

CITY OF MT. PLEASANT
SELF INSURANCE FUND
OPERATING POLICIES

Purpose of Fund

The Self Insurance 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.

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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 quarterly premiums to the pool. The premiums are paid 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 \$75,000; vehicle physical damage \$15,000 per vehicle, \$30,000 per occurrence; property and crime \$10,000 per each \$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 \$98,000 per year.

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. The premium paid to MMRMA General Fund will be expense to the various funds and departments of the City.

2. Premiums

The premiums paid for both components of property and general liability insurance are set annually by MMRMA. The City bids out the property and general liability insurance every few years.

The Self Insurance Fund premiums charged for the MMRMA Self Insured Retention Fund, as determined by MMRMA, will be allocated to the various funds and departments in the same percentage as the MMRMA General Fund portion.

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 \$98,000. No additional premium will be charged to establish the reserve without City Commission approval.

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Property and General Liability Insurance (Continued)

4. Excess Funds

The City must obtain approval from MMRMA to withdraw funds from the Self Insured Retention Fund. If the balance in the MMRMA Self Insured Retention Fund at the end of the year exceeds one and one half times the reserve balance required in item three (3), the Finance Director and or City Manager will recommend to the City Commission that the City seek approval from MMRMA to withdraw monies from the Self Insured Retention Fund and recommend the method of distribution.

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Health Benefits

1. Background

The City self insures for the following employee benefits; health, prescription, dental and vision. 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 thru the City's section 125 cafeteria plan. Retirees and former employees and dependents covered by COBRA also may purchase these benefits.

The City has contracted with a third party administrator, Weyco, Inc., 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 determine annually an illustrated rate for each type of benefit for single persons and families. The rate shall be determined using current market data 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 selected by the employees assigned to them. Payments to employees opting out of benefits provided by the union contracts and administrative rules will be charged to the fund or department where the employee is assigned. 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.

The 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.

3. Reserve

A reserve in the Self Insurance Fund shall be established on an annual basis equal to the current claims payable plus three (3) times the individual stop loss amount. No additional premiums will be charged to establish the reserve without City Commission approval.

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.

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OPERATING POLICIES

Health Benefits (Continued)

4. Excess/Deficiency of Funds (Continued)

If the cash balance at the end of the year is in excess of the reserve balance required in item three(3), the Self Insurance Fund will pay dividends to the various funds and departments in the same proportion as the current year premium.

