Fund 60040
Health Benefits Fund

Focus

Fund 60040 (formerly 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 (CY) 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 the County is currently in the competitive bid process for health, pharmacy, and flexible spending programs.

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 received total reimbursements of $2.7 million between FY 2011 and FY 2012. This revenue was reflected in the Health Benefits Fund and used to offset increases in health insurance costs for all participants in the County's self-insured plans. As the ERRP has been discontinued, the County is not expected to receive additional revenue under this program.

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.

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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 73030, OPEB (Other Post-Employment Benefits) Trust Fund, in Volume 2 of the FY 2014 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 2013 average cost growth of over 10 percent, premium increases for January 2012 were set at 6.8 percent for the POS plan, 13.6 percent for the OAP (High Option) plan, and 11.2 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 73030, OPEB Trust Fund, in Volume 2 of the FY 2014 Advertised Budget Plan.

As a result of continuing increases in cost growth, it is projected that the County will raise premiums by 8 percent for all plans, effective January 1, 2014 for the final six months of FY 2014. It should be noted that these premium increases are budgetary projections only; final premium decisions will be made in the fall of 2013 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.

Fund Reserves

To help mitigate the impact of unanticipated cost increases in future years, the County created a Premium Stabilization Reserve in FY 2005. 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. Due to higher than anticipated claims experience, the Premium Stabilization Reserve was depleted in FY 2012.

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 60040.

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, and weight management.

- *Smoking Cessation*. LiveWell, working with a vendor and the Advisory Council, offers smoking cessation classes for interested employees.

- *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 October 2012, the County was recognized as a Gold Fit-Friendly organization by the American Heart Association. This recognition was based on the efforts of the LiveWell program to promote a culture of physical activity in the workplace.

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 60040, 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 2014 Funding Adjustments

The following funding adjustments from the FY 2013 Adopted Budget Plan are necessary to support the FY 2014 program:

- **Health Insurance Requirements** **$15,619,378**
  A net increase of $15,619,378 is attributable to an increase of $14,824,923 in benefits paid, an increase of $552,674 in administrative expenses, and an increase of $241,781 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 2013.

- **Premium Stabilization Reserve** **($1,338,994)**
  A decrease of $1,338,994 reflects an adjustment in the Premium Stabilization Reserve based on available fund balance. The Premium Stabilization Reserve was depleted in FY 2012 due to an unanticipated increase in claims.

Changes to FY 2013 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2013 Revised Budget Plan since passage of the FY 2013 Adopted Budget Plan. Included are all adjustments made as part of the FY 2012 Carryover Review, and all other approved changes through December 31, 2012:

- **Carryover Adjustments** **$7,674,569**
  As part of the *FY 2012 Carryover Review*, the Board of Supervisors approved an increase of $7,674,569 to reflect updated experience in claims trends based on FY 2012 actual expenditure levels that indicated that claims had increased at a higher rate than previously projected, particularly among individuals with total claims over $50,000.

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FUND STATEMENT

Fund 60040, Health Benefits Fund

	FY 2012 Actual	FY 2013 Adopted Budget Plan	FY 2013 Revised Budget Plan	FY 2014 Advertised Budget Plan
Beginning Balance	$27,388,846	$22,495,247	$19,681,979	$17,782,178
Revenue:				
Employer Share of Premiums	$85,356,145	$94,773,375	$94,550,875	$102,753,823
Employee Share of Premiums	25,575,894	26,616,319	28,327,166	30,958,242
Retiree Premiums	24,422,776	27,738,388	26,987,909	28,542,426
Early Retiree Reinsurance Program (ERRP)	674,646	0	0	0
Interest Income	101,069	122,897	101,069	131,476
Administrative Service Charge / COBRA Premiums	455,080	475,298	455,080	570,251
Employee Fitness Center Revenue	66,072	64,426	66,072	55,759
Total Revenue	$136,651,682	$149,790,703	$150,488,171	$163,011,977
Transfer In:				
General Fund (10001)	$0	$0	$4,000,000	$0
Total Transfer In	$0	$0	$4,000,000	$0
Total Available	$164,040,528	$172,285,950	$174,170,150	$180,794,155
Expenditures:				
Benefits Paid	$132,898,347	$139,647,458	$147,694,148	$154,472,381
Administrative Expenses	5,425,327	5,743,640	5,880,388	6,296,314
Premium Stabilization Reserve [1]	0	1,338,994	0	0
Incurred but not Reported Claims (IBNR)	5,564,461	1,241,311	2,071,436	1,483,092
LiveWell Program	470,414	742,000	742,000	742,000
Total Expenditures	$144,358,549	$148,713,403	$156,387,972	$162,993,787
Total Disbursements	$144,358,549	$148,713,403	$156,387,972	$162,993,787
Ending Balance:				
Fund Equity	$36,943,940	$40,330,242	$37,115,575	$38,616,857
IBNR	17,261,961	16,757,695	19,333,397	20,816,489
Ending Balance	$19,681,979	$23,572,547	$17,782,178	$17,800,368
Premium Stabilization Reserve [1]	$0	$246,248	$0	$0
ERRP Reserve [2]	674,646	0	0	0
Unreserved Ending Balance	$19,007,333	$23,326,299	$17,782,178	$17,800,368
Percent of Claims	14.3%	16.7%	12.0%	11.5%

[1] Fluctuations in the Premium Stabilization Reserve are the result of reconciliations of budget to actual experience.

[2] ERRP revenues of $674,646, which were received in FY 2012, will be used to offset increases in health insurance costs in FY 2013. The County is not anticipated to receive any additional revenue under this program.