

## Southeastern Massachusetts Health Group

### *Fund Balance Guideline*

The goal of the Southeastern Massachusetts Health Group (SMHG) is to achieve rate stability by minimizing dramatic rate fluctuations from year to year to the extent possible in an environment of escalating healthcare costs, while also providing for adequate reserves to meet unexpected costs and needs as a self-insured joint purchase group. By self-insuring, SMHG pays the actual claims and other expenses, as opposed to paying estimated insurance premiums to health insurance carriers. The result is lower health insurance costs and greater flexibility to implement cost-savings plans and programs.

Self-insuring places the responsibility and financial risk on SMHG to ensure that health insurance expenses are paid timely and that there are reserves in place to cover all related liabilities. The financial stability of SMHG's self-insured health benefit plans and programs are dependent on setting the appropriate funding rates and maintaining an adequate level of reserves.

In adopting a benchmark, SMHG recognizes that the annual rate setting process is the appropriate time to consider Unreserved Fund Balance levels. The Group recognizes that at the time the rates are set, claims trends and economic environment will influence the Group's decision to add to or draw from the Unreserved Fund Balance.

The Group also understands that recovery of operating deficits subsequent to the year incurred is important in maintaining an appropriate level of Unreserved Fund Balance and ensuring the financial health of the Group. Likewise, use of some of the Unreserved Fund Balance may be an effective way to maintain rate stability in a time of significant cost increases.

#### UNRESERVED BALANCE GUIDELINE

This Guideline establishes, as a benchmark and guideline, an Unreserved Fund Balance of 15% of total operating expenses based on the most recent audit. Each year, in developing its rate calculations, the Board will consider projected costs, the goal of rate stability, the rate structure currently in place, the economic environment, and the Unreserved Fund Balance. At no point in any given year should more than 30% of any excess above the 15% benchmark be utilized to stabilize rates.

Each year, through the rate setting process, the Group will strive to cover 100% of projected costs for the coming year. The Group may do so solely through funding rates that it charges participating governmental units or through a combination of the funding rates and anticipated draw-down on the Unreserved Fund Balance. The Group may also set the funding rates charged to participating governmental units higher than the level required to cover projected costs for the coming Guideline year in order to bring the Unreserved Fund Balance in line with the benchmark. In times of escalating health care cost increases and/or difficult economic times, the Group may not be able

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to or wish to add to the Unreserved Fund Balance particularly when the Fund Balance for the year is projected to be positive. At such times a multi-year approach will be required to build the Fund Balance to the benchmark.

When the Board considers annual health plan rate calculations, the Board may factor in the amount of Unreserved Fund Balance that it expects to use to subsidize expenses or the amount by which it expects to augment the Unreserved Fund Balance. The Board will take into consideration the increase or decrease in the calculated funding rates needed to estimate the projected impact on the Unreserved Fund Balance.

This Guideline does not preclude the Board from adopting health plan rates that they consider to be in the best interest of the Group as a whole at the time.

Approved by:

  
SMHG Chairperson

2/25/2020  
Date