

TOWNSHIP OF LOWER MERION
Finance Committee
Issue Briefing

Topic: Pennsylvania Municipal Health Insurance Cooperative (PMHIC) Refund

Prepared By: Eric Traub, Chief Financial Officer
Ernie McNeely, Township Manager

Date: September 12, 2018

I. Action To Be Considered By The Board: N/A

II. Why This Issue Requires Board Consideration:

The Board of Commissioners should remain informed of the Township's healthcare plan performance and its financial impacts.

III. Current Policy Or Practice (If Applicable): N/A

IV. Other Relevant Background Information:

The Township transitioned to PMHIC as its healthcare provider in 2017. As previously discussed with the Board, one benefit of the PMHIC program is that the Township is eligible to receive a refund of premium dollars that were allocated to pay medical and prescription claims but not used in any given year. The Township also is provided with access to general claims data to better understand the types of claims it incurred to help provide direction for future wellness programs.

The Township's 2017 claim performance was outstanding. Overall claims were far less than anticipated and PMHIC will be returning nearly \$2.4 million to the Township in the form of a claims refund in 2018. One payment was received in May and the final payment will be received this Fall.

Since healthcare expenses are borne by multiple funds, Township staff has allocated the refund dollars by fund based on the percentage that each fund paid for healthcare premiums.

| Fund | % | Allocation |
|----------------|-------------|--------------------|
| General | 83.2% | \$1,971,390 |
| Sanitary Sewer | 4.3% | 102,400 |
| Solid Waste | 10.4% | 245,400 |
| Equipment | 2.1% | 49,200 |
| Total | 100% | \$2,368,390 |

The allocations to the non-General Fund funds will be used to support those funds' operations. The General Fund allocation may technically be used for any purpose, but ideally would retain a

nexus to Township employees, healthcare or employee benefits in some sense. There are several worthy initiatives the Board should consider.

1. Employee Wellness – It would make sense to allocate some refund dollars to invest in initiatives to maintain and improve employee wellness. This could take several forms and the Human Resources Department has been working on such wellness initiatives.
2. Employee Incentives – With a partially self-funded medial plan as provided in the PMHIC program it is important to make employees be aware they too can benefit from positive claims fund performance. They have “skin in the game” due to the high deductible plan coupled with a health savings account but providing some additional reward for excellent performance is good management. The incentive that could be provided is a temporary suspension of employee contributions towards healthcare premiums. This type of one-time reward incentive also does not drive up other payroll costs.
3. Healthcare Reserve – A portion of the refund could be set aside to offset future health insurance rate increases.
4. Pension Reserve – The Township will face a significant contribution requirement to the Township pension plans for the first time in 2019 and funds could be reserved to pay that increased cost.
5. Fund Balance – Any portion of the refund could be retained and in the General Fund’s fund balance to be used as directed by the Board of Commissioners through the upcoming budget process.

The following allocation of the General Fund portion of the refund is proposed:

| | |
|---|--------------------|
| General Fund Unassigned Fund Balance | \$ 846,390 |
| Pension Benefit Reserve (2019 Additional Township Cost) | \$ 625,000 |
| Health Care Reserve (to offset future rate increase) | \$ 400,000 |
| Employee Contribution Holiday & Wellness Initiatives | <u>\$ 100,000</u> |
| Total | \$1,971,390 |

V. Impact On Township Finances:

The refund will have a positive financial impact on the Township’s funds as detailed above. Staff recommends.

VI. Staff Recommendation:

Staff recommends the Board of Commissioners approve the proposed allocation of the PMHIC refund. In addition, the staff recommends the Board designates the Pension Benefit Reserve and the Health Care Reserve as Assigned Fund Balance in accordance with the Township’s financial policies and GASB Statement No. 54.