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City Council Regular Meeting

Meeting Date:	06/05/2017		
Recommended by:	Brett Wallace	Prepared by:	Brett Wallace, City Attorney
Finance Director Review:	Celina Morris		
City Attorney Review:	Brett Wallace		
Approved by:	Larry Rains	Date Submitted:	
Type of Action Requested:	Ordinance		

SUBJECT:

Ordinance Establishing a Self-Funded Insurance Plan and Trust

RECOMMENDATION:

Staff recommends that the Mayor and Council adopt an Ordinance establishing the City's ability to establish a self-funding mechanism and trust for providing health insurance to those covered by City policies and adopt the Ordinance with an Emergency Clause to ensure that the plan can be operational in time for the City's new fiscal year.

DISCUSSION:

As discussed at the study session on May 1, 2017 and the budget retreat, City staff has been evaluating the option of moving to a self-funding mechanism for City health insurance as a means of obtaining more control over the costs of providing insurance to employees and their eligible dependents. Self-insurance differs from traditional insurance in a few key ways. In a fully insured plan the liability of the City is limited to the premium rate charged by the insurer, whereas in a self-insured plan the City is fully liable for the payment of all covered claims related to the insurance plan. This liability, however, can be limited by reinsurance - known as stop-loss insurance - that caps the City's liability both for large individual claims as well as large claims in the aggregate. Self-insurance can be beneficial in that it provides for much more flexibility in plan-design and customization, provides detailed claim data not available in a fully insured plan that allows the employer to better understand how its employees are using the plan and make changes to provide better and more cost-effective plans, and can result in lower administration fees. Instead of the premiums being paid to the insurer, the premiums are maintained and invested in a Trust, which can result in cash-flow and investment benefits to the City. Additionally, in the event the City has better than expected claims experience, the City realizes these benefits whereas in a fully insured plan better claim experience results in more profit to the insurer.

There are also risks obviously in moving to a self-insured plan. Whereas the City obtains the benefit of good claim experience if self-insured, if the City has poor claims experience it must bear those costs up to the stop-loss limits which would result in larger expenses than in a fully-insured plan (although a full-insurer would raise premiums in the following year as a result of the poor claims experience, so the City would be paying for those claims just at a later time). The City also would have some additional potential fiduciary liability related to the benefit plan and the trust required to establish it, as well as additional HIPAA privacy concerns and considerations.

Having completed the analysis and weighed the advantages and disadvantages of moving to a

system of self-insurance, staff is recommending that the Mayor and Council authorize its use for the City's health plan.

In order to move to self-insurance, state law requires the City to establish a Trust to administer the funds separate from the City's general fund and staff has prepared a draft Ordinance that would authorize the City to use self-insurance and to establish the Board of Trustees to administer the Trust Fund, which will be funded through the premiums paid by the City and plan participants, and maintain and administer those funds by investing them consistent with the City's investment policy and paying claims as they occur. The Board must have at least 5 trustees, of which no more than one may be a City employee and no more than one may be a Council Member. The draft Ordinance appoints the City Finance Director (ex officio) to serve on the Board, allows for the appointment of one Council Member selected by Council, and authorizes the City Manager to appoint three public members with expertise in finance, human resources, or employee benefits. The Ordinance also sets forth the basic rules and purposes of the Board and also provides a method for the City to discontinue self-insurance as part of the budget process or by other action of the Council.

If the Ordinance is approved, staff would bring a proposed Trust Agreement to Council for approval at the June 19 meeting. This Trust Agreement is consistent with the Ordinance establishing the Trust but provides additional details concerning the operation of the Trust Fund, including the duties of the Trustees to make recommendations concerning the amount of premiums needed to fund the Trust and restricting the investment of funds pursuant to previously adopted Council policy.

Because staff is recommending that Council use self-insurance for the upcoming fiscal year, the Ordinance contains an emergency clause in order to make it effective in time for the fiscal year, which can result in a significant savings to the City. In order to pass with an emergency clause the affirmative vote of 6 council members is required.

FISCAL IMPACT:

Funding will be done through the payments of insurance premium dollars. The City had set aside \$1 million several years ago in anticipation of us eventually moving to self-funding. This money will be made available and moved into the Trust as needed throughout the plan year.

ALTERNATIVES:

Continue with existing mechanism of providing insurance through insurer provided fully funded plans.

Attachments
