Fairfax County FY 2010 Budget

Response to Questions on the FY 2010 Advertised Budget Plan

Request By: Supervisor Gross

Question: Please provide information explaining the increased health insurance rates included in the FY 2010 Advertised Budget Plan.

Response: The FY 2010 Advertised Budget Plan includes proposed premium increases for the County's self-insured health insurance plans, as well as a projected increase for the County's only fully insured health plan. The County self-insures three health insurance plans, meaning that the County is responsible for setting premiums and maintaining sufficient funds to pay claims and other expenses. The County's self-insured health insurance plans, a description of each and enrollment, premium, and the FY 2010 proposed premium increase are listed below.

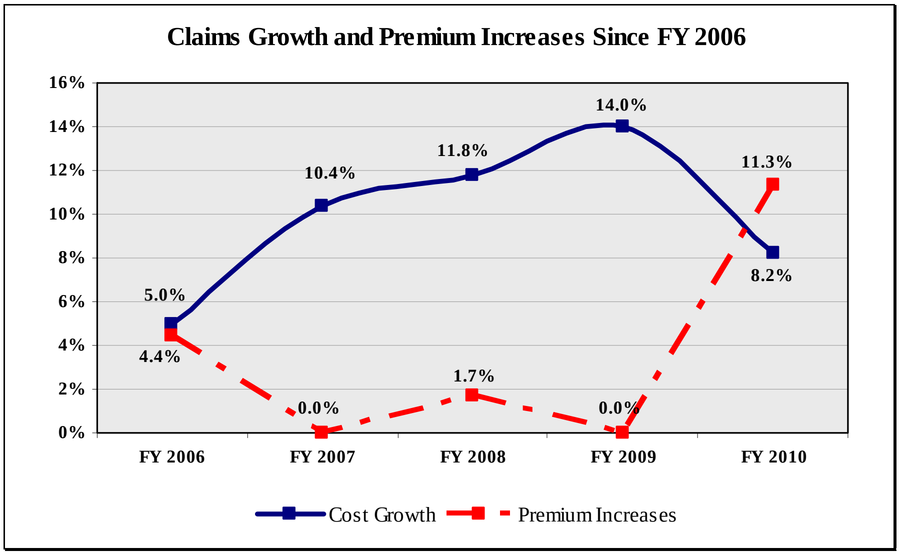
Plan Type	Plan Description	Jan. 2009 Enrollment (Actives & Retirees)	CY 2009 Total Premium (Two-Party)	Projected Premium Increase
Self-Insured (Premiums set by County)				
Preferred Provider Option (PPO)	Provides both in-network and out of network benefits. The in-network benefit allows for access to a nationwide network of doctors and other health providers, including hospitals, who have agreed to discount their usual fees for plan members. When a provider in the network is used, the charges to the health insurance plan are lower, giving members the highest level of benefits. Employees can also choose to use a non-PPO provider and pay higher deductibles and copayments.	3,885	$1,039.33 ($779.49 County/ $259.84 Employee Share)	12%
Point-of-Service (POS)	A point-of-service plan (POS) combining the best features of a health maintenance organization (HMO) and a traditional indemnity plan. Employees have access to the HMO network, which covers Northern Virginia, Maryland and Washington, D.C. Employees can also choose to use a non-HMO provider and use the indemnity portion of the plan.	4,451	$888.66 ($666.50 County/ $222.16 Employee Share)	5%
Open Access Plan (OAP)	This plan allows members to see any licensed provider they choose but their out-of-pocket cost is less if they see a provider in the Open Access Plus nationwide network. Members are encouraged (but not required) to see a primary care physician for routine care. No referrals are needed to see a specialist.	2,904	$732.21 ($549.15 County/ $183.06 Employee Share)	18%

Plan Type	Plan Description	Jan. 2009 Enrollment (Actives & Retirees)	CY 2009 Total Premium (Two-Party)	Projected Premium Increase
	Fully-Insured (Premiums set by Vendor)			
Health Maintenance Organization (HMO)	A group model HMO. Employees receive medical care at one of the vendor's facilities in the Washington metropolitan area, or at one of the authorized local area hospitals. Specialists may be located at the facility or in private practice. Referrals are needed for specialty care.	2,172	$857.78 ($643.34 County/ $214.44 Employee Share)	15%

As shown in the chart above, the budget also contains a projected premium increase of 15 percent for the County's HMO (health maintenance organization) plan. However, as the HMO plan is fully insured, the plan vendor maintains the risk of fluctuating claims expenses and is responsible for premium setting.

Due to the timing of budget development and adoption, premium increases for the County's self-insured health insurance plans are projected over a year in advance of when the increases are implemented. For example, the proposed January 2010 premium increases contained in the FY 2010 Advertised Budget Plan were developed in December 2008 based on data at that time and, as such, are factors utilized to build the budget. Premium increase projections are performed by County staff based on actual plan experience, utilizing enrollment data and trend analysis of claims experience. In addition, benefits consultants are utilized to validate County assumptions and analyses and to provide out-year trending information. After initial premium projections are set for the budget, staff continues to monitor and track plan revenues and claims expenses. In Fall 2009, actual premium increases will be set in advance of open enrollment based on updated plan experience and analysis.

After significant increases in cost growth in the self-insured plans in the earlier part of the decade, cost growth began to moderate in FY 2005, as seen in the chart below, and the self-insured trust fund experienced savings which were utilized to create a Premium Stabilization Reserve in order to mitigate the impact of fluctuations in cost growth on premiums in future years. In addition, savings during this time were utilized for retiree health benefits by addressing the County's GASB 45 liability and were used for the benefits-related portion of the County's legacy system replacement project.



Cost growth figures for FY 2009 and FY 2010 are projections. Premium increases shown went into effect in January of the fiscal year indicated. Since FY 2008, when the OAP plan was added to the self-insured products, the premium increases shown below are weighted averages based on enrollment. In prior years, the same increase applied to all self-insured products.

As cost growth began to increase and reached double-digit growth in FY 2007, the Premium Stabilization Reserve allowed premium increases to be held to minimal levels, with no premium increases in FY 2007 and FY 2009. In the past five years, from CY 2006 through the current proposed CY 2010 rates, the average annual premium increase has been 3.5 percent.

In determining premium recommendations for FY 2010, projected expenses, including claims experience during the current fiscal year as well as projected claims in out-years, were compared against projected revenues, assuming various premium scenarios and participation adjustments. Overall, claims expenses in the current fiscal year were trending at a 14.0 percent increase over FY 2008 when the FY 2010 premium recommendations were made. As claims increase, the amount that must be kept in reserve in the fund for Incurred But Not Reported (IBNR) claims and the unreserved ending balance of two months of claims increases accordingly.

Please find below a discussion of each plan and the proposed premium increase recommendation for FY 2010:

PPO: A 12.0 percent premium increase was recommended based on a projected 17.2 percent increase in claims expenses in FY 2009 over FY 2008 based on trends through December 2008 and an additional 9.9 percent increase projected for FY 2010. Based on these figures, it was projected that expenses for the PPO plan would exceed premium revenues in FY 2009 by over $2 million and the Premium Stabilization Reserve would be utilized to cover the shortfall. Despite the fact that the PPO plan is the County's most expensive health insurance alternative, employees are continuing to move into the plan since it provides considerable flexibility for patient care and a strong network. In the past five years, from CY 2006 through the proposed CY 2010 rates, the average annual premium increase for the plan has been 3.6 percent.

POS: A 5.0 percent premium increase was recommended based on a projected 4.9 percent increase in claims expenses in FY 2009 over FY 2008 based on trends through December 2008 and an additional 4.8 percent increase projected for FY 2010. Claims expenses for the plan are not increasing as greatly as other plans as employees are moving out of the POS plan and into the PPO and OAP plans. In the past five years, from CY 2006 through the current proposed CY 2010 rates, the average annual premium increase for the plan has been 1.9 percent.

OAP: The OAP plan was added in CY 2007, replacing an HMO option by the same vendor, and premiums were initially set based on guidance received from the vendor and the County's benefits consultant. However, utilization of the plan has exceeded initial projections and enrollment in the plan has increased significantly. Since the plan's inception, participation has more than doubled over the previous HMO enrollment. Through December 2008, claims for the plan were trending 25.6 percent higher than in FY 2008, although enrollment was up only 13 percent during the same period. As a result, a $4.7 million shortfall in the plan is projected for the current fiscal year and an 18.0 percent premium increase was recommended for FY 2010. In the three years since its inception, from CY 2008 through the current proposed CY 2010 rates, the average annual premium increase for the plan has been 7.6 percent.

County staff is continuing to monitor claims in each of the County's self-insured plans. Through mid-March 2009, overall cost growth is currently trending at 10.6 percent versus the 14.0 percent estimated in December 2008. However, cost growth in the OAP has increased to just under 30 percent. The most updated information will be utilized in Fall 2009 to set premium increases prior to open enrollment, ensuring that fund revenues cover anticipated expenses and maintain appropriate reserves.

Based on these updated projections, if premium increases were held flat for January 2010 and assuming an 8.2 percent overall increase in claims, expenses in the fund would exceed premium revenues by $1.5 million and savings in the Premium Stabilization Reserve would be utilized to cover the shortfall. If cost growth in FY 2010 reached 13 percent (which has occurred three times since FY 2001), expenses in the fund would exceed premium revenue by almost $7 million and the entire Premium Stabilization Reserve would be utilized. Even at the lower cost growth projection, premium increases in FY 2011 would range from 12 to 26 percent to maintain a reserve of two months of claims in ending balance and all funding in the Premium Stabilization Reserve would be utilized by year-end. Even with these considerable increases, expenses would exceed premium revenue for all plans, setting up the potential for additional increases into FY 2012.

Furthermore, it should be noted that artificially holding premiums flat for January 2010 could have a significant impact on the County's GASB 45 liability. If retiree premiums are held flat but retiree claims continue to grow, the implicit subsidy for retirees that the County must include in its liability calculation would increase and the Annual Required Contribution (ARC) to the County's trust fund for Other Post-Employment Benefits (OPEB) would also increase.