HEALTHCARE FUND: THREE YEAR FORECAST REVENUES AND EXPENDITURES

DESCRIPTION

Effective January 1, 2008, Henrico County's healthcare program transitioned to a self-insurance program. Prior to this transition, the County's healthcare program operated as a fully insured program, which, in exchange for the payment of a premium, an insurance company assumed the risk, administered the program, and paid all claims. With the transition to a self-insured program, the County pays claims and third-party administrative fees. Self-insurance allows the County to more fully control all aspects of the plan, including setting rates to smooth out the impact of cost increases on employees and the County, while maintaining adequate funding to cover claims, expenses, and reserves. The cost to fund healthcare expenses is covered by payments from active employees, the County, the School Board, retirees, and interest earnings. The County and Schools contributions are budgeted in departmental budgets, and the Healthcare Fund charges departments based upon actual participants in the program. Revenues to the Healthcare Fund in excess of expenditures accumulate in a premium stabilization reserve, which allows the County to maintain premium increases at manageable levels.

ASSUMPTIONS

- The vast majority of revenues for this fund are received from County contributions. Other resources come from employee and retiree contributions, COBRA payments, special County subsidies, rebates, wellness payments from contractual partners, and interest income.
    - **County Contribution – Active** reflects the County's contributions for active General Government and Schools employees budgeted within each respective department. For General Government employees, the County calculates a blended rate for each County employee for healthcare calculation purposes. Schools, on the other hand, estimates healthcare costs for each individual eligible employee based on the plan in which they participate. The FY26 approved budget shows an increase of 7.5% in the County's contribution for active employees. The forecasts for FY27 and FY28 assume 6.0% increases, which is in line with long-term claims growth trends.
    - **Employee Contribution** represents contributions from active General Government and Schools employees toward their respective individual healthcare plans. The forecast for FY26 Indicates a decrease of 3.9%, compared to the FY25 approved budget. This decrease reflects a recognition of lower than expected employee premium collections caused by the high number of vacancies in the County, and employees shifting to plans with lower premiums. The forecasts for FY27 and FY28 assume 6.0% increases when combining rate increases and annual enrollment growth. It should be noted that FY24 actual expenditures show that 81.2% of premium expenses for active employees were covered by the County.
    - **Retiree Contribution** reflects rate payments by County retirees under 65 years of age that continue to participate in the County's healthcare program. The forecast for FY26 reflects a total of $4,700,000 in this revenue. The forecasts for FY27 and FY28 are unchanged from this level.
    - **Retiree Subsidy** and **Disabled Subsidy** represent County contributions to retiree healthcare plans. The Disabled Subsidy reflects the healthcare subsidy provided to disabled retirees whose retirement occurred prior to January 1, 2003. The Disabled Subsidy forecast was reduced to $0 in

FY24 as no disabled retirees from prior to January 1, 2003, are anticipated to receive the subsidy. For retirees after January 1, 2003, the healthcare supplement is referred to as a Retiree Subsidy. It is provided to County retirees with a minimum of 20 years in the Virginia Retirement System (VRS) of which 10 years must be with Henrico County. The total subsidy is calculated based on each full year of VRS service. The forecast for the Retiree Subsidy is $225,000 in FY26, up 12.5% from the FY25 approved budget. The projection remains at $225,000 for each year of the forecast period.

  - COBRA reflects rate payments from eligible COBRA participants. Under the Consolidated Omnibus Reconciliation Act of 1985 (COBRA), extended coverage for healthcare may be purchased (at the participant's expense) for former participants of the County's healthcare program and their qualified beneficiaries, if coverage is lost under a group plan due to termination of employment or a reduction of work hours. The cost to COBRA participants is the full plan rate for that calendar year. This revenue is forecast to be $220,000 in FY26 and to increase by 6.0% in the out years.
  - Prior to January 1, 2018, **Recoveries and Rebates** represented small, one-time miscellaneous recovered cost and rebate revenues in the Healthcare Fund. Since then, Henrico contracted with Express Scripts and then Anthem to provide administrative pharmacy services. During this process Henrico has guaranteed far more robust rebates. The total of those rebates for FY26 is forecast to be $21,250,970 an increase of $3,859,172, or 22.2% above the amount that was forecast in the FY25 approved budget. The amount of the FY26 forecast is equal to the amount of rebates that have been guaranteed by Anthem for Calendar Year 2025. As a point of comparison, rebates received in FY18 were $1,536,000. Projected annual increases in this revenue are 6.0% in FY27 and FY28.
  - Healthcare **Wellness Payments** reflect the annual payment from the County's healthcare administrator to support the Wellness Program initiative. The FY26 budget anticipates $750,000 of revenues in this area. This represents an increase of $150,000, or 25.0%, above the FY25 approved budget. No change in this revenue is forecast in FY27 or FY28.
  - **Interest Income** reflects interest earned throughout the fiscal year on bank balances relating to the Healthcare Fund. The annual estimate for this revenue is projected to be $700,000 throughout the forecast period. While FY24 actuals were over $2.2 million, this revenue varies widely and is budgeted conservatively.
  - **(To) From Premium Stabilization Reserve** reflects the amount of funding either added to or utilized from the Premium Stabilization Reserve in each respective fiscal year. The FY26 approved budget assumes no use of reserve funds as do the forecasts for FY27 and FY28.

- Expenditures for the Healthcare Fund are highlighted as follows:
  - **Claims** expenditures reflect the County's cost of service for each participant in the program. These expenditures reflect the cost of healthcare services and pharmaceutical requirements for enrolled participants outside of any co-pay the program participant is responsible for, per the defined benefit structure. The forecast for FY26 assumes an increase in claims expenditures by 9.7%. This increase is inflated because of an increase in the deductible for the County's stop loss policy from $500,000 to $2,000,000. The increase in expected claims stemming from this change is more than offset by lower stop loss insurance premiums. The forecasts for FY27 and FY28 each assume annual increases of 5.8%.
  - **Other Administrative Fees** represent the cost of third-party administrative fees, the costs of an actuarial services and claims audits, and the premium payment for excess risk insurance. Until January 1, 2025, the County's excess risk insurance protected the County from any individual claim greater than $500,000. As of that date, the deductible has increased to $2,000,000. This change

will save the County roughly $5.0 million in premiums compared to the cost of continuing coverage at the $500,000 threshold. This change causes the total administrative fees in the approved FY26 budget to be 22.2% below FY25 levels. As noted above, claims are projected to be substancially higher because of this adjustment. The forecasts for FY27 and FY28 assume 5.0% increases in these administrative costs.

- The Healthcare Fund's **Premium Stabilization Reserve** (PSR) reflects the accumulation of annual revenues collected in excess of expenditures. This reserve has allowed the County to maintain annual rate increases at manageable levels. No use of reserves is forecast for FY25. As of June 30, 2024, the PSR had a balance of $48,376,381. However, as of that same date, it was calculated that the County has claims that were Incurred But Not Reported (IBNR) amounting to $18,338,012. When the value of this estimate is deducted from the PSR, it leaves an uncommitted balance of $30,038,369.

HEALTHCARE AGENCY FUND FORECAST

Healthcare Internal Service Fund Forecast

	FY24 Actual	FY25 Original	FY26 Forecast	FY27 Forecast	FY28 Forecast
Revenues:					
County Contribution - Active	$ 105,508,588	$ 109,422,371	$ 117,626,000	$ 124,683,560	$ 132,164,574
Employee Contribution	24,502,726	26,420,815	25,391,799	26,915,307	28,530,225
Retiree Contribution	4,169,884	4,700,000	4,700,000	4,700,000	4,700,000
Retiree Subsidy	207,909	200,000	225,000	225,000	225,000
Disabled Subsidy	-	-	-	-	-
COBRA	239,272	220,000	220,000	233,200	247,192
Recoveries and Rebates	16,202,447	17,391,798	21,250,970	22,526,028	23,877,590
Healthcare - Wellness Payment	905,550	600,000	750,000	750,000	750,000
To (From) General Fund	-	-	-	-	-
Interest Income	2,281,849	500,000	700,000	700,000	700,000
Total Revenues	$ 154,018,225	$ 159,454,984	$ 170,863,769	$ 180,733,095	$ 191,194,581
(To) From Premium Stabilization Fund	$ 4,578,765	$ -	$ -	$ -	$ -
Total Resources	$ 158,596,990	$ 159,454,984	$ 170,863,769	$ 180,733,095	$ 191,194,581
Expenditures:					
Claims	145,921,132	146,739,340	160,958,125	170,342,669	180,284,633
Other Administrative Fees	$ 12,675,858	$ 12,715,644	$ 9,895,644	$ 10,390,426	$ 10,909,948
Total Expenditures	$ 158,596,990	$ 159,454,984	$ 170,853,769	$ 180,733,095	$ 191,194,581
Premium Stabilization Reserve (PSR):					
Premium Stabilization Reserve (PSR)	48,376,381	48,376,381	48,376,381	48,376,381	48,376,381
Incurred But Not Reported (IBNR)	$ (18,338,012)	$ (18,338,012)	$ (18,338,012)	$ (18,338,012)	$ (18,338,012)
Uncommitted PSR	$ 30,038,369	$ 30,038,369	$ 30,038,369	$ 30,038,369	$ 30,038,369