



**NOTICE OF PUBLIC MEETING**  
Monday, July 20, 2020  
City Council Chambers  
680 Park Avenue  
Idaho Falls, ID 83402  
2:00 p.m.

*The public is invited to observe City Council Work Sessions. However, to observe appropriate social distancing guidelines, as recommended by the Centers for Disease Control and Prevention (CDC), the public is encouraged to view this meeting via livestream on the City's website at <https://www.idahofallsidaho.gov/429/Live-Stream>. Citizens are strongly encouraged to wear face masks for the protection of others. The agenda does not include an opportunity for public interaction.*

*This meeting may be cancelled or recessed to a later time in accordance with law. If you need communication aids or services or other physical accommodations to participate or access this meeting or program of the City of Idaho Falls, you may contact City Clerk Kathy Hampton at 612-8414 or the ADA Coordinator Lisa Farris at 612-8323 as soon as possible and they will accommodate your needs.*

**CITY COUNCIL BUDGET SESSION**

*Times listed in parentheses are only estimates.*

Call to Order and Roll Call

- Mayor: -Opening Remarks, Announcements (5)
- Municipal Services: -Introductory Remarks as Needed (5)
- Airport: -2020-2021 Budget Review (45)
- Municipal Services: -Interfund Transfers – High-level Overview (30)  
-Levy Rate Discussion (30)  
-General Fund Overview (30)
- Human Resources, Municipal Services,  
Legal: -Self Insurance Discussion (45)
- Municipal Services: -Wrap-up (30)
- Council and Financial Team: -Budget Discussions, Requests for Additional Data (30)

DATED this 17<sup>th</sup> day of July, 2020

  
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Kathy Hampton  
City Clerk

## Self-Insurance Q&A

**Objective: Receive approval from the City Council to create a medical self-insurance trust and then transfer designated funds into that trust. That approval would come through a resolution.**

- 1) What is the reason for placing funds in the trust now?
  - a) Once in the trust they are protected from use on other City expenditures.
  - b) It allows us to proceed with other steps needed to become self-insured and prevents delays later on.
  - c) It gives us more leverage with Blue Cross in future years if their proposed costs increase dramatically
  
- 2) What is amount currently available to put in the trust?

\$4.2 million.
  
- 3) Why would it be desirable/appropriate to place more than the minimum required amount in the trust?
  - a) A surplus to protect City in high claim costs years.
  - b) We will need the current amount available, and more, before actually becoming self-insured. Not transferring all of it now delays the process.
  
- 4) Is there a potential downside to creating the trust?

In future years, it may not be allowable to eliminate the trust and use the funds for any other purpose.
  
- 5) What are formal rules of the trust?
  - a) There are three trustees. They are initially appointed by the City Council when the Council approves the creation of the trust. State law forbids elected officials or the City from serving as a trustee. Beyond this prohibition, the trustees may be any legal person (including incorporated entities). Once appointed, the trustees serve until death, incapacity, resignation, or removal. A trustee may resign at any time by providing written notice to the Director of the Idaho Department of Insurance.
  - b) The Trust will be created when the City Council votes to execute the trust agreement and to transfer the funds that will constitute the trust funds to the Trustees
  - c) A trustee may be removed for good cause. The mayor or a majority of the Board of Trustees may remove a trustee. Good cause may be established by:
    - i) Breach of fiduciary duty to trust fund, plan, or beneficiaries
    - ii) Failure to attend 50% of the regular meetings of the board
    - iii) Acquiring a prohibited financial interest (these involve working as a contractor for the trust, having an interest in a contract with the trust, or a personal financial interest in the trust's investments or loans.)
    - iv) Mental incapacity
    - v) Removal by the Director of Insurance pursuant to State of Idaho Code
  - d) Successor Trustees are appointed by the Mayor.

6) Who will be the three trustees?

- a) Municipal Services Director – Pam Alexander
- b) Human Resources Director – Ryan Tew
- c) City Treasurer – Josh Roos

7) How is the trust dissolved?

- a) Typically, a medical self-insurance may be terminated only if the State Director of Insurance terminates the registration of the Self-Insurance Plan. There are several triggers for that event:
  - i) The Trust fund is insolvent.
  - ii) The trustees have violated the state's insurance code or violated their trustee duties
  - iii) The Trust surplus is below the minimum required surplus.
  - iv) Benefits are not fairly or promptly paid.
- b) If the trust is terminated, the trust funds will be liquidated to pay claims and liabilities. In the very unlikely event of a balance after all claims and liabilities have been paid, the Department of Insurance will hold the funds for two years for any undiscovered claims or liabilities. If the surplus still exists, a very unlikely event, the trustees may designate how the funds are distributed. However, the Trustees are prohibited from returning the money to the City. Once these funds are expended to the City for employee health insurance benefit, they will likely never return to the City to be used for general City purposes.
- c) We are waiting for an answer as to whether it would possible to terminate the trust if the City wants to return to being fully insured. We are also waiting to know if the trust funds could be used for other employee benefit expenses.
- d) It is always allowable to return to being fully insured and still maintain the trust fund.

8) How can the funds be invested if in the trust vs. not in the trust?

- a) Outside the trust, the funds may be invested in accordance with the City's investment policy and Idaho Code 50-1013.
  - i) The interest from outside the trust may be placed in the general fund or used in accordance with the City's investment policy.
- b) Inside of the trust, the funds may be invested by the trustees only. The trustees may invest the funds in a few more flexible ways than the City can (for example, most stocks listed in the stock market, collateral backed loans) however funds cannot be invested in any loan to the City or its officers. 41-4009 The interest must accrue back to the trust.

9) Can additional funds be placed in the trust at any time?

Yes.

10) Why hasn't the Council been spending funds earmarked for the trust to offset rising medical expenses the past couple of years?

Similar to the Municipal Equipment Replacement Fund (MERF), funds were designated specifically for self-insurance beginning about twenty years ago. Additional funds to add to the self-insurance fund became available about two years ago with the closing of an old employee insurance program the City had paid into.

11) When should the City transition to actually to being self-insured?

- a) The short answer is when it is advantageous to the City
- b) Considerations:
  - i) The City is about \$2 million in the red (deficit) with Blue Cross on the one-way retention agreement. If the City were to walk away from the agreement when the balance was in its favor, it would not be required to repay the deficit.
  - ii) With insurance costs increasing dramatically, this probably is not be a good time. When self-insured the City absorbs all of the risk of those costs, and the reserve could quickly be exhausted.

12) What are advantages of being self-insured?

- a) It would give the City more control over the future design of the plan.
- b) Would give the City the option of walking away from what is now approximately \$2 million in debt with Blue Cross. That amount could go up or down by the time we actually went self-insured. This debt exists because of our one-way retention agreement with Blue Cross.
- c) The City could shop around for a secondary insurance carrier. The current annual secondary insurance premium is approximately \$1.7 million.
- d) Could drill down into claims data in ways not presently available to us.

13) Are there any potential downsides to becoming self-insured?

- a) The City would lose its one-way retention agreement with Blue Cross.
- b) Although unlikely, at some point it is possible that trust funds will be insufficient to cover all claims cost. In that event, the City would need to draw from the General Fund.

14) With other clients GBS works with on self-insurance, who does the accounting?

In some cases, the group does the accounting in house. In other cases, the Third Party Administrator (TPA) does the accounting.

15) If we're doing the accounting in-house how do we maintain separate books?

The City could maintain the trust accounting through an agency/fiduciary fund and the Treasurer could maintain separate trust bank accounts.

16) Would there be multiple signers on the fund?

Yes.

17) Is there an annual report we send to the IRS?

Not at this time, but there is a Department of Insurance annual financial report that is completed by an independent third party.

18) Will the City need a secondary insurance carrier? Who should it be?

Yes, the City will need a secondary insurance carrier. Blue Cross would be the logical choice unless their rates seem high. If so, then GBS will bid it out nationally through their underwriting team in Salt Lake City.

19) What are total annual expenses above and beyond actual claims? Rough estimates:

- a) Annual Administration fee: \$500,000
- b) Annual Secondary Insurance fee: \$1,700,000
- c) Annual Accounting fee: \$5,000 to \$8,000
- d) Annual Actuarial Study fee: \$30,000 to \$40,000