Fund 506
Health Benefits Fund

Focus

Fund 506, Health Benefits 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 four health insurance choices providing various coverage options and competitive premium rates:

- Self-Insured point-of-service (POS) plan – Features a local network of providers with a co-pay structure for office visits and other services.
- Self-Insured open access plan (OAP) with two levels of coverage – Features a national network of providers. High option coverage features a co-pay structure for office visits and other services, while the Low option coverage features co-insurance and modest deductibles.
- Fully-insured health maintenance organization (HMO) – Features care centers located in communities throughout the area with a co-pay structure for office visits and other services.

In calendar year 2007, self-insured vision benefits were added to all health insurance plans with no impact to premium rates for the self-insured plans. A disease management program was implemented in CY 2009 as part of the County's wellness initiative. This program is used to detect chronic conditions early and provide assistance to those affected to help manage their disease, resulting in healthier outcomes. In CY 2011, the County's health insurance program was revised to consolidate plans similar in design and implement a new lower cost option. In addition, all plans were changed to offer eligible preventive care services on a zero-cost basis. This change is expected to help stem the cost of coverage for participants while also providing early intervention for chronic conditions or illness. All of the County's health insurance plans are self-insured, with the exception of the HMO plan. Self-insurance allows the County to more fully control all aspects of the plans, including setting premiums to smooth out the impact of increases on employees while maintaining adequate funding to cover claims expenses and reserves. It should be noted that, in FY 2012, the County will begin the process of selecting new vendors for all health insurance products and will be reviewing options for partnering with Fairfax County Public Schools to leverage the County's position in the marketplace.

As part of the March 2010 passage of comprehensive health care reform legislation, the Early Retiree Reinsurance Program (ERRP) was established to provide reimbursements to participating employers for a portion of the costs of health benefits for early retirees. The County applied and was approved for participation in the ERRP, and the first reimbursement of $1.2 million was received in January 2011. As part of the *FY 2011 Third Quarter Review*, this revenue was reflected in the Health Benefits Fund and was set aside in reserve. As there is uncertainty surrounding how long the $5 billion allocated to the ERRP will last, it is difficult to project how much total revenue the County may receive under this program. As a result, no anticipated revenues from the ERRP have been included in the FY 2012 Adopted Budget Plan; any additional revenues received will be reflected at future quarterly reviews. All revenues received under the ERRP will be used to offset increases in health insurance costs for all participants in the County's self-insured plans.

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As the health care environment is in the midst of significant reform, staff is monitoring changes in the health plan market, incorporating required changes in the County's plans and processes, and examining the overall impact of reform on the County's benefits package. Upon a thorough examination, staff will be developing a long-term strategy to continue to provide cost-effective and comprehensive health care coverage to employees and retirees within the parameters of the new health care laws.

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. Details on the retiree health subsidy can be found in the narrative for Fund 603, OPEB (Other Post-Employment Benefits) Trust Fund, in Volume 2 of the FY 2012 Adopted Budget Plan.

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 fluctuated within a range of 10-12 percent since FY 2007. Based on estimated FY 2011 average cost growth of over 14 percent, premium increases for January 2011 were set at 10.1 percent for the POS plan and 21.2 percent for the OAP (High Option) plan. These rates were set in accordance with the Board's FY 2011 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 and, consequently, the annual required contribution for OPEB, may increase. It is the County's policy to maintain a net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the annual required contribution each year. For more information on GASB 45 and other post-employment benefits (OPEB), please refer to Fund 603, OPEB Trust Fund, in Volume 2 of the FY 2012 Adopted Budget Plan.

The January 2011 premium increases were also implemented in conjunction with the changes in the County's health insurance program described above, which provided lower-cost options to employees and retirees. Furthermore, recognizing the impact of health insurance costs on employees, especially in light of the suspension of compensation increases in FY 2010 and FY 2011, the Board of Supervisors approved two premium "holidays" as part of the *FY 2010 Carryover Review*. For two pay periods in December 2010, the County paid the employee share of health insurance premiums for active County employees who were eligible for and enrolled in County health insurance plans. Funding for the premium holidays was appropriated in Agency 89, Employee Benefits, in the General Fund, with no impact on the revenue or maintenance of reserves in the Health Benefits Fund.

As a result of continuing increases in cost growth, it is projected that the County will raise premiums by 10 percent for all plans, effective January 1, 2012 for the final six months of FY 2012. It should be noted that these premium increases are budgetary projections only; final premium decisions will be made in the fall of 2011 based on updated experience. Premium decisions will be based on the impact to employees and retirees, the actual claims experience of each plan, the maintenance of adequate reserves, and the impact on the County's GASB 45 liability.

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 plans. In order to maintain an appropriate funding level within the reserve, guidelines were developed in FY 2010 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 under GASB 45 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 2012 were developed under these guidelines.

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 currently includes reduced membership fees at County RECenters, influenza vaccinations, and other wellness programming. In FY 2011, the Employee Fitness and Wellness Center (EFWC) was integrated into 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 is operated by the Park Authority, but all associated personnel and operating costs are charged to Fund 506.

Other components of the LiveWell program include:

- *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.

- *Health & Wellness Programming.* LiveWell sponsors workshops throughout the year, at various employee worksites, on a variety of health and wellness topics, including nutrition, stress, and exercise. In March 2010, weight management and smoking cessation support will be added to the programming offered to employees through LiveWell.

- *Health Risk Assessments (HRAs).* The County is still in the process of integrating Health Risk Assessments with the current benefit plans. 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.

In June 2010, LiveWell was awarded with a 2010 Achievement Award from the National Association of Counties (NACo) for a summer, team-based challenge which encouraged employees to walk more, exercise, and lose weight. In recognition of the budgetary constraints facing the County, this program was primarily funded through employee participation fees.

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 Fund, as it is anticipated that increases in self-insured claims expenses will be mitigated as benefits of the program begin to materialize.

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FY 2012 Funding Adjustments

The following funding adjustments from the FY 2011 Adopted Budget Plan are necessary to support the FY 2012 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 26, 2011.

- **Health Insurance Requirements** **$746,652**
  A net increase of $746,652 is attributable to an increase of $1,102,243 in administrative expenses and an increase of $1,109,737 for Incurred But Not Reported (IBNR) claims, partially offset by a decrease of $1,465,328 in benefits paid. These adjustments are based on prior year experience and projected claims as a result of health insurance plan changes implemented in January 2011.

- **Premium Stabilization Reserve** **$2,359,782**
  An increase of $2,359,782 is attributable to the appropriation of fund balance to the Premium Stabilization Reserve. Any balances above the funding equivalent to two months of claims set aside in the Unreserved Ending Balance are appropriated to the Premium Stabilization Reserve to provide the fund flexibility in managing unanticipated increases in claims.

Changes to FY 2011 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2011 Revised Budget Plan since passage of the FY 2011 Adopted Budget Plan. Included are all adjustments made as part of the FY 2010 Carryover Review, FY 2011 Third Quarter Review, and all other approved changes through April 12, 2011.

- **Carryover Adjustments** **$6,966,065**
  As part of the *FY 2010 Carryover Review*, the Board of Supervisors approved an increase of $6,966,065 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.

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FUND STATEMENT

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

	FY 2010 Actual	FY 2011 Adopted Budget Plan	FY 2011 Revised Budget Plan	FY 2012 Advertised Budget Plan	FY 2012 Adopted Budget Plan
Beginning Balance	**$28,275,238**	**$17,412,681**	**$27,473,477**	**$20,103,230**	**$21,303,230**
Revenue:					
Employer Share of Premiums	$69,106,154	$82,095,319	$82,095,319	$82,831,438	$82,831,438
Employee Share of Premiums	20,364,042	22,363,286	22,363,286	24,479,380	24,479,380
Retiree Premiums	20,298,207	21,064,332	21,064,332	21,547,889	21,547,889
Early Retiree Reinsurance Program (ERRP)	0	0	1,200,000	0	0
Interest Income	233,010	268,827	268,827	211,188	211,188
Administrative Service Charge/ COBRA Premiums	575,548	489,926	489,926	477,701	477,701
Employee Fitness Center Revenue	0	61,000	61,000	61,000	61,000
Total Revenue	$110,576,961	$126,342,690	$127,542,690	$129,608,596	$129,608,596
Total Available	**$138,852,199**	**$143,755,371**	**$155,016,167**	**$149,711,826**	**$150,911,826**
Expenditures:					
Benefits Paid	$105,022,478	$120,378,621	$120,378,621	$118,913,293	$118,913,293
Administrative Expenses	4,767,266	4,243,949	4,243,949	5,346,192	5,346,192
Premium Stabilization Reserve [1]	0	0	6,966,065	2,359,782	2,359,782
Incurred but not Reported Claims (IBNR)	1,405,815	1,382,302	1,382,302	2,492,039	2,492,039
LiveWell Program	183,163	742,000	742,000	742,000	742,000
Total Expenditures	$111,378,722	$126,746,872	$133,712,937	$129,853,306	$129,853,306
Total Disbursements	**$111,378,722**	**$126,746,872**	**$133,712,937**	**$129,853,306**	**$129,853,306**
Ending Balance:					
Fund Equity	$40,299,483	$31,453,933	$35,748,664	$35,317,249	$36,517,249
IBNR	12,826,006	14,445,434	14,445,434	15,458,729	15,458,729
Ending Balance	**$27,473,477**	**$17,008,499**	**$21,303,230**	**$19,858,520**	**$21,058,520**
Premium Stabilization Reserve	$9,934,724	$0	$0	$0	$0
ERRP Reserve	0	0	1,200,000	0	1,200,000
Unreserved Ending Balance	**$17,538,753**	**$17,008,499**	**$20,103,230**	**$19,858,520**	**$19,858,520**
Percent of Claims	**16.7%**	**14.1%**	**16.7%**	**16.7%**	**16.7%**

[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.