Fund 60040
Health Benefits

Focus

Fund 60040, Health Benefits, 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. All but one of the County's health insurance plans are self-insured. 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.

Fairfax County Government offers its employees and retirees four health insurance choices providing various coverage options and competitive premium rates:

- Self-Insured open access plan (OAP) with three levels of coverage – Features a national network of providers. One level of coverage features a co-pay structure for office visits and other services, while two levels of coverage feature 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.

All of the County's health insurance plans include self-insured vision benefits and offer eligible preventive care services on a zero-cost basis. In addition, the County offers a disease management program to detect chronic conditions early and provide assistance to those affected to help manage their diseases, resulting in healthier outcomes. In calendar year (CY) 2014, the County's self-insured health insurance plans were consolidated under one network provider to control costs, improve analytical capabilities, and provide a high quality of care with an emphasis on wellness, prevention and better management of chronic conditions.

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 with the goal of continuing 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 73030, OPEB (Other Post-Employment Benefits) Trust Fund, in Volume 2 of the FY 2016 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. Growth in claims expenses in recent years has typically fluctuated within a range of 10-14 percent, with claims increasing approximately 12 percent in FY 2014. Premium increases for January 2015 were set ranging from 5.5 percent to 8.0 percent. 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 liability under Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45). 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 2016 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, 2016 for the final six months of FY 2016. It should be noted that these premium increases are budgetary projections only; final premium decisions will be made in the fall of 2015 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. At the end of FY 2014, the balance of the Premium Stabilization Reserve was $16.5 million. This balance is expected to decrease during FY 2015, as CY 2015 premium increases were set with the expectation that a portion of the Premium Stabilization Reserve would be used to moderate the impact of recent cost growth on employees and retirees.

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 CY 2014, a Wellness Incentive Points Program was added for the County's self-insured health insurance plans. The program gives employees the opportunity to earn up to $200 in wellness rewards annually for engaging in certain wellness activities such as taking an online health assessment, completing annual preventive exams, participating in lifestyle management programs, and attending LiveWell events. Wellness rewards dollars are deposited into a flexible spending account at the beginning of the following plan year.

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 2016 Funding Adjustments

The following funding adjustments from the FY 2015 Adopted Budget Plan are necessary to support the FY 2016 program.

♦ **Health Insurance Requirements** **$21,493,098**

A net increase of $21,493,098 is attributable to an increase of $22,648,443 in benefits paid and an increase of $291,809 for Incurred But Not Reported (IBNR) claims, partially offset by a decrease of $1,447,154 in administrative expenses. These adjustments are based on prior year experience and projected claims.

♦ **Patient Protection and Affordable Care Act Fees** **($600,000)**

A decrease of $600,000 reflects a decrease in fees for the second year of the Transitional Reinsurance Program. The Transitional Reinsurance Program is part of the Patient Protection and Affordable Care Act (PPACA) and is intended to stabilize premiums for coverage in the individual market during the first three years health insurance exchanges are available. The County has been required to participate in the Transitional Reinsurance Program since calendar year 2014. Under the program, the County is charged a fee for each covered life (including employees and their dependents) for three years, with the fee decreasing in the second and third years.

Changes to FY 2015 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2015 Revised Budget Plan since passage of the FY 2015 Adopted Budget Plan. Included are all adjustments made as part of the FY 2014 Carryover Review, and all other approved changes through December 31, 2014.

♦ **Carryover Adjustments** **$14,320,807**

As part of the *FY 2014 Carryover Review*, the Board of Supervisors approved a net increase of $14,320,807 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 60040
Health Benefits

FUND STATEMENT

Fund 60040, Health Benefits

	FY 2014 Actual	FY 2015 Adopted Budget Plan	FY 2015 Revised Budget Plan	FY 2016 Advertised Budget Plan
Beginning Balance	$37,685,304	$31,979,766	$42,936,455	$27,812,577
Revenue:				
Employer Share of Premiums	$98,734,414	$102,847,534	$102,847,534	$113,207,691
Employee Share of Premiums	29,930,039	31,162,535	31,162,535	34,369,810
Retiree Premiums[1]	28,095,062	29,584,458	29,584,458	32,817,133
Interest Income	49,971	66,886	66,886	64,282
Administrative Service Charge/ COBRA Premiums	569,426	661,984	661,984	496,936
Employee Fitness Center Revenue	58,822	60,900	60,900	54,084
Total Revenue	$157,437,734	$164,384,297	$164,384,297	$181,009,936
Transfers In:				
General Fund (10001)	$1,600,000	$0	$1,000,000	$0
Total Transfers In	$1,600,000	$0	$1,000,000	$0
Total Available	$196,723,038	$196,364,063	$208,320,752	$208,822,513
Expenditures:				
Benefits Paid	$148,607,399	$156,650,591	$156,650,591	$179,299,034
Administrative Expenses	5,212,814	6,136,114	6,136,114	4,688,960
Premium Stabilization Reserve[2]	0	0	14,320,807	0
Incurred but not Reported Claims (IBNR)[1]	(459,425)	1,006,663	1,006,663	1,298,472
Patient Protection and Affordable Care Act Fees[3]	25,370	1,652,000	1,652,000	1,052,000
LiveWell Program	400,425	742,000	742,000	742,000
Total Expenditures	$153,786,583	$166,187,368	$180,508,175	$187,080,466
Total Disbursements	$153,786,583	$166,187,368	$180,508,175	$187,080,466
Ending Balance:[4]				
Fund Equity	$53,999,873	$44,754,370	$39,882,658	$35,110,600
IBNR	11,063,418	14,577,675	12,070,081	13,368,553
Ending Balance[5]	$42,936,455	$30,176,695	$27,812,577	$21,742,047
Premium Stabilization Reserve[2]	$16,507,246	$4,016,046	$651,928	$0
Transitional Reinsurance Program Reserve[3]	1,600,000	0	1,000,000	0
Unreserved Ending Balance	$24,829,209	$26,160,649	$26,160,649	$21,742,047
Percent of Claims	16.7%	16.7%	16.7%	12.1%

[1] In order to account for revenues and expenditures in the proper fiscal year, audit adjustments in the amount of $1,770.70 have been reflected as a decrease to FY 2014 revenue to record refunds issued and audit adjustments in the amount of $653,698.00 have been reflected as a decrease to FY 2014 expenditures to record final Incurred but not Reported claims for FY 2014. These audit adjustments have been included in the FY 2014 Comprehensive Annual Financial Report (CAFR). Details of the FY 2014 audit adjustments will be included in the FY 2015 Third Quarter Package.

[2] Fluctuations in the Premium Stabilization Reserve are the result of reconciliations of budget to actual experience and the timing of budget adjustments. Any balances in the reserve resulting from actual experience are re-appropriated at the next budgetary quarterly review.

[3] Fees under the Patient Protection and Affordable Care Act include the Patient-Centered Outcomes Research Trust Fund Fee and the Transitional Reinsurance Program fee. The Transitional Reinsurance Program Reserve was established to accumulate funding in preparation for the Transitional Reinsurance Program fees that will be charged to the County for three years beginning in FY 2015.

[4] The Fund 60040 ending balance does not include funding set aside in reserve for IBNR expenses. To account for all funds associated with the County's self-insured plans, the Fund Equity amount is provided, which includes the Fund 60040 ending balance as well as the IBNR reserve.

[5] Fluctuations in the ending balance are due primarily to the appropriation of the Premium Stabilization Reserve and changes in claims expenditures.