

# Self-Insurance Fund Operating Policy



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## **Overview**

The Self Insurance Fund was created to account for insurance transactions of the City where the City retains some of the insurance risk. The fund is an internal service fund type. Similar to a private insurance company, the Self Insurance Fund charges the various funds and departments of the City a premium. The premiums are to cover current claims, administration and to establish and maintain a reserve to cover the risk that is being transferred to the Self Insurance Fund.

Currently the City is self-insured for health benefits and a portion of the property and general liability insurance. Each of these types of insurance requires a different premium calculation and reserve balance. Therefore, a separate operating policy is required for each.

## **Property and General Liability Insurance**

### **1. Background**

The City participates in the Michigan Municipal Risk Management Authority (MMRMA) insurance pool. The pool provides insurance for civil suits, property damage, general liability, automobile damage, machinery damage and errors and omissions. The City pays premiums into two funds at MMRMA, the General Fund and the Self-Insured Retention Fund.

The Retention Fund is monies in the City's name that bear interest. They are used to pay all losses up to maximum amounts set in the policy. Losses includes damages, loss adjustment expenses and defense costs. The maximum self-insured retention per year is as follows: general liability \$100,000; vehicle physical damage \$15,000 per vehicle, \$30,000 per occurrence; sewer overflow \$100,000.

The City participates in MMRMA's stop loss program, whereby the City is not responsible for any payments from the Self-Insured Retention Fund in excess of the annual stop loss amount.

The General Fund of MMRMA pays all claims beyond the self-insured retention per year, procures re-insurance, provides risk management, underwriting, establishes loss reserves and other related expenses. The City has no obligation for payment of another member's losses to the extent of the self-insured retention amount, beyond that losses are covered through the MMRMA General Fund and reinsurance. The cash balance and activity of the City's MMRMA Self Insured Retention Fund will be recorded in the Self Insurance Fund.

### **2. Premiums**

The premiums paid for both components of property and general liability insurance are set annually by MMRMA. The Self Insurance Fund premiums charged for the MMRMA Self Insured Retention Fund will be allocated to the various funds and departments in the same percentage as the MMRMA General Fund portion. The premium paid to MMRMA General Fund will be expensed to the various funds and departments of the City.

### **3. Reserve**

A reserve in the Self Insurance Fund shall be established on an annual basis equal to the loss reserve for both known and unknown claims, calculated by MMRMA, plus \$185,000. MMRMA calculates this amount when they set our annual premium.

### **Excess Funds**

MMRMA pays net asset distributions back to member municipalities based on projected fund balance, investment performance, member claim history and length of time in the MMRMA pool. These distributions are returned to the funds that pay insurance premiums on a pro rata basis.

## **Health Benefits**

### **1. Background**

The City self-insures for the following employee benefits; health, prescription and dental. The City pays the premiums for the benefits as provided for in the union contract and administrative rules. The employees have the option to select and pay for additional benefits via the City's section 125 cafeteria plan. Retirees and former employees and dependents covered by COBRA may also purchase these benefits.

The City has contracted with a third-party administrator to administer the plan, handle claims and obtain re-insurance. The City obtains annual stop loss insurance from a re-insurance company for limits on individual claims and the plans aggregate claims

### **2. Premiums**

The Finance Division shall annually determine an illustrated rate for each type of benefit for single persons and families. The rate shall be determined using current market data, fund balance and the City's claims history.

The Self Insurance Fund premiums charged to the various funds and departments will be the illustrated rate for the benefits available to the employees assigned to them. The Self Insurance Fund premiums charged to retirees and COBRA persons will be the illustrated rate for retirees and the illustrated rate plus 2% for COBRA persons. Employee premium co-share amounts are charged based on union contracts and administrative rules.

Employees selecting more benefits than provided for in the union contracts and administrative rules, will pay the amount determined in the cafeteria enrollment process. The cafeteria enrollment "credits" will be determined by the Finance Division annually and are not the same as the illustrated rates. The amount of the payroll deduction will be deposited in the Self Insurance Fund. Employees opting out of health insurance coverage are eligible for opt out payments as defined by union contracts and administrative rules.

### **3. Reserve**

A minimum reserve in the Self Insurance Fund shall be established on an annual basis equal to forty percent of net claims from the prior year plus two stop loss payment thresholds.

### **4. Excess/Deficiency of Funds**

In the event that the reserve plus the current premiums charged is insufficient to pay the current claims, a surcharge will be charged to the individual funds and departments based on the same proportion as the current year premiums. If the cash balance at the end of the year is in excess of the minimum reserve balance required in item three (3), the Self Insurance Fund will carry the excess fund balance over to use in subsequent years to mitigate illustrated rate increases. This smoothing effect decreases the likelihood of surcharging the various funds and allows for a more predictable financial impact from administering the health plan. While preparing the final amended budget, if the Finance Division and City Manager determines fund balance is well in excess of minimum fund balance requirement, they will have the option to skip charging departments for December premiums.