Response to Questions on the FY 2012 Budget

Request By: Supervisor Herrity

Question: Please explain the increase in Fringe Benefits since FY 2008.

Response: The cost of fringe benefits for County employees in the General Fund has increased by $60.5 million, or 29.7 percent, from the FY 2008 Adopted Budget Plan of $203,817,365 to the FY 2012 Advertised Budget Plan of $263,334,806, or approximately 6.7 percent per year. This increase is primarily attributable to increases in the employer contribution rates for the County's three retirement systems, increases in Group Health Insurance, and funding for Line of Duty benefits.

Retirement: Over 77 percent, or $46.7 million, of the total increase is due to increases in the retirement employer contribution rates. The largest increases in the rates have occurred during the past two years, primarily due to the investment losses suffered by the systems in FY 2009 as a result of the global financial crisis. Changes in the systems' employer contribution rates are shown in the table below.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Employees'	9.59%	9.62%	9.71%	14.70%	17.20%
Uniformed	26.33%	26.46%	26.46%	30.56%	33.81%
Police	21.00%	22.34%	22.84%	28.31%	31.30%

The changes to the employer contribution rates have resulted in significant increases in the required General Fund contributions to the retirement systems. In preparation for these anticipated increases, however, savings realized at year-end FY 2009 and FY 2010 were set aside in reserve for retirement requirements. At the *FY 2009 Carryover Review*, $20 million was set aside, and this funding was utilized to help offset the $26.5 million increase in FY 2011. Similarly, at the *FY 2010 Carryover Review*, $15 million was set aside, and this funding was used to offset the $15.4 million increase for FY 2012.

While it is anticipated that the FY 2009 investment results will continue to place upward pressure on employer contribution rates for FY 2013, strong investment returns during the current and prior fiscal years will help to offset this impact.

It should also be noted that some benefit enhancements were approved since FY 2008 which contributed to the increase in the employer contribution rates. In FY 2009, the Social Security offset multiplier was reduced from 40 percent to 30 percent for service-connected disability benefits in the Uniformed and Employees' Retirement systems. (Since Police Officers do not earn eligibility for Social Security during their employment, there is no Social Security offset in the Police Officers system.) It is estimated that the FY 2012 impact of this benefit change is $0.3 million for both systems combined. Two other benefit enhancements were approved for the Police Officers system. In FY 2009, the employee contribution rate was reduced from 11.00 to 10.00 percent of pay, subsequently increasing the employer contribution rate. The estimated FY 2012 impact of this increase is $0.9 million. Additionally, in both FY 2009 and FY 2010, an ad-hoc cost-of-living adjustment (COLA) was approved for the Police Officers system. The estimated FY 2012 impact of these benefit changes is $1.0 million. It should be noted that at the direction of the Board of Supervisors, the ad-hoc COLA policy was reviewed in FY 2010 and the policy was changed to require that the retirement system have an actuarial surplus – demonstrated by having a funding ratio exceeding 100 percent – before an ad-hoc COLA can be considered.

Health Insurance: Group Health Insurance net expenditures have increased $15.6 million, or 25.0 percent, over FY 2008, or approximately 5.7 percent per year. This increase is primarily attributable to increases in health insurance premiums. Premium increases since January 2009 are listed below.

	January 2009	**January 2010**	**January 2011**	**January 2012**
CareFirst PPO	0.0%	3.4%	--	--
CareFirst POS	0.0%	2.9%	10.1%	10%*
CIGNA High	0.0%	18.0%	21.1%	10%*
CIGNA Low	--	--	--	10%*
Kaiser HMO	12.9%	0.0%	6.1%	10%*

* Projected

With the exception of the Kaiser plan, the County's health insurance benefits are self-insured. As a result, premium increases are based on actual experience and are set to maintain adequate funding to cover claims expenses, third-party administrative fees, and appropriate reserves. The County has also instituted a number of measures in order to help manage healthcare costs. In CY 2009, an enhanced disease management program was implemented, as part of the County's wellness initiative, to detect chronic conditions early and provide assistance to those affected to help manage their disease. As part of the reductions approved in the FY 2010 Adopted Budget Plan, the employer contribution towards health insurance was reduced by 50 percent for new employees working less than 31 hours each week. 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.

Line of Duty: In FY 2012, a $575,000 increase is included to fund benefits for County employees covered under the Line of Duty Act. Currently, the Commonwealth of Virginia provides funding for health and dental insurance coverage for public safety personnel disabled in the line-of-duty. Beginning in July 2011, the County will be required to reimburse the Commonwealth for these benefit payments.

Excluding the increases cited above, all other employee benefit expenses have been reduced by $2.4 million since FY 2008. This decrease is partially due to position eliminations and higher position turnover as agencies hold positions vacant in order to meet budgetary restrictions. Additionally, as part of the FY 2010 budget, the Tuition Assistance (TAP) and Language Tuition Assistance (LTAP) programs were eliminated, Task Force funding was eliminated, and IT training funding was reduced.