

**Regional School District #4
Chester – Deep River – Essex – Region 4**

**AGENDA & NOTICE FOR REGION 4 BOARD OF EDUCATION
FINANCIAL TASK FORCE MEETING**

To: Members of the Region 4 Financial Task Force:
R4 BOE – (Jennifer Clark, Rick Daniels, Lori Ann Clymas; BOE Chair Kate Sandmann)
BOS – (Lauren Gister, CH / Angus McDonald [alt. Duane Gates] DR / Terry Stewart [alt. Kelly Sterner] ES)
BOF – (Virginia Carmany, CH / George Eckenroth DR / Keith Crehan ES)

Subject: Region 4 Financial Task Force Meeting: **Monday, February 24, 2020**

Time & Place: **6:00 p.m.** in John Winthrop Middle School Library

If you are unable to be in attendance, please e-mail jbryan@reg4.k12.ct.us.

Charge to the Committee

Evaluate the current financial policies and practices of the Region 4 Board of Education,
and make recommendations to the Region 4 Board of Education

AGENDA

- a. Call to order

- b. Evaluate current policies, practices and structure of the Region 4 Health Insurance Fund

- c. Develop recommendations for policies, practices and structure of Health Insurance Fund

- d. Public Comment

- e. Adjournment

From Policy Manual Table of Contents for 4000 series

No Policy - instead **Insurance/Health & Welfare Benefits** is listed as "T/A" which means contract supersedes policy (i.e. there is no policy) it is covered in the Teachers and Administrators contracts

Compensation and Related Benefits 4140 T/A

(1) Salary Guides 4141 T/A

(2) Salary Checks and Deductions 4142 T/A

(3) Extra Pay for Extra Work 4143 T

(4) ~~Insurance~~/Health & Welfare Benefits 4144 T/A

Medical Consortium Reserve Policy

Employee Self Insurance Fund

Purpose

The purpose of this policy is to provide a standard for the appropriate level of reserves that should be maintained in the employee health insurance fund and establishing a method of managing the fund in order to maintain appropriate levels of reserve and to establish a process in the event the reserves fall below the optimal levels of established by the consortium.

Policy Statement

It is the intention of the Regional School District #4 to fund the liabilities of their respective health insurance plans and provide sufficient financial resources to fund any unanticipated claims in excess of budgeted claim levels.

Reserve Level

The optimal reserve level established by the consortium is 25% of annual expected claims. Annual expected claims are defined as medical claims, fees and IBNR claims. This reserve level is established with the understanding that individual stop loss insurance of \$150,000 to \$175,000 is maintained.

Claim Reserve Maximum

Poor claim years occur periodically, which draw the reserve balance below the optimal 25% of expected claims. When this occurs, the region will restore the fund to at least 20% reserve level by increasing annual funding level over the next (three, four or five) succeeding annual budgets. The fund may also be funded through year end surplus funds as directed by the Board of Education.

Money in the reserve account cannot be used for any other purpose than funding medical expenses. Should the Reserve account exceed 25% then consideration should be given for the excess funds be applied to subsequent year's expected claims.

Budget Requests

During the annual budget process each entity will include in their respective budget requests sufficient budget amounts to cover expected claims and adjustments for the upcoming year.

SELF-INSURANCE FUND BALANCE POLICY

Purpose: A municipality's self-funded fiscal policies should include a policy related to self-insurance fund balance reserves. For the purpose of this policy reserves are defined as funds held in the self-insurance fund in excess of the current fiscal year's budgeted self-insurance expenditures. Budgeted self-insurance expenditures include all annual administrative costs, stop loss premiums, medical/dental claims and other program costs as approved by the Self Insurance Committee (SIC). Budgeted expenditures are equal to the current year's budget (prior to SIC passing next year's budget) or gross budget for the upcoming fiscal year (after SIC passes next year's budget).

Establishing a Self-Insurance Fund Balance Policy that is adhered to is a prudent fiscal management tool that is widely recognized as reflecting positively on the management and protection of the municipality's general fund. This policy provides both specificity and flexibility, accomplishing one or more of at least three main criteria: establishing a base level of reserves, or a floor; specifying the appropriate circumstances for drawing down reserves; and directing the replenishment of reserves.

Policy to Maintain the Self-Insurance Fund Balance Reserve:

The town sets forth the following policy on self-insurance fund balance reserves. The SIC shall strive to maintain a self-insurance fund balance reserve, as a percentage of budgeted expenditures, consisting of the following components:

Reserve Component	Definition	Target Range*
Claim IBNR	<u>I</u> ncurred <u>B</u> ut <u>N</u> ot <u>R</u> eported Claims are claims for dates of services within a given plan year but due to claims submission and processing lag are paid in subsequent plan years. From an audit prospective IBNR is considered a required component of Reserve.	6% to 11% (1 to 2 months)
Claim Corridor	Targeted to cover the plan's additional liability between the 100% expected claims and the plan's exposure at the aggregate stop loss level (125%) upon which the stop loss carrier assumes responsibility.	10% to 25%
Claim Fluctuation	Provides flexibility in dealing with future plan years and may be established to help smooth the effect of a negative claim result over several renewal cycles.	0% to 5%

*Target Range based on similar situated Public Sector plans. Range will vary by plan based on risk tolerance, historic fund balance/claim performance and budget considerations

Claims IBNR will be calculated annually by the Town's third-party administrator (or other qualified Advisor) and approved by the SIC.

Claim Corridor is calculated by the Town's Health Benefit Consultant and approved by the SIC. Claim Corridor targets will be based on expected claims for the fiscal year.

Claim Fluctuation is calculated by the Town's Health Benefit Consultant and approved by the SIC. Claim Fluctuation targets will be based on expected claims for the fiscal year and may vary depending on the level of the Claim Corridor, previous fiscal year plan performance and other factors impacting the Town's Self-Insurance Plan.

Draw Down of Funds Within the Target Range Self-Insurance Fund Balance Reserve

Funds within the targeted range may be used:

- For stabilization of future year's funding level
- To the benefit of the plan sponsor and plan participants including premium holidays, wellness programs, disease management programs, and other programs/services consistent with managing a self-insurance plan.

Replenishment of the Floor Shortfall

If at fiscal yearend it is determined the self-insurance fund balance reserve falls below targeted range or is projected to fall below the targeted range in future fiscal years, the SIC shall make a recommendation as to how to rebuild the fund balance reserve through mechanisms including but not limited to:

- Adding an annual appropriation as a separate line item of at least 25% of the difference between the policy minimum level and the account balance until the policy level is met
- Adding an appropriation from the Town's General Fund

Reporting and Monitoring

Periodic reporting shall be prepared by the Director of Finance for review by the Town Manager and given to the SIC:

Annual review and update of Policy

This policy shall be reviewed by the SIC and recommendations for any changes be submitted to the Town Council in March following SIC appointments.

The Town of Farmington and The Farmington Public Schools Employee Health Self-Insurance Fund Reserve Policy

I. Purpose

The purpose of this policy is to provide a standard for the appropriate level of reserves that should be maintained in the employee health self insurance fund and for defining the processes: (a) to maintain their adequacy, and (b) cover plan expenses in the event of a reserve inadequacy.

II. Policy Statement

It is the intention of both the Town Council and Board of Education of Farmington to adequately fund the liabilities of their respective health insurance plans and provide sufficient financial resources to fund any unexpected increase in claims over the budgeted claim level. Accordingly, the Town and Board of Education will fund an Incurred But Not Reported (IBNR) reserve and an Excess Claim Reserve.

IBNR Reserve

The IBNR reserve shall be established as of June 30 of each fiscal year at a level deemed appropriate by the Town Council and Board of Education, after consultations with Town and School insurance consultants and insurance vendors and after testing and verification by the Town's independent auditors. The IBNR reserve shall be fully funded. Any insufficiency in the IBNR reserve will be funded from the Excess Claim Reserve.

Should the IBNR reserve fall below the established level and the excess claim reserve have insufficient resources to restore the IBNR reserve to its established level, then the Town and Board will take steps to restore the IBNR reserve to its fully funded status by budgeting for the shortfall in the next budget cycle. This will be done on a proportional basis, the proportion to be determined based on each entity's expected claims for the next fiscal year. However, no entity shall contribute an amount greater than 80% of the amount required to be contributed.

Excess Claim Reserve

In addition to the IBNR reserve, the Town and Schools will establish an Excess Claim Reserve to fund claims in excess of the expected claim level. The desired reserve level shall be in a range between 7% - 11% of annual expected claims.

Claim Reserve Maximums

Considering that a plan year following a poor claim year in which all or most of the claim reserve was expended would result in a substantial health care budget increase, the Town and Schools recognize that an Excess Claim Reserve of between 7% - 11% would be desirable and thus there is no formal maximum to the Excess Claim Reserve. Moreover, money cannot be withdrawn from the Excess Claim Reserve for self-insurance purposes until the combined IBNR and Excess Claims reserves exceed twenty-five percent (25%) of annual expected claims.

Should the combined reserves exceed 25% then each entity will be credited with a proportional amount of the excess above 25% to put towards the funding of their subsequent year's expected claims. The proportion to be determined will be based upon the proportion that each entity contributed to the excess reserve in the preceding 24-month plan period. However no entity will receive less than an amount equal to 20% of the amount to be distributed.

III. Budget Requests

During the annual budget preparation process the Town Manager and the Superintendent of Schools will include in their respective budget requests sufficient budget amounts to cover expected claims for the upcoming year plus additional funds to fully fund the estimated IBNR level and such additional amounts as may be necessary to fully fund the excess claim reserve pursuant to this agreement. It is recognized that achieving these targets in one year would be difficult. Therefore, the Town Council and Board of Education would meet the IBNR standard and at least the 7% excess claim reserve standard within three years after adoption of this policy.

IV. Procedure for Covering Claims When Reserves Are Not Sufficient

Shortfall

If at any time during the Plan Year either the Town Manager or the Superintendent or both determine that there are insufficient revenues and accumulated reserves to meet the immediate claim expense obligations of their respective plans they will immediately report such findings to their respective policy bodies.

The Town shall make available sufficient cash to either the Town self insurance plan or Schools' self insurance plan to permit each employer to meet its obligations to fund the self insured cash account for claims incurred on behalf of its employees for the balance of that fiscal year.

If at any time during the Plan Year, either Town staff or the school staff or both determine that it is likely that there will be insufficient revenues and accumulated reserves to meet claim expenses, they will report such to their respective policy bodies at their next regular meeting. The report shall include the following information:

1. Provide a projection of the fiscal year end shortfall in expected paid claims;
2. Utilization information indicating current and/or projected paid claims;
3. Identify any self insurance revenue variances from what was originally budgeted.

Following the Board of Education's review of the school projection, the information will be transmitted to the Town Council. The Town Council after reviewing the self-insurance financial report(s) provided by the Town and/or Board of Education, will determine the amount of, if any, additional appropriation to be made to the Town or Board or both to meet claims payments during the remainder of the Plan Year. In making their determination, the Town Council will consider all of the information provided by the Town Manager and Board of Education.

Any supplemental appropriation approved by the Town Council will be made in three equal payments directly to the Employee Health Self-Insurance Fund over the balance of the Plan Year. If at anytime after an additional appropriation is

made, it is determined that the full appropriation will not be needed, then the amount not needed will not be paid to the Fund or if already paid, the amount will be withdrawn from the Fund and returned to the General Fund.

This policy shall be reviewed on a biennial basis during the month of January in each even numbered year or at any time in between, if requested by either the Town Council or Farmington Board of Education.

Approved by the Town Council: _____

Approved by the Farmington Board of Education: _____

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