ACCOUNTING INTERPRETATION NO. 14

Subject: Accounting for Medical Self-Insurance Plans

SDCL 7-8-26.2 allows counties to establish medical self-insurance plans. However, there are several requirements as follows:

a. The county must have 100 employees or if grouped with other counties they must come up with 100 employees together.
b. An annual report must be published.
c. An audit is required.

The first requirement is strictly numerical but hard to attain because most counties do not have 100 employees. This is being overcome by joining pools consisting of several counties.

The second requirement may be met with each county's regular annual report. However, some self-insurance plans are arranged where the money is held by an outside party. Then in that case, an annual report should be secured from the third party and published.

The last requirement may be met with the normal audit of the county by legislative audit. But again, if the money is held by an outside party, then that third party would be required to have an audit by an independent public accountant.

If a self-insurance fund is handled by the county, the recent accounting principles require that it be accounted for as an internal service fund. Premiums are charged as an expenditure of the various General Fund line items, and revenues are recognized by the internal service fund.

It is a good practice to purchase reinsurance for the self-insurance fund to cover large claims and claims in the aggregate. This will help maintain the solvency of the fund.

A unique account related to self-insurance funds is a liability account called "incurred but not reported" claims. (IBNR) This is similar to an accounts payable in that you should capture the claims that were incurred prior to December 31, but not yet reported to the self-insurance fund. This amount is normally an estimate determined by the claims processor.