

# Fund 506

## Health Benefits Trust Fund

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### **Focus**

Fairfax County Government offers its employees and retirees health insurance options providing choices and competitive premium rates. The County health insurance alternatives include a self-insured point-of-service (POS) plan, a self-insured preferred provider plan (PPO), a self-insured open access plan (OAP), and a fully insured Health Maintenance Organization (HMO) for both active employees and retirees. The County's current health insurance program is a result of revisions enacted in FY 2007. On December 31, 2006, the County's contracts with the current HMO providers expired, and the contract for the self-insured products was scheduled to expire as of December 31, 2007. Therefore, the County partnered with Fairfax County Public Schools and completed a selection process in calendar year 2006 to choose new providers for all health insurance products in order to leverage the County's position in the marketplace and achieve competitive rates. This process resulted in changing one of the County's HMO options to an OAP, a hybrid plan combining aspects of both a POS and PPO, and changing the plan from a fully-insured to self-insured plan. Self-insurance allows the County to more fully control all aspects of the plan, including setting premiums to smooth out the impact of increases on employees while maintaining adequate funding to cover claims expenses and reserves. In addition, enhanced self-insured vision benefits were added to all health insurance plans with no impact to premium rates for the self-insured plans. These changes to the health insurance options were effective January 1, 2007. It should be noted that the County also intends to examine plans related to Medicare Part D to aid in finalizing an approach to the implementation of this new prescription drug benefit product. However, this examination will not be completed until the market for Medicare Part D products further matures.

Fund 506, Health Benefits Trust Fund, is the administrative unit for the self-insured alternatives. For the self-insured plans, the County pays only for claims and third party administrative fees. The cost to fund claims expenses is covered by premiums from active employees, the employer, retirees and retention of interest earnings.

The self-insured plans (POS, PPO, and OAP) provide in-network and out-of-network options. The POS plan combines the best features of an HMO and a traditional indemnity plan. The second option provides the choice of a PPO, combining an in-network benefit and an out-of-network benefit for those employees and retirees who live outside of the managed care network area. The OAP plan provides a third alternative which combines aspects of both a POS and a PPO.

After significant increases in medical costs at the beginning of the decade, cost growth has begun to moderate in the last few years. On average, most employers nationwide are experiencing single digit cost increases, and the County's experience mirrors this trend. As a result of lower than anticipated medical and prescription claims in recent years, along with prudent management of the plan and aggressive contract negotiations, staff estimates that on average the County's self-insured plans will raise premiums by a moderate 5 percent effective January 1, 2008 for the final six months of FY 2008. The 5 percent premium increase will allow the fund to remain solvent while maintaining a revenue stream that will cover the cost of health claims and maintain reserve funding. Actual premium increases will vary by plan based on each plan's claims experience.

Advances in medical technology, the increasing cost of medical malpractice and liability insurance, and increased utilization continue to drive increases in medical costs. To mitigate the impact of unanticipated cost increases in future years, the County created a premium stabilization reserve in FY 2005. This reserve allows the County to maintain premium increases at manageable levels and smooth out the employer and employee impact of dramatic cost growth swings.

In addition, the targeted ending balance for the fund is based on a balance as a percent of claims paid of at least 10 percent to ensure that the fund balance is adequate to support any unanticipated high cost claims. It should be noted that an ending balance of 10 to 15 percent of claims paid is the targeted industry standard.

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The County continues to contribute 85 percent of the total premium for employees enrolled as an individual and 75 percent of the total premium for employees enrolled under either the two-party or family plan. Retirees over the age of 55 currently receive a subsidy from the County toward the cost of health insurance. The current monthly subsidy, approved in FY 2006, commences at age 55 and varies by length of service. Note: There is not a reduction in subsidy payments for employees who retired prior to July 1, 2003 but do not meet the revised requirements for years of service. Details on the retiree health subsidy can be found in the narrative for Fund 500, Retiree Health Benefits, in Volume 2 of the FY 2008 Adopted Budget Plan.

It should be noted that as part of the *FY 2005 Carryover Review*, a reserve was established to begin to address the County's unfunded liability for postemployment benefits as a result of the Governmental Accounting Standards Board (GASB) Statement No. 45. An amount of \$10 million was available for the creation of this reserve from excess revenues received from employer contributions. In FY 2007, the County allocated an additional \$8.2 million as a transfer from the General Fund for this reserve as part of the FY 2007 Adopted Budget Plan as well as an additional \$21.8 million as part of the *FY 2006 Carryover Review*. The FY 2008 Adopted Budget Plan maintains the \$8.2 million General Fund transfer to the reserve, bringing the balance to \$48.2 million. On March 8, 2007, the Virginia General Assembly passed legislation to provide the necessary legal authority to counties, cities, towns, school divisions, and certain political subdivisions to establish trust funds to pre-fund OPEBs. The Governor signed the legislation into law on March 21, 2007. Final actions required by the County to establish a trust fund are underway and are anticipated to be complete by early summer 2007. Therefore, funding set aside in the reserve will be transferred from Fund 506 to Fund 603, OPEB Trust Fund, at the *FY 2007 Carryover Review*. This \$48.2 million in initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution made to Fund 603. Any balances identified in Fund 506 at future quarterly reviews as a result of excess revenues received from employer contributions will also be considered for possible transfer to Fund 603 to assist in addressing the County's unfunded OPEB liability. For more information on GASB 45, please refer to Fund 603, OPEB Trust Fund, in Volume 2 of the FY 2008 Adopted Budget Plan.

### FY 2008 Funding Adjustments

*The following funding adjustments from the FY 2007 Revised Budget Plan are necessary to support the FY 2008 program:*

- ◆ **Health Insurance Requirements** **\$666,132**  
An increase of \$666,132 is primarily attributable to an increase of \$9,045,553 in benefits paid due to an 11.5 percent cost growth assumption and anticipated employee participation in the POS and PPO plans, \$544,724 in administrative expenses and \$327,599 for Incurred But Not Reported (IBNR) claims based on anticipated requirements. This is partially offset by a decrease of \$9,251,744 for the premium stabilization buffer.
  
- ◆ **Addition of OAP and Enhanced Vision Benefits to Self-Insured Fund** **\$18,204,806**  
An increase of \$18,204,806 is attributable to an increase of \$16,273,262 in benefits paid, \$901,788 in administrative expenses, and \$1,029,756 for Incurred But Not Reported (IBNR) claims based on the addition of the Open Access Plan (OAP) and enhanced vision benefits to the self-insured fund. It should be noted that the expenditure increase is entirely offset by increased revenues as premiums are paid directly to the self-insured fund rather than to the vendor as under the prior fully-insured arrangement.

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### Board of Supervisors' Adjustments

*The following funding adjustments reflect all changes to the FY 2008 Advertised Budget Plan, as approved by the Board of Supervisors on April 30, 2007:*

- ◆ The Board of Supervisors made no adjustments to this fund.

### **Changes to FY 2007 Adopted Budget Plan**

*The following funding adjustments reflect all approved changes in the FY 2007 Revised Budget Plan since passage of the FY 2007 Adopted Budget Plan. Included are all adjustments made as part of the FY 2006 Carryover Review and all other approved changes through December 31, 2006:*

- ◆ **Carryover Adjustments** **\$6,332,409**  
As part of the FY 2006 Carryover Review, the Board of Supervisors approved an increase of \$6,332,409 to reflect an appropriation from fund balance to increase the premium stabilization buffer which allows the fund flexibility in maintaining premium increases at manageable levels.

*The following funding adjustments reflect all approved changes to the FY 2007 Revised Budget Plan from January 1, 2007 through April 23, 2007. Included are all adjustments made as part of the FY 2007 Third Quarter Review:*

- ◆ The Board of Supervisors made no adjustments to this fund.

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### FUND STATEMENT

Fund Type G50, Internal Service Funds	Fund 506, Health Benefits Trust Fund				
	FY 2006 Actual	FY 2007 Adopted Budget Plan	FY 2007 Revised Budget Plan	FY 2008 Advertised Budget Plan	FY 2008 Adopted Budget Plan
<b>Beginning Balance</b>	<b>\$27,988,758</b>	<b>\$20,075,146</b>	<b>\$48,207,555</b>	<b>\$50,330,856</b>	<b>\$50,330,856</b>
Revenue:					
Employer Share of Premiums- County Payroll	\$48,148,488	\$47,814,676	\$47,814,676	\$64,468,330	\$64,468,330
Employee Share of Premiums- County Payroll	14,080,907	14,332,619	14,332,619	22,531,622	22,531,622
Retiree Premiums <sup>1</sup>	15,976,406	17,592,687	17,592,687	19,778,354	19,778,354
Interest Income	1,942,965	1,364,475	1,364,475	3,493,942	3,493,942
Administrative Service Charge/COBRA Premiums	44,594	41,343	41,343	49,431	49,431
<b>Total Revenue</b>	<b>\$80,193,360</b>	<b>\$81,145,800</b>	<b>\$81,145,800</b>	<b>\$110,321,679</b>	<b>\$110,321,679</b>
Transfer In:					
General Fund (001)	\$0	\$8,200,000	\$8,200,000	\$8,200,000	\$8,200,000
<b>Total Transfer In</b>	<b>\$0</b>	<b>\$8,200,000</b>	<b>\$8,200,000</b>	<b>\$8,200,000</b>	<b>\$8,200,000</b>
<b>Total Available</b>	<b>\$108,182,118</b>	<b>\$109,420,946</b>	<b>\$137,553,355</b>	<b>\$168,852,535</b>	<b>\$168,852,535</b>
Expenditures:					
Benefits Paid	\$56,682,905	\$61,861,411	\$61,861,411	\$87,180,226	\$87,180,226
Administrative Expenses	3,388,810	3,173,526	3,173,526	4,620,038	4,620,038
Premium Stabilization Reserve Incurred but not Reported	0	15,305,274	21,637,683	12,385,939	12,385,939
Claims (IBNR)	(97,152)	549,879	549,879	1,907,234	1,907,234
<b>Total Expenditures</b>	<b>\$59,974,563</b>	<b>\$80,890,090</b>	<b>\$87,222,499</b>	<b>\$106,093,437</b>	<b>\$106,093,437</b>
<b>Total Disbursements</b>	<b>\$59,974,563</b>	<b>\$80,890,090</b>	<b>\$87,222,499</b>	<b>\$106,093,437</b>	<b>\$106,093,437</b>
Ending Balance:					
Fund Equity	\$54,610,403	\$35,954,225	\$57,754,225	\$73,220,725	\$73,220,725
IBNR	6,402,848	7,423,369	7,423,369	10,461,627	10,461,627
<b>Ending Balance<sup>2</sup></b>	<b>\$48,207,555</b>	<b>\$28,530,856</b>	<b>\$50,330,856</b>	<b>\$62,759,098</b>	<b>\$62,759,098</b>
Premium Stabilization Reserve	\$6,941,510	\$0	\$0	\$0	\$0
GASB 45 Liability Reserve <sup>3</sup>	31,800,000	18,200,000	40,000,000	48,200,000	48,200,000
<b>Unreserved Ending Balance</b>	<b>\$9,466,045</b>	<b>\$10,330,856</b>	<b>\$10,330,856</b>	<b>\$14,559,098</b>	<b>\$14,559,098</b>
<b>Percent of Claims</b>	<b>16.7%</b>	<b>16.7%</b>	<b>16.7%</b>	<b>16.7%</b>	<b>16.7%</b>

<sup>1</sup> Formerly Other Funds Premiums, renamed to more accurately reflect accounting treatment and revenues posted in this line item.

<sup>2</sup> The FY 2006 Actual Ending Balance increases over the FY 2006 Actual Beginning Balance based on better than anticipated experience during the fiscal year. Fluctuations in the ending balance in budget years are due to the Fund's policy of maintaining the ending balance as a percent of claims at the targeted industry standard.

<sup>3</sup> At the FY 2005 Carryover Review, a reserve was created to address the unfunded liability for post-employment benefits as a result of the Governmental Accounting Standards Board (GASB) Statement No. 45. It is anticipated that funding set aside in this reserve will be transferred to Fund 603, OPEB Trust Fund, as part of the FY 2007 Carryover Review.