

INTERNAL SERVICES FUND

The Internal Services Fund was established in July 2006 for the fiscal year ending June 30, 2006. At the time the fund was established, the Weston Public Schools were partially self-funded, with stop-loss insurance that covered specific plan participants with claims that exceed \$175,000 or aggregate claims for all plan participants that exceed 120% of expected. The district has maintained the threshold for specific plan participants at \$175,000. However, in the current year Aetna decreased the district's exposure to aggregate claims by decreasing the insured level for aggregate claims to 115%.

The Internal Services Fund provides a mechanism for full disclosure of revenue and expenditures on one statement, retaining fund balances specifically for health benefits, and establishing long-term budget stability. The Board of Education is responsible for recording the transactions for the fund and preparing periodic reports. The Town is responsible for maintaining the bank accounts and providing the necessary cash flow.

The fund was established to account for all of the business transactions associated with providing employees with the health benefit program outlined in collective bargaining agreements and the Board of Education's agreements with non-represented staff. The fund has a "Revenue and Expenditure Statement" and a "Balance Sheet".

There are several revenue sources that support this fund. The largest source of funding is from the Board of Education's Operating Budget, which consists of an annual appropriation. Other sources of funding are derived from employee cost sharing, the State Teachers' Retirement Board, retiree co-pay and COBRA.

The expenditures accounted for in this fund include paid and accrued claims for medical, prescription and dental coverage, stop-loss insurance, administrative fees, Medicare supplement payments, wellness program expenses, consultant fees and \$214,840 of the district's annual liability contribution of \$464,840. The remaining \$250,000 of this liability is included in the district's operating budget under the District-Wide cost center. At the end of each fiscal period, the district's insurance carrier provides the dollar amount of the outstanding claims liability, which is recorded in the financial statements of the Town.

The district typically issues a request for proposal every other year to obtain the lowest possible cost. This process resulted in a funding change for the 2010 and 2011 fiscal periods. The competitive process enabled the district to save approximately \$500,000 in the first year by changing from partially self-funded with Anthem to fully-funded with Cigna. Despite the fact that we were fully-insured, the Boards of Education, Selectmen and Finance maintained the fund to enable the district to re-enter the partially self-funded financing option in future years. As anticipated, in the spring of 2011 the district decided to convert back to a partially self-funded program with Cigna for FY 2012 based on the proposals received through the competitive process. In FY 2013, the district issued another request for proposal, which once again resulted in projected savings of more than \$425,000 by changing insurance carriers from Cigna to Aetna.

Another critical aspect of cost containment in the area of health benefits is plan design. Over the past five years, the district transitioned approximately 94% of the employees who receive health benefits from the higher cost PPO Plan to the lower cost H.S.A. High Deductible Plan. This transition resulted in significant savings for the district.

In 2013, the PPO Plan was eliminated for all employees eligible to enroll in the H.S.A. Plan. During negotiations with the bargaining groups, the parties agreed to recognize the H.S.A. Plan as the primary health benefit plan option for their members. Employees have the ability to enroll in the PPO Plan. However, they must pay 100% of the differential between the plans. As a result, the increase in the health benefits line item in the Board of Education's Operating Budget over the past five years has been relatively flat, which is an extraordinary accomplishment given the rate of increases for health insurance in the marketplace.

In FY 2015, staff represented by the WAA and WTA contracts will contribute 14% of the cost of their health benefits and those represented by AFSCME will contribute 12%. Based on the district's claims experience, our consultant has recommended that the Administrators' Requested Budget assume a 10% trend for medical and RX claims and 5% for dental. However, the district will continue to monitor current claims and the impact on future projections, and update the budget assumptions and associated contribution from the district's operating budget if appropriate. In addition, the district reduced the budget for the cost associated with the reduction of two staff members.

FY 2015 will be the first year the district will be taxed for the Affordable Care Act (ACA). Accordingly, this budget includes \$54,707 for this expense. Our employees who participate in the district's health care plan may also be subject to a "Cadillac Tax." This is an excess tax that impacts plans that cost more than the threshold amount established by the federal government.

As of June 30, 2013, there was a balance of \$2,184,405. The projected reserve balance at the end of FY 2014 is projected to be \$1,893,548 and in FY 2015 is \$1,678,708. The decrease in fund balance from year-to-year is mostly attributed to the OPEB contributions of \$214,840 per year. Based on the reserve balance calculations provided by our consultant for the FY 2015 budget deliberations, this fund balance is well below the Market Standard Target Values Model of \$3,175,965 and the Carrier IBNR/75% ASO Corridor Model of \$2,516,475. Rather, it is \$403,892 below the lowest recommended reserve balance based on the Carrier IBNR/50% ASO Corridor Model of \$2,082,600. A copy of our consultant's exhibit of Reserve Modeling can be found on page 142. As we move forward, the Boards may want to revisit the practice of intentionally drawing down the Internal Services Fund for OPEB.

**WESTON PUBLIC SCHOOLS
INTERNAL SERVICES FUND
FOR HEALTH BENEFITS PROGRAM**

Fiscal Year Ended	<u>Audited</u>		Budget	<u>Unaudited</u>	
	Actual 2012	Actual 2013		2014	Expected 2014

STATEMENT OF REVENUES AND EXPENDITURES

Revenues:

General Fund Appropriation	6,124,504	6,466,224	6,314,029	6,314,029	6,982,247
Contributions:					
Employee Cost Sharing	853,343	677,496	753,258	705,420	789,520
Retiree/COBRA Contributions	283,156	292,395	310,000	307,015	292,500
State Teachers Retirement Reimbursement (TRB)	106,863	94,647	145,000	84,638	84,636
Affordable Insurance Act Refund	0	59,397	0	0	
Total Contributions	<u>1,243,362</u>	<u>1,123,935</u>	<u>1,208,258</u>	<u>1,097,073</u>	<u>1,166,656</u>
 Total Revenue {A}	 <u>7,367,866</u>	 <u>7,590,159</u>	 <u>7,522,287</u>	 <u>7,411,102</u>	 <u>8,148,903</u>

Expenditures

Medical & RX Costs	6,120,445	6,396,273	6,161,987	6,331,706	7,090,242
Staff Changes	0	0	0	0	(38,944)
District Portion of H.S.A. Deductible	378,549	735,017	659,950	674,178	594,150
Delta Dental	407,791	379,383	377,055	372,780	395,000
Medical Supplement/Other Costs	104,894	109,527	108,455	108,455	108,455
Total Health Plan Costs {B}	<u>7,011,679</u>	<u>7,620,200</u>	<u>7,307,447</u>	<u>7,487,119</u>	<u>8,148,903</u>
 Accrued Costs Per GASB 43/45 {C}	 173,300	 214,800	 214,840	 214,840	 214,840
Accounts Payables and Other:					
Incurred But Not Reported (IBNR)					
Fiscal Year End Accrual	625,021	750,000	750,000	750,000	750,000
Prior Year End Accrual	0	625,021	750,000	750,000	750,000
Increase (Decrease) {D}	<u>625,021</u>	<u>124,979</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total Expenditure {F=B+C+D}	 <u>7,810,000</u>	 <u>7,959,979</u>	 <u>7,522,287</u>	 <u>7,701,959</u>	 <u>8,363,743</u>
 Net Change {A-F}	 <u>(442,134)</u>	 <u>(369,820)</u>	 <u>0</u>	 <u>(290,857)</u>	 <u>(214,840)</u>

BALANCE SHEET

Assets:

Interfund Balance July 1st	3,162,827	3,179,246	3,432,630	2,934,405	2,643,548
Net Changes Transfers In	16,419	(244,841)	0	(290,857)	(214,840)
Prepaid Expenses (Cigna Retainer)	0				
Interfund Balance	<u>3,179,246</u>	<u>2,934,405</u>	<u>3,432,630</u>	<u>2,643,548</u>	<u>2,428,708</u>

Liabilities:

Accrue IBNR - June 30th	625,021	750,000	625,021	750,000	750,000
Total Liabilities	<u>625,021</u>	<u>750,000</u>	<u>625,021</u>	<u>750,000</u>	<u>750,000</u>

Fund Balance:

Fund Balance July 1	2,996,359	2,554,225	2,807,609	2,184,405	1,893,548
Current Year Change in Fund Equity	(442,134)	(369,820)	0	(290,857)	(214,840)
Total Fund Balance	<u>2,554,225</u>	<u>2,184,405</u>	<u>2,807,609</u>	<u>1,893,548</u>	<u>1,678,708</u>

Total Liabilities & Fund Balance	<u>3,179,246</u>	<u>2,934,405</u>	<u>3,432,630</u>	<u>2,643,548</u>	<u>2,428,708</u>
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