Fund 506
Health Benefits Trust Fund

Focus

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.

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 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.

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 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 continue examining plans related to Medicare Part D to aid in finalizing an approach to the implementation of this new prescription drug benefit product.

As with many employers nationwide, the County has experienced considerable fluctuations in medical costs. Advances in medical technology, the increasing cost of medical malpractice and liability insurance, and increased use continue to drive increases in medical costs. After significant increases in claims expenses at the beginning of the decade, cost growth was moderate (at or below 5 percent) in FY 2005 and FY 2006, but has climbed back to double-digit increases annually since FY 2007. As a result of these trends, despite prudent management of the plans, it is projected that the County will raise premiums by 12 percent for the PPO plan, 5 percent for the POS plan, and 18 percent for the OAP plan, effective January 1, 2010 for the final six months of FY 2010. The premium increases will allow the fund to remain solvent while maintaining a revenue stream that will cover the cost of health claims and maintain reserve funding. It should be noted that these premium increases are budgetary projections; final premium decisions will be made in the fall of 2009 based on updated experience.

Additionally, in their budget guidance approved with the adoption of the FY 2010 budget, the Board of Supervisors acknowledged the difficulty that employees face in light of the decision to suspend FY 2010 salary adjustments and the projected increases in health insurance premiums. As such, the Board directed staff to work diligently to reduce or minimize the increase in premiums for health insurance based on actual cost experience and market conditions prior to the fall 2009 open enrollment period. Premiums should be set at a rate that covers the cost of the plans and takes into account potential long-term GASB liability implications. Furthermore, staff is directed to review the County's various benefit programs to determine if consolidation of programs will garner savings to employees and the County.

To help 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. Primarily as a result of funds set aside in the reserve, premium increases have not surpassed five percent since CY 2005, and at the direction of the Board of Supervisors, premiums remained flat in CY 2009. In addition, the fund maintains an unreserved ending balance based on 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. 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 FY 2010 Adopted Budget Plan.

LiveWell Workforce Wellness Program

In FY 2009, the LiveWell Workforce Wellness Program began as an effort to significantly improve employees' overall health and well-being, while also serving to curb rising health care costs. Components of the LiveWell program 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 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 use this tool.

- *Enhancement of the County's disease management program.* Disease management programs are used to detect chronic conditions early and provide assistance to those affected to help manage their disease, resulting in healthier outcomes. 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 and 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 use 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 and 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 LiveWell initiative are included in Fund 506, Health Benefits Trust Fund, as it is anticipated that increases in self-insured claims expenses will be mitigated as benefits of the program begin to materialize.

Fund 506
Health Benefits Trust Fund

GASB 45

As part of the *FY 2005 Carryover Review*, a reserve was established in this fund to begin to address the County's liability for other post-employment benefits (OPEBs) as a result of the Governmental Accounting Standards Board (GASB) Statement No. 45. This liability, which includes the retiree health benefit subsidy, is calculated annually as part of an actuarial valuation and an annual required contribution (ARC) is calculated based on an amortization of the unfunded portion of the liability. As a result of excess revenues received in Fund 506 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 liability under GASB 45.

As part of the FY 2008 Adopted Budget Plan the County created Fund 603, OPEB Trust Fund, in order to capture long-term investment returns and make progress towards reducing the unfunded GASB liability and as part of the *FY 2007 Carryover Review*, the $48.2 million balance was transferred to the new fund. This $48.2 million in initial funding reduced the unfunded liability and was utilized to fully fund the FY 2008 ARC of $31.6 million. As part of the *FY 2009 Revised Budget Plan*, the County identified an additional $14.9 million in excess employer contributions to be transferred to the OPEB Trust Fund to contribute towards the County's FY 2009 ARC of $25.4 million. In the FY 2010 Adopted Budget Plan, the $9.9 million contribution towards the County's FY 2010 ARC is funded through a transfer from the General Fund to Fund 603. The County's unfunded actuarial accrued liability and the FY 2010 ARC will not be calculated until fall 2009.

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 FY 2010 Adopted Budget Plan.

FY 2010 Funding Adjustments

The following funding adjustments from the FY 2009 Adopted Budget Plan are necessary to support the FY 2010 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on April 27, 2009.

- **Health Insurance Requirements** **$21,616,740**

  An increase of $21,616,740 is primarily attributable to an increase of $23,038,691 in benefits paid due to projected increases in claims expenses and participation trends and an increase of $220,124 in administrative expenses, partially offset by a decrease of $1,642,075 for Incurred But Not Reported (IBNR) claims based on anticipated requirements.

- **Other Adjustments** **($8,758,840)**

  A decrease of $3,658,840 is the result of the reduction in the Premium Stabilization Reserve, primarily attributable to projected increases in expenditures, and a decrease of $5,100,000 is the result of a one-time reimbursement to the General Fund included in the FY 2009 Adopted Budget Plan to offset benefits expenses.

Changes to FY 2009 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2009 Revised Budget Plan since passage of the FY 2009 Adopted Budget Plan. Included are all adjustments made as part of the FY 2008 Carryover Review, FY 2009 Third Quarter Review, and all other approved changes through April 20, 2009.

- **Carryover Adjustments** **$22,860,535**

  As part of the *FY 2008 Carryover Review*, the Board of Supervisors approved an increase of $22,860,535, including $12,681,899 to reflect an appropriation from fund balance to increase the Premium Stabilization Reserve which allows the fund flexibility in maintaining premium increases at manageable levels. The remaining increase of $10,178,636 was required to change the allocations for benefit payments, administrative expenses and Incurred But Not Reported (IBNR) claims based on FY 2008 experience.

Fund 506
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FUND STATEMENT

Fund Type G50, Internal Service Funds **Fund 506, Health Benefits Trust Fund**

	FY 2008 Actual	FY 2009 Adopted Budget Plan	FY 2009 Revised Budget Plan	FY 2010 Advertised Budget Plan	FY 2010 Adopted Budget Plan
Beginning Balance	**$77,310,769**	**$14,581,880**	**$50,126,875**	**$15,576,760**	**$15,493,641**
Revenue:					
Employer Share of Premiums	$65,311,072	$70,615,467	$67,407,767	$70,762,681	$70,762,681
Employee Share of Premiums	18,920,880	20,728,348	19,540,667	21,375,490	21,375,490
Retiree Premiums	18,246,015	20,455,260	18,702,514	18,903,030	18,903,030
Interest Income	2,955,364	2,426,645	2,426,645	757,593	757,593
Administrative Service Charge/ COBRA Premiums	523,001	502,729	502,729	446,820	446,820
Total Revenue	$105,956,332	$114,728,449	$108,580,322	$112,245,614	$112,245,614
Transfer In:					
General Fund (001)	$8,200,000	$0	$0	$0	$0
Total Transfer In	$8,200,000	$0	$0	$0	$0
Total Available	**$191,467,101**	**$129,310,329**	**$158,707,197**	**$127,822,374**	**$127,739,255**
Expenditures:					
Benefits Paid	$86,364,830	$83,440,271	$93,274,015	$106,478,962	$106,478,962
Administrative Expenses	4,868,571	5,035,108	5,112,000	5,255,232	5,255,232
Premium Stabilization Reserve [1]	0	3,658,840	16,340,739	0	0
Incurred but not Reported Claims (IBNR)[2]	1,906,825	476,802	744,802	(1,165,273)	(1,165,273)
Health Promotion and Wellness Initiative	0	742,000	742,000	742,000	742,000
General Fund Reimbursement	0	5,100,000	5,100,000	0	0
Total Expenditures	$93,140,226	$98,453,021	$121,313,556	$111,310,921	$111,310,921
Transfers Out:					
Information Technology Fund (104)	$0	$7,000,000	$7,000,000	$0	$0
OPEB Trust Fund (603)	48,200,000	9,900,000	14,900,000	0	0
Total Transfer Out	$48,200,000	$16,900,000	$21,900,000	$0	$0
Total Disbursements	**$141,340,226**	**$115,353,021**	**$143,213,556**	**$111,310,921**	**$111,310,921**
Ending Balance:					
Fund Equity	$59,520,015	$23,970,141	$25,631,583	$27,159,349	$25,401,003
IBNR	9,393,140	10,012,833	10,137,942	10,647,896	8,972,669
Ending Balance[3]	**$50,126,875**	**$13,957,308**	**$15,493,641**	**$16,511,453**	**$16,428,334**
Premium Stabilization Reserve	$35,787,067	$0	$0	$0	$0
Unreserved Ending Balance	**$14,339,808**	**$13,957,308**	**$15,493,641**	**$16,511,453**	**$16,428,334**
Percent of Claims	**16.6%**	**16.7%**	**16.6%**	**15.5%**	**15.4%**

[1] 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 final year-end experience.

[2] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $83,119 have been reflected as an increase to FY 2008 expenditures to accurately record Incurred but not Recorded (IBNR) claims. These audit adjustments have been included in the FY 2008 Comprehensive Annual Fiscal Report (CAFR). Details of the FY 2008 audit adjustments were included in the *FY 2009 Third Quarter Review*.

[3] The FY 2008 Actual Ending Balance decreases from the FY 2008 Actual Beginning Balance primarily due to the transfer of $48.2 million, which previously resided in a GASB 45 Liability Reserve, to Fund 603, OPEB Trust Fund. 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.