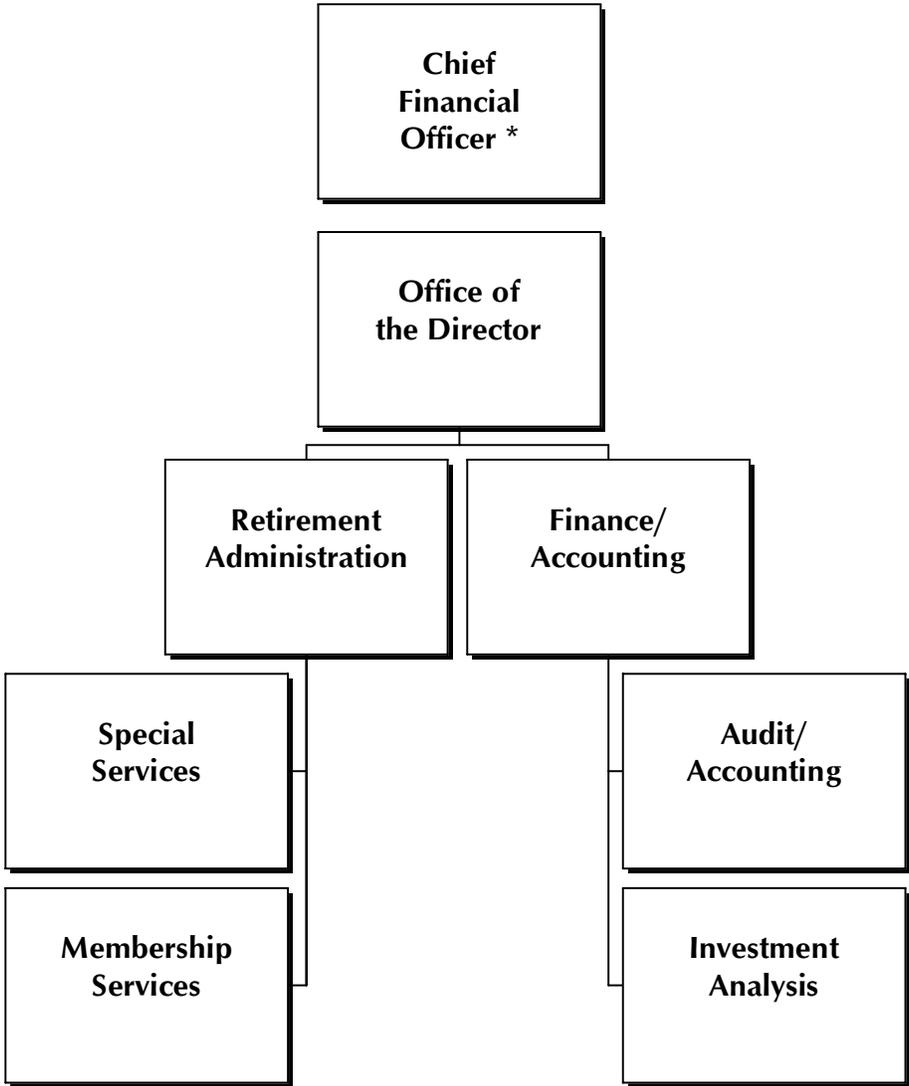


Fund 500 Retiree Health Benefits Fund



* The Chief Financial Officer has a liaison role for strategic direction and oversight of this agency; however, for budget purposes, that position and associated funding are reflected within the Department of Management and Budget.

Fund 500

Retiree Health Benefits Fund

Focus

Fund 500, Retiree Health Benefits, provides monthly subsidy payments to eligible retirees of the County to help pay for health insurance. Prior to July 2003, the monthly subsidy was \$100 for all eligible retirees. The current monthly subsidy, approved in FY 2006, commences at age 55 and varies by length of service as detailed in the following table. It should be noted that for those retired prior to July 2003, the monthly subsidy is the greater of \$100 and the amounts below. 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. However, those employees who retired prior to July 1, 2003 with 15 or more years of service were eligible for the increased subsidy as of July 1, 2003.

Retiree Health Benefit Subsidy	
Years of Service at Retirement	Monthly Subsidy
5 to 9	\$30
10 to 14	\$65
15 to 19	\$155
20 to 24	\$190
25 or more	\$220

In response to the implementation of the new Medicare Part D prescription drug benefit, the subsidy was increased 25 percent effective January 1, 2006. This change qualified the County's self-insured health insurance plan to be deemed as actuarially equivalent to the Medicare Part D program. Employers who offer an actuarially equivalent program are eligible to receive a subsidy from the Centers for Medicare and Medicaid Services (CMS) based on retiree enrollment in their plans. The County receives the CMS subsidy on retirees and spouses enrolled in the County's self-insured health plan who do not enroll in Medicare Part D. The anticipated federal funding from CMS is expected to completely offset the cost of the 25 percent increase to the retiree subsidy. In addition to the increase, the subsidy structure was changed so that retirees no longer receive a reduced subsidy upon reaching the age of Medicare eligibility. It should be noted that County staff will work to develop a long-term County strategy for Medicare Part D, which may include elimination of the 25 percent increase in the subsidy. Final recommendations will be presented to the Board of Supervisors for approval during calendar year 2006.

During FY 2007, the average number of subsidy recipients, including new retirees who are eligible to receive the retiree health benefit subsidy, is expected to increase by 125, or 6.0 percent, from 2,076 in FY 2006 to 2,201 in FY 2007. Estimates of the average number of subsidy recipients are based on a review of the projected number of retirements and health subsidy eligibility for personnel already retired from the Fairfax County Employees', Uniformed, and Police Officers Retirement Systems. Retirees who become eligible to receive the subsidy are paid based on the period of eligibility within the fiscal year, which may or may not comprise a full year of payments.

In addition, in FY 2006 the Board of Supervisors approved an additional benefit to Health Department employees who remained in the Virginia Retirement System (VRS) after their conversion from state to County employment in 1995. Current and future retirees who participate in a County health plan are eligible to receive the differential between the County retiree health benefit subsidy for which the employee is eligible based on years of service, which currently has a maximum of \$220 per month, and that provided by VRS, which has a maximum of \$120 per month. The cost of providing this subsidy differential in FY 2007 is approximately \$18,000 based on an estimate of 20 eligible retirees.

Fund 500

Retiree Health Benefits Fund

Furthermore, effective July 1, 2006, this budget proposes that the County begin providing the maximum retiree health benefit subsidy (\$220 per month) to those Police officers who were hired before July 1, 1981 and retired or will retire with full retirement benefits with 20, but less than 25, years of service. These Police officers previously received a subsidy of \$190 per month. The cost of providing the higher subsidy level in FY 2007 is approximately \$67,680 for 188 Police retirees and their spouses. Both the benefit enhancement provided for VRS retirees and that provided for Police retirees will impact the County's accrued actuarial liability under Governmental Accounting Standards Board (GASB) Statement No. 45 and will be included as part of the annual actuarial valuation. Any change in this liability will affect the annual contribution required by the County in order to make progress towards reducing the unfunded portion of the liability. Additional information on GASB 45 is provided below.

In FY 2007, the General Fund Transfer will increase by \$252,469, or 6.6 percent, over the *FY 2006 Revised Budget Plan* level of \$3,818,110, to \$4,070,579.

Beginning in FY 2008 the County's financial statements will be required to implement Governmental Accounting Standards Board (GASB) Statement No. 45 for post-employment benefits including health care, life insurance, and other non-retirement benefits offered to retirees. This new standard addresses how local governments should account for and report their costs related to post-employment healthcare and other non-pension benefits, such as the County's retiree health benefit subsidy. Currently, the County's subsidy is funded on a pay-as-you-go basis. GASB 45 will require that the County accrue the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County. This funding methodology mirrors the funding approach used for pension/retirement benefits. The County has the option of continuing to fund benefit payments as they come due, which would result in a large unfunded liability, or prepay during employees' active employment in order to decrease the unfunded liability. Upon careful examination of the advantages and disadvantages of each option, the County plans on establishing a trust fund in FY 2007 to fund the cost of post-employment healthcare and other non-pension benefits. Establishing such a trust fund will allow the County to capture long-term investment returns and make progress towards reducing the unfunded liability. A preliminary valuation as of January 1, 2005 calculated the County's actuarial accrued liability (excluding the Schools portion) at approximately \$191 million. This amount will be recalculated on an annual basis and will include adjustments due to benefit enhancements and normal growth assumptions.

It should be noted that as part of the *FY 2005 Carryover Review*, a reserve was established in Fund 506, Health Benefits Trust Fund, to begin to address the unfunded liability. An amount of \$10 million was set aside in this reserve from excess revenues received from employer contributions. Funding set aside in the reserve in Fund 506 will be transferred to this new trust fund in FY 2007. In addition, as part of the County Executive's recommended [FY 2007 Advertised Budget Plan](#), funding of \$10.2 million, representing the additional amount necessary to fully fund the required annual contribution for other post-employment benefits (OPEB), has been set aside in a reserve in the General Fund for consideration by the Board of Supervisors. It should be noted that any balances in Fund 506 at future quarterly reviews will also be considered for possible transfer to the newly established trust fund to assist in addressing the County's unfunded GASB 45 liability.

Fund 500

Retiree Health Benefits Fund

Initiatives

- ◆ Provide appropriate funding level to support the retiree health insurance benefit subsidy.
- ◆ Continue to allow for the timely and accurate distribution of retiree health insurance subsidy payments.
- ◆ Estimate actuarial liabilities and develop an implementation plan to comply with the Governmental Accounting Standards Board's new accounting requirements for post-employment benefits other than pensions.
- ◆ Provide the appropriate funding level to support supplemental subsidy payments to County employees in the Virginia Retirement System.
- ◆ Develop a long-term County strategy for Medicare Part D, which may include elimination of the 25 percent increase in the subsidy.

FY 2007 Funding Adjustments

The following funding adjustments from the FY 2006 Revised Budget Plan are necessary to support the FY 2007 program:

- ◆ **Employee Compensation** **\$2,679**
An increase of \$2,679 in Personnel Services associated with salary adjustments necessary to support the County's compensation program. Note: 1/1.0 SYE position in the Retirement Administration Agency is financed by this fund. For more information on positions in the Retirement Administration Agency, refer to Fund 600, Uniformed Retirement, Fund 601, Fairfax County Employees' Retirement, and Fund 602, Police Officers Retirement, in Volume 2 of the FY 2007 Advertised Budget Plan.
- ◆ **Benefit Payments** **\$902,240**
An increase of \$902,240 in benefit payments based on the current and projected rate of participation, the 25 percent increase in the subsidy which qualified the County's self-insured health insurance plan as actuarially equivalent to the new Medicare Part D prescription drug program, the implementation of a new supplemental subsidy for County employees in the Virginia Retirement System, and the provision of the maximum retiree health benefit subsidy (\$220) to those Police officers who have retired or will retire with full retirement benefits after 20 years. The cost of the 25 percent increase in the subsidy is expected to be completely offset by federal funding from the Centers for Medicare and Medicaid Services (CMS). It should be noted that the estimate for federal reimbursement increases by \$484,000 or 100 percent to reflect full year receipt of the CMS subsidy in FY 2007. The County was first eligible to receive the subsidy beginning January 1, 2006 for six months of FY 2006.

Changes to FY 2006 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2006 Revised Budget Plan since passage of the FY 2006 Adopted Budget Plan. Included are all adjustments made as part of the FY 2005 Carryover Review and all other approved changes through December 31, 2005:

- ◆ **Carryover Adjustments** **\$484,000**
As part of the FY 2005 Carryover Review, the Board of Supervisors approved an increase of \$484,000 to increase subsidy amounts by 25 percent effective January 1, 2006 as a result of the implementation of the new Medicare Part D prescription drug program. The cost of the increase is expected to be fully offset by revenues received from the Centers for Medicare and Medicaid Services.

Fund 500 Retiree Health Benefits Fund

FUND STATEMENT

Fund Type G50, Internal Service Funds

Fund 500, Retiree Health Benefits

	FY 2005 Actual	FY 2006 Adopted Budget Plan	FY 2006 Revised Budget Plan	FY 2007 Advertised Budget Plan
Beginning Balance	\$255,003	\$152,625	\$438,700	\$321,075
Revenue:				
CMS Medicare Part D Subsidy	\$0	\$0	\$484,000	\$968,000
Total Revenue	\$0	\$0	\$484,000	\$968,000
Transfer In:				
General Fund (001)	\$3,699,721	\$3,818,110	\$3,818,110	\$4,070,579
Total Transfer In	\$3,699,721	\$3,818,110	\$3,818,110	\$4,070,579
Total Available	\$3,954,724	\$3,970,735	\$4,740,810	\$5,359,654
Expenditures:				
Benefits Paid	\$3,431,023	\$3,846,690	\$4,330,690	\$5,232,930
Administrative	85,001	89,045	89,045	91,724
Total Expenditures	\$3,516,024	\$3,935,735	\$4,419,735	\$5,324,654
Total Disbursements	\$3,516,024	\$3,935,735	\$4,419,735	\$5,324,654
Ending Balance¹	\$438,700	\$35,000	\$321,075	\$35,000

¹ The Ending Balance fluctuates based on the use of balance to fund retiree health subsidy payments and to offset General Fund requirements. This policy reflects the recognition that the General Fund should receive credit for any balances that are available at year-end.