Fund 506
Health Benefits Trust Fund

FY 2008 Adopted Budget Plan	
Fund 506, Health Benefits Trust Fund	
Total Expenditures:	$106,093,437
Revenue:	
General Fund Support	$8,200,000
Bond Revenue	$0
Other Revenue	$110,321,679
Total Revenue	$118,521,679

▶ Summary of Program

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 County's current health insurance program is a result of revisions enacted in FY 2007. On December 31, 2006, the County's contracts with the current HMO providers expired, and the contract for the self-insured products was scheduled to expire as of December 31, 2007. Therefore, 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 in order 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.

Fund 506, Health Benefits Trust Fund, is the administrative unit for the self-insured alternatives. 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.

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.

Advances in medical technology, the increasing cost of medical malpractice and liability insurance, and increased utilization continue to drive increases in medical costs. To 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.

In addition, the targeted ending balance for the fund is based on a balance as a percent of claims paid of at least 10 percent to ensure that the fund balance is adequate to support any unanticipated high cost claims. It should be noted that an ending balance of 10 to 15 percent of claims paid is the targeted industry standard.

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 Fund 500, Retiree Health Benefits, LOB.

▶ Funding Availability and Future Considerations

After significant increases in medical costs at the beginning of the decade, cost growth has begun to moderate in the last few years. On average, most employers nationwide are experiencing single digit cost increases, and the County's experience mirrors this trend. As a result of lower than anticipated medical and prescription claims in recent years, along with prudent management of the plan and aggressive contract negotiations, premium increases for calendar year 2008 will be held to less than five percent. These premium 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.

▶ Status of Program

The County offers a competitive program of health care coverage for employees and retirees. Remaining competitive is crucial to attracting and retaining a skilled workforce in a regional labor market that is characterized by high demand and limited supply. Health insurance is the single most sought after benefit. Providing an affordable, well-managed program is a function of the Health Benefits Trust Fund.

The employee benefit program serves over 12,000 eligible employees and several thousand retirees. Approximately 10,300 active employees and 2,400 retirees choose health benefits. Almost 80 percent of active employees choose among the three self-insured options, while the remainder choose a fully-insured HMO plan. Less than 10 percent of retirees opt for the fully-insured option, as most choose among the self-insured products which offer more flexibility and expanded network areas.

In calendar year 2008, County staff intends to examine plans related to Medicare Part D to aid in finalizing an approach to the implementation of this new prescription drug benefit product. Currently, the County offers an equivalent plan to its retirees; however, staff plans to research other opportunities to determine if a more robust plan is available to County retirees at a lower cost. However, this examination will not be completed until the market for Medicare Part D products further matures. For further information on Medicare Part D, please refer to the Fund 500, Retiree Health Benefits Subsidy, LOB.

In addition, as part of the *FY 2005 Carryover Review*, a reserve was established in Fund 506 to begin to address the County's unfunded liability for postemployment benefits as a result of the

Governmental Accounting Standards Board (GASB) Statement No. 45. This new standard addresses how local governments should account for and report their costs related to post-employment health care and other nonpension benefits. An amount of $10 million was available for the creation of this reserve from excess revenues received from employer contributions. In FY 2007, the County allocated an additional $8.2 million as a transfer from the General Fund for this reserve as part of the FY 2007 Adopted Budget Plan as well as an additional $21.8 million as part of the *FY 2006 Carryover Review*. The FY 2008 Adopted Budget Plan maintains the $8.2 million General Fund transfer to the reserve, bringing the balance to $48.2 million.

In order to capture long-term investment returns and make progress towards reducing the unfunded GASB liability, the County created Fund 603, OPEB Trust Fund, and transferred the reserve to the new trust fund at the *FY 2007 Carryover Review*. This $48.2 million in initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution made to Fund 603. Any balances identified in Fund 506 at future quarterly reviews as a result of excess revenues received from employer contributions will also 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, LOB.

► Mandate Information

There is no federal or state mandate for this LOB.