

# **INTERNAL SERVICES FUND**

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The Internal Services Fund was established in July 2006. In seven of the eight fiscal years since this fund was established, the district has been 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. In fiscal years 2010 and 2011 the district was fully-insured. However, during these periods the district and Town maintained the Internal Services Fund to allow for the transition back into partial self-funding when the market favored this decision.

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 also 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-payments 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, fees and taxes assessed to the district as a result of the Affordable Care Act and consultant fees. For FY 2017, the actuarial contribution for OPEB is \$209,000, which will be fully funded through the Internal Services Fund. 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 as incurred but not recorded (IBNR).

The district typically issues a request for proposal every other year to obtain the lowest possible cost. As mentioned above, 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 six years, the district transitioned almost all of its 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 FY 2017, staff represented by the WAA and WTA will contribute 16% and 15% respectively of the cost of their health benefits. Those employees represented by AFSCME will contribute the FY 2015 rate of 12%, pending contract negotiations. Based on the district's claims experience, our consultant has recommended that the Administrators' Requested Budget assume an 8% 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, evaluate the requests for proposals 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 a net of three staff members. Once again, in FY 2017 the district will be taxed for the Affordable Care Act (ACA). Accordingly, this budget includes \$20,800 for this expense. This expense is a reduction from prior year's as the reinsurance fee that is applied reduces by approximately 1/3 each reinsurance cycle. The district's health care plan may also be subject to a "Cadillac Tax" in the future. This is an excess tax that impacts plans that cost more than the threshold amount established by the federal government.

As of June 30, 2015, there was a fund balance of \$2,702,893. The reserve balance for FY 2016 is anticipated to increase to above \$3 million, based on claims through November 2015. Due to this significant fund balance we are budgeting the OPEB cost in our Internal Services Fund. Based on the reserve balance calculations provided by our consultant, Robert Lindberg, of Arthur J. Gallagher & Company, for the FY 2017 budget, this fund balance is well above 35.75% of medical claims, which would be \$2,086,590 based on FY 2017 projections. Having a fund balance of 35.75% protects self-insured plans for their IBNR (Incurred but Not Reported), Risk Corridor of claims for one full month and a budget stabilization should you experience an increase in claimants who hit the stop loss. By having a fund balance of 35.75% the district is planning and budgeting for potential risk within its Internal Services Fund. A copy of our consultant's exhibit of Reserve Modeling can be found on page 144.

The lower trend rate of 8% resulted in an increase to the health insurance budget of \$472,067 for Medical and Rx claims with another \$51,680 for dental. Due to a favorable fund balance in the Internal Services Fund we are not budgeting for an additional budget stabilization as the funds are held within the Internal Services Fund. This provides a reduction of \$317,967. Additionally through changes in our collective bargaining agreements we are projecting a reduction in cost of \$466,508, which is a combination of plan design changes and increases to employee premium cost share. Finally with a reduction in staff planned for this budget we anticipate having fewer members insured which resulted in a reduction of \$50,666. This results in a net reduction to the general fund contribution to the Internal Services Fund of \$311,394.

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

Fiscal Year Ended	Audited		Actual 2015	Budget 2016	Expected 2016	Projected 2017
	Actual 2013	Actual 2014				
<b>STATEMENT OF REVENUES AND EXPENDITURES</b>						
<b>Revenues:</b>						
General Fund Appropriation	6,466,224	6,333,779	6,837,247	6,991,965	6,991,965	6,680,571
<b>Contributions:</b>						
Employee Cost Sharing	677,496	702,394	838,831	913,040	927,130	968,170
Retiree/COBRA Contributions	292,395	316,169	247,329	285,500	285,500	285,000
State Teachers Retirement Reimbursement (TRB)	94,647	83,435	65,348	50,000	50,000	50,000
Affordable Insurance Act Refund	59,397	0	0	0	0	0
Reimbursement from Change in Carriers	0	0	209,119	0	0	0
<b>Total Contributions</b>	<b>1,123,935</b>	<b>1,101,998</b>	<b>1,360,627</b>	<b>1,248,540</b>	<b>1,262,630</b>	<b>1,303,170</b>
<b>Total Revenue (A)</b>	<b>7,590,159</b>	<b>7,435,777</b>	<b>8,197,874</b>	<b>8,240,505</b>	<b>8,254,595</b>	<b>7,983,741</b>
<b>Expenditures</b>						
Medical & RX Costs	5,809,317	6,098,739	5,535,569	6,472,138	5,836,616	6,359,349
Budget Stabilization	0	0	0	165,952	0	0
Staff Changes	0	0	0	0	0	-50,666
District Portion of H.S.A. Deductible	735,017	680,630	566,343	565,000	577,845	571,400
Delta Dental	357,801	351,179	349,655	378,606	347,541	399,221
Medical & RX Administrative Fees	586,956	207,007	138,945	157,000	157,000	108,722
Stop Loss	0	328,874	368,868	458,000	458,000	532,013
Delta Dental Administrative Fees	21,582	21,632	21,423	20,894	20,894	22,902
Affordable Care Act Taxes/Fees	0	0	56,803	0	38,058	20,800
Medical Supplement/Other Costs	109,527	74,033	78,932	22,915	41,586	20,000
<b>Total Health Plan Costs (B)</b>	<b>7,620,199</b>	<b>7,762,094</b>	<b>7,116,538</b>	<b>8,240,505</b>	<b>7,477,540</b>	<b>7,983,741</b>
Accrued Costs Per GASB 43/45 (C)	214,800	214,800	0	0	0	209,000
<b>Net Change</b>	<b>-244,840</b>	<b>-541,117</b>	<b>1,081,336</b>	<b>0</b>	<b>777,055</b>	<b>-209,000</b>
<b>Accounts Payables and Other:</b>						
<b>Incurred But Not Reported (IBNR)</b>						
Fiscal Year End Accrual	750,000	725,000	771,731	771,731	771,731	771,731
Prior Year End Accrual	625,021	750,000	725,000	771,731	771,731	771,731
Increase (Decrease) (D)	124,979	(25,000)	46,731	0	0	0
<b>Total Expenditure (F=B+C+D)</b>	<b>7,959,978</b>	<b>7,951,894</b>	<b>7,163,269</b>	<b>8,240,505</b>	<b>7,477,540</b>	<b>8,192,741</b>
<b>Net Change (A-F)</b>	<b>-369,819</b>	<b>-516,117</b>	<b>1,034,605</b>	<b>0</b>	<b>777,055</b>	<b>-209,000</b>
<b>BALANCE SHEET</b>						
<b>Assets:</b>						
Fund Balance	3,179,246	2,934,406	2,393,289	3,474,625	3,474,625	4,251,680
Net Change	-244,840	-541,117	1,081,336	0	777,055	-209,000
<b>Total Assets:</b>	<b>2,934,406</b>	<b>2,393,289</b>	<b>3,474,625</b>	<b>3,474,625</b>	<b>4,251,680</b>	<b>4,042,680</b>
<b>Liabilities:</b>						
Accrued IBNR	750,000	725,000	771,731	771,731	771,731	771,731
<b>Total Liabilities:</b>	<b>750,000</b>	<b>725,000</b>	<b>771,731</b>	<b>771,731</b>	<b>771,731</b>	<b>771,731</b>
<b>Fund Balance:</b>						
Beginning Year Fund Balance	2,554,225	2,184,405	1,668,288	2,702,893	2,702,893	3,479,948
End of Year Net Change	-369,819	-516,117	1,034,605	0	777,055	-209,000
	2,184,406	1,668,288	2,702,893	2,702,893	3,479,948	3,270,948
<b>Total Liabilities &amp; Fund Balance</b>	<b>2,934,406</b>	<b>2,393,288</b>	<b>3,474,624</b>	<b>3,474,624</b>	<b>4,251,679</b>	<b>4,042,679</b>

<b>Reserve Model: Market Standard Target Values</b>		
Medical IBNR:	15.75%	Approx 1 Months.
ASO Claim Corridor:	15.00%	Full Corridor
Budget Stabilization:	<u>5.00%</u>	
	35.75%	
<b>Fund Balance as of December 31, 2015</b>	<b>\$</b>	<b>3,158,404</b>
<b>Fiscal Year End June 30th, 2016</b>		
Total Expected Claims	\$	5,836,616
<b>Reserve Targets:</b>		
ASO Corridor:	\$	875,492
IBNR	\$	919,267
Stabilization:	\$	<u>291,831</u>
<b>Combined Reserve:</b>	<b>\$</b>	<b>2,086,590</b>
<b>Excess in Fund Balance</b>	<b>\$</b>	<b>1,071,813</b>

<b>Reserve Model: Carrier IBNR/ 50% ASO Corridor</b>		
Medical IBNR:	12.50%	Approx 1 Months.
ASO Claim Corridor:	7.50%	Level Funding
Budget Stabilization:	<u>5.00%</u>	
	25.00%	
<b>Fund Balance as of December 31, 2015</b>	<b>\$</b>	<b>3,158,404</b>
<b>Fiscal Year End June 30th, 2016</b>		
Total Expected Claims	\$	5,836,616
<b>Reserve Targets:</b>		
ASO Corridor:	\$	437,746
IBNR	\$	729,577
Stabilization:	\$	<u>291,831</u>
<b>Combined Reserve:</b>	<b>\$</b>	<b>1,459,154</b>
<b>Excess in Fund Balance</b>	<b>\$</b>	<b>1,699,250</b>