

Reply to Common Council File No. 121597 and 121758
From DOA-Budget and Management Division

May 10, 2013

Ref: 13004

Common Council File 121597 contains a substitute ordinance establishing a health care benefit and workers' compensation liability reserve fund and Common Council File 121758 contains a substitute resolution authorizing the transfer of up to \$6 million from the 2013 HMO Special Purpose Account to the Employee Health Care Benefit and Workers' Compensation Liability Reserve Fund.

In 2012 the city became fully self insured for health care benefits and has always been self insured for workers' compensation. Both of these accounts total \$133.1 million in the 2013 budget. Even a minor variance of 1% from the budget has an impact of \$1,331,000. Changes in utilization have an immediate impact on expenses compared to the years before 2012 which were paid at a set fee per member for over nearly 90% of active members. The insurance provider in the past picked up the risk associated with utilization.

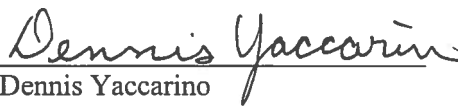
Budgeting for health care is now much more challenging. The budget requires an estimate of a specific amount. The idea is to select the most likely outcome. We know that the selected amount will probably never be the actual amount spent. The question then becomes one of how much the estimate will vary from the actual. Using statistics and past claims experience we can develop a confidence range of potential outcomes. Willis has suggested using a confidence level of 75%. This level requires the setting of \$6 million into the reserve fund to meet potential cost overruns.

Research showed that several larger self insured cities have health care reserve accounts. Even though this was a very limited survey, the cities of Portland, OR, Oklahoma City, OK and Cincinnati, OH have such reserves. Some states such as Florida require public entities that self insure health care benefits to have reserves held in a restricted fund to take care of the deferred liability in case the plan was terminated or returned to a fully insured status.

The reserve fund itself requires that the amount in it may not exceed the actuarial determined level of funding. If it does exceed the actuarially determined funding level, the excess funding must be removed from the reserve fund. If the reserve fund has less than the actuarially determined amount, then funds can be added. Use or deposits into the reserve fund require Common Council approval. The status of the reserve fund will be reported to the Common Council two times per year.

The purpose of the reserve fund will be to relieve pressure on the Common Council Contingent Fund and contingent borrowing.

**RECOMMENDATION: ADOPT COMMON COUNCIL FILES NUMBER 121597
AND 121758.**


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