

INTERNAL SERVICES FUND

The Internal Services Fund was established in July 2006. 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 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".

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 115% of expected

Starting July 1, 2018, the district will move to the State Partnership Plan 2.0 for Health Insurance. As a result, the district will no longer be self-insured for medical claims and will pay premiums to the State of Connecticut as part of the State Partnership Plan 2.0. However, we will remain self-insured for Dental Claims. We intend to keep the Internal Services Fund intact due to the self-insured Dental plan and to cover the possibility of leaving the State Partnership Plan 2.0 sometime in the future.

As a result of moving to the State Partnership Plan 2.0, we anticipate paying our run-out of claims, also known as 'incurred but not reported claims' (IBNR). This will reduce our fund balance by an anticipated \$836,875 during FY 2018. Should the district in the future leave the State Partnership Plan 2.0 and move back to a self-insured HDHP plan, the State of Connecticut would be responsible for the IBNR. Weston would have to reestablish its IBNR upon the switch back to an HDHP plan. At the point of transition, the first month and a half of claims (run-out) would be paid by the State Partnership Plan 2.0, but a full year's claims would need to be budgeted in that year to fully fund the future IBNR.

Given the uncertainty regarding the long-term fiscal stability of the State Partnership Plan 2.0, the district will make annual deposits into the Internal Services Fund so that a switch back to a self-insured HDHP plan would mitigate a large budgetary gap in the year a switch is made. In Fiscal Year 2019, we have budgeted \$134,630 as the annual deposit into the Internal Services Fund. The goal of this annual deposit is to mitigate the need to build up our reserves to fully fund an aggregate stop loss in a year in which we switch back to an HDHP plan, build up funding to re-establish an H.S.A contribution, and build up funding to re-establish stop loss insurance. However, the build-up of funds to re-establish the H.S.A. contribution and the stop loss insurance would only provide funds to re-establish these expenses in the year in which a switch back to an HDHP plan occurs but would not fund the re-establishment of these two items in subsequent years.

As of June 30, 2017, there was a fund balance of \$2,305,331. When self-insured, the fund balance is maintained for the possibility of three items: aggregate stop loss, IBNR and a budget stabilization. The amount needed to cover these three items varies based on risk tolerance and population. Our aggregate stop loss amount needed for our fund balance represents 15% of expected claims, which for FY 2018 would represent \$1,001,820. Our IBNR last year was \$836,875. The aggregate stop loss and IBNR would require \$1,838,695 within our fund balance. In the FY 2018 budget we are projecting a fund balance of \$2,092,495, which is above our target of \$1,838,695. However after the switch to the State Partnership Plan 2.0 and our IBNR is paid, it will bring the estimated fund balance down to \$1,255,620.

The budget book for fiscal year 2019 will show a contribution to the Internal Services Fund of \$512,831, which represents the contribution to fund our dental claims and administrative fees for Dental totaling \$378,201 as well as the annual deposit of \$134,630. Assuming dental claims meet expectation, we would project a fund balance at the end of fiscal year 2019 of \$1,390,250.