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CITY OF DANBURY

155 DEER HILL AVENUE

DANBURY, CONNECTICUT 06810

DAVID W. ST. HILAIRE
DIRECTOR OF FINANCE

(203) 797-4652
FAX: (203) 796-1526

MEMORANDUM

TO: Mayor Mark D. Boughton via the City Council
FROM: David W. St. Hilaire, Director of Finance *DWH*
DATE: May 23, 2013
SUBJECT: Self Insurance Reserve

As you are aware from the recent budget process, the City and Board of Education (BOE) has been committed to working together to find the most cost effective solution in dealing with the significant annual rate increases in providing health insurance for our employees.

Mayor Boughton's directive was to propose a solution to this costly growing problem that would consider the unique plan provisions of both the City and the BOE while minimizing the impact to the taxpayer. The City's Finance team worked very closely over the last several months with the BOE Finance Director, Joe Martino, and his team to explore all the options available.

The simplest answer offered the best overall long-term solution for the City of Danbury taxpayers – combine the plans to spread the risk over a larger pool to reduce our premium costs and to minimize the reserve requirement for a self-insured plan. Our current health care provider, Cigna, was selected after careful consideration of the proposals from the three major health care providers: Cigna, Aetna, and Anthem.

Please keep in mind that this change is significant but necessary for long-term savings in health care costs. One of the most significant changes in moving from a fully insured plan to a self-insured plan is the requirement to establish and to fund a "Self-Insurance Reserve" to cover the claims margin. The first year amount for both the BOE and the City is expected to be about \$2,200,000 or 7% of claims. This amount will need to increase over the next few fiscal years until it amounts to about 20-25% of claims.

Please consider establishing the following reserve account for self-insurance so we can allocate surplus funds as necessary and when available.

014-2400.2690 Reserve – Health Insurance

I appreciate your consideration on this matter. Please call me at 797-4652 if you have any questions.