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 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 2011 Adopted Budget Plan.

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. The County continues to examine plans related to Medicare Part D to aid in finalizing an approach to the implementation of this prescription drug benefit product. This examination will include a thorough analysis of the comprehensive health care reform legislation passed in March 2010, assessing not only the potential impact on Medicare Part D options, but the overall impact on the County's health care programs and policies.

As with many employers nationwide, the County has experienced considerable fluctuations in medical costs. Prescription drugs, new medical technologies and increased utilization, as well as the cost of medical malpractice and liability insurance, 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, on average, since FY 2007. Based on estimated FY 2010 average cost growth of over 14 percent, premium increases for January 2010 were set at 3.4 percent for the PPO plan, 2.9 percent for the POS plan, and 18 percent for the OAP plan. In order to mitigate premium increases, funding set aside in the fund's Premium Stabilization Reserve was utilized to offset a portion of the plans' expenses. If premiums had been based solely on actual claims trends, the increases would have been higher. These rates were set in accordance with the Board's FY 2010 budget guidance, with consideration of balancing the impact to employees with ensuring that the premiums for each plan would cover the associated expenses, as each plan has experienced different participation trends and claims experience. Additionally, premiums were set taking into consideration the potential impacts on the County's GASB 45 liability. If premiums are not set appropriately, and increases in retiree claims outpace the growth in premiums, the County's liability under GASB 45 may increase. For more information on GASB 45, please refer to Fund 603, OPEB Trust Fund, in Volume 2 of the FY 2011 Adopted Budget Plan.

As a result of continuing increases in cost growth, despite prudent management of the plans, it is projected that the County will raise premiums by 8 percent for the PPO plan, 13 percent for the POS plan, and 15 percent for the OAP plan, effective January 1, 2011 for the final six months of FY 2011. These premium increases assume utilization of the fund's Premium Stabilization Reserve to offset a portion of the estimated cost growth, and would be higher if based on actual experience alone. The 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 2010 based on updated experience.

As part of the budget guidance approved with the adoption of the FY 2011 budget, the Board of Supervisors acknowledged and commended the excellent work of County employees. Unfortunately, based on the current economic situation, the FY 2011 budget does not include pay increases for County staff and the projected increases in health insurance premiums will continue to dilute their purchasing power as salaries are held flat. As such, the Board directed staff to attempt to minimize premium increases, which will be set in the Fall of 2010, while maintaining appropriate reserves in compliance with County policy.

Premium Stabilization Reserve

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.

During the years of moderate cost growth, the County was able to accumulate funds within the Premium Stabilization Reserve and these funds were utilized to mitigate premium increases, especially during calendar years 2007 and 2009 when premiums were held flat for the self-insured products. Based on the recent use of the reserve, including offsetting premium increases for CY 2010 and the anticipated use in CY 2011, guidelines have been developed for the future use of and target funding for the reserve:

- The Premium Stabilization Reserve should remain at 10-15 percent of claims expenses in order to maintain appropriate funding to offset unanticipated increases in cost growth or individual high-cost claims. If the reserve balance is within the target corridor, these balances may be used to mitigate premium increases. At no point should reserve balances be utilized which would bring the balance to less than 5 percent of claims.

- If the reserve falls below 10 percent of claims, the County will take actions to increase the reserve amount in order to reach the 10-15 percent target corridor within 3 years. These actions may include making additional General Fund contributions to the fund or increasing premiums.

- Any amount above 15 percent of claims may also be used for contributions towards the County's OPEB requirements or to offset other County benefit expenses.

By following these parameters, an appropriate amount should be held within the reserve to ensure that funds are available to mitigate premium increases when necessary, although increases may still be significant based on claims trends within each plan. It should be noted that the premium increases projected for January 2011 were developed under these guidelines and assume additional use of the Premium Stabilization Reserve in FY 2011.

In addition to the Premium Stabilization Reserve, the fund maintains an unreserved ending balance based on a percent of claims paid of at least 10 percent. An ending balance of 10 to 15 percent of claims paid is the targeted industry standard based on potential requirements in the event of a plan termination.

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. The program includes Health Risk Assessments, an enhanced disease management program, reduced membership fees at County RECenters, influenza vaccinations, and other targeted programming. In FY 2011, in order to avoid elimination of the Employee Fitness and Wellness Center (EFWC) as included in budget reductions proposed by the Fairfax County Park Authority, the center will become part of the LiveWell Program. The EFWC, located at the Government Center, provides convenient access for employees and retirees to cardiovascular and strength training equipment, as well as a variety of fitness classes at a reasonable monthly rate. The center will continue to be operated by the Park Authority, but all associated personnel and operating costs will be charged to Fund 506.

Other 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.

- *Enhancement of the County's disease management program.* The County actively employs comprehensive disease management programs that 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. Programs offered are based upon analysis of prevalent chronic health conditions using claims data for medical and drug benefits.

- *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 program. As workplace sites for employees are spread throughout the County and, thus, all employees are not located near the EFWC, this benefit allows 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 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.

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.

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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. 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. 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. No funding within Fund 506 has been identified in either FY 2010 or FY 2011 for contributions towards the County's OPEB liability. Contributions in these years will be funded through a $9.9 million General Fund transfer. Additionally, in recognition of the fact that the OPEB liability is calculated based on all County positions and not only those funded by the General Fund, beginning in FY 2011, funds not supported by General Fund dollars will begin making contributions. It is anticipated that these contributions will total approximately $3.1 million in FY 2011. It should be noted that any future balances identified in Fund 506 as a result of excess revenues received from employer contributions will 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 2011 Adopted Budget Plan.

FY 2011 Funding Adjustments

The following funding adjustments from the FY 2010 Adopted Budget Plan are necessary to support the FY 2011 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, 2010.

- **Health Insurance Requirements** **$15,435,951**

  An increase of $15,435,951 is attributable to an increase of $13,899,659 in benefits paid due to projected increases in claims expenses and participation trends and an increase of $2,547,575 for Incurred But Not Reported (IBNR) claims based on anticipated requirements, partially offset by a decrease of $1,011,283 in administrative expenses.

Changes to FY 2010 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2010 Revised Budget Plan since passage of the FY 2010 Adopted Budget Plan. Included are all adjustments made as part of the FY 2009 Carryover Review, FY 2010 Third Quarter Review, and all other approved changes through April 20, 2010.

- **Carryover Adjustments** **$11,797,250**

  As part of the *FY 2009 Carryover Review*, the Board of Supervisors approved an increase of $11,797,250 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.

Fund 506
Health Benefits Trust Fund

FUND STATEMENT

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

	FY 2009 Actual	FY 2010 Adopted Budget Plan	FY 2010 Revised Budget Plan	FY 2011 Advertised Budget Plan	FY 2011 Adopted Budget Plan
Beginning Balance	**$50,126,875**	**$15,493,641**	**$28,275,238**	**$17,412,681**	**$17,412,681**
Revenue:					
Employer Share of Premiums	$68,090,114	$70,762,681	$70,762,681	$82,095,319	$82,095,319
Employee Share of Premiums	19,476,882	21,375,490	21,375,490	22,363,286	22,363,286
Retiree Premiums	18,825,415	18,903,030	18,903,030	21,064,332	21,064,332
Interest Income	954,190	757,593	757,593	268,827	268,827
Administrative Service Charge/COBRA Premiums	477,679	446,820	446,820	489,926	489,926
Employee Fitness Center Revenue	0	0	0	61,000	61,000
Total Revenue	$107,824,280	$112,245,614	$112,245,614	$126,342,690	$126,342,690
Total Available	**$157,951,155**	**$127,739,255**	**$140,520,852**	**$143,755,371**	**$143,755,371**
Expenditures:					
Benefits Paid	$95,345,297	$106,478,962	$106,478,962	$120,378,621	$120,378,621
Administrative Expenses	5,157,728	5,255,232	5,255,232	4,243,949	4,243,949
Premium Stabilization Reserve [1]	0	0	11,797,250	0	0
Incurred but not Reported Claims (IBNR)	2,027,051	(1,165,273)	(1,165,273)	1,382,302	1,382,302
Health Promotion and Wellness Initiative	145,841	742,000	742,000	742,000	742,000
General Fund Reimbursement	5,100,000	0	0	0	0
Total Expenditures	$107,775,917	$111,310,921	$123,108,171	$126,746,872	$126,746,872
Transfers Out:					
Information Technology Fund (104)	$7,000,000	$0	$0	$0	$0
OPEB Trust Fund (603)	14,900,000	0	0	0	0
Total Transfers Out	$21,900,000	$0	$0	$0	$0
Total Disbursements	**$129,675,917**	**$111,310,921**	**$123,108,171**	**$126,746,872**	**$126,746,872**
Ending Balance:					
Fund Equity	$39,695,429	$25,401,003	$26,385,350	$31,453,933	$31,453,933
IBNR	11,420,191	8,972,669	8,972,669	14,445,434	14,445,434
Ending Balance [2]	**$28,275,238**	**$16,428,334**	**$17,412,681**	**$17,008,499**	**$17,008,499**
Premium Stabilization Reserve	$12,352,573	$0	$0	$0	$0
Unreserved Ending Balance	**$15,922,665**	**$16,428,334**	**$17,412,681**	**$17,008,499**	**$17,008,499**
Percent of Claims	**16.7%**	**15.4%**	**16.4%**	**14.1%**	**14.1%**

[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] The FY 2009 Actual Ending Balance decreases from the FY 2009 Actual Beginning Balance primarily due to the transfer of $14.9 million to Fund 603, OPEB Trust Fund, for GASB 45 requirements and a transfer of $7.0 million to Fund 104, IT Fund, for requirements associated with the County's legacy system replacement project. 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.