

# INTERNAL SERVICES FUND

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The Internal Services Fund was established in July 2006 for the fiscal year ending June 30, 2006. In six 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 accessed to the district as a result of the Affordable Care Act and consultant fees. Prior to the FY 2016 budget, the district funded the actuarial amount of its OPEB liability in excess of \$250,000 from the balance in the Internal Services Fund. The first \$250,000 of this liability was included in the district's operating budget under the District-Wide cost center. For FY 2016, the actuarial contribution is \$209,000, which will be fully funded through the district's operating budget. 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. The district is currently in the process of interviewing Health Benefit Insurance Consultants, and once selected, will issue a request for proposal to carriers for a July 1, 2016 implementation.

Another critical aspect of cost containment in the area of health benefits is plan design. Over the past six years, the district transitioned approximately 96% 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. Currently, employees covered by the WTA (teachers' union) and AFSME (non-certified) unions have the ability to enroll in the PPO Plan. However, they must pay 100% of the differential between the plans. The WTA will no longer have this option in FY 2016. As a result of these changes, the increase in the health benefits line item in the Board of Education's Operating Budget over the past six years has been relatively flat, which is an extraordinary accomplishment given the rate of increases for health insurance in the marketplace.

In FY 2016, staff represented by the WAA and WTA contracts will contribute 15% and 14.5% 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 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, 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 three staff members. In addition, FY 2016 will be the second 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" 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, 2014, there was a fund balance of \$1,668,288. The projected reserve balance at the end of FY 2015 is \$1,722,855 and in FY 2016 is \$1,722,855. The decrease in fund balance from year-to-year through June 30, 2014 is mostly attributed to the OPEB contributions of \$214,840 per year, and, in the prior two fiscal periods, high medical claims. Based on the reserve balance calculations provided by our consultant for the FY 2016 budget deliberations, this fund balance is well below the Market Standard Target Values Model of \$3,215,310 and the Carrier IBNR/75% ASO Corridor Model of \$2,547,650. More specifically, it is \$385,545 below the lowest recommended reserve balance based on the Carrier IBNR/50% ASO Corridor Model of \$2,108,400. A copy of our consultant's exhibit of Reserve Modeling can be found on page 144.

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

Fiscal Year Ended	Audited		Budget 2015	Unaudited	
	Actual 2013	Actual 2014		Expected 2015	Projected 2016
<b>STATEMENT OF REVENUES AND EXPENDITURES</b>					
<b>Revenues:</b>					
General Fund Appropriation	6,466,224	6,333,779	6,837,247	6,837,247	6,991,965
<b>Contributions:</b>					
Employee Cost Sharing	677,496	702,394	789,520	830,036	913,040
Retiree/COBRA Contributions	292,395	311,859	292,500	285,500	285,500
State Teachers Retirement Reimbursement (TRB)	94,647	83,435	84,636	65,488	50,000
Affordable Insurance Act Refund	59,397	0	0	0	0
Stop Loss Settlement (Cigna)	0	0	0	130,700	0
<b>Total Contributions</b>	<b>1,123,935</b>	<b>1,097,688</b>	<b>1,166,656</b>	<b>1,311,724</b>	<b>1,248,540</b>
<b>Total Revenue {A}</b>	<b>7,590,159</b>	<b>7,431,467</b>	<b>8,003,903</b>	<b>8,148,971</b>	<b>8,240,505</b>
<b>Expenditures</b>					
Medical & RX Costs	6,396,273	6,634,620	6,945,242	7,044,755	7,249,443
Staff Changes	0	0	(38,944)	0	(58,500)
District Portion of H.S.A. Deductible	735,017	682,180	594,150	578,750	586,600
Delta Dental	379,383	372,811	395,000	407,437	399,500
Medical Supplement/Other Costs	109,527	68,173	108,455	63,462	63,462
<b>Total Health Plan Costs {B}</b>	<b>7,620,200</b>	<b>7,757,784</b>	<b>8,003,903</b>	<b>8,094,404</b>	<b>8,240,505</b>
Accrued Costs Per GASB 43/45 {C}	214,800	214,800	0	0	0
<b>Accounts Payables and Other:</b>					
<b>Incurred But Not Reported (IBNR)</b>					
Fiscal Year End Accrual	750,000	725,000	750,000	725,000	725,000
Prior Year End Accrual	625,021	750,000	750,000	725,000	725,000
<b>Increase (Decrease) {D}</b>	<b>124,979</b>	<b>(25,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Expenditure {F=B+C+D}</b>	<b>7,959,979</b>	<b>7,947,584</b>	<b>8,003,903</b>	<b>8,094,404</b>	<b>8,240,505</b>
<b>Net Change {A-F}</b>	<b>(369,820)</b>	<b>(516,117)</b>	<b>0</b>	<b>54,567</b>	<b>0</b>

**BALANCE SHEET**

<b>Assets:</b>					
Interfund Balance July 1st	3,179,246	2,934,405	2,643,548	2,393,288	2,447,855
Net Changes Transfers In	(244,841)	(541,117)	0	54,567	0
Prepaid Expenses (Cigna Retainer)					
<b>Interfund Balance</b>	<b>2,934,405</b>	<b>2,393,288</b>	<b>2,643,548</b>	<b>2,447,855</b>	<b>2,447,855</b>
<b>Liabilities:</b>					
Accrue IBNR - June 30th	750,000	725,000	750,000	725,000	725,000
<b>Total Liabilities</b>	<b>750,000</b>	<b>725,000</b>	<b>750,000</b>	<b>725,000</b>	<b>725,000</b>
<b>Fund Balance:</b>					
Fund Balance July 1	2,554,225	2,184,405	1,893,548	1,668,288	1,722,855
Current Year Change in Fund Equity	(369,820)	(516,117)	0	54,567	0
<b>Total Fund Balance</b>	<b>2,184,405</b>	<b>1,668,288</b>	<b>1,893,548</b>	<b>1,722,855</b>	<b>1,722,855</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b>2,934,405</b>	<b>2,393,288</b>	<b>2,643,548</b>	<b>2,447,855</b>	<b>2,447,855</b>

