

## Fund 506 Health Benefits Trust Fund

### Board of Supervisors' Adjustments

*The following funding adjustments reflect all changes to the FY 2005 Advertised Budget Plan, as approved by the Board of Supervisors on April 26, 2004:*

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

Note: During their deliberations on the FY 2005 Adopted Budget Plan, the Board of Supervisors approved revisions to the retiree health subsidy structure that partially or completely eliminate the Medicare reduction at age 65 for retirees with 15 or more years of service at retirement effective July 1, 2004. Please refer to the narrative for Fund 500, Retiree Health Benefits, in Volume 2, Internal Service Funds for further details.

### 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) and two fully insured Health Maintenance Organizations (HMOs) for both active employees and retirees. The County's current health insurance program is a result of revisions enacted in FY 1999 and FY 2001.

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 and PPO) provide in-network and out-of-network options. The POS plan combines the best features of a health maintenance organization (HMO) and a traditional indemnity plan. The second option provides the choice of a preferred provider plan (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.

After slow medical cost growth in the early to mid 90's, spending for health care has been steadily increasing in recent years. Nationwide, cost growth is projected to increase an average of 12 to 15 percent per year. The County health care experience has closely mirrored the national trend. The primary factors in the escalating cost growth are increased utilization and the rising costs of prescription drugs. It should be noted that even with adjustments to the plan, medical and prescription claims costs have more than doubled since FY 1999. As a result of the rapid increase in claims costs, and a lowered revenue base due to premium holidays and no premium increases for multiple years in the mid-90's, the fund has had to increase premiums by over 20 percent per year and in some instances the fund has had to rely upon fund balance to cover the rising cost of claims and administrative expenses.

As a result of the projected increase in medical and prescription claims, the County's self-insured plan will raise premiums by 25 percent effective January 1, 2005 for the final six months of FY 2005. It should be noted that the 12.5 percent cost growth assumption for expenditures is for the full fiscal year, while the premium increase is on a calendar year basis and will only provide an increase for the last six months of the year. The 25 percent increase beginning January 1, 2005 results in an average premium increase for the year of 12.5 percent. This will allow the fund to remain solvent, to maintain a revenue stream that will cover the increasing cost of health claims and to maintain an ending balance to offset unanticipated increases in claims costs. 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 projected 25 percent increase in premiums results in an average monthly increase of \$14.38 for active employees enrolled as an individual in the POS plan and \$16.75 for active employees enrolled as an individual in the PPO plan. In addition, the average monthly increase for active employees enrolled under the family POS plan is \$69.75 and for active employees enrolled in the PPO family plan the increase is \$80.25. It should be noted that 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 2004, commences at age 55 and varies by length of service and Medicare eligibility. 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 Internal Service Funds.

### **FY 2005 Funding Adjustments**

*The following funding adjustments from the FY 2004 Revised Budget Plan are necessary to support the FY 2005 program:*

- ◆ **Health Insurance Cost Growth** **\$6,855,242**  
An increase of \$6,855,242 primarily due to a 12.5 percent cost growth assumption and anticipated employee participation in the plan. It should be noted that the 12.5 percent cost growth assumption is for the full fiscal year, while the premium increase is on a calendar year basis and will only provide an increase for the last six months of the year. The 25 percent increase beginning January 1, 2005 results in an average premium increase for the year of 12.5 percent.

### **Changes to FY 2004 Adopted Budget Plan**

*The following funding adjustments reflect all approved changes in the FY 2004 Revised Budget Plan since passage of the FY 2004 Adopted Budget Plan. Included are all adjustments made as part of the FY 2003 Carryover Review and all other approved changes through December 31, 2003:*

- ◆ **Carryover Adjustments** **\$0**  
There were no expenditure revisions to this fund since the approval of the FY 2004 Adopted Budget Plan. However, as part of the FY 2003 Carryover Review, the Board of Supervisors approved an increase in the General Fund Employer Contribution to this fund of \$358,120 to maintain the balance at the industry standard relating to the balance as a percent of claims.

*The following funding adjustments reflect all approved changes to the FY 2004 Revised Budget Plan from January 1, 2004 through April 19, 2004. Included are all adjustments made as part of the FY 2004 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 2003 Actual	FY 2004 Adopted Budget Plan	FY 2004 Revised Budget Plan	FY 2005 Advertised Budget Plan	FY 2005 Adopted Budget Plan
<b>Beginning Balance</b>	<b>\$1,672,740</b>	<b>\$6,966,899</b>	<b>\$7,850,525</b>	<b>\$7,959,873</b>	<b>\$7,959,873</b>
Revenue:					
Employer Share of Premiums- County Payroll	\$37,539,705	\$35,836,005	\$36,194,125	\$39,063,846	\$39,063,846
Employee Share of Premiums- County Payroll	8,695,576	9,936,850	9,936,850	11,731,208	11,731,208
Employer Subsidy from HMOs	(8)	0	0	0	0
Employee Subsidy from HMOs	(1)	0	0	0	0
Other Funds Premiums	9,559,771	10,668,365	10,668,365	12,482,549	12,482,549
Interest Income	106,042	350,000	350,000	350,000	350,000
Administrative Service Charge	28,230	11,000	11,000	11,000	11,000
<b>Total Revenue</b>	<b>\$55,929,315</b>	<b>\$56,802,220</b>	<b>\$57,160,340</b>	<b>\$63,638,603</b>	<b>\$63,638,603</b>
<b>Total Available</b>	<b>\$57,602,055</b>	<b>\$63,769,119</b>	<b>\$65,010,865</b>	<b>\$71,598,476</b>	<b>\$71,598,476</b>
Expenditures:					
Benefits Paid	\$46,087,628	\$53,071,797	\$53,071,797	\$59,360,455	\$59,360,455
Administrative Expenses	2,829,020	2,913,102	2,913,102	3,428,142	3,428,142
Cost Containment	39,566	65,985	65,985	0	0
Incurred but not Reported Claims (IBNR)	795,316	1,000,108	1,000,108	1,117,637	1,117,637
<b>Total Expenditures</b>	<b>\$49,751,530</b>	<b>\$57,050,992</b>	<b>\$57,050,992</b>	<b>\$63,906,234</b>	<b>\$63,906,234</b>
<b>Total Disbursements</b>	<b>\$49,751,530</b>	<b>\$57,050,992</b>	<b>\$57,050,992</b>	<b>\$63,906,234</b>	<b>\$63,906,234</b>
Ending Balance:					
Fund Equity	\$14,946,110	\$15,059,285	\$16,055,566	\$16,893,113	\$16,893,113
IBNR	7,095,585	8,341,158	8,095,693	9,200,871	9,200,871
<b>Ending Balance <sup>1</sup></b>	<b>\$7,850,525</b>	<b>\$6,718,127</b>	<b>\$7,959,873</b>	<b>\$7,692,242</b>	<b>\$7,692,242</b>
<b>Percent of Claims</b>	<b>17.0%</b>	<b>12.7%</b>	<b>15.0%</b>	<b>13.0%</b>	<b>13.0%</b>

<sup>1</sup> The FY 2003 Actual Ending Balance increases \$6.2 million over the FY 2003 Actual Beginning Balance based on contributions from the General Fund at the *FY 2002 Carryover Review* and the *FY 2003 Third Quarter Review* to maintain the ending balance as a percent of claims at the targeted industry standard. Note: The Ending Balance as a percent of claims prior to the infusion was 4.1%.