

INTERNAL AUDIT REPORT

2021-09

Police and Fire Retiree Medical Trust
Three-Year Review

Human Resources Department

December 27, 2021

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MUNICIPALITY OF ANCHORAGE
MAYOR DAVE BRONSON

OFFICE OF INTERNAL AUDIT

December 27, 2021

Honorable Mayor and Members of the Assembly:

I am pleased to present for your review **Internal Audit Report 2021-09, Police and Fire Retiree Medical Trust Three-Year Review, Human Resources Department**. A summary of the report is presented below.

In accordance with the 2021 Audit Plan, we have completed an audit of the Police and Fire Retiree Medical Trust. The objective of this audit was to perform the three-year review of the administrative costs and enrollment and payment records for members purchasing health insurance through the Municipality as required by Anchorage Municipal Code subsection 3.87.070B. Specifically, we evaluated trust administration costs incurred from October 2018 to September 2021, and reviewed enrollment and payment records for randomly selected members who purchased health insurance through the Municipality.

Based on our review, the Retiree Medical Funding Program for Police Officers and Firefighters operations complied with Anchorage Municipal Code chapter 3.87. Specifically, administrative costs charged to Fund 713000, *Police and Fire Retirees Medical Expendable Trust*, from October 2018 through September 2021 appeared reasonable. In addition, we found that correct contribution amounts were credited to the members' health reimbursement arrangement accounts, correct insurance premium amounts were deducted from the members' health reimbursement arrangement accounts, and reimbursed expenses were properly supported and documented, for the members purchasing health insurance through the Municipality of Anchorage. Finally, we determined that the Controller Division staff made timely journal entries to record Fund 713000 activities, for both expenditures and revenues, and the Human Resources Department staff performed timely reconciliations between the Municipality of Anchorage's health insurance billings and the Retiree Medical Funding Program for Police Officers and Firefighters' payments.

There were no findings in connection with this audit.

Michael Chadwick, CIA, CICA
Director, Internal Audit



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Internal Audit Report 2021-09
Police and Fire Retiree Medical Trust Three-Year Review
Human Resources Department

Introduction. Anchorage Municipal Code (AMC) chapter 3.87, *Retiree Medical Funding Program for Police Officers and Firefighters*, establishes the Retiree Medical Funding Program for Police Officers and Firefighters (Program). The Program's purpose ". . . is to provide those retirees receiving retirement benefits under the police and fire retirement system and who qualify as members of the program with a health reimbursement arrangement (HRA) to cover the eligible medical expenses of the members, their spouses and eligible dependents." In 2009 AMC section 3.87.050, *Eligibility for active municipal health insurance plan*, was amended to ". . . provide a monthly discount from the stated premium to all members purchasing municipal health insurance." The Program is staffed by a Plan Administrator and one administrative assistant. As of October 2021, there were 373 Program participants who received into their HRA accounts a monthly trust contribution ranging from \$618.34 to \$979.24 for a total of \$3,063,646 for the first ten months of 2021.

- **Municipal Contributions:** Program contributions are made solely by the Municipality of Anchorage (Municipality). The Municipality's responsibilities under this funding program are limited to the following:
 - An initial prefunding contribution of \$2 million.
 - Monthly contribution for the benefit of each member of \$490 starting January 1, 1995, adjusted annually based on a set percentage of the national Medical Consumer Price Index (MCPI).
 - An amount equal to 50 percent of the Medicare Part A Premium that the member is required to pay for part A coverage if, upon reaching the age of Medicare eligibility, a member is not eligible to participate in Medicare without paying the Medicare Part A Premium.

- A one-time prefunding payment in 2006 of \$9.8 million.
 - Funding for a trust program staff to administer the Program.
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- **Health Reimbursement Arrangement:** The Program reimburses members and, as applicable, surviving spouses and/or dependents for medical expenses eligible under section 213 of the Internal Revenue Code, including eligible long-term care premiums. According to AMC subsection 3.87.060J., *Eligible expense reimbursements*, “The program will not reimburse an expense incurred before the date . . . an employee first becomes enrolled in the HRA. The maximum dollar amount reimbursable shall not exceed the balance in the member’s account.”
 - **Surplus Distribution:** According to the Program’s Policy and Procedure Manual “In 1995, the Trust received a \$2 million contribution from the Municipality. These funds are for expenses incurred in the Trust administration and to offset members’ increasing medical expense.

“The assets remaining after paying the projected administrative expenses during the life of the Trust are referred to as ‘surplus’.

“A surplus analysis will be performed annually by the Plan Administrator at the end of the third quarter and presented to the board for review. It is the board’s discretion whether to distribute the surplus after reviewing the analysis each year. A distribution WILL NOT occur in any year that an analysis does not indicate a surplus.

“Although the amounts will differ between Classes each retired member will receive the same monthly percentage distribution. Surplus distributions shall end the month in which the member dies, as does the normal monthly contribution from the Municipality.”

The Program has distributed a monthly surplus payment to participants since 2013. For example, in 2021 the surplus paid each month to each participant ranged from \$91.00 for Class 4 members to \$144.11 for Class 1 members.

In addition, on May 15, 2020, the Municipality of Anchorage Retiree Medical Funding Program Trust for Police Officers and Firefighters Board (Board) approved Board Resolution 2020-2 to provide additional funding to member accounts due to COVID-19 economic hardship. The Board Resolution states that “Additional monthly distributions in an amount equal to the member’s current monthly, [sic] ‘surplus distribution’ shall be made to members’ HRA during the months June through December of 2020.”

- **Monthly Premium Discount:** In 2009, AMC section 3.87.050 was amended to provide a monthly discount to all members purchasing municipal health insurance. For 2021, the discount was \$1,134.76. In addition, benefits provided to a surviving spouse and dependents were extended.
- **Prefunding Program:** Anchorage Municipal Code chapter 3.88, *Prefunding of Police and Fire Retiree Medical Program*, was “. . . established for the purpose of managing the funding necessary to meet the obligations of the municipality for the police and fire retiree medical funding program . . . and making contributions to the retiree medical funding program trust on the behalf of eligible members” The objective of the investment program is to accumulate municipal assets “. . . though a 34-year prefunding program of regular annual deposits by the municipality and accumulated interest earnings so that the municipal obligation is fully funded, requiring no further deposits.” An annual municipal deposit to the investment program was established and has been adjusted as necessary to ensure full funding in the year 2028. The prefunding included a payment by the Municipality of \$9.8 million in 2006, paid for with proceeds from the Retirement Certificates of Participation Debt Service Fund. The amount was based on the results of actuarial valuations and recommendations of the investment board. An actuarial valuation of the Municipality’s obligations to the funding program and the funding status of the investment program is completed, at a minimum, every

three years. Although the prefunding program was not part of this audit, the information was included to help the reader understand Program funding.

- **Assembly Review:** Anchorage Municipal Code subsection 3.87.070A., *Assembly review*, states that “Every five years from January 1, 1995, the assembly will review the operation of the program including the amount of the initial monthly contribution established in Section 3.87.060 to be made by the municipality.”
- **Internal Audit Review:** Anchorage Municipal Code subsection 3.87.070B., *Internal audit review*, requires that “The Internal Auditor will perform an audit of the trust at least once every three years. The scope of the audit may include, but is not limited to, evaluating trust administrative costs, and reviewing enrollment and payment records for members purchasing health insurance through the Municipality.”

Objective and Scope. The objective of this audit was to perform the three-year review of the administrative costs and enrollment and payment records for members purchasing health insurance through the Municipality as required by AMC subsection 3.87.070B. Specifically, we evaluated trust administration costs incurred from October 2018 to September 2021, and reviewed enrollment and payment records for randomly selected members who purchased health insurance through the Municipality.

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Evaluation. Based on our review, Program operations complied with AMC chapter 3.87. Specifically, administrative costs charged to Fund 713000 (Fund), *Police and Fire Retirees Medical Expendable Trust*, from October 2018 through September 2021 appeared reasonable. In addition, we

found that correct contribution amounts were credited to the members' HRA accounts, correct insurance premium amounts were deducted from the members' HRA accounts, and reimbursed expenses were properly supported and documented for the members purchasing health insurance through the Municipality. Finally, we determined that the Controller Division staff made timely journal entries to record Fund activities, for both expenditures and revenues, and the Human Resources Department staff performed timely reconciliations between the Municipality's health insurance billings and the Program's payments.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on December 8, 2021.

Audit Staff:
Scott Lee