

What is the Self-Insurance Reserve Fund?

The Self-Insurance Reserve Fund, also known as Fund 22, was created in or around 1988 as a mechanism for a third-party administrator to pay health insurance claims on behalf of the District's employees. As employee insurance claims came in, the third party administrator would pay those claims out of the fund. The balance in this account fluctuated from year-to-year, depending on the variations in claims. Some years, the fund balance would increase due to minimal claims while other years the balance would run low due to an excess in claims for expensive medical procedures. This fund remained active until 2018, when the District switched to the State Partnership Plan for health insurance.

Why are we talking about it now?

The Self-Insurance Reserve Fund intentionally remained dormant for the next three years, available to pay out any outstanding claims or penalties and in place to use again should the District decide to revert back to self-insurance. During the 2021-2022 budget process, the Board of Education initiated a conversation on how to discontinue the nearly \$1.9 million fund, and it decided to draw \$208,000 from this fund to offset the increases in that year's health insurance premiums. This draw from the fund was approved by the taxpayers at referendum.

Concurrently, town leadership from both Haddam and Killingworth, as well as the HKEA (the teachers union), expressed an interest in benefiting from the remaining \$1.7 million in this fund. With so many interested in the distribution of the fund, the Board hired outside counsel to determine the origin and history of this fund, and to give a legal opinion based on the Connecticut General Statutes on how best to discontinue the fund and distribute the proceeds.

What was the Legal Opinion given to the Board of Education?

Attorney Tom Mooney of Shipman and Goodwin, a well-regarded expert in Connecticut School Law, gave the requested opinion, which can be read in the full document attached.

In summary, Attorney Mooney concluded that the Board may have lacked the legal authority to establish the fund when it did. Many businesses, local school districts and towns are self-insured and have insurance reserve funds to protect them from high-claim years. However, regional school districts are governed by statute, and only have the powers granted to them by the General Assembly. There is no statute that gives regional school districts the authority to create a self-insurance reserve fund. However, authorizing legislation provides a model for discontinuing the fund. Under current law, there are only two types of reserve funds that regional school districts have the authority to create. With the absence of direct guidance on how to dissolve this insurance fund, state statute for the other two funds provides the closest guidance for how to discontinue and distribute the fund: any amounts held in the fund should be transferred to the general fund of the district and applied to reduce charges for the next year, which in effect returns the audited fund balance to the taxpayers.

There is no statutory authority providing for the direct payment of the proceeds from the Self-Insurance Reserve Fund to any interested party. The Board would be subject to potential legal challenge if it chose to use the proceeds from the fund to augment its budget, make additional purchases or hire additional personnel. The same challenge could be made if the Board transferred the proceeds to member towns. Either action would be inconsistent with statutory process that applies when other authorized funds are discontinued. The applicable statutes provide that the proceeds from discontinued funds are transferred to the general fund and applied to offset expenses for the member towns in the next fiscal year, which in essence returns the funds to taxpayers.

Similarly, district employees have no claim to the proceeds to the fund. Employees' cost-share contributions were a contractual agreement between the Board and the various unions. Employees contributed toward the cost of health insurance based on a negotiated percentage of projected costs, and the Board paid their health insurance claims. The Self-Insurance Reserve Fund was a separate mechanism for a third party to pay claims, and it was never a joint venture with employees. The rates employees paid year-to-year were not affected by the status of the fund, and the Board was obligated to pay all claims irrespective of the health of the fund.

Board Decision on the Self-Insurance Reserve Fund

On March 1st, the RSD17 Board of Education voted to discontinue the fund immediately and transfer the balance into the general fund. Having already been audited during its dormancy, the balance will be immediately applied to reduce the net expenses of the district for 2022-2023 fiscal year.