Fund 506
Health Benefits Trust Fund

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. 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.

In calendar year 2007, the County Executive directed staff to develop a comprehensive health promotion and wellness program for County employees. The goal of the initiative is to significantly improve employees' overall health and well-being, while also serving to curb rising health care costs. Components of the new program included in Fund 506 include:

- *Health Risk Assessments (HRAs) and Targeted Programming.* Health Risk Assessments gather information on participants' personal medical history, preventative services, and emotional health and lifestyle choices. Health plan participants can use the HRA in order to help determine their personal health risks and take preventative measures, while allowing the County to use aggregate data to create targeted programming towards health conditions that most affect County employees. As part of the new Health Promotion and Wellness Initiative, HRAs will be available for health plan participants so that they may elect to utilize this tool.

- *Enhancement of the County's disease management program.* Disease management programs are utilized to detect chronic conditions early and provide assistance to those affected to help manage their disease, resulting in a healthier outcome. Participants receive direct support from health care professionals and are assisted with coordination of physician care, medication reviews, standards of care reminders, assessments, screenings, and action plans. Although some health conditions were already included under the County's disease management program, the enhanced program will cover eleven additional conditions which affect County employees and retirees and impact County claims expenses, including Osteoporosis, Osteoarthritis, Fibromyalgia, and Low Back Pain.

- *Reduced membership fees at County RECenters.* In response to employee demand, as well as to promote the importance of overall physical health, a 50 percent subsidy for annual memberships at County RECenters is included in the new program. Workplace sites for employees are spread throughout the County; thus, all employees do not enjoy convenient access to the Employee Fitness and Wellness Center (EFWC) located in the Government Center. This benefit enhancement will allow merit employees and retirees to utilize all nine County RECenters at a reduced rate.

- *Influenza vaccinations for employees and retirees.* Providing flu shots to employees is a simple mechanism to reduce absenteeism due to flu outbreaks, as well as protect the overall health of employees and retirees.

A comprehensive wellness program has the potential to reduce the rate of escalation of health care costs, resulting in savings for self-insured plans through cost avoidance. As such, expenses related to the new Health Promotion and Wellness Initiative are included in Fund 506, Health Benefits Trust Fund, as it is anticipated that increases in self-insured claims expenses will be impacted as benefits of the program begin to materialize.

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Fund 506, Health Benefits Trust Fund, is the administrative unit for the County's self-insured health plans. 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 five percent effective January 1, 2009 for the final six months of FY 2009. The five 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.

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 603, OPEB Trust Fund, in Volume 2 of the <u>FY 2009 Adopted Budget Plan</u>.

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. In order to capture long-term investment returns and make progress towards reducing the unfunded GASB liability, the County created Fund 603, OPEB Trust Fund, as part of the <u>FY 2008 Adopted Budget Plan</u>. As a result of excess revenues received from employer contributions and transfers from the General Fund in FY 2007 and FY 2008, the County was able to identify $48.2 million to begin to address the County's unfunded liability for postemployment benefits. As part of the *FY 2007 Carryover Review*, the $48.2 million balanced was transferred to Fund 603, OPEB Trust Fund. This $48.2 million in initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution to Fund 603. As part of the <u>FY 2009 Adopted Budget Plan</u>, the County has identified an additional $9.9 million in excess employer contributions to be transferred to Fund 603, OPEB Trust Fund, to fund the retiree health benefit subsidy and contribute towards the County's FY 2009 annual required contribution. The annual required contribution will be calculated at each valuation and may change as a result of fluctuations in assets and liabilities. It should be noted that any future balances identified in Fund 506 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 <u>FY 2009 Adopted Budget Plan</u>.

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FY 2009 Funding Adjustments

The following funding adjustments from the FY 2008 Revised Budget Plan are necessary to support the FY 2009 program:

- **Health Insurance Requirements** **($4,013,317)**
  A decrease of $4,013,317 is primarily attributable to a decrease of $3,739,955 in benefits paid due to projected savings in FY 2008 as a result of lower than anticipated actual cost growth experience, partially offset by increases due to a 5.0 percent cost growth assumption in FY 2009 and anticipated employee participation. An additional decrease of $1,430,432 is for Incurred But Not Reported (IBNR) claims based on anticipated requirements. These decreases are partially offset by increases of $415,070 in administrative expenses and $742,000 for the new Health Promotion and Wellness Initiative. The increase in administrative expenses includes costs associated with the addition of Health Risk Assessments (HRAs) and an enhanced disease management program to the County's self-insured health plans. Furthermore, funding for the Health Promotion and Wellness Initiative is primarily associated with the cost of subsidizing reduced membership rates for merit employees and retirees at the County's RECenters, but also provides for influenza vaccinations for County employees and retirees and targeted programming to address the mental, physical, and behavioral health of County employees and retirees enrolled in the County's health insurance plans.

- **Premium Stabilization Reserve** **($35,684,230)**
  A decrease of $35,684,230 is the result of the reduction in the Premium Stabilization Reserve, primarily due to the appropriation of fund balance made as part of the *FY 2007 Carryover Review*. It should be noted that as part of the *FY 2008 Carryover Review*, it is anticipated that based on projected savings as a result of lower than anticipated claims experience in FY 2008, the premium stabilization reserve will increase from the level of appropriation currently anticipated at the FY 2009 Advertised Budget Plan.

Board of Supervisors' Adjustments

The following funding adjustments reflect all changes to the FY 2009 Advertised Budget Plan, as approved by the Board of Supervisors on April 28, 2008:

- **Reduction in OPEB Contribution** **$5,100,000**
  The Board of Supervisors approved an increase of $5,100,000 in expenditures to offset benefits expenses in the General Fund commensurate with a reduction in the transfer to Fund 603, OPEB Trust Fund, for the contribution towards the annual required contribution (ARC) for the County's GASB 45 liability. In the FY 2009 Advertised Budget Plan, an amount of $15 million, including $6.8 million previously funded by the General Fund associated with the explicit and implicit subsidies provided to retirees and an additional $8.2 million for use towards the ARC, was proposed to be transferred from Fund 506, Health Benefits Trust Fund, to Fund 603 to address the GASB liability. As a result of this adjustment, the transfer to the OPEB Trust Fund will be reduced to $9.9 million and the remaining $5.1 million will be reimbursed to the General Fund. For more information on GASB 45, please refer to Fund 603 in Volume 2 of the FY 2009 Adopted Budget Plan.

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Changes to FY 2008 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2008 Revised Budget Plan since passage of the FY 2008 Adopted Budget Plan. Included are all adjustments made as part of the FY 2007 Carryover Review and all other approved changes through December 31, 2007:

- **Carryover Adjustments** **$26,957,131**
  As part of the *FY 2007 Carryover Review*, the Board of Supervisors approved an increase of $26,957,131 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 2008 Revised Budget Plan from January 1, 2008 through April 21, 2008. Included are all adjustments made as part of the FY 2008 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 2007 Actual	FY 2008 Adopted Budget Plan	FY 2008 Revised Budget Plan	FY 2009 Advertised Budget Plan	FY 2009 Adopted Budget Plan
Beginning Balance	**$48,207,555**	**$50,330,856**	**$77,310,769**	**$14,559,098**	**$14,581,880**
Revenue:					
Employer Share of Premiums	$58,024,699	$64,468,330	$64,468,330	$70,615,467	$70,615,467
Employee Share of Premiums	16,549,178	22,531,622	22,531,622	20,728,348	20,728,348
Retiree Premiums[1]	17,181,154	19,778,354	19,778,354	20,455,260	20,455,260
Interest Income[2]	3,934,961	3,493,942	3,493,942	2,426,645	2,426,645
Administrative Service Charge/ COBRA Premiums	259,163	49,431	49,431	502,729	502,729
Total Revenue	$95,949,155	$110,321,679	$110,321,679	$114,728,449	$114,728,449
Transfer In:					
General Fund (001)	$8,200,000	$8,200,000	$8,200,000	$0	$0
Total Transfer In	$8,200,000	$8,200,000	$8,200,000	$0	$0
Total Available	**$152,356,710**	**$168,852,535**	**$195,832,448**	**$129,287,547**	**$129,310,329**
Expenditures:					
Benefits Paid	$70,074,311	$87,180,226	$87,180,226	$83,440,271	$83,440,271
Administrative Expenses	3,888,163	4,620,038	4,620,038	5,035,108	5,035,108
Premium Stabilization Reserve [3]	0	12,385,939	39,343,070	3,658,840	3,658,840
Incurred but not Reported Claims (IBNR)	1,083,467	1,907,234	1,907,234	476,802	476,802
Health Promotion and Wellness Initiative	0	0	0	742,000	742,000
General Fund Reimbursement	0	0	0	0	5,100,000
Total Expenditures	$75,045,941	$106,093,437	$133,050,568	$93,353,021	$98,453,021
Transfers Out:					
Information Technology Fund (104)	$0	$0	$0	$7,000,000	$7,000,000
OPEB Trust Fund (603)	0	0	48,200,000	15,000,000	9,900,000
Total Transfer Out	$0	$0	$48,200,000	$22,000,000	$16,900,000
Total Disbursements	**$75,045,941**	**$106,093,437**	**$181,250,568**	**$115,353,021**	**$115,353,021**
Ending Balance:					
Fund Equity	$84,797,084	$73,220,725	$25,043,507	$23,947,359	$23,970,141
IBNR	7,486,315	10,461,627	10,461,627	10,012,833	10,012,833
Ending Balance[4]	**$77,310,769**	**$62,759,098**	**$14,581,880**	**$13,934,526**	**$13,957,308**
Premium Stabilization Reserve	$25,585,577	$0	$0	$0	$0
GASB 45 Liability Reserve[5]	40,000,000	48,200,000	0	0	0
Unreserved Ending Balance	**$11,725,192**	**$14,559,098**	**$14,581,880**	**$13,934,526**	**$13,957,308**
Percent of Claims	**16.7%**	**16.7%**	**16.7%**	**16.7%**	**16.7%**

[1] Formerly Other Funds Premiums, renamed to more accurately reflect accounting treatment and revenues posted in this line item.

[2] In order to account for revenues and expenditures in the proper fiscal year, an audit adjustment in the amount of $22,782.39 in revenues has been reflected as an increase to FY 2007 revenues to accurately record interest on investments. The audit adjustment has been included in the FY 2007 Comprehensive Annual Financial Report (CAFR).

[3] Fluctuations in the Premium Stabilization Reserve are the result of reconciliations of budget to actual experience. For example it is anticipated that a significant portion of the Revised Budget Plan Premium Stabilization Reserve will be carried forward from one year to the next with adjustments as a result of actual final year-end experience.

[4] The FY 2007 Actual Ending Balance increases over the FY 2007 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.

[5] 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. The funding set aside in this reserve was transferred to Fund 603, OPEB Trust Fund, as part of the *FY 2007 Carryover Review*.