

BALTIMORE COUNTY
FISCAL YEAR 2016 RECOMMENDED BUDGET

INSURANCE CONTRIBUTIONS (043)

BUDGET SUMMARY

\$ in Thousands

PROPOSED CHANGE	GENERAL	SPECIAL	TOTAL	% Change Prior Year
FY 2015 - 2016 Change	\$ (5,242.1)	-	\$ (5,242.1)	-4.0%
Potential Reduction	17,650.0		17,650.0	
 BUDGET TRENDS				
FY 2014 Actual	\$ 99,503.9	\$ -	\$ 99,503.9	
FY 2015 Approp.	131,847.6	-	131,847.6	32.5%
FY 2016 Request	126,605.5		126,605.5	-4.0%
With Potential Reduction	\$ 108,955.5	-	\$ 108,955.5	-17.4%

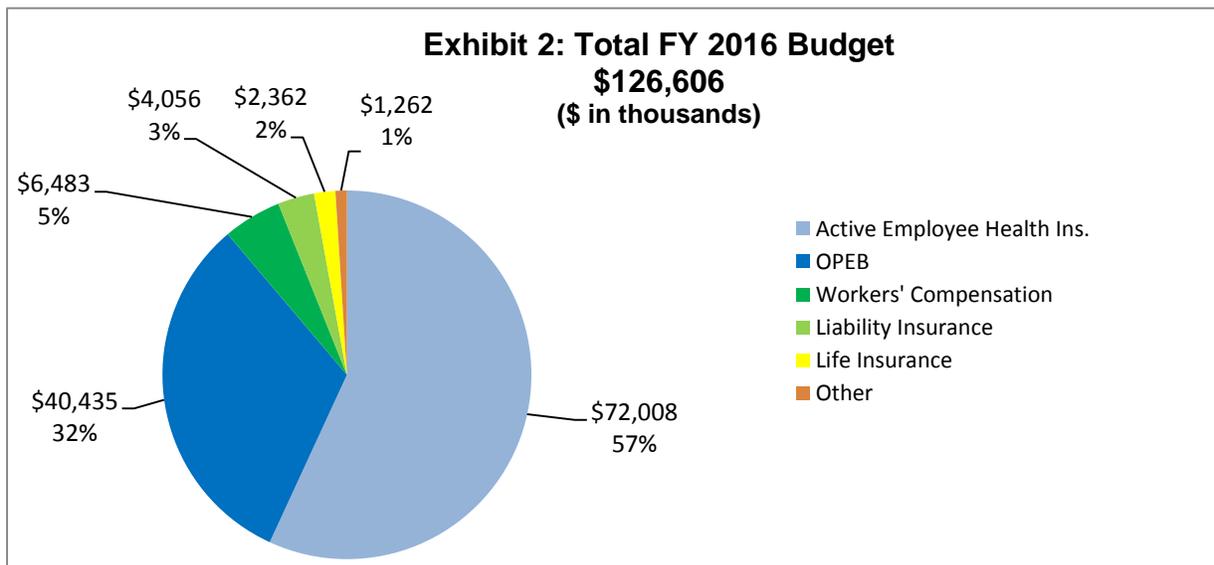
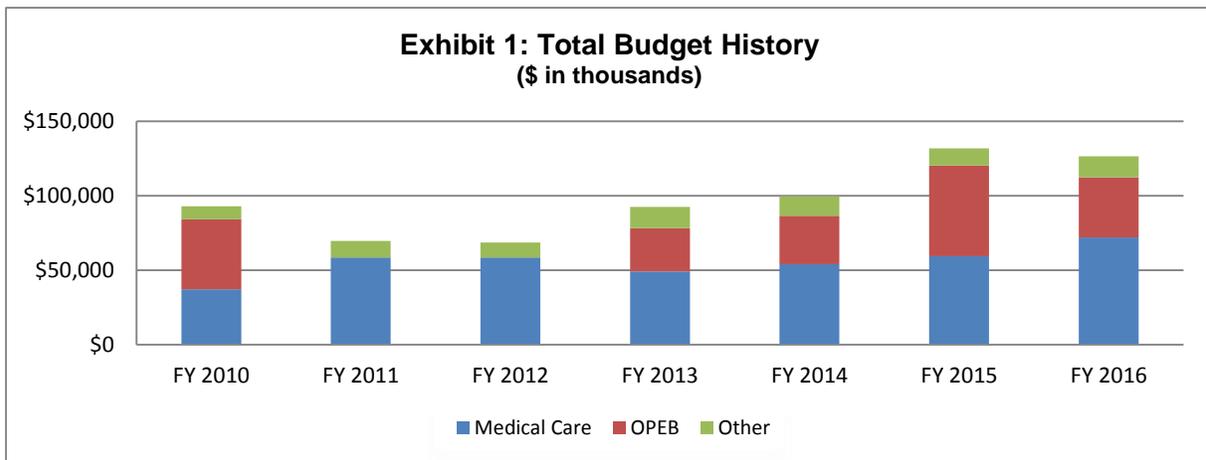
PERSONNEL

No Personnel

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BUDGET SUMMARY:

The proposed FY 2016 General Fund budget for General Government's Insurance Contributions program totals \$126.6 million, a decrease of \$5.2 million, or 4.0%, from the FY 2015 appropriation. 57% of the proposed budget is going toward health insurance for County employees. Last year, the majority of the budget went toward other post-employment benefits (OPEB). The budget's decrease for FY 2016 is primarily attributable to lower OPEB contributions, partially offset by increased contributions for active employee health insurance, as well as liability insurance. To some extent, the changes in OPEB and active employee budgeted costs are related to a technical change in the County's accounting treatment of its blended health insurance premium. **See Exhibits 1-3 for additional detail.**



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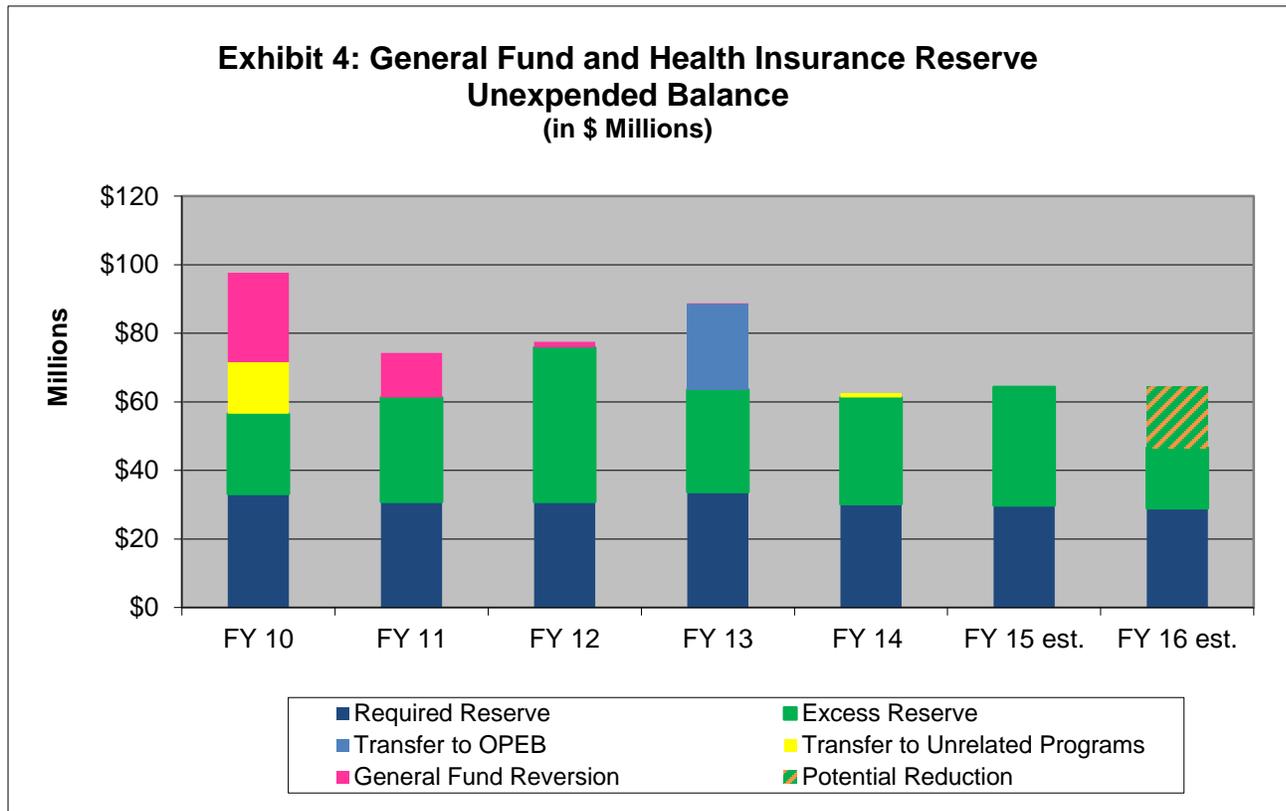
Exhibit 3				
FY 2016 Proposed Budget (\$ in 000's)				
How it Grows:	<u>Health Insurance</u>	<u>OPEB Contrib.</u>	<u>Other</u>	<u>Total</u>
2015 Appropriation	\$59,326	\$60,872	\$11,650	\$131,848
2016 Request	<u>72,008</u>	<u>40,435</u>	<u>14,163</u>	<u>126,606</u>
\$ Increase/(Decrease)	\$12,682	\$(20,437)	\$ 2,513	\$ (5,242)
% Increase/(Decrease)	21.4%	-33.6%	21.6%	-4.0%
 Why it Changes:				
General Government Insurance Contributions ⁽¹⁾ :				
Employee Health Insurance.....			\$ 12,681	
Liability Insurance.....			3,067	
Professional Services.....			7	
Employee Life Insurance.....			(31)	
Workers' Compensation.....			(529)	
OPEB Contribution.....			(20,437)	
 Total:.....			 \$ (5,242)	

⁽¹⁾ Agency 043 includes the insurance contributions for General Government. The proposed budgets for Baltimore County Public Schools, the Community College of Baltimore County, and Baltimore County Public Library each include their respective funding for insurance contributions.

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POTENTIAL BUDGET REDUCTIONS:

This analysis identifies a \$17,650,000 potential budget reduction, which represents 13.9% of the proposed Insurance Contributions FY 2016 General Fund budget. Historically, the health insurance reserve fund has been a major source of budget flexibility for the Administration. In FY 2010, when the County suffered a significant General Fund revenue shortfall, the Administration was able to revert \$26.1 million from the Insurance Contributions appropriation to the General Fund, and transfer an additional \$15.1 million from Insurance to the Storm Emergencies Program. In FY 2011, the Administration reverted another \$12.9 million from Insurance. In FY 2013, the Administration transferred \$25 million in excess health insurance reserves to the OPEB fund. More recently, the amount of the health insurance reserve has been held relatively steady at a level that is more than twice the consultant “incurred but not reported” recommendation. In FY 2014, the Office of Budget and Finance transferred \$1.3 million from the Insurance Contributions budget to other agency budgets that it manages (Property Management, 9-1-1 Center, and Financial Operations).



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1. Reduce Health Insurance Reserve \$17,650,000

The Health Insurance Reserve fund balance is projected to total \$64.3 million as of June 30, 2015, up \$3 million from the June 30, 2014 fund balance of \$61.3 million. Over this same period, the “incurred but not reported” (IBNR) requirement recommended by the County’s consultant has fallen from \$29.8 million to \$29.0 million. The decision to maintain a higher-than-required balance within the health insurance reserve fund versus reflecting it as General Fund surplus is a policy question. In any given year, numerous cases could be made for or against providing this higher-than-required level of funding (a higher reserve provides flexibility, reflects conservative budgeting practice, and would provide sufficient funding to meet a “worst-case” stop-loss deductible; a lower reserve would free up more General Funds for other uses, such as boosting General Fund surplus levels to benefit the County’s bond rating or funding additional cash contributions to the capital budget). Growth in the Health Insurance Reserve (and/or the ability to transfer funds to the OPEB Trust or the General Fund) is attributable to favorable claims experience in recent years.

	Health Insurance Reserve (\$ in millions)
Est. Balance at June 30, 2014	\$ 61.3
FY 2015 Est. Operational Surplus	3.0
Est. Balance at June 30, 2015	64.3
IBNR Requirement (per consultant)	(29.0)
Est. Excess at June 30, 2015	\$ 35.3

This potential reduction would subtract General Fund Insurance Contributions program funding equal to half (\$17,650,000) of the planned excess funding for the health insurance reserve (\$35,300,000). Other potential reductions (not shown) could subtract greater or lesser amounts from this program appropriation; however, it is recommended that the total program adjustment not exceed \$35 million, so as not to dip below the consultant-recommended IBNR level.

In addition to addressing the potential reduction, the Office should be prepared to discuss:

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- *Why the employer-employee premium often rises faster than claims experience would dictate;*
- *The plan for managing the Health Insurance Reserve over the next few years; and*
- *Any planned transfers from the Insurance Contributions program to the OPEB Trust Fund or any other accounts (e.g., Property Management) in FY 2015 or FY 2016.*

SIGNIFICANT PROGRAM/POLICY INITIATIVES AND/OR CHANGES

2. OPEB Funding (\$20.4 million) (Government-wide Decrease)

Effective for Baltimore County in FY 2008, Governmental Accounting Standards Board (GASB) accounting standards require state and local governments to recognize the cost of current and future other post-employment benefits (OPEB) obligations when they are earned throughout the employee's career (similar to the accounting treatment for pensions) rather than when they are paid after the employee retires. The County began pre-funding this obligation in FY 2007 and established a separate Trust Fund to account for OPEB costs and accrued liability, similar to the Pension Trust Fund. Both retiree Pay-As-You-Go (PAYGO) contributions for retirees' current expenses, as well as active employee and retiree accrued liability contributions, flow from the Insurance Contributions operating budget program (4302) to the OPEB Trust Fund (017). Additionally, contributions flow from component unit (Baltimore County Public Schools (BCPS), Community College of Baltimore County (CCBC), and Baltimore County Public Library (BCPL)) budgets to the OPEB Trust Fund.

The proposed FY 2016 General Fund budget for OPEB contributions (including component unit contributions) totals \$95.7 million, a decrease of \$20.4 million from the FY 2015 contribution.

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Agency	(\$ in millions)		
	FY 2015	FY 2016	Incr./.(Decr.)
Ins. (Gen.Gov.) (043)	\$ 60.872	\$ 40.435	\$ (20.437)
BCPS (035)	49.068	49.068	0
CCBC (033)	4.840	4.840	0
BCPL (037)	1.320	1.320	0
General Fund Total	\$ 116.100	\$ 95.663	\$ (20.437)

In prior years, the OPEB contributions coming from the component units have exceeded the portion of the OPEB Annual Required Contribution (ARC) for which the component units are responsible, while the General Government OPEB contribution has fallen short of the General Government portion of the ARC. However, in FY 2015, the OPEB contributions for both General Government and the component units were equal to their respective FY 2014 ARC levels, which was the most up-to-date ARC information available at this time last year. In FY 2016, the OPEB contributions for the component units are approximately equal to their respective FY 2016 ARC levels, while the General Government contribution falls short of the ARC by approximately \$10.6 million. **The Office recently advised that the County's OPEB funding strategy is under review and may be subject to change in future years based on what the rating agencies have indicated is important to them, as well as other immediate funding needs identified by the Administration.**

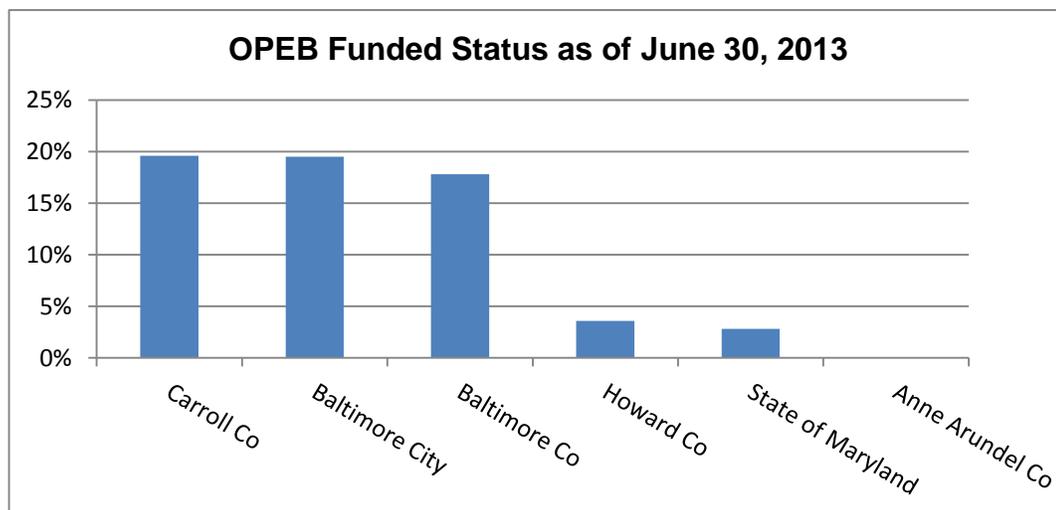
Based on the most recent actuarial valuation, the projected FY 2015 ARC fell to \$103.6 million, followed by a projected slight increase to \$106.3 million in FY 2016. The Office advised that it expects the County's ARC to remain relatively stable in the near-term.

	(\$ in millions)		
	FY 2014	FY 2015	FY 2016
ARC	\$ 116.100	\$ 103.596	\$ 106.292
Contributions	108.385	116.100	95.663
Over/(Under)	\$ (7.715)	\$ 12.504	\$ (10.629)

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Last year, the Office advised that it expected to fully fund the ARC in FY 2016 and FY 2017. This year, as noted, the Office advised that its near-term plan for OPEB funding has changed; however, details of the new plan were not provided.

The funding of OPEB is a challenge for local jurisdictions across the State. A review of recent Comprehensive Annual Financial Reports (CAFRs) of surrounding jurisdictions indicates that the County is in neither the best shape nor the worst shape when it comes to the 17.8% funded status of its OPEB liability. As the chart below illustrates, both Baltimore City and Carroll County are slightly out-performing the County, with their OPEB liabilities funded at 19.5% and 19.6%, respectively. Howard County's OPEB liability is 3.6% funded, and Anne Arundel County has not yet begun funding its OPEB liability. The State's OPEB liability is 2.8% funded.



The Office should be prepared to discuss:

- ***Expected future growth of health insurance costs for retirees vs. active employees;***
- ***The new plan for OPEB contribution levels in FY 2017 and FY 2018;***
- ***Whether OPEB funding levels for General Government and the component units are expected to equal their respective portions of the ARC in future years; and***
- ***Any other management changes being considered, including any changes in actuarial assumptions or employee/retiree benefits.***

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OTHER ISSUES

3. Benefit Plan and Premium Changes

Beginning in FY 2012, following the implementation of a 5-year reduction plan, the healthcare subsidies provided to General Government employees hired prior to July 1, 2007 fell to 80% for the CIGNA PPO plan and 90% for each of the two HMO plans (CIGNA and Kaiser), matching the subsidies provided to employees hired on or after July 1, 2007. In June 2012 the Administration announced that further reduction in subsidies would occur for General Government beginning in CY 2015 and continuing through CY 2017. Accordingly, subsidies were reduced by 1% for CY 2015, and an additional reduction of 2% is planned in both CY 2016 and CY 2017. By CY 2017, the County will pay for 75% of the PPO plan premium and 85% of the HMO plans premiums. In FY 2016, the estimated combined (employer and employee) total premium cost for General Government's active and retired employees is \$151.2 million. Each 1% of premium cost, therefore, equates to approximately \$1.5 million. Based on projected premiums, a 5% change in the subsidy would shift \$7.5 million in annual health care costs from the County to its employees. With a further reduction in the subsidy scheduled to take effect on January 1, 2016, the County will realize approximately \$3 million to \$4 million of this savings in its employer contribution for health care for General Government active and retired employees in FY 2016.

BCPL employees receive the same subsidies as General Government employees, and subsidies among the other two component units have also been reduced over the past few years, including a 2015 reduction by BCPS of 2% for its PPO plan and 1% for its HMO plans. The Office advised that negotiations between BCPS and its labor organizations, as well as with CCBC, have resulted in the reduction of the subsidy amounts to be 80% for the PPO plan and 85% for the HMO plans by FY 2017. This reduction will result in the same subsidy as General Government for the HMO plans, but there will continue to be a discrepancy for the PPO plan, as illustrated in the chart below.

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	2015	2016	2017
<u>Gen Govt.</u>			
PPO plan	79%	77%	75%
HMO plans	89%	87%	85%
<u>BCPS</u>			
PPO plan	83%	81%	80%
HMO plans	87%	86%	85%
<u>CCBC</u>			
PPO plan	84%	82%	80%
HMO plans	89%	87%	85%

Due in part to subsidy changes and growth in the total premium costs estimated by the County's consultant, employee premiums for the County's self-insured medical plans have risen significantly in recent years. For the upcoming plan year beginning January 1, 2016, premiums for the County and its General Government employees are expected to increase as shown in Table A. **The combination of the subsidy reduction and the increase in premiums will result in an annual increase in cost for an employee enrolled in the self-insured CIGNA plans ranging from \$201.72 for an individual in the HMO plan to \$926.76 for a family in the PPO plan.**

The Office should be prepared to discuss:

- ***Whether its prior plan to reduce the subsidy for Kaiser has changed for FY 2016;***
- ***Growth in employee premiums compared to growth in claims for the various plans;***
- and***
- ***Any other anticipated changes to employee benefit plans.***

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TABLE A

**Health Insurance Rates Per Pay (24 Pays):
General Government and BCPL Employees Hired Prior to July 1, 2007**

Plan		Employee Premium			Proposed Effective 1/1/16-12/31/16	Projected Increase (Decrease) 1/1/15-12/31/16 ⁽²⁾
		Effective 1/1/14-12/31/14	Effective 1/1/15-12/31/15	Increase (Decrease) 1/1/14-12/31/15		
CIGNA Open Access Plus		10% ⁽¹⁾	11% ⁽¹⁾		13% ⁽¹⁾	
In- Network	IND	29.15	33.30	\$4.15	41.71	\$8.41
	P/C	42.32	48.35	\$6.03	60.55	\$12.20
	H/W	62.41	71.31	\$8.90	89.30	\$17.99
	FAM	88.13	100.70	\$12.57	126.09	\$25.39
CIGNA Open Access Plus PPO		20% ⁽¹⁾	21% ⁽¹⁾		23% ⁽¹⁾	
	IND	73.35	80.28	\$6.93	92.96	\$12.68
	P/C	107.65	117.82	\$10.17	136.43	\$18.61
	H/W	156.53	171.32	\$14.79	198.38	\$27.06
	FAM	223.43	244.53	\$21.10	283.15	\$38.62
Kaiser HMO		10% ⁽¹⁾	11% ⁽¹⁾		11% ⁽¹⁾	
	IND	28.90	33.21	\$4.31	34.54	\$1.33
	P/C	41.95	48.21	\$6.26	50.14	\$1.93
	H/W	61.87	71.10	\$9.23	73.95	\$2.85
	FAM	87.38	100.41	\$13.03	104.42	\$4.01
Traditional Dental Carefirst		25% ⁽¹⁾	25% ⁽¹⁾		25% ⁽¹⁾	
	IND	4.12	4.12	\$0.00	4.26	\$0.14
	P/C	6.17	6.17	\$0.00	6.38	\$0.21
	H/W	8.24	8.24	\$0.00	8.51	\$0.27
	FAM	12.36	12.36	\$0.00	12.77	\$0.41
Carefirst Preferred Dental PPO		25% ⁽¹⁾	25% ⁽¹⁾		25% ⁽¹⁾	
	IND	3.33	3.33	\$0.00	3.44	\$0.11
	P/C	4.73	4.73	\$0.00	4.89	\$0.16
	H/W	6.31	6.31	\$0.00	6.52	\$0.21
	FAM	9.47	9.47	\$0.00	9.78	\$0.31
CIGNA Dental HMO		25% ⁽¹⁾	25% ⁽¹⁾		25% ⁽¹⁾	
	IND	2.32	2.48	\$0.16	2.62	\$0.14
	P/C	4.18	4.47	\$0.29	4.73	\$0.26
	H/W	4.63	4.96	\$0.33	5.24	\$0.28
	FAM	6.98	7.47	\$0.49	7.89	\$0.42
CFBCBS Vision		10% ⁽¹⁾	10% ⁽¹⁾		10% ⁽¹⁾	
	IND	0.13	0.13	\$0.00	0.14	\$0.01
	P/C	0.20	0.20	\$0.00	0.21	\$0.01
	H/W	0.27	0.27	\$0.00	0.28	\$0.01
	FAM	0.40	0.40	\$0.00	0.43	\$0.03

⁽¹⁾ Employee share of cost.

⁽²⁾ Based on consultant's projection. Actual premiums may vary.

Source: Office of Budget & Finance

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4. National Healthcare Reform

In March 2010, President Obama signed the Patient Protection and Affordable Care Act, commonly referred to as the health care reform law. This law vastly expands coverage for the uninsured, prohibits discrimination in the purchase of insurance based on pre-existing conditions, and prevents insurance plans from imposing lifetime limits on coverage. In addition, the new law mandates that individuals and employers purchase health insurance in state-created exchanges by CY 2014. Individuals who earn between 133% and 400% of the federal poverty level (\$21,187 to \$63,720 for a family of two in CY 2015) will be eligible for subsidies that will help them purchase insurance in a state exchange.

In CY 2015, the County lost its Affordable Care Act “grandfather” status due to recent changes it made to employee benefit plans (e.g., raising prescription drug copays). A current estimate for the cost of losing this status is not available; however, the Office previously estimated the annual benefit of this status to be \$420,000.

The Office advised that another aspect of health care reform, known as the “Cadillac Tax,” could impact the County beginning in CY 2018. The Cadillac Tax will be imposed on high-cost plans, with the threshold for the total premium cost (including both the employer and the employee portion) starting at \$10,200 per year for individual coverage and \$27,500 per year for family coverage in CY 2018. The tax will be 40% of the portion of the plan cost that exceeds the threshold amount, and the thresholds will be indexed for inflation in future years. The Office previously advised that the County intends to make changes to its PPO plan prior to CY 2018 in order to avoid being subject to the Cadillac Tax.

The Office should be prepared to discuss:

- ***In what ways, if any, the County plans to adapt its PPO plan in order to avoid being subject to the Cadillac Tax;***
- ***Any new fiscal and operational costs for complying with health care reform in FY 2016, including rising mental health/substance abuse costs which may be attributed to covering a larger number of young adults; and***
- ***Whether the actuary has provided an updated estimate of the cost of losing “grandfather” status, and the associated fiscal impact.***

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5. Funding for Liability Claims

The Self-Insurance Fund (Fund 028) was established in 1988 to pay for all liabilities expected to occur in the upcoming fiscal year and for at least a portion of the unpaid outstanding liability. The purpose of this fund is two-fold: to self-insure the County as required by the Maryland Workers' Compensation Act and pay for the defense and coverage of workers' compensation claims; and to provide for liability coverage of all employees of the County not in excess of \$200,000 per individual claim and \$500,000 per total claims that arise from the same occurrence, for damages resulting from tortious acts or omissions of the County government, a participating governing agency, or an employee. (An upcoming State law change will increase the liability limits under the Local Government Tort Claims Act from \$200,000 to \$400,000 per individual claim and from \$500,000 to \$800,000 per total claim that arise from the same occurrence for damages from tortious acts or omissions.) This coverage includes general and automobile liability claims that the County may become legally obligated to pay on behalf of an employee, including personal injury or property damage claims.

The responsibility of managing the self-insurance fund is shared. The Director of Budget and Finance is responsible for recommending the appropriations to the fund; selecting an actuary; overseeing investments; determining if excess insurance coverage is needed and available at a reasonable cost; and making disbursements against claims that are approved by the County Attorney. The County Attorney is responsible for the approval of claims payments and awards; settlement or trial of all claims; and processing and investigating all claims.

Since July 1, 1986, the Community College of Baltimore County (CCBC) has participated in the County's Self-insurance Fund for its general and automobile liability and its workers' compensation. Until recently, Baltimore County Public Schools (BCPS) participated for its workers' compensation. On May 23, 2013, the Council approved Bill 30-13, which allowed BCPS and CCBC to continue membership in the Fund based upon mutual agreement that membership is in the best interest of the County. It was then determined that participation in the Fund by BCPS was no longer in the best interest of the County, and on September 1, 2013, management of current workers' compensation claims was transferred from the County to BCPS. On November 1, 2013, the responsibility for addressing pre-existing claims was also transferred to

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BCPS. The Administration advised that the proposed FY 2016 budget fully funds the cost of BCPS claims; however, future funding may be contingent upon changes in the school system's approach to managing its claims process.

AMI Risk Consultants, Inc. performed the Actuarial Review of the Self-Insurance Fund as of June 30, 2014. Estimated reserves needed to cover unpaid claims incurred for 2014 and prior years total \$23.5 million. The fund balance at June 30, 2014 was \$25.2 million, leaving an excess (discounted) fund balance of \$1.6 million. The funding levels recommended necessary to pay claim amounts arising in FY 2015 and FY 2016 are \$8.4 million and \$8.5 million, respectively. Annually, the County seeks to appropriate and pay to the fund an amount that will satisfy all liabilities expected to occur in the upcoming fiscal year. The proposed FY 2016 budget sufficiently funds the actuarial recommendation.

The Office should be prepared to discuss:

- ***How budgeted amounts compare to the actuarial recommended levels, and reasons for any additional contributions, above the recommended levels;***
- ***The savings anticipated as a result of BCPS exiting the Fund;***
- ***Its concerns with the school system's management of its claims process; and***
- ***Efforts the County routinely takes to minimize claims.***

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APPROPRIATION DETAIL

	FY 2014 ACTUAL	FY 2015 APPROP	FY 2016 REQUEST	NET CHANGE	
				AMOUNT	%
4302 Insurance Contributions	<u>\$ 99,503,897</u>	<u>\$ 131,847,638</u>	<u>\$ 126,605,502</u>	<u>\$ (5,242,136)</u>	<u>-4.0%</u>

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PERSONNEL DETAIL

	FY 2014 ACTUAL		FY 2015 APPROP		FY 2016 REQUEST		NET CHANGE	
	FULL	PART	FULL	PART	FULL	PART	FULL	PART
	--	--	--	--	--	--	--	--
4302 Insurance Contributions	--	--	--	--	--	--	--	--