Legislative Budget Analysis

Proposed FY 2017 Operating and Capital Budgets

Office of the County Auditor

Baltimore County, Maryland

May 9, 2016

Insurance

Director: Keith Dorsey

Budget Office Analyst: Joy Schaefer

Legislative Analyst: Marie Jeng

Questions to Department Sent	Wednesday, April 20
Responses Requested By	Friday, April 29
Responses Received	Friday, April 29 - Friday, May 6th*
Analysis Due for Review	Wednesday, May 4
Analysis Completed	Monday, May 9
*Analysis considers all agency responses.	

BALTIMORE COUNTY
FISCAL YEAR 2017 RECOMMENDED BUDGET

INSURANCE CONTRIBUTIONS (043)

BUDGET SUMMARY

$ in Thousands

	GENERAL	SPECIAL	TOTAL	% Change Prior Year
PROPOSED CHANGE				
FY 2016 - 2017 Change	$ (22,525.6)	-	$ (22,525.6)	
BUDGET TRENDS				
FY 2015 Actual	$ 99,986.5	$ -	$ 99,986.5	
FY 2016 Approp.	126,605.5	-	126,605.5	26.6%
FY 2017 Proposed	104,079.9	-	104,079.9	-17.8%
FY 2017 Budget Analysis	**102,979.9**	**-**	**102,979.9**	-18.7%
POTENTIAL REDUCTIONS	**$ 1,100.0**	**$ -**	**$ 1,100.0**	

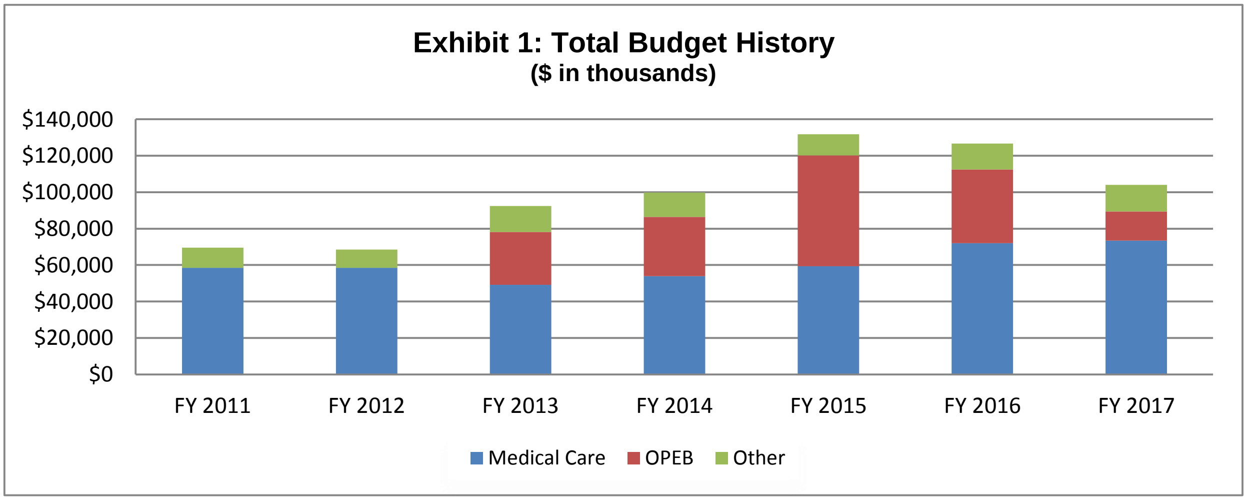
PERSONNEL

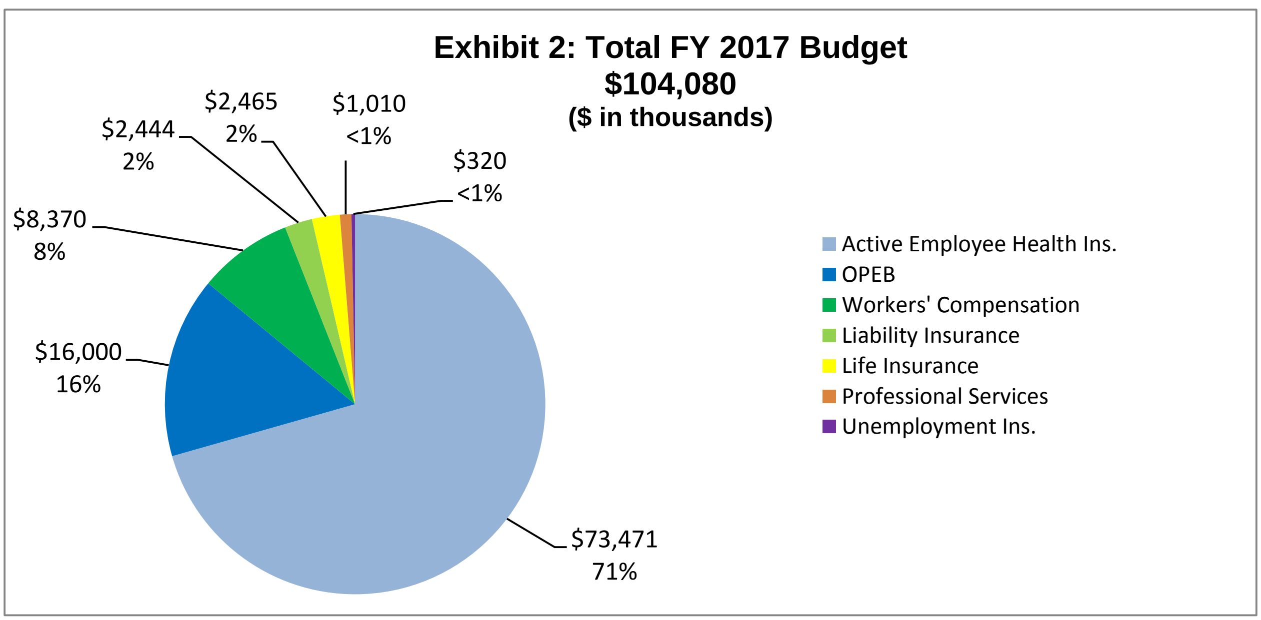
No Personnel

INSURANCE CONTRIBUTIONS (043)

BUDGET SUMMARY:

The proposed FY 2017 General Fund budget for General Government's Insurance Contributions program totals $104.1 million, a decrease of $22.5 million, or 17.8%, from the FY 2016 appropriation. The decrease is primarily attributable to lower OPEB contributions, partially offset by increased contributions for workers' compensation and active employee health insurance. 71% of the proposed budget is going toward health insurance for County employees, compared to 57% last year. **See Exhibits 1-3 for additional detail.**





INSURANCE CONTRIBUTIONS (043)

Exhibit 3
FY 2017 Proposed Budget ($ in 000's)

How it Grows:	Health Insurance	OPEB Contrib.	Other	Total
2016 Appropriation	$72,008	$40,435	$14,163	$126,606
2017 Request	73,471	16,000	14,609	104,080
$ Increase/(Decrease)	$ 1,463	$(24,435)	$ 446	$ (22,526)
% Increase/(Decrease)	2.0%	(60.4%)	3.1%	(17.8%)

Why it Changes:

General Government Insurance Contributions[1]:

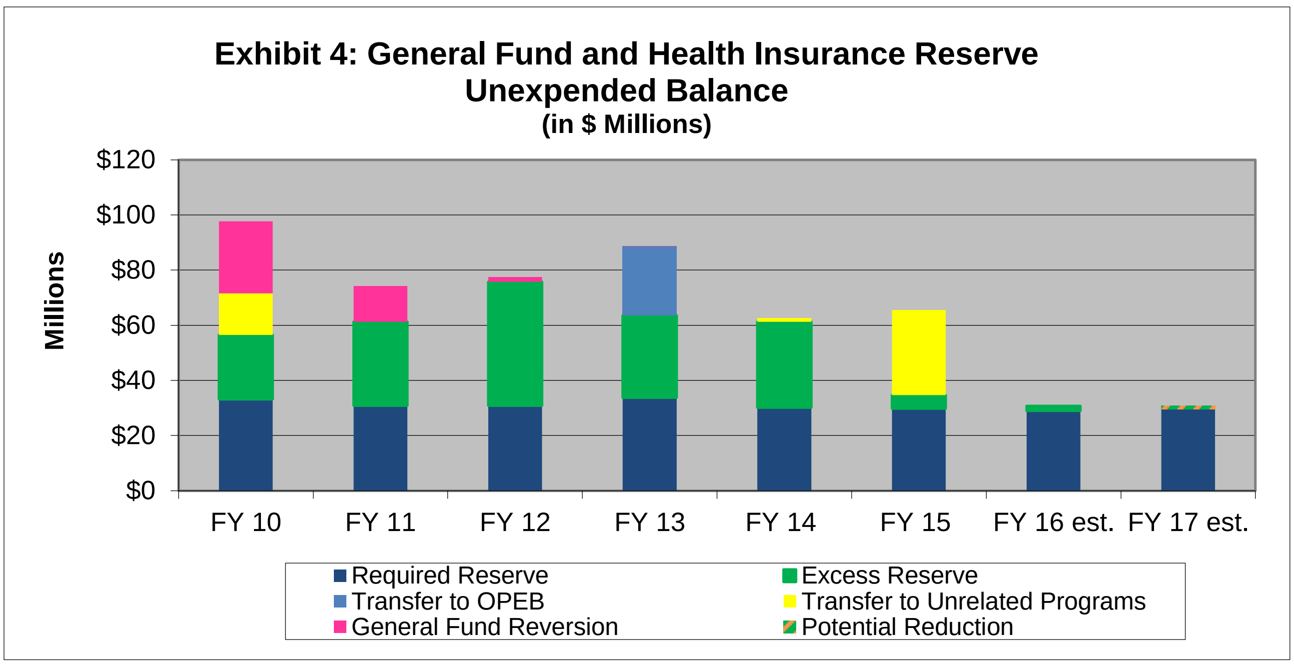
Workers' Compensation	$ 1,887
Employee Health Insurance	1,463
Employee Life Insurance	103
Professional Services	73
Unemployment Insurance	(5)
Liability Insurance	(1,612)
OPEB Contribution	(24,435)
Total:	$ (22,526)

[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.

INSURANCE CONTRIBUTIONS (043)

POTENTIAL BUDGET REDUCTIONS:

This analysis identifies a $1.1 million potential budget reduction, which represents 1.1% of the proposed Insurance Contributions FY 2017 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 Trust Fund, and 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). In FY 2015, the Administration transferred $5.4 million from the Insurance Contributions budget to Retirement and also transferred $25.4 million in excess health insurance reserves to a reserve to cover income tax refunds related to the Wynne case.



INSURANCE CONTRIBUTIONS (043)

1. Reduce Health Insurance Reserve $1,100,000

The Health Insurance Reserve fund balance is projected to total $30.7 million as of June 30, 2016, down $30.6 million from the June 30, 2014 fund balance of $61.3 million due primarily to the transfer of $30.8 million out of the fund in FY 2015. Over this same period, the “incurred but not reported” (IBNR) requirement recommended by the County’s consultant has remained between $29 and $30 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 frees 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 other unrelated purposes) 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	4.2
FY 2015 Transfer to other purposes	(30.8)
Est. Balance at June 30, 2015	34.7
FY 2016 Est. Operational Deficit	(4.0)
Est. Balance at June 30, 2016	30.7
IBNR Requirement (per consultant)	(29.6)
Est. Excess at June 30, 2016	**$ 1.1**

This potential reduction would deduct General Fund Insurance Contributions program funding equal to $1,100,000, the amount of planned excess funding for the Health Insurance Reserve.

INSURANCE CONTRIBUTIONS (043)

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

- ***How claims experience affects future employer-employee premium amounts;***
- ***The plan for managing the Health Insurance Reserve over the next few years; and***
- ***Any planned transfers from the Insurance Contributions program or the Health Insurance Reserve to any other accounts in FY 2016 or FY 2017.***

SIGNIFICANT PROGRAM/POLICY INITIATIVES AND/OR CHANGES

2. OPEB Funding ($30.3 million) (Government-wide Decrease)

Effective for Baltimore County in FY 2008, the Governmental Accounting Standards Board (GASB) implemented standards that required 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 2017 General Fund budget for OPEB contributions (including component unit contributions) totals $65.4 million, a decrease of $30.3 million from the FY 2016 contribution.

INSURANCE CONTRIBUTIONS (043)

Agency	FY 2016 ($ in millions)	FY 2017	Incr./(Decr.)
Ins. (Gen.Gov.) (043)	$ 40.435	$ 16.000	$ (24.435)
BCPS (035)	49.068	44.068	(5.000)
CCBC (033)	4.840	4.169	(0.671)
BCPL (037)	1.320	1.137	(0.183)
General Fund Total	$ 95.663	$ 65.374	$ (30.289)

In FY 2015, the OPEB contributions for both General Government and the component units were equal to their respective FY 2014 Annual Required Contribution (ARC) levels, which was the most up-to-date ARC information available at the time. In FY 2016, the OPEB contributions for the component units were approximately equal to their respective FY 2016 ARC levels, while the General Government contribution fell short of the ARC by approximately $10.6 million. OPEB contributions are decreasing across the board in FY 2017, all falling short of their respective FY 2016 ARC levels (the most up-to-date ARC information currently available). **The Office recently advised that the County's OPEB funding strategy has changed based on what the bond rating agencies have said is important to them. Funding is now being channeled to other priorities such as PAYGO, debt service, pensions, and maintaining the County's unreserved General Fund balance (surplus) at or near 10% of General Fund revenues. This change results in a government-wide FY 2017 OPEB contribution that is approximately 73% of the projected Retiree PAYGO amount for FY 2016.**

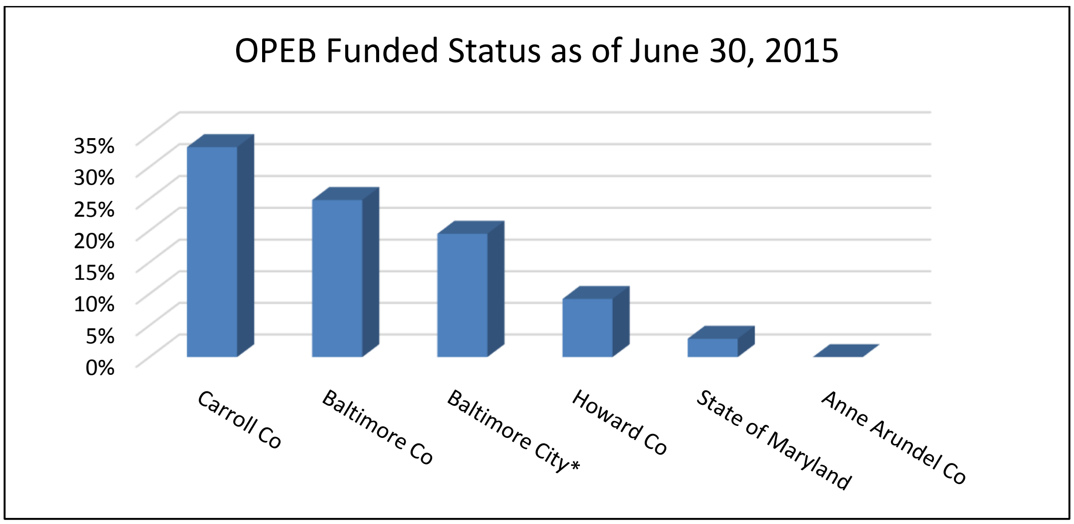
Based on the most recent actuarial valuation, the projected FY 2015 ARC fell to $103.6 million, followed by a projected slight increase to $106.3 million in FY 2016. The Office advised that it expects the County's ARC to remain relatively stable in the near-term.

	FY 2015 ($ in millions)	FY 2016	FY 2017
ARC	$ 103.596	$ 106.292	$ 106.292 [1]
Contributions	116.100	95.663	65.374
Over/(Under)	$ 12.504	$ (10.629)	$ (40.918)

[1] Not available until CY 2017.

INSURANCE CONTRIBUTIONS (043)

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 and the State of Maryland indicates that the County is in neither the best shape nor the worst shape when it comes to the 24.8% funded status of its OPEB liability. As the chart below illustrates, Carroll County is out-performing the County, with its OPEB liability funded at 33.1%. Baltimore City's, Howard County's, and the State's OPEB liabilities are funded at 19.5%, 9.2%, and 2.9%, respectively, and Anne Arundel County has not yet begun funding its OPEB liability. It is important to note that the County's OPEB funded status is expected to decline in light of the new funding strategy, which channels funding away from the OPEB Trust Fund by putting in less than the anticipated retiree PAYGO amount.



*As of June 30, 2013 (most recent information available)

The Office should be prepared to discuss:

- ***Expected future growth of health insurance costs for retirees vs. active employees;***
- ***The projected OPEB contribution levels in FY 2018 and FY 2019;***
- ***How the OPEB accrued liability will be impacted by the fact that the County is not fully funding the ARC; and***
- ***Any other management changes being implemented or considered, including any changes in actuarial assumptions or employee/retiree benefits.***

INSURANCE CONTRIBUTIONS (043)

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 2% for CY 2016, and an additional reduction of 2% is planned in 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 2017, the estimated combined (employer and employee) total premium cost for General Government's active and retired employees is $161.0 million. Each 1% of premium cost, therefore, equates to approximately $1.6 million. Based on projected premiums, a 5% change in the subsidy would shift $8.0 million in annual health care costs from the County to its employees. With the final reduction in the subsidy scheduled to take effect on January 1, 2017, the County will realize approximately $6 million to $7 million of this savings in its employer contribution for healthcare for General Government active and retired employees in FY 2017.

BCPL employees receive the same subsidies as General Government employees, and subsidies for BCPS and CCBC employees have also been reduced over the past few years, including a 2016 reduction by BCPS of 2% for its PPO plan and 1% for its HMO plans. The Office advised that previous 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 CY 2017. This reduction results in the same subsidy as General Government for the HMO plans, but there continues to be a discrepancy for the PPO plan. The Office further advised that recent negotiations between BCPS and its labor organizations have resulted in tentative labor agreements which reduce the subsidy for the PPO plan to 75% by CY 2021. There will continue to be discrepancy in the CCBC subsidy for the PPO plan, as illustrated in the chart below; however, the Office advised that health insurance benefits continue to be evaluated.

INSURANCE CONTRIBUTIONS (043)

	2018	2019	2020	2021
Gen Govt.				
PPO plan	75%	75%	75%	75%
HMO plans	85%	85%	85%	85%
BCPS				
PPO plan	80%	78%	76%	75%
HMO plans	85%	85%	85%	85%
CCBC				
PPO plan	80%	80%	80%	80%
HMO plans	85%	85%	85%	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, 2017, premiums for the County and its General Government employees are expected to increase as shown in Table A (page 11). **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 $248.40 for an individual in the HMO plan to $1,197.84 for a family in the PPO plan.**

The Office should be prepared to discuss:

- ***Anticipated premium increases for the Kaiser HMO plan;***
- ***Growth in employee premiums compared to growth in claims for the various plans;***
- ***Any new or expanded programs that the County is implementing to help employees stay healthy and reduce healthcare costs; and***
- ***Any other anticipated changes to employee benefit plans, particularly in light of the projected future increase in prescription costs.***

INSURANCE CONTRIBUTIONS (043)

TABLE A

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

Plan		Employee Premium: Effective 1/1/15-12/31/15	Employee Premium: Effective 1/1/16-12/31/16	Employee Premium: Increase (Decrease) 1/1/15-12/31/16	Proposed Effective 1/1/17-12/31/17 [2]	Projected Increase (Decrease) 1/1/16-12/31/17
CIGNA Open Access Plus		11% [1]	13% [1]		15%	
In- Network	IND	33.30	41.52	$8.22	51.87	$10.35
	P/C	48.35	60.29	$11.94	75.31	$15.02
	H/W	71.31	88.91	$17.60	111.06	$22.15
	FAM	100.70	125.56	$24.86	156.83	$31.27
CIGNA Open Access Plus		21% [1]	23% [1]		25%	
PPO	IND	80.28	92.77	$12.49	109.16	$16.39
	P/C	117.82	136.14	$18.32	160.20	$24.06
	H/W	171.32	197.96	$26.64	232.93	$34.97
	FAM	244.53	282.56	$38.03	332.47	$49.91
Kaiser HMO		11% [1]	13% [1]			
	IND	33.21	39.24	$6.03	[3]	[3]
	P/C	48.21	56.97	$8.76	[3]	[3]
	H/W	71.10	84.03	$12.93	[3]	[3]
	FAM	100.41	118.66	$18.25	[3]	[3]
Traditional Dental		25% [1]	25% [1]		25%	
Carefirst	IND	4.12	4.12	$0.00	4.22	$0.10
	P/C	6.17	6.17	$0.00	6.32	$0.15
	H/W	8.24	8.24	$0.00	8.45	$0.21
	FAM	12.36	12.36	$0.00	12.67	$0.31
		25% [1]	25% [1]		25%	
Carefirst Preferred Dental PPO	IND	3.33	3.33	$0.00	3.41	$0.08
	P/C	4.73	4.73	$0.00	4.85	$0.12
	H/W	6.31	6.31	$0.00	6.47	$0.16
	FAM	9.47	9.47	$0.00	9.71	$0.24
		25% [1]	25% [1]		25%	
CIGNA Dental HMO	IND	2.48	2.60	$0.12	2.67	$0.06
	P/C	4.47	4.70	$0.23	4.82	$0.12
	H/W	4.96	5.20	$0.24	5.33	$0.13
	FAM	7.47	7.85	$0.38	8.05	$0.20
CFBCBS Vision		10% [1]	10% [1]		10%	
	IND	0.13	0.13	$0.00	0.13	$0.00
	P/C	0.20	0.20	$0.00	0.20	$0.00
	H/W	0.27	0.27	$0.00	0.27	$0.00
	FAM	0.40	0.40	$0.00	0.40	$0.00

[1] Employee share of cost.
[2] Based on consultant's projection. Actual premiums may vary.
[3] Projected Health Insurance Rates for the Kaiser HMO plan were not provided.

Source: Office of Budget & Finance

4. <u>National Health Care Reform Update</u>

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.

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). The actual cost of losing this status in CY 2015 is not available; however, the Office previously estimated the annual benefit of this status to be $420,000.

The Office previously 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 and will consist of 40% of the portion of the plan cost that exceeds a given threshold amount, which will be indexed for inflation in future years. The original Cadillac Tax provisions utilized a 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. However, on December 18, 2015 Congress passed and the President signed a 2-year delay of this tax, and the legislation indicates that the threshold amounts will be updated prior to the tax taking effect in CY 2020. The Office previously advised that the County intended to make changes to its PPO plan prior to CY 2018 in order to avoid being subject to the Cadillac Tax. The recently-enacted 2-year delay gives the County additional time to make any necessary changes.

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; and***
- ***Any new costs associated with complying with health care reform that the County has noticed in FY 2016, including rising mental health/substance abuse costs which may be attributed to covering a larger number of young adults.***

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 $400,000 per individual claim and $800,000 per total claims that arise from the same occurrence, for damages resulting from tortuous acts or omissions of the County government, a participating governing agency, or an employee. 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 BCPS. The Office advised that the proposed FY 2017 budget fully funds the cost of BCPS claims; however, it continues to gather information to evaluate the school system's approach to managing its claims process.

INSURANCE CONTRIBUTIONS (043)

AMI Risk Consultants, Inc. performed the Actuarial Review of the Self-Insurance Fund as of June 30, 2015. Estimated reserves needed to cover unpaid claims incurred for FY 2015 and prior years total $25.3 million. The fund balance at June 30, 2015 was $24.7 million, leaving a negative (discounted) fund balance of $0.6 million. The funding levels recommended to pay claim amounts arising in FY 2016 and FY 2017 are $8.4 million and $8.6 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 2017 Self-Insurance Fund contributions totaling $10.8 million sufficiently fund the actuarial recommendation and also add to the reserves in order to fully cover unpaid claims incurred for FY 2015 and prior years.

The Office should be prepared to discuss:

- ***Any future savings anticipated as a result of BCPS exiting the Fund;***
- ***The Administration's timeframe for addressing its concerns with the school system's claims management process; and***
- ***Efforts the County routinely takes to minimize claims.***

BALTIMORE COUNTY
FISCAL YEAR 2017 RECOMMENDED BUDGET

INSURANCE CONTRIBUTIONS (043)

APPROPRIATION DETAIL

	2015 ACTUAL	2016 APPROP	2017 REQUEST	NET CHANGE AMOUNT	NET CHANGE %
4302 Insurance Contributions	$ 99,986,549	$ 126,605,502	$ 104,079,882	$ (22,525,620)	-17.8%

BALTIMORE COUNTY
FISCAL YEAR 2017 RECOMMENDED BUDGET

INSURANCE CONTRIBUTIONS (043)

PERSONNEL DETAIL

	FY 2015 ACTUAL		FY 2016 APPROP		FY 2017 REQUEST		NET CHANGE	
	FULL	PART	FULL	PART	FULL	PART	FULL	PART
4302 Insurance Contributions	--	--	--	--	--	--	--	--