

To: Finance Committee
From: Mark Stevens
Date: September 28, 2026
RE: Dental Insurance Transition from fully-insured plan to self-insured model

Overview

Our insurance broker, USI, has recommended that the City transition from its traditional fully-insured dental plan to a self-insured model. USI reports that approximately 90% of its clients with comparable group sizes (150–200 family units) utilize self-insured dental plans.

Concise Difference Between Fully-Insured and Self-Insured Dental Plans

Fully-insured: City pays premiums; insurance carrier (InsCo) pays claims

- City pays fixed monthly premiums to InsCo
- InsCo assumes all financial risk and reward
- Employees receive dental care; InsCo applies network discounts and pays providers using InsCo's checkbook

Self-funded: City pays actual cost of claims instead of premiums; InsCo processes claims

- City sets aside money in a dedicated dental fund
- Employees receive dental care; InsCo applies network discounts and pays providers using City's checkbook
- InsCo invoices the City monthly for administrative fee associated with claims processing

Two bids were obtained for administrative services: Guardian at \$4.80 per employee per month (PEPM) and Delta Dental at \$5.00 PEPM. Although Guardian's proposal is slightly lower—saving about \$415 per year—Delta Dental continues to provide great value. Delta provides strong service performance (18-second average phone connection; 99% claims and financial accuracy), excellent network strength (97% of all procedures performed by Delta Dental network dentists this past year), and highly effective cost-management tools (consultant review, eligibility verification, and reductions to maximum plan allowance generating 43.2% savings off billed charges). To avoid employee disruption and maintain proven performance, I recommend we continue to utilize Delta Dental.

Delta Dental Renewal Information

Delta Dental's fully-insured renewal reflects a 9.0% increase for the 2027 contract year, raising single rates from \$34.86 to \$38.00 and family rates from \$107.33 to \$116.99.

Summary of Self-Insurance Advantages and Risks

Advantages:

- Eliminates carrier profit margins and premium taxes
- Allows greater flexibility in plan design
- Improves cash flow by paying only actual claims

- Provides long-term stability due to predictable dental claims; self-funded plans often increase more slowly than fully insured premium renewals

Risks:

- Claims variability may exceed projections although dental claims are typically stable
- City assumes administrative and fiduciary responsibilities
- Some employees may view self-funded plans as less secure or slower
- Optional stop-loss coverage may add cost, though USI does not recommend it for dental plans

Funding Structure for a Self-Insured Plan

A self-insured dental plan includes funding for claims, administration, and reserves. Dental reserves are small due to fast claim turnaround and low volatility. My recommended reserve target is approximately one month of combined claims and administrative fees ($\approx$ \$15,600).

2027 Funding Rates

- Single: \$36.50 (higher than current \$34.86; lower than Delta's \$38.00 renewal)
- Family: \$113.00 (higher than current \$107.33; lower than Delta's \$116.99 renewal)

Projected first-year reserve contribution: approximately \$5,000

Administrative Structure & Accounting Treatment

If the City adopts a self-insured plan, it should establish a dedicated self-insured dental fund to track contributions, claims, administrative fees, and reserve balances.

Request

I recommend that the Finance Committee:

1. Authorize creation of a new accounting Dental Self-Insurance Fund for 2027
2. Approve transitioning the dental plan to a self-insured model effective January 1, 2027 and adopt funding rates of \$36.50 (single) and \$113.00 (family)
3. Continue utilizing the Delta Dental network and approve Delta's administrative fee of \$5.00 PEPM

FULLY-INSURED DENTAL PLAN



SELF-INSURED DENTAL PLAN

