Employee Benefits

FY 2008 Adopted Budget Plan	
Agency 89, Employee Benefits	
Total Expenditures:	$203,817,365
Revenue:	
General Fund Support	$0
Bond Revenue	$0
Other Revenue	$0
Total Revenue	$0

▶ Summary of Program

Agency 89, Employee Benefits, is a set of consolidated accounts that provide budgetary control for most employee fringe benefits paid by the County. Benefits paid for all County employees of General Fund agencies are expended from this agency, as well as most benefits paid for County employees in Non-General Fund agencies. Reimbursements are received from Non-General Fund agencies for benefits paid on behalf of their employees. The mission of Agency 89 is to provide centralized budgetary and financial control over employee fringe benefits paid by the County.

- **Group Health Insurance (Net Cost $62.45 million)**

Fairfax County Government offers its employees and retirees several health insurance alternatives, with the intent of offering employees options that are both comprehensive and cost effective. Self-insured plan options include point of service, preferred provider option, and an open access plan (OAP), which combines aspects of both a point of service and preferred provider option plan. A fully-insured Health Maintenance Organization (HMO) is also available. The County's current selection of health insurance alternatives is a result of revisions enacted in FY 2007. As of December 31, 2006, the County's contracts with its HMO providers expired, and the contract for the self-insured products was set to expire on December 31, 2007. As a result, the County partnered with Fairfax County Public Schools and undertook 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. In addition to implementing the self-insured OAP option effective January 1, 2007, enhanced vision benefits were also instituted across all health insurance plans as a result of the selection process. It should be noted that the County also 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. However, this examination will not be completed until the market for Medicare Part D products further matures.

- **Dental Insurance (Net Cost $3.25 million)**

Fairfax County Government offers its employees and retirees a dental insurance preferred provider option in order to provide a comprehensive plan with maximum flexibility. The new dental insurance plan became effective January 1, 2005, and replaced three plans with a single dental insurance Preferred Provider Organization (PPO) plan. Included for the first time as part of the new offering was the provision of a 50 percent employer contribution for all eligible active employees who elected dental coverage. Inclusion of an employer contribution as part of the award of contract allowed the County to acquire a high quality, affordable dental insurance plan. It should be noted that retirees that participated in the dental plans that were replaced were given the option to enroll in the new PPO plan on a voluntary basis with no employer contribution.

- **Group Life Insurance (Net Cost $1.95 million)**

Life insurance coverage for employees, as approved by the Board of Supervisors beginning in FY 1999, provides basic group life insurance coverage at one times salary for all County employees funded solely through an employer contribution. If employees choose to accept life insurance coverage above the basic amount, they are responsible for paying the additional cost based on an age-banded premium rating scale.

- **Social Security (FICA) (Net Cost $43.98 million)**

Social Security contributions represent the employer portion of salary required to meet Social Security and Medicare tax obligations for Fairfax County employees. Social Security contributions are calculated utilizing a combined rate which includes the portion of salary contributed for Social Security benefits and the portion of salary contributed for Medicare benefits applied to a pre-determined wage base. Any change to the wage base or the Social Security rate is announced in October/November and takes effect January 1 of the upcoming year.

- **Retirement (Net Cost $88.07 million)**

Retirement expenditures represent the General Fund net contribution to the three retirement systems as set by employer contribution rates. On March 18, 2002 the Board of Supervisors adopted a corridor approach to employer contributions. The corridor approach adds further stability to the employer contribution rates and continues to adequately fund the Retirement Systems. In the corridor method of funding, a fixed contribution rate is assigned to each System and the County contributes at the fixed rate unless the System's funding ratio falls outside the pre-selected corridor of 90-120 percent or if benefit enhancements are approved.

In addition, retirees are eligible to receive a Cost-of-Living Adjustment (COLA) composed of a base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year's March 31, or 4.0 percent. An additional 1.0 percent COLA can be awarded at the discretion of each retirement system's Board of Trustees. This additional COLA is considered a benefit enhancement and results in an increase in the employer contribution rate.

A Deferred Retirement Option Plan (DROP) was added as a benefit enhancement for members of the Uniformed and Police Officers Retirement Systems in FY 2004 and was added for members of the Employees' Retirement System in FY 2006. For a more detailed discussion of the County's retirement systems, refer the Fund 600, Uniformed Retirement, Fund 601, Fairfax County Employees' Retirement, and Fund 602, Police Officers Retirement, LOBS.

- **Virginia Retirement System (VRS) (Net Cost $1.30 million)**

Beginning in FY 1996, VRS funding was provided in Agency 89 for 233 Health Department employees who were converted from state to County employment. Funding reflects the County's share of payments made into VRS for the converted employees. It should be noted that VRS payments are included only for these converted employees. As they terminate service with the County or transfer to other positions within the County, funding for VRS payments will be reduced.

In FY 2006, the Board of Supervisors approved two additional benefits for employees who remain in VRS. First, current and future retirees who participate in a County health plan are eligible to receive the differential between the County retiree health benefit subsidy for which the employee is eligible based on years of service and the subsidy provided by VRS. Second, the County began allowing converted employees to use accrued sick leave to purchase additional service credit in VRS upon retirement.

- **Unemployment Compensation (Net Cost $0.32 million)**

Unemployment compensation payments reflect premiums paid to the state based on the actual number of former Fairfax County employees filing claims.

- **Capital Projects Reimbursements (Reimbursements of $1.0 million)**

Capital Projects reimbursements represent the reimbursable portion of fringe benefits for County employees who charge a portion of their time to capital projects.

- **Training (Net Cost $2.98 million)**

General training centrally managed by the Organization Development and Training Division includes: language skills training to recruit and retain bilingual staff to better serve foreign-born residents; the employee tuition assistance (TAP) and language tuition assistance (LTAP) reimbursement programs; and courses related to the new Employee Development and Learning Program implemented in calendar year 2006. The foundation of this new learning approach is the Countywide Competency Map for Employee Development, which identifies competencies that promote leadership and learning for the entire County workforce and aligns training and competencies to all levels in the organization. The competency map promotes the concept that "Leadership Can Happen at Every Level", and contains lists of leadership competencies (i.e. knowledge, skills, and abilities) such as conflict resolution, customer service, and project management, for employees at every level in the organization.

Countywide initiatives include designated training approved by the County Executive and Deputy County Executives, performance measurement training, and expenses associated with the County Executive's specially designated task forces.

Technology-related training is offered in recognition of the challenges associated with maintaining skills at the same pace as technology changes. The rate of change in information technology has out-paced the County's ability to maintain proficiency. As the County's workforce becomes increasingly dependent on information technology, training support has become more essential.

- **Language Skills Proficiency Pay (Net Cost $0.20 million)**

In FY 2007, a Language Skills Proficiency pay program was created to attract and retain employees with bilingual language skills. Many County departments are increasingly turning to employees with bilingual skills to provide direct service to Limited English Proficiency (LEP) customers in an effort to better serve the diverse community. Employees that provide direct service to LEP customers for at least 35 percent or more of their work time are eligible for the language skills stipend.

- **Employee Assistance Program (EAP) (Net Cost $0.28 million)**

Provision of EAP services, including assessment, intervention, diagnosis, referral, and follow-up for workplace issues as they arise, is funded through a contract with an outside vendor.

- **Other Operating/Capital Equipment (Net Cost $0.04 million):**

The operating expenses of the Employees Advisory Council (EAC) are funded utilizing one-third of 85 percent of the actual revenues realized from vending machine sales.

▶ Funding Availability and Future Considerations

Over 73 percent of the expenditures in Agency 89, Employee Benefits, are associated with employer contributions towards health care and retirement.

After significant increases in medical costs at the beginning of the decade, cost growth for health insurance has begun to moderate in the last few years. On average, most employers nationwide are experiencing single digit cost increases, and the County's self-insured experience mirrors this trend. As a result of lower than anticipated medical and prescription claims in recent years, along with prudent management of the plans and aggressive contract negotiations, premium increases for the self-insured products in calendar year 2008 will be held to less than five percent. These premium increases will allow the County's self-insured fund, Fund 506, Health Benefits Trust Fund, to remain solvent while maintaining a revenue stream that will cover the cost of health claims and maintain reserve funding. Premium increases for the fully-insured HMO are trending higher than the self-insured plans.

Both the Police Officers and Uniformed Retirement Systems have remained within the 90 to 120 percent corridor over past years, allowing the employer contribution rates for these systems to change only for benefit enhancements approved by the Board of Supervisors. In FY 2008, the employer contribution rate for Police was increased to offset a decrease in the employee contribution rate, from 12 percent to 11 percent of pay. It is anticipated that additional adjustments will be made in future years to continue to reduce the employee contribution rate for the Police Officers System. Funding required for the employer contribution rates will continue to increase incrementally in line with employee salary adjustments; however, limiting benefit enhancements is an important element to keeping employer contribution rates at manageable levels. For more information on the County's Retirement Systems, please refer to the Retirement Administration Agency LOB.

▶ Status of Program

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 the 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. The initial actuarial valuation calculated the County's actuarial accrued liability (excluding the Schools portion) at approximately $191 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 $48.2 million which had been set aside in the Fund 506 reserve to the new trust fund at the *FY 2007 Carryover Review*. This initial funding will reduce the unfunded liability and, consequently, reduce the annual required contribution made to Fund 603. For more information on GASB 45, please refer to Fund 603, OPEB Trust Fund, LOB.

As a result of the changing landscape in health care, including the impact of the implementation of Medicare Part D and GASB 45, the County will be taking a comprehensive approach to setting premiums for calendar year 2009 and beyond. The key will be finding the right balance in order to appropriately anticipate future year growth in claims, align premium adjustments with the experience of active employees and retirees, and minimize the impact on the GASB 45 liability.

▶ Mandate Information

This LOB is federally and state mandated. The percentage of this LOB's resources utilized to satisfy the mandate is 51-75 percent. See the January 2007 Mandate Study, reference pages 42-44 for the specific federal or state code and a brief description.