

# Health Insurance Operating Fund

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**Managing Bureau:** Office of Management and Finance, Bureau of Human Resources

**Statement of Purpose:** The Health Insurance Operating Fund provides funding for programs and services related to healthcare and other supportive benefits offered to City Employees and eligible participants (i.e. dependents, retirees, and Cobra participants).

**Sources of Revenue:** Revenue sources for the fund include premiums collected from bureaus for their employees and premiums collected from retirees. Other sources include premiums collected from employees, administrative and other fees, and interest income.

**Contingency Requirements:** Per Financial Policy 2.04, contingency funds should be used to address reasonable but unforeseen requirements within the fiscal year. There are no minimum or maximum contingency requirements for the fund.

**Reserve Requirements:** The fund maintains two reserve components.

- 1) The first component to the reserve is a restricted reserve covering the Incurred But Not Paid (IBNP) requirements. This component of the reserve is in accordance with standard industry practice and guidelines, and includes all liability components incurred but not yet paid. The recommended IBNP reserve is actuarially determined by the City's Health Fund Consultant.
- 2) In addition to the IBNP reserve, an additional Risked Base Capital reserve (RBC) has been set aside pursuant to National Association of Insurance Commissioners (NAIC) requirements. The four major components of RBC are: underwriting risk (insufficient premiums relative to expense), asset risk (default, reinsurance failure), credit risk (stop loss recoveries, fully insured medical, dental and vision premiums, ASO fees and prescription rebates), and business risk (expense overruns). The RBC reserve replaces previous reserve components (e.g. large claim and contingency). Large claims above \$1,000,000 continue to be covered by stop loss insurance and the City pays premium to its third party administrator for the coverage.
  - a. RBC policy recommends targeting any reserve surplus above 125% of RBC for use as a subsidy (buy-down) on future rate increases. Conversely, the policy also recommends targeting any reserve deficit below 75% of the RBC as the threshold by which the plan actuary would calculate a surcharge into future rate increases building up the RBC reserve to a fully funded level.

**Disposition of Funds:** In the event the fund is closed, all remaining resources shall revert to the General Fund.

**Method for periodically testing the cost-effectiveness of pre-funding capital replacement versus leasing or lease purchasing for capital goods:** Not applicable.

**Equipment Replacement policies:** Not applicable.

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**Method of accounting for equipment reserves and purchases for each bureau:** Not applicable.

**Policy and procedure for protecting capital reserves from being used for operating purposes:** Not applicable.

**Method for testing the cost-effectiveness of providing services internally:** When the need for a service is identified, the manager decides on directing City staff to perform the services or contracting out the work depending on a number of factors including:

- Union agreements
- Costs/value
- When the work needs to be done
- Time required to deliver the service
- Capacity of staff
- Expertise of staff
- Availability of equipment required to provide service
- Any extreme risk associated with the work
- The existence of warranties
- Any requirements from the funding source