



Beyond Asset Allocation: Building Resilient Health & Welfare Portfolios

Health and welfare trusts serve a critical purpose: holding and managing contributed assets to pay for member, retiree, and family healthcare benefits. In recent years, healthcare costs have risen at a pace that exceeds inflation and has challenged the maintenance or growth in reserves of many plans. Medical and pharmacy costs have increased, and have created uncertainty around the ability of future contributions to support reserves. In this environment, investment decisions should be evaluated not only on their return potential, but also on how the trust may perform under adverse conditions, including periods of accelerating healthcare costs, increased claims, reduced contributions, and potential market declines.

This piece explores how cash flow modeling, scenario analysis, and stress testing can provide trustees with a more complete view of risk than return-focused analysis alone. By evaluating how a trust may perform under a range of capital market and plan-specific scenarios, trustees can make more informed asset allocation decisions that help preserve reserve levels, support benefit stability, and maintain financial flexibility in the face of rising healthcare costs and uncertain contribution levels.

What is a Health & Welfare Trust?

Health and welfare trusts hold and maintain contributed assets to pay for medical, dental, vision, pharmacy, and other benefits to eligible participants and their dependents. Their primary function is to pool assets to pay claims as they arise, while allowing labor and management to maintain joint control over benefit design and surplus management through changing plan, industry, and market conditions.

Health and welfare trusts often face shorter-term and more variable cash flow demands relative to pension plans. Claims experience, healthcare cost trends, and contribution levels may fluctuate over time, creating less predictability in cash flows and liquidity needs.

Understanding a trust's projected income, expenses, and current reserve position provides a foundation for assessing risks that affect both the plan's investment outcomes and ability to maintain a targeted level of reserves.

Risks Faced by Health & Welfare Trusts

Rising medical and pharmacy claims can place additional demands on trust reserve balances, while lower covered employment, reduced hours worked, or changes in negotiated contribution rates can impact incoming cash flow. Although individually, these factors may be manageable for trusts to navigate, their combined effect can place meaningful strain on a trust's financial position.

Investment risk may place additional strain on reserve balances should adverse market conditions coincide with elevated operating expenses or reduced contributions. For example, should a trust experience rising claims or declining contributions during a period of declining asset returns, trustees may need to liquidate assets to meet expenses during unfavorable market conditions, locking in investment losses and potentially depleting reserve balances. Understanding the potential impact of both operating risks and investment outcomes is therefore a critical step in evaluating the level of investment risk a trust can prudently undertake.



Failing to make appropriate use of a trust's capacity to assume investment risk also carries risk. It may leave the trust's balance sheet inadequately positioned to keep pace with rising healthcare costs or build reserves for more challenging contribution scenarios in the future.

Assessing Reserve Adequacy: Cash Flow Modeling and Stress Testing

A common starting point for health and welfare trust analysis is understanding how reserves may evolve under a range of future operating conditions. Benefit obligations are funded through a combination of contributions and existing reserves, and as such, trustees benefit from having a forward-looking view of how claims, expenses, and cash flows may affect the trust's financial position over time.

Cash flow modeling provides a framework for evaluating these dynamics. Typical inputs include beginning reserve levels, employer and participant contributions, projected medical and pharmacy claims, administrative expenses, cost trend assumptions, and projected hours-worked levels. In addition to these plan-level assumptions, RVK's modeling process incorporates capital market assumptions, including expected return, risk, and correlation across asset classes. Together, these inputs can be used to project future reserve balances and identify downside risks under stable and adverse scenarios.

Scenario analysis and stress testing expand upon this framework by evaluating how the trust may perform under different assumptions.

Example Inputs Used in Cash Flow and Asset Allocation Modeling:

Cash Flow Assumptions	Base Case	Adverse Case
Contribution Rate	Static	Static
Hours Worked	Stable	Decreased
Medical Costs	5.00%	9.00%
Rx Costs	8.50%	12.50%



Capital Market Assumptions
Asset Class Returns
Risk (Standard Deviation)
Correlations

EXAMPLE MONTHLY CASH FLOWS

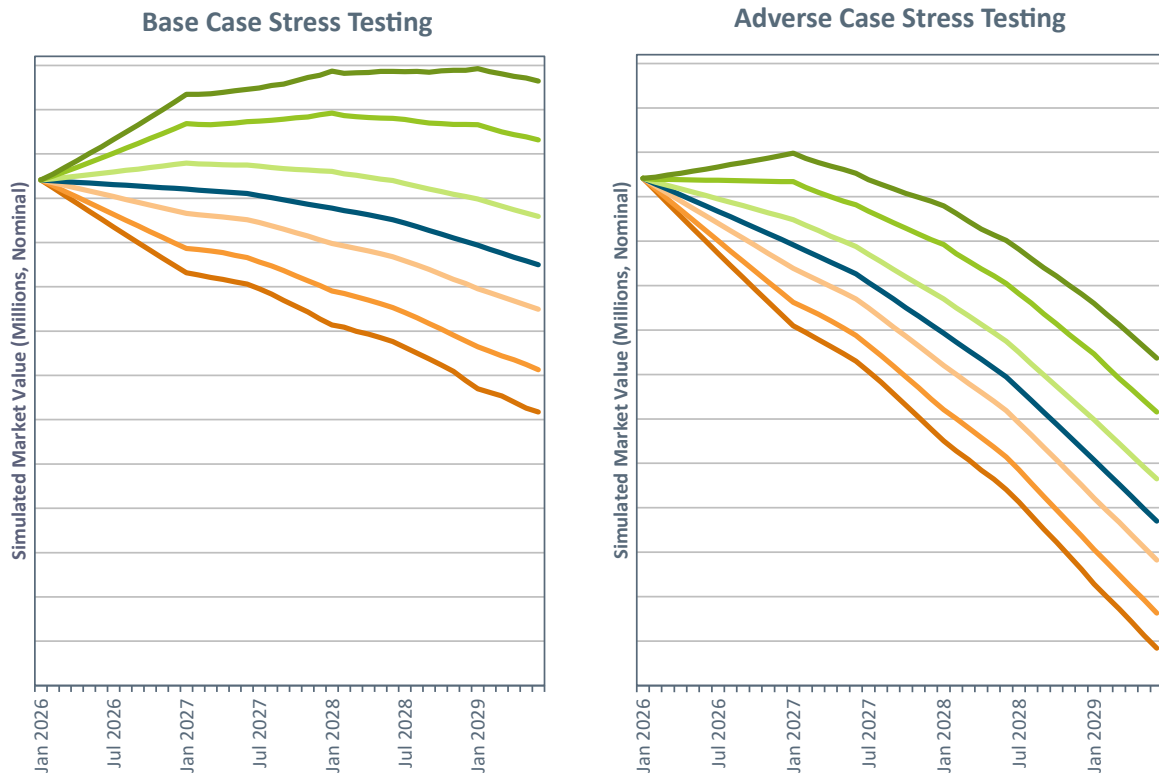
	FY 2027	FY 2028	FY 2029
Revenues +			
Base Case	20,000,000	21,000,000	22,000,000
Adverse Case	18,000,000	18,500,000	19,000,000
Expenditures -			
Base Case	18,000,000	19,500,000	21,000,000
Adverse Case	19,000,000	21,000,000	23,000,000
Net Monthly Cash Flow			
Base Case	2,000,000	1,500,000	1,000,000
Adverse Case	-1,000,000	-2,500,000	-4,000,000



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Baseline projections often reflect expected claims growth, expectations for contribution levels, and healthcare cost trends. Adverse scenarios incorporate higher claims costs, weaker contribution growth, declining covered employment, or other sources of financial pressure. Rather than relying on a single expected result, the analysis seeks to evaluate a range of outcomes through Monte Carlo simulation, helping trustees assess both expected conditions and downside scenarios.



Source: 2026 RVK Capital Market Assumptions

Healthcare trends and claims projections are primarily developed in consultation with the trust’s benefits consultant, while assumptions regarding contribution levels and industry conditions typically require input from trustees and other stakeholders who understand the underlying workforce and bargaining environment.

The resulting Monte Carlo analysis can help trustees evaluate reserve adequacy and can provide insight into the trust’s financial flexibility under both expected and adverse conditions. Viewed together, these outputs help trustees assess whether current reserves are sufficient, how long benefits could be supported if conditions deteriorate, and the level of investment risk the trust can realistically support. Ultimately, this analysis provides a clearer understanding of the trust’s capacity to absorb financial stress and the appropriate asset allocation strategy for the trust’s reserves.



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