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SELF-INSURANCE: A TENNESSEE CITY'S EXPERIENCE

The City of Kingsport, like most municipal organizations, in the past has relied on the use of insurance carriers for all of its liability needs. But recent changes in the law regarding municipal immunity, the ever-increasing number of claims, and the ensuing sharp rise in carrier rates required that the City administration find some alternate method of coverage. Two areas which demanded immediate attention were workmen's compensation and employee health insurance.

Kingsport has in excess of 1,200 employees, including the Department of Education, who come under these two programs. The Sullivan County area has the reputation of being one of the most "litigated" areas in the state, and the city's workmen's compensation program had long provided bread and butter to anyone who knew where the courthouse was. During the 1976 fiscal year, the city experienced a continuing climb in the number of on-the-job accidents and, of course, faced the ensuing demands for higher and higher rates from the insurance carrier. At this point, the city was paying in excess of $150,000 annually in workmen's compensation premiums and another rate increase was imminent. Seeking another carrier would have provided some short-term relief, but the city needed more control over the program than that would provide.

After much discussion and research, it was determined that the best way out of this costly dilemma would be the self-insured method of coverage. This move involved a big gamble on the city's part because one serious accident at the outset could have wiped out the whole program and more. Conversely, in the "carrier based" method, we were paying in excess of a quarter million dollars every two years and expecting another increase.

Important elements in the initial establishment of this self-insured program included: (1) the development of a very stringent employee safety program; (2) the creation of a personnel safety department to administer the program; and (3) the development of a method for funding operation of the program. The first two were relatively easy to establish since Kingsport already had some safety regulations. The key here was enforcement, and the new two-member Department of Employee Safety was handed that and more.

The funding method decided upon was also relatively simple. The city utilized the workmen's compensation rates previously maintained by the carrier for specific job categories and pooled those dollars into a separate fund. Administrative and all other costs are charged against this fund.
Initially, the city also contracted with a local claims service, for approximately $500 per month, to aid the new Safety Department in the technical administration of medical claims.

Another area of improvement involved the implementation of a very stringent pre-employment screening process. This includes an extensive physical examination as well as a careful check of the applicant's previous accident history.

These tools, combined with the self-insured method of coverage, have brought our accident records within more acceptable limits and have resulted in a net savings to the city of more than $146,000 (including interest from investments) over the previous method of coverage.

Employee health insurance was the next area investigated for an alternative method of coverage. Originally the city was covered by a group contract administered by Blue Cross/Blue Shield of Tennessee. The sharp increases in medical costs, then as now, had caused demands for higher rates by the carrier. The city was satisfied with the level of benefits provided under the contract. The policy was a standard group major medical policy with a $250,000 maximum under major medical. It provided adequate coverages in most areas and, of course, was a policy which is nationally recognized.

The alternate method decided upon in this area involved changing our contracting procedures with Blue Cross to a co-insurance type of coverage. Blue Cross administers the contract and the city pays the claims from its own health insurance fund. No premium is paid by the city, only claims approved by Blue Cross plus an additional administrative fee based on a percentage of claims paid. This method, as in the self-insurance under workmen's compensation, allows the city to use its own dollars for a health insurance fund and with proper investment to earn substantial interest. The only actual cost under this program, aside from the claims paid, is the administrative fee, which is negotiated. Our savings to date have been in excess of $183,000 (including interest from investments) over the previous coverage method.

Under this method of coverage, we also have been able to hold the premium for the employee-paid share of family coverage at the same level while rates nationally have skyrocketed.

Crucial to our success has been the development of an effective program, the proper assignment of responsibilities in dealing with the various aspects of insurance coverages, and some very wise financial management of the funds once they were established.

The city now has expanded the self-insurance concept into all areas with the exception of automobile liability.

In the area of unemployment compensation Kingsport, like all cities in Tennessee, came under the Tennessee Unemployment Compensation Act in January 1978. Prior to that time the state had given all cities a short period of time to elect whether to become a "tax paying" or "reimbursing"
employer. The city staff reviewed our present employment policies, turnover rate, and the proposed regulations under both options of the new law. The staff concluded that, for Kingsport, the "reimbursing option" was the most feasible route to pursue.

The city decided to fund this new program much like the other self-insurance programs previously discussed. The rate called for by the state in the "tax paying" method (1.6 per cent of first $6,000) was applied to our total personal services budget and funded separately for processing claims. The majority of these funds are invested and to date the city has earned in excess of $7,000 in interest on these investments.

The key to our success in this program, as in the others, has been the proper assignment of responsibility. The Personnel Department is responsible for maintaining a working knowledge of the intricacies of the state regulations and making sure that the city takes every advantage possible under the "reimbursement" option. Claims appeals are handled by the Personnel and Legal Departments, and to date their success rate has been very acceptable. It is also important to mention here that, for successful resolution of unemployment claims, the city personnel regulations must be fair and above-board in regard to involuntary terminations.

Other cities interested in exploring these concepts for their own use should pay particular attention to the size of their workforce, the previous accident or claims records of their own organization, the legal "climate" for workmen's compensation claims in their area, and, of course, their financial ability to take a "gamble" in the initial stages.

-- By James P. Finley
Personnel Director
City of Kingsport