

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. 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 diseases, 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 began the process of selecting new vendors for all health insurance products.

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 not yet eligible for Medicare. The County applied and was approved for participation in the ERRP, and has received reimbursements of \$2.7 million through the program. This revenue was reflected in the Health Benefits Fund in FY 2011 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 2013 Advertised 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 2013 Advertised 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 10-14 percent since FY 2007. Based on estimated FY 2012 average cost growth of over 11 percent, premium increases for January 2012 were set at 5.0 percent for the POS plan and 10.0 percent for the OAP (High Option) plan while premiums decreased 15.0 percent for the OAP (Low Option) plan. These rates were set 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 2013 Advertised Budget Plan](#).

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, 2013 for the final six months of FY 2013. It should be noted that these premium increases are budgetary projections only; final premium decisions will be made in the fall of 2012 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:

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- 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 2013 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 provide increased opportunities for employees to improve their overall health and well-being, while also serving to curb rising health care costs. The program currently includes subsidized membership fees at County RECenters, weight loss support, 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 staffed 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 6-month and 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.* 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, exercise, dementia, weight management and smoking cessation support.

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- *Weight Management.* LiveWell subsidizes the membership costs for a weight management program available to employees at worksites, in the community, and online.
- *Partnerships.* LiveWell partners with community programs, such as farmer's markets and bike-to-work campaigns, and county initiatives, such as the promotion of volunteering and financial fitness, to encourage employees to continually seek the benefits of improved well-being.

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.

FY 2013 Funding Adjustments

The following funding adjustments from the FY 2012 Adopted Budget Plan are necessary to support the FY 2013 program:

- ◆ **Health Insurance Requirements** **\$19,880,885**
A net increase of \$19,880,885 is attributable to an increase of \$20,734,165 in benefits paid and an increase of \$397,448 in administrative expenses, partially offset by a decrease of \$1,250,728 for Incurred But Not Reported (IBNR) claims. These adjustments are based on prior year experience and projected claims as a result of health insurance plan changes implemented in January 2012.
- ◆ **Premium Stabilization Reserve** **(\$1,020,788)**
A decrease of \$1,020,788 reflects an adjustment in the Premium Stabilization Reserve based on available fund balance. 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 2012 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2012 Revised Budget Plan since passage of the FY 2012 Adopted Budget Plan. Included are all adjustments made as part of the FY 2011 Carryover Review, and all other approved changes through December 31, 2011:

- ◆ **Carryover Adjustments** **\$4,895,137**
As part of the FY 2011 Carryover Review, the Board of Supervisors approved an increase of \$4,895,137 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 2011 Actual	FY 2012 Adopted Budget Plan	FY 2012 Revised Budget Plan	FY 2013 Advertised Budget Plan
Beginning Balance	\$27,473,477	\$21,303,230	\$27,388,846	\$22,248,999
Revenue:				
Employer Share of Premiums	\$76,559,813	\$82,831,438	\$82,831,438	\$94,773,375
Employee Share of Premiums	22,577,570	24,479,380	24,479,380	26,616,319
Retiree Premiums	22,301,643	21,547,889	21,547,889	27,738,388
Early Retiree Reinsurance Program (ERRP)	2,008,767	0	0	0
Interest Income	177,256	211,188	211,188	122,897
Administrative Service Charge/ COBRA Premiums	489,325	477,701	477,701	475,298
Employee Fitness Center Revenue	62,236	61,000	61,000	64,426
Total Revenue	\$124,176,610	\$129,608,596	\$129,608,596	\$149,790,703
Total Available	\$151,650,087	\$150,911,826	\$156,997,442	\$172,039,702
Expenditures:				
Benefits Paid ¹	\$119,289,863	\$118,913,293	\$118,913,293	\$139,647,458
Administrative Expenses	5,760,562	5,346,192	5,346,192	5,743,640
Premium Stabilization Reserve ²	0	2,359,782	7,254,919	1,338,994
Incurred but not Reported Claims (IBNR)	(1,128,506)	2,492,039	2,492,039	1,241,311
LiveWell Program	339,322	742,000	742,000	742,000
Total Expenditures	\$124,261,241	\$129,853,306	\$134,748,443	\$148,713,403
Total Disbursements	\$124,261,241	\$129,853,306	\$134,748,443	\$148,713,403
Ending Balance:				
Fund Equity	\$39,086,346	\$36,517,249	\$36,438,538	\$40,083,994
IBNR	11,697,500	15,458,729	14,189,539	16,757,695
Ending Balance	\$27,388,846	\$21,058,520	\$22,248,999	\$23,326,299
Premium Stabilization Reserve ²	\$5,458,672	\$0	\$381,712	\$0
ERRP Reserve	2,008,767	1,200,000	2,008,767	0
Unreserved Ending Balance	\$19,921,407	\$19,858,520	\$19,858,520	\$23,326,299
Percent of Claims	16.7%	16.7%	16.7%	16.7%

¹ In order to account for expenditures in the proper fiscal year, an audit adjustment in the amount of \$381,712.10 has been reflected as a decrease to FY 2011 expenditures in order to appropriately account for benefit expenses. The audit adjustments has been included in the FY 2011 Comprehensive Annual Financial Report (CAFR). Details of the FY 2011 audit adjustments will be included in the FY 2012 Third Quarter Package.

² 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.