MEMORANDUM

TO: VICTOR CARDENAS, CITY MANAGER

FROM: KAREN LANCASTER, FINANCE CONSULTANT

SUBJECT: SELF FUNDED HEALTH INSURANCE

DATE: APRIL 21, 2026

The City uses a self-insurance fund to pay for medical claims for employees enrolled in the Health Alliance Plan (HAP) HMO and Delta Dental. This fund, an internal service fund, is common in city government to aggregate claim costs and payments. The self-insurance fund receives revenue from all funds that have employees on the City's HAP health care plans. This fund was established in late 2019, and, as of June 30, 2025, the City has accumulated a fund balance of $2,327,403.

Self-Insurance Coverage Explanation

A fully insured plan pays a premium to the insurance carrier. The premium rates are fixed each year based on the number of employees enrolled in the plan and their experience (historical medical and prescription usage). HAP collects the premiums and pays the health care claims based on the coverage benefits outlined in the policy purchased from the health care carriers. The covered employees (and their dependents) are responsible for paying any deductible amounts or co-payments required for covered services under the plan.

In a self-insurance arrangement, the employer assumes the risk of providing health insurance coverage for its employees. Ultimately, it means the City is responsible for paying members' eligible claims from the self-insurance fund it created and maintains. The City still contracts with insurance carriers; however, the City will not pay premiums to the carriers but will pay them to the City's self-insurance fund. When an employee visits a doctor and incurs medical costs, the costs are paid directly from the City's self-insurance fund (not by an insurance carrier). For an employee or plan participant, there is no difference in how a self-funded plan and a regular health plan operate.

Why Did the City Move to Self-Insurance?

The City wanted to ensure sustainable funding for health care. By self-funding, the City is not prepaying for medical care that employees may not need, which is often the case with traditional group health insurance. The City can also use funds from the self-insurance fund to offer employee wellness programs, which can also save money.

In addition, a self-funded health plan allows the employer and third-party consultant to see how the health plan performed throughout the year, ensuring renewal rates are not a surprise. An added benefit is that the City can smooth health care costs over several years and help prevent large spikes and dips in insurance renewal rates.

The City also has a separate insurance policy called a "stop loss insurance" to help protect the City against large claims. The stop loss policy includes a specific deductible of $150,000 per individual, with an aggregating specific deductible of $250,000. The aggregating specific deductible is a cumulative deductible that applies to the entire group. It requires the City to pay a specified amount above individual specific deductible, across all individuals, before the stop loss coverage kicks in for any individual claim that exceeds their specific deductible.

Once the individual or aggregate stop-loss limits are reached, the stop-loss insurance would pay any amount over and above that amount, ensuring a cap on overall costs.

The City's third-party health consultant, Gallagher, has previously recommended that the City establish a $2 million reserve in its self-insurance fund to pay claims and to cover any catastrophic health care event. Since that time, the City has developed a claims history, and Gallagher calculates the City's *Incurred But Not Reported* (IBNR) liability. This liability is an important measure so Novi can understand the total risk of a potential claim arising that we are not currently aware of. The IBNR calculation is a standard for any self-insured entity. As of June 30, 2025, the IBNR liability was $379,000.

Conclusion

Given the accumulation of fund balance in the self-insurance fund, and the IBNR liability calculated by Gallagher, Finance staff is comfortable rebating some of the excess fund balance back to participating funds. The rebate for fiscal year 2026-27 calculates as follows:

Fund	Amount
General Fund	$360,332
Parks & Recreation	$18,795
Library	$23,275
Water and Sewer	$25,803
Total	$428,205

If desired, the City can re-evaluate at the conclusion of fiscal year 2025-26 to ensure the fund balance is not significantly affected.