Response to Questions on the FY 2012 Budget

Request By: Supervisor Foust

Question: What are the costs, if any, to provide the option to former County employees who do not stay on the County's health insurance to remain on an inactive roster that would allow them to subsequently enroll in the County's health insurance program? Are there budgetary or non-budgetary reasons not to provide this option to former County employees? Explain.

Response: Under current policy, County employees are eligible to continue participation in a County health insurance program only if they are enrolled in County health insurance at the time of their retirement. If, at any point after retirement the retiree ceases participation in a County plan, they are not allowed to come back into the plan for any reason.

The issues surrounding the decision to allow retirees the option of re-enrolling in a County health insurance plan are complex, and cost estimates are not available without a comprehensive analysis. The primary cost drivers behind such a decision would be the impact on the County's premiums and the impact on the County's liability under Governmental Accounting Standards Board (GASB) Statement No. 45. In addition, there are a number of decisions that would need to be made regarding the administration of the program.

Pre-Medicare retirees would be more likely to re-enroll in County health insurance if allowed, as post-Medicare retirees have access to cost-effective supplemental plans in the open market. Pre-Medicare retirees tend to be high utilizers of the County's health insurance plans and have a tremendous impact on cost growth and premiums. The County's self-insured health insurance premiums are set using the blended experience of active and retired employees. As a result, if retiree claims expenses increase, then premiums for retirees and active employees are impacted. As the General Fund pays 75-85 percent of premiums for active employees, there is a fiscal impact to the General Fund when premiums are increased, even if driven by retiree claims. Thus, if high utilizers of the plan are allowed to re-enroll, claims – and, consequently, premiums – may be increased, requiring a higher General Fund contribution towards health insurance. There is the potential that if retirees were allowed to come back into the plan at a later date, they may choose to take an outside job with health insurance coverage in the interim. This could benefit the County temporarily if the retiree is a high utilizer. Conversely, if the retiree is a low utilizer, the County may be at a disadvantage if the retiree were to temporarily leave the plan.

Perhaps most importantly, there would also be longer-term financial consequences of opening up the County health insurance plans as the County's GASB 45 liability would likely be impacted. In general, retiree claims tend to be higher than active claims, and overall retiree premiums do not cover retiree expenses. This differential is referred to as an implicit subsidy, and the County must calculate the long-term liability associated with this subsidy and include it in the overall GASB 45 liability. A majority of the County's GASB 45 liability is associated with this implicit subsidy, and a majority of the implicit subsidy is driven by pre-Medicare retirees. To the extent that pre-Medicare retirees

would be more likely to come back into the plan, and as this group tends to be high utilizers of the plan, it is likely that the implicit subsidy would increase. As the subsidy increases, the annual required contribution the County must pay into Fund 603, OPEB (Other Post-Employment Benefits) Trust Fund, would also increase.

Additionally, there are many policy decisions that would be associated with the implementation of a plan to allow retirees to re-enroll, including:

- Would retirees be allowed to come back to the plan only once, or could they leave and come back a second time?
- Would there be certain qualifying events that would allow a retiree to re-enroll?
- Should there be a vesting period before a retiree is eligible? For example, a retiree might be required to have been a plan participant for 5 years as an active employee.
- Would the County charge a placeholder fee for the ability to return to the plan?

Without the answers to these types of questions and a thorough analysis of the potential actuarial impact to the County's GASB 45 liability, the potential fiscal impact cannot be calculated.

The Fairfax County Public Schools offers a Deferred Health Option (DHO) for retirees hired before July 1, 2005. By enrolling at the time of retirement and paying a monthly premium (currently $34), participants retain the right to enroll in FCPS health insurance if coverage is lost because of the death of a spouse or divorce. If participants are allowed to continue their former spouse's coverage, they are not eligible to re-enroll in an FCPS plan. Additionally, in order for FCPS retirees to continue their health insurance coverage in retirement, they have to have been continuously enrolled in the plan since January 1, 2007. (Participants who retire on or after January 1, 2012 must have been enrolled in the plan for sixty consecutive months immediately prior to retirement.) Prior to the DHO program, FCPS allowed any retirees vested in their retirement plan to exit and re-enroll in FCPS health insurance plans at will. The DHO program was implemented to allow transition to market-standard retiree health plan practices and to limit the new GASB 45 liabilities.

To ensure that County programs meet the needs of participants, as well as the County as an employer, staff is committed to reviewing options for more effectively delivering medical coverage to retirees. It is also important to note that the regulatory environment surrounding retiree health care is in a state of significant flux. The vendor marketplace, as well as the availability, design and cost of coverage, will radically change over the next 2-3 years, particularly as a result of health care reform. For instance, coverage options for pre-Medicare retirees available through public and private health care exchanges (mandated to come online no later than 2014, but potentially earlier) could be more attractive than employer-sponsored programs. Staff is also reviewing regulatory changes that will affect retiree prescription drug coverage, plan design requirements, Medicare reimbursements, and excise tax concerns for employer-sponsored retiree medical programs. Staff is continuing to monitor changes in the health plan market, examining the overall impact of reform, and factoring those changes into the strategic planning for health benefits for employees and retirees alike. This work will include a determination of the feasibility/cost associated with permitting retirees to reenter County health plans after terminating coverage.