience no school district has the authority to enter into contracts outside the process. Dr. West was not uncomfortable with the language and that the Trust Board gives input before consultant goes out to work on RFP and he does not find this paragraph to be problematic.
Dr. Stegeman believes using “statutory and regulatory” is acceptable; Mr. Awwad says the paragraph does indicate the process that will have to be followed via Procurement.

Dr. West would like to get this item concluded and that perhaps the language in version 8 is cleaner and if we have to come back to study later we can do that and polled the group. Mr. Awwad agreed and is in favor to use the language. Other paragraphs of the Trust Agreement (C, D, E, F) cover Dr. Stegeman’s other concern of how to pay for incidental expenses.

Mr. Mansfield offered that in relation to the Trust Agreement and the procure process, that he did not realize the district was out to bid for the consultant – and could the Trust Board go out to bid without the board knowing. For him, this is a key contract for the Trust and they had no input into this RFP. Ms. Underwood offered how the decision was made by TUSD’s prior Assistant Director of Payroll & Benefits to move forward with this consultant RFP as the Trust Board does not have jurisdiction over the entire scope of benefit plans, which the consultant covers; it was not intentional to leave the Trust Board out and that she had a direct hand in shaping the RFP scope language. Dr. Stegeman offered final language and read it to West; Yousef believes the Trust Board does not have the authority to enter into contracts. Mr. Awwad added that with the benefit consultant we can get them involved in the decision(s) but ultimately its not the Trust Board’s decision to decide dental, etc.

Mr. Mansfield believes the trustees should have a say in the consultant contract. Mr. Mansfield says that if next month a diff consultant is going to show up they would need to know that. Dr. Stegeman believes the language he proposed can be a basis for consensus. For Item G, Dr. Stegeman made a motion to empower the Trust to enter into or authorize the procurement office etc and Mr. Awwad seconded the motion.

Dr. Stegeman brought attention to Section 5.02b which was raised by Mr. Harbor in this section also – offered that we add in “statutory and regulatory” language. On hiring of a person. Dr. West believes this is already covered in B and now the Trust Board can authorize for example for 2nd opinions. Dr. Stegeman believes its implied but could we pay someone a small fee to do some particular analysis on a fee for service basis; Mr. Awwad also believes its allowed under this section and Dr. Stegeman agreed to this section as is now. Dr. Stegeman pointed Trust Board to then review 7.01 and it points now to 3.01g, which is acceptable. Dr. West asked if there any other items to propose a change; Mr. Mansfield made motion to approve with the changes to 3.01g and provide to the Governing Board; Dr. Stegeman seconded this motion. Mr. George then exited the meeting.

Janet Underwood t update the Trust Agreement into final form for presentation to the Governing Board.
D. Financial Discussion

Mr. Povinelli reviewed the Financials prepared by Segal. There is still a surplus even with PPO operating at a deficit. The EPO is operating very positively on a YTD basis. The one materially important item to understand is that even if the PPO is developing unfavorably you cannot just price the PPO to keep pace, because by transferring a PPO into EPO does not make those members a good risk. Of these three plans is that the PPO continues to develop unfavorably and this is not unexpected.

As you move forward with Self Funding, price it appropriately. Dr. West asked for end of July number which is $77 for the month and $375 YTD. For HDHP, April appeared high but when you look at the amount of money running in that plan, it was just one rationally sized large claim. Dr. West asked about HDHP and how school districts seem to be risk-aversive to this type of plan. Mr. Povinelli said yes they are and public sector employees are not compensated at a high end of the spectrum and if they are in an HDHP they don’t have the reserves to handle and forego care. These types of employees would rather have a plan with stated copays and the corresponding care. Dr. Stegeman said that when we are competing for employees and that this may be an attractive option. Dr. West says he believes employees don’t understand how an HDHP can be beneficial to them; and in some ways it may make some adverse selection in EPO plan as people with better health go into HDHP. Mr. Mansfield related his own experience and how savings had to be used, although later in the year this works to his advantage; he added how a chunk of money can be given up front. Mr. Povinelli agreed that more effort could be done to educate employees. Dr. West said he will get studies/papers.

The next page of report shows how things have developed, and then an overview of the Trust administrative expenses. At about 11% of overall contributions and by virtue of self-funding have eliminated about 4% of admin fees out. Dr. West asked if US Scripts can give us a breakout of TUSD pharmacy versus how we compare to other plans. Mr. Povinelli said that when the plan year ends, we can get an overview form US Scripts and AmeriBen – and how TUSD compares to a benchmark. Dr. West asked if we could do this for our meeting in October, and Mr. Povinelli replied that probably in November it may be more important to use as actionable info in May / June/ July timeframe for plan design.

It is impossible to plan for PPO as is always the case that richest plan operates negatively. A review of enrollment was given by Mr. Povinelli – the EPO plan has the highest enrollment but other plans have been priced appropriately. There is one claim in large claims but several have exceeded $50k.
E. New Business

Welcome Yousef Awwad-New Trust Board Member

Mr. Awwad offered a review of Trust Board duties. As he is new to TUSD and to the Trust Board he wants to make sure all are on the same page regarding duties. His understanding is that responsibilities and duties of the Trust is in the Trust Agreement and to administer over the trust fund. He cautions that the Trust Board should not overreach in matters that have nothing to do with trust fund i.e. other parts of the plan i.e. dental, disability and any other representation of the District as the Trust Board members are not employees. Mr. Awwad said he wanted to emphasize his point that the Trust Board members can attend functions on their own but cannot be an official representative of the District. Mr. Awwad emphasizes this point due to email of one member regarding his attendance at a function “as a representative of the District” and that he does not feel this is appropriate (referenced the email from Mr. Harbor). Dr. West agreed that this was good advice and said Mr. Harbor was there at his request for information gathering of self funding and that many did not know TUSD was self funded at the Pima County Medical Society function. Dr. Stegeman said that when the self-funded plan was created the purpose was to reduce cost and get greater control over the Plan and how to simplify some of our plans. Ms. Underwood commented how many changes were accomplished in the most recent Employee Agreements and more work is to be done. Dr. West said we can revisit this in November for the next cycle of plan design. Dr. Stegeman inquires if it is possible to get this work done in time for next cycle of employee agreements. Dr. West commented how to get employee view and vendor view to differentiate how some of those people are compensated for providing care. Mr. Mansfield said to keep in mind that with unions and how you have to be careful in taking too radical a change. Dr. Stegeman offered that from a practical view point can we get it done by next cycle. Dr. West believes we need documentation of what others have done to mitigate their costs; some Trust Board members can gather up information. Mr. Povinelli said as the consultant they can help in this regard to help make decisions. Dr. Stegeman’s sense of our political environment is that we can get unions to accept changes that make sense and do so collaboratively.
F. Stop Loss Renewal recommendation.

Mr. Povinelli presented the Stop Loss renewal – there is a proposed 10.8% increase. He feels its lower that what was anticipated and feels it is competitive. He looked at premium rates but was also reluctant just to adopt so he asked the carrier for an alternative funding arrangement to change some of fixed cost into variable cost. He received a commitment to turn 20% into a variable cost. TUSD would pay 80% of premium cost and maintain up to 20% liability of claims that exceeded $200k.

Discussion by the members ensued. Of premiums this year, we have only exceeded $200k by $900 roughly. Mr. Mansfield asked in simpler terms if the premium now is $1m then in the alternative arrangement, we’d have paid $800k? and Mr. Povinelli said yes. Mr. Mansfield asked about how we are about to enter into a contract and is procurement involved. Mr. Povinelli said yes, but this one is a renewal and is renewable up to 4 more years. All contracts entered into are renewable up to this timeframe.

There was discussion of stop loss at the $200k level. Mr. Povinelli explained how the District was asked their risk level and TUSD said $200k. There is a calculation of optimization per Mr. Povinelli in response to Dr. Stegeman’s questions. Dr. Stegeman felt $200kk was too low; and Mr. Povinelli replied that TUSD can absorb at a level of $300k. Dr. West asked if we are comfortable with the funding arrangement. A decision has to be made as this contract ends on 9/30/11. Dr. Stegeman says there must be a way to calculate this and that $200k is way too low. Mr. Povinelli said we can certainly get additional quote information and Dr. Stegeman added he would be interested in the calculation of what is optimal to TUSD.

Dr. West asked Segal to get a quote with a specific deductible of $300k and $400k to see the premium difference. Mr. Povinelli asked Mr. Awwad what is our max exposure to Property and Casualty? Mr. Awwad would have to check and Mr. Povinelli will get new numbers for the renewal by the week of 9/12/11.

G. Report of Subrogation

The goal is to get 100% of plan costs. All parties agreed to a lesser amount; the Plan has agreed to a $5k settlement. A motion was made Mr. Mansfield to accept and it was seconded. The Trust Board asked to be the authority to approve the subros and get them on as a standard agenda item.

Mr. Awwad to check with Property and Casualty regarding TUSD exposure level.
H. Standard Meeting Schedule

The Trust Board will move to Tuesday night meetings and get to a quarterly schedule.

The next meeting will be on 9/20/11 (for Stop Loss Renewal). Subsequent meeting will be held on Tuesday, January 17, 2012. (No meetings in November and December 2011.)

The meeting adjourned at 8:40pm.

Approved this 20th day of September 2011.

TUSD EMPLOYEE BENEFITS TRUST BOARD

By

Dr. Neil R. West, EBT Board Chair