

RESOLUTION NO. 02-12110

A RESOLUTION AUTHORIZING IMPLEMENTATION OF A SELF-INSURANCE PROGRAM FOR THE DISTRICT'S GROUP EMPLOYEE MEDICAL INSURANCE PLAN, DIRECTING THE ESTABLISHMENT OF APPROPRIATE FUNDS, PURCHASE OF EXCESS LOSS INSURANCE AND CONTRACTING WITH A THIRD PARTY ADMINISTRATOR

FACTUAL BACKGROUND AND REASONS FOR ACTION

The District currently participates in a fully insured group employee medical insurance program. The current one-year contract with the insurance provider (Premera/Blue Cross) for this fully insured group insurance program expires on July 31, 2002.

The Joint Benefits Advisory Committee (the Committee) comprised of both bargaining unit and salary grade District employees was formed to assess and evaluate current health insurance industry trends and market factors, including claims utilization and cost information. The goal of the Committee was to determine and recommend the most beneficial and cost effective plan design for the District's plan year beginning August 1, 2002. A component of this assessment included review and consideration of various funding models, including the current fully insured model as well as a self-insured model. The Committee concluded that a self-insured model would be more cost effective and provide more advantages than a fully insured model, including more District control over plan administration, lower administrative charges by the insurance company, fewer state regulatory impacts, and elimination of the state premium tax.

Pursuant to RCW 48.62, local governments, including public utility districts, have the authority to establish self-insured programs for health and welfare benefits. In accordance with RCW 48.62.071, the District must apply for and obtain approval from the State Risk Manager's office prior to the establishment of a self-insured program. To obtain approval by the State Risk Manager, the District must submit a plan of management and operation that includes descriptions of: how risks will be covered, benefits to be provided, investment practices, reserves to be provided and proposed purchase of excess loss insurance.

The District retained Marsh Advantage America to provide a professional analysis of the feasibility of creation and maintenance of the program including recommended reserve levels. Reserves are established to guarantee coverage for claims that may exceed predicted claim costs and to cover claims in the event of plan termination. An initial reserve balance of \$2 million was recommended and the Committee agreed with this recommendation.

RCW 48.62.031 provides local governments the authority to contract with third parties to provide risk management, claims and administrative services. The Committee recommends that a third party administrator be hired to administer the self-insured program. Quotes have been solicited and obtained from multiple service providers as part of a competitive selection process in compliance with WAC 236-22-038. The Committee recommends that the District continue to utilize Premera/Blue Cross in the role of third party administrator to ensure both continuity of claims administration processes and the ongoing availability and utilization of the doctor and medical facility/provider network by District employees.

The Committee recommends the District implement a self-insured employee medical insurance program, establish a claim payment fund to utilize for payment of claims, establish a reserve account of \$2 million to guarantee coverage for claims that may exceed predicted claim costs and to cover claims in the event of plan termination, purchase excess loss insurance for protection against catastrophic losses, and hire Premera/Blue Cross as third party administrator to administer the program.

The General Manager has reviewed the Committee's recommendations and concurs in the same.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON, as follows:

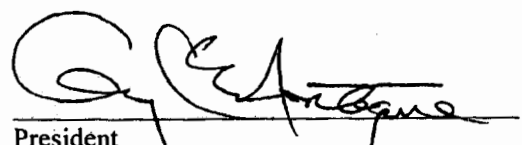
Section 1. The General Manager of the District is hereby authorized and directed to execute any and all documents necessary to implement a self-insured employee medical insurance program to be effective August 1, 2002.

Section 2. The Treasurer is authorized to establish and maintain a dedicated claim payment fund and a dedicated \$2 million reserve fund for the self-insured medical program.

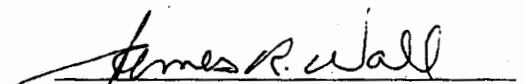
Section 3. The General Manager of the District is hereby authorized and directed to execute any and all documents necessary to purchase excess loss insurance for the self-insured medical program to be effective August 1, 2002 to protect against catastrophic losses.

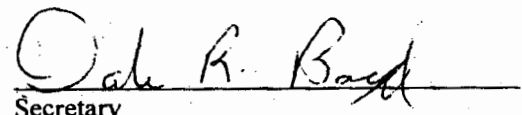
Section 4. The General Manager of the District is hereby authorized and directed to execute any and all documents necessary to contract with Premera/Blue Cross as third party administrator to perform the claim administration and related services for the self-insured medical program effective August 1, 2002.

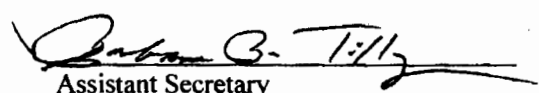
DATED this 3rd day of June 2002.

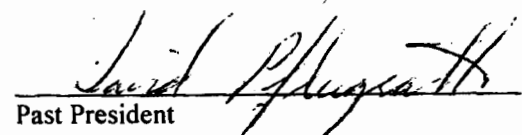

President

ATTEST:


Vice President


Secretary


Assistant Secretary
Seal


Past President