Fund 60040
Health Benefits

Focus

Fund 60040, Health Benefits, is the administrative unit for the County's self-insured health plans. 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. All but one of the County's health insurance plans are self-insured. Self-insurance allows the County to more fully control all aspects of the plans, including setting premiums to smooth out the impact of increases on employees while maintaining adequate funding to cover claims expenses and reserves.

Fairfax County Government offers its employees and retirees several health insurance choices providing various coverage options and competitive premium rates:

- Self-Insured open access plan (OAP) with four levels of coverage – Features a national network of providers. One level of coverage has a co-pay structure for office visits and other services, while two levels of coverage include co-insurance and modest deductibles. A consumer-directed health plan (CDHP) with a health savings account that is partially funded by the County is offered as an additional option to employees.

- Fully-insured health maintenance organization (HMO) – Features care centers located in communities throughout the area with a co-pay structure for office visits and other services.

The design of the County's health insurance plans has shifted gradually from plans with a co-pay structure to plans with a co-insurance structure, as part of an effort to control cost growth through a stronger focus on features that encourage consumerism. Continuing this trend, the County's only remaining self-insured co-pay plan was closed to new enrollment effective January 1, 2017. All of the County's health insurance plans include self-insured vision benefits and offer eligible preventive care services on a zero-cost basis. In addition, the County offers a disease management program to detect chronic conditions early and provide assistance to those affected to help manage their diseases, resulting in healthier outcomes. The County's self-insured health insurance plans are consolidated under one network provider to control costs, improve analytical capabilities, and provide a high quality of care with an emphasis on wellness, prevention and better management of chronic conditions.

Effective calendar year (CY) 2017, the County has implemented a cost-sharing model that requires that employees pay a larger percentage of the premium if they enroll in a health insurance plan with a higher cost than the designated core plan. For premium costs up to the total premium cost of the core plan, the County continues to contribute 85 percent for employees enrolled as an individual and 75 percent for employees enrolled under either two-party or family coverage. The County contribution is reduced for premium costs in excess of the core plan. Retirees over the age of 55 currently receive a subsidy from the County toward the cost of health insurance. The current monthly subsidy commences at age 55 and varies by length of service. In FY 2018 the subsidy is increased by $10 per month over the subsidy structure that was last adjusted in FY 2006. Details on the retiree health subsidy can be found in the narrative for Fund 73030, OPEB (Other Post-Employment Benefits) Trust Fund, in Volume 2 of the FY 2018 Adopted Budget Plan.

As with many employers nationwide, the County has experienced considerable fluctuations in medical costs. Prescription drugs, new medical technologies and increased utilization, as well as the cost of medical malpractice and liability insurance, continue to drive increases in medical costs. Total claims in the County's self-insured plans increased approximately 7.3 percent in FY 2016. Premium increases for January 2017 were set ranging from 0.0 percent to 6.5 percent. These rates were set with consideration of balancing the impact to employees with ensuring that the premiums for each plan would cover the associated expenses, as each plan has experienced different participation trends and claims experience. Additionally, premiums were set taking into consideration the potential impacts on the County's liability under Governmental Accounting Standards Board (GASB) Statement No. 45 (GASB 45). If premiums are not set appropriately, and increases in retiree claims outpace the growth in premiums, the County's liability under GASB 45 and, consequently, the annual required contribution for OPEB may increase. It is the County's policy to maintain a net OPEB asset, which demonstrates that the County has met its obligations to adequately fund the annual required contribution each year. For more information on GASB 45 and other post-employment benefits, please refer to Fund 73030, OPEB Trust Fund, in Volume 2 of the FY 2018 Adopted Budget Plan.

As a result of continuing increases in cost growth, it is projected that the County will raise premiums by 7 percent for all plans, effective January 1, 2018, for the final six months of FY 2018. These premium increases are budgetary projections only; final premium decisions will be made in the fall of 2017 based on updated experience. Premium decisions will be based on the impact to employees and retirees, the actual claims experience of each plan, the maintenance of adequate reserves, and the impact on the County's GASB 45 liability.

Fund Reserves

To help mitigate the impact of unanticipated cost increases in future years, the County created a Premium Stabilization Reserve in FY 2005. During the years of moderate cost growth, the County was able to accumulate funds within the Premium Stabilization Reserve and these funds were utilized to mitigate premium increases, especially during calendar years 2007 and 2009 when premiums were held flat for the self-insured plans. At the end of FY 2016, the balance of the Premium Stabilization Reserve was $20.2 million.

In addition to the Premium Stabilization Reserve, the fund maintains an unreserved ending balance based on a percent of claims paid of at least 10 percent. An ending balance equivalent to two months of claims paid is the targeted industry standard based on potential requirements in the event of a plan termination.

LiveWell Workforce Wellness Program

In FY 2009, the LiveWell Workforce Wellness Program began as an effort to provide increased opportunities for employees to improve their overall health and well-being, while also serving to curb rising health care costs. The program currently includes subsidized membership fees at County RECenters, weight loss support, influenza vaccinations, and other wellness programming. The LiveWell Program includes the Employee Fitness and Wellness Center (EFWC), which is located at the Government Center and provides convenient access for employees and retirees to cardiovascular and strength training equipment as well as a variety of fitness classes at a reasonable monthly rate.

Other components of the LiveWell program include:

- *Reduced membership fees at County RECenters* – In response to employee demand and to promote the importance of overall physical health, a 50 percent subsidy for 6-month and annual memberships at County RECenters is included in the program. As workplace sites for employees are spread throughout the County and, thus, all employees are not located near the EFWC, this benefit allows merit employees and retirees to use all nine County RECenters at a reduced rate.

- *Influenza vaccinations* – Providing flu shots to employees is a simple mechanism to reduce absenteeism due to flu outbreaks and protect the overall health of employees and retirees.

- *Health & Wellness Programming* – LiveWell sponsors workshops throughout the year at various employee worksites on a variety of health and wellness topics, including nutrition, stress, exercise, dementia, and weight management. LiveWell also hosts several webinars each month allowing employees from any work location or agency to attend health education sessions online.

- *Specialized Events* – LiveWell hosts numerous interactive events throughout the year including The Long Walk, Employee Field and Fitness Day, and several expos where employees can learn more about health and wellness topics and actively engage in activities.

- *Weight Management* – LiveWell subsidizes the membership costs for a weight management program available to employees at worksites, in the community, and online.

- *Partnerships* – LiveWell partners with community programs, such as farmer's markets and bike-to-work campaigns, and County initiatives, such as the promotion of volunteering and financial fitness, to encourage employees to continually seek the benefits of improved well-being.

A Wellness Incentive Points Program was added for the County's self-insured health insurance plans in CY 2014 and was expanded to include the fully-insured HMO in CY 2017. The program gives employees the opportunity to earn up to $200 in wellness rewards annually for engaging in certain wellness activities such as taking an online health assessment, completing annual preventive exams, participating in lifestyle management programs, and attending LiveWell events. Wellness rewards dollars are deposited into a flexible spending account or health savings account at the beginning of the following plan year.

A comprehensive wellness program has the potential to reduce the rate of escalation of health care costs, resulting in savings for self-insured plans through cost avoidance. As such, expenses related to the LiveWell initiative are included in Fund 60040, Health Benefits Fund.

FY 2018 Funding Adjustments

The following funding adjustments from the FY 2017 Adopted Budget Plan are necessary to support the FY 2018 program. Included are all adjustments recommended by the County Executive that were approved by the Board of Supervisors, as well as any additional Board of Supervisors' actions, as approved in the adoption of the budget on May 2, 2017.

♦ **Health Insurance Requirements** **$6,406,264**

A net increase of $6,406,264 is attributable to an increase of $5,881,685 in benefits paid, an increase of $510,303 in administrative expenses, and an increase of $14,276 for incurred but not reported (IBNR) claims. These adjustments are based on prior year experience and projected claims.

♦ **Patient Protection and Affordable Care Act Fees** **($482,165)**

A decrease of $482,165 primarily reflects a decrease in fees for the Transitional Reinsurance Program. The Transitional Reinsurance Program is part of the Patient Protection and Affordable Care Act (PPACA) and is intended to stabilize premiums for coverage in the individual market during the first three years health insurance exchanges are available. The County has been required to participate in the Transitional Reinsurance Program since calendar year 2014. Under the program, the County is charged a fee for each covered life (including employees and their dependents) for three years, with the fee decreasing in the second and third years. Due to the staggered timing of payments, FY 2018 payments will include a portion of the third-year fees.

Changes to FY 2017 Adopted Budget Plan

The following funding adjustments reflect all approved changes in the FY 2017 Revised Budget Plan since passage of the FY 2017 Adopted Budget Plan. Included are all adjustments made as part of the FY 2016 Carryover Review, FY 2017 Third Quarter Review, and all other approved changes through April 30, 2017.

♦ **Carryover Adjustments** **$22,381,456**

As part of the *FY 2016 Carryover Review*, the Board of Supervisors approved a net increase of $22,381,456 as a result of encumbered carryover of $14,500 for the LiveWell Program and to reflect an appropriation of $22,366,956 from fund balance to increase the Premium Stabilization Reserve, which allows the fund flexibility in maintaining premium increases at manageable levels.

Fund 60040
Health Benefits

FUND STATEMENT

Fund 60040, Health Benefits

	FY 2016 Actual	FY 2017 Adopted Budget Plan	FY 2017 Revised Budget Plan	FY 2018 Advertised Budget Plan	FY 2018 Adopted Budget Plan
Beginning Balance	$47,394,518	$31,686,897	$49,298,155	$29,870,929	$29,870,929
Revenue:					
Employer Share of Premiums-County Payroll	$111,534,366	$120,175,331	$120,175,331	$121,989,077	$121,989,077
Employee Share of Premiums-County Payroll	33,595,694	36,316,864	36,316,864	36,801,288	36,801,288
Retiree Premiums	32,359,594	35,060,057	35,060,057	36,556,232	36,556,232
Interest Income	172,704	136,511	136,511	301,417	301,417
Premiums	511,565	502,503	502,503	588,213	588,213
Employee Fitness Center Revenue	61,796	55,768	55,768	54,756	54,756
Total Revenue	$178,235,719	$192,247,034	$192,247,034	$196,290,983	$196,290,983
Total Available	$225,630,237	$223,933,931	$241,545,189	$226,161,912	$226,161,912
Expenditures:					
Benefits Paid	$169,454,434	$182,181,177	$182,181,177	$188,062,862	$188,062,862
Administrative Expenses	4,882,502	4,934,833	4,934,833	5,445,136	5,445,136
Premium Stabilization Reserve[1]	0	0	22,366,956	0	0
Incurred but not Reported Claims (IBNR)	678,000	816,664	816,664	830,940	830,940
Patient Protection and Affordable Care Act Fees[2]	812,967	618,130	618,130	135,965	135,965
LiveWell Program	504,179	742,000	756,500	742,000	742,000
Total Expenditures	$176,332,082	$189,292,804	$211,674,260	$195,216,903	$195,216,903
Total Disbursements	$176,332,082	$189,292,804	$211,674,260	$195,216,903	$195,216,903
Ending Balance:[3]					
Fund Equity	$60,776,155	$48,372,927	$42,165,593	$44,070,613	$44,070,613
IBNR	11,478,000	13,731,800	12,294,664	13,125,604	13,125,604
Ending Balance[4]	$49,298,155	$34,641,127	$29,870,929	$30,945,009	$30,945,009
Premium Stabilization Reserve[1]	$20,168,947	$4,099,474	$0	$0	$0
Transitional Reinsurance Program Reserve[2]	830,318	117,396	212,188	0	0
Unreserved Ending Balance	$28,298,890	$30,424,257	$29,658,741	$30,945,009	$30,945,009
Percent of Claims	16.7%	16.7%	16.3%	16.5%	16.5%

[1] Fluctuations in the Premium Stabilization Reserve are the result of reconciliations of budget to actual experience and the timing of budget adjustments. Any balances in the reserve resulting from actual experience are re-appropriated at the next budgetary quarterly review.

[2] Fees under the Patient Protection and Affordable Care Act include the Patient-Centered Outcomes Research Trust Fund Fee and the Transitional Reinsurance Program fee. The Transitional Reinsurance Program Reserve was established to accumulate funding for Transitional Reinsurance Program fees, which are anticipated to end in FY 2018.

[3] The Fund 60040 ending balance does not include funding set aside in reserve for IBNR expenses. To account for all funds associated with the County's self-insured plans, the Fund Equity amount is provided, which includes the Fund 60040 ending balance as well as the IBNR reserve.

[4] Fluctuations in the ending balance are due primarily to the appropriation of the Premium Stabilization Reserve and changes in claims expenditures.