

## **TOWN OF BLOOMFIELD**

### **POLICY MEMORANDUM**

SUBJECT: Employee Health Insurance Proprietary Fund

NO: Policy # 141.06

DATE: June 2018

AMENDED: **June 24, 2019**

April 22, 2019

DISTRIBUTION: Town Council, Town Manager,  
Finance Department

BY: Keri Rowley, Finance Dir.

APPROVED: TC June 25, 2018

#### **I. PURPOSE**

The purpose of this policy is to create parameters for administration of the Employee Health Insurance Fund (“the Fund”), a proprietary fund of the Town of Bloomfield.

The Fund is intended to capture the activity of the self-insured health plan administered for the Town of Bloomfield and Bloomfield Board of Education employees. The Fund accounts for the premiums budgeted and contributed by the Town and Board of Education as well as the premiums contributed by employees. Since the plan is self-insured, the fund also accounts for the payment of medical and dental claims as well as administrative expenses to “rent” a network of physicians/dentists from an insurance company.

In accordance with Government Accounting Standards Board (“GASB”) rules, this fund is accounted for as a proprietary fund (i.e. a fund that is self-sustaining as charges for services cover expenses). This fund is accounted for using Generally Accepted Accounting Principles.

This fund maintains a “net position” or “working capital” which is generally defined as current assets minus current liabilities. The purpose of this policy is to establish parameters surrounding the contributions, required levels and, possible use of, working capital.

#### **II. RESPONSIBILITY**

It shall be the responsibility of the Town Manager, Finance Director, Board of Education and Town Council to ensure that the Employee Health Insurance Proprietary fund is maintained in compliance with the terms outlined in this policy.

#### **III. FORMS**

None.

#### IV. PROCEDURE

##### A. Operation of the Fund

- a. The Town and Board of Education employ a Health Insurance Consultant, obtained through a competitive bidding process. The Consultant is responsible for obtaining detailed claims data from the Insurer and reviewing historical data to develop projections of claims and related administrative expenditures. These projections are reviewed several times a year with the Town and Board of Education staff in the Finance and Human Resources Departments.
- b. Annually, based on the projections described in (a) above, the Town and Board of Education will develop a budget for the claims and administrative expenses for the upcoming budget year. Claims and expenses will be allocated between the Town and Board of Education based on the Consultant's data (generally based on the historical percentage of claims incurred by each entity). Based on additional experience, these projections may be revised at any time. Based on this data, the Town and Board of Education will include line items in their respective budgets for claims and administrative expenses less annual anticipated employee and cobra premium contributions (net premium). Both the Town and BOE are required to make their portion of the full net premium payment based on the above mentioned allocation.
- c. Throughout the year, claims and administrative expenses for active employees are paid out of the Fund. Retiree-related expenses are paid out of the separate Other Post-Employment Benefits ("OPEB") fund (not covered by this policy). Periodically throughout the year, but no less frequently than quarterly, the Board of Education will record a journal entry to record the claims and administrative expenses against the Board of Education budget by writing a check or transfer to the town against the General Fund cash account. The portion of the check or transfer applicable to active employees will be deposited into the Fund's cash account. The employee share of the cost is withheld from employee pay and deposited into the fund. The Town Finance Department is responsible for depositing all of these funds, along with the Town's share of the expense, into the Fund. These contributions represent the revenue (i.e. charges for services) in the Fund.
- d. At the end of the fiscal year, the Fund, like all Funds will be subject to an audit and will be reported in the Proprietary Fund section of the Comprehensive Annual Financial Report ("CAFR"). A Balance Sheet, Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows will be compiled and included in the CAFR. The audited Net Position amount will then be evaluated based on the procedures outlined in the next section.

##### B. Minimum Levels of Net Position and Use of Excess Net Position

- i. It is the policy of the Town of Bloomfield that the Net Position of the Employee Health Insurance Fund must at all times be sufficient to cover three months' worth of claims and administrative expenses. The Town Finance Director will recalculate this "floor" annually based on the audited claims and administration expenses reported in the Statement of Revenues, Expenses and Changes in Net Position. The Finance Director will inform the Town Manager, Finance Subcommittee of the Town Council and the Board of Education of the results of this calculation following completion of the annual audit.

- ii. The excess may be used only to fund excess claims over and above the budgeted Town or Board of Education amounts upon agreement of both the BOE and Town provided that both parties make the full net premium contribution for the applicable year. The excess can also be used as supplemental funding of the Other Post-Employment Benefits (“OPEB”) liability but not used to lower the Annual Required Contribution (ARC) of either the Town or the Board of Education.
- iii. Use of the excess must be approved by the Town Manager and Superintendent and must be presented to the Finance Subcommittee for recommendation to the Town Council.
- iv. Once any excess is used, no additional amounts may be used until the Net Position is built back up to cover at least three months of audited claims and administrative expenses. The only exception to this rule will be use of funds in an emergency situation; any such emergency use of Net Position must be approved by majority vote of the Town Council.

#### C. Deficit Net Position

- i. If in any given year, Net Position should fall below three months’ average claims and expenses, the Town Finance Director shall immediately notify the Town Manager and Board of Education and bring the matter to the Finance Subcommittee of the Town Council to determine what, if any, action should be taken.
- ii. If in any given year Net Position should be in a deficit situation, the Town Finance Director shall immediately notify the Town Manager, Board of Education and Finance Subcommittee. The Finance Director and Town Manager shall make a recommendation to the Finance Subcommittee as to the manner of eliminating the deficit. Henceforth, the Finance Subcommittee shall make a recommendation to the Town Council. Any deficit elimination plan must be approved by majority vote of the Town Council.

The Town Manager and the Superintendent agree to terms set forth in this policy:

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

### **Definition of Terms**

**Board of Education Policy-** Approved by the Policy Committee and the formal body of the Board of Education

**Emergency Situation-** an unanticipated, unavoidable event that both the Town and the BOE deem an emergency

**Employee Health Insurance Fund-** an internal service fund that is used to account for costs related to employee health insurance (Fund 55)

**Net Position-** Current Assets minus current liabilities

**Proprietary Fund-** A proprietary fund is used in governmental accounting to account for activities that involve business-like interactions, either within the government or outside of it. The two types of proprietary funds are enterprise funds and internal service funds

**Self-Insured Health Plan-** a health plan offered by an employer who collects premiums from employees and assumes the responsibility and financial risk of paying the employees' and covered dependents' medical claims.

**Town Policy-** A policy memorandum that is approved by the Town Council and signed by all required parties