HEALTHCARE FUND

DESCRIPTION

Effective January 1, 2008, Henrico County's healthcare program transitioned to a self-insurance program. Prior to this transition, this program operated as a fully insured entity, 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 increases on employees and the County, while maintaining adequate funding to cover claims and other expenses.

BUDGET HIGHLIGHTS

The cost to fund healthcare expenses is covered by payments from active employees, the County and the School Board, retirees, formulary pharmacy rebates, and retention of 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. These funds are utilized to allow the County to maintain rate increases at manageable levels.

The budget for FY27 provides funding of $201,191,433 for the Healthcare Fund. Included in this figure is $138,036,000 in funding that is budgeted within individual County and Schools departments as the County's contributions for healthcare for active employees. This means that the County provides direct support for 68.6% of the Healthcare Fund's budget. Also included in this budget is the cost to the County and Schools for retiree subsidies, which are present within the Human Resources budget. It is important to note that expenditures already budgeted within individual departments are negated from the Healthcare Fund budget in the "Adjustments for Interdepartmental Billings" to avoid double counting expenditures. The balance of Healthcare Fund Revenues, $63,155,433, reflects anticipated payments from employees and retirees that participate in the program, as well as rebates for pharmacy claims and interest earnings.

ANNUAL FISCAL PLAN SUMMARY

Description	FY25 Actual	FY26 Original	FY27 Approved	% Change
Claims	$161,413,340	$160,968,125	$190,411,433	18.3%
Administrative Fwws	0	0	0	0.0%
Total Healthcare	$161,413,340	$160,968,125	$190,411,433	18.3%

BUDGET HIGHLIGHTS (CONTINUED)

Of the $201,191,433 budget allocation for Healthcare, $190,411,433, or 94.6 percent, reflects estimated claim expenditures. The balance of $10,780,000 is highlighted by anticipated third-party administrative fees of $7,280,000, health spending account costs of $2,000,000, wellness initiatives funding of $300,000 and the premium payments for excess risk insurance, which is $1,000,000. The amount of this insurance premium is far lower than past amounts because of a major adjustment in the claim coverage threshold that was initiated for calendar year 2025. Prior to that time, the coverage was for all annual claims in excess of $500,000 for a covered individual. On January 1, 2025, that insurance threshold was raised to individual claims above $2,000,000. The decision to go with lesser protection against large claims provided roughly $5,000,000 in premium savings in calendar year 2025, while the added cost of uncovered claims was $1,134,555, leading to net savings for the County of approximately $3,900,000. This improved strategy will likely provide additional savings in the future.

In Calendar Year 2023, Henrico changed its provider of pharmaceutical benefit management to Anthem. This move has also provided tremendous financial benefit to the County. The Healthcare Fund receives formulary pharmaceutical rebates through this arrangement. Revenues from these rebates have grown from $8.5 million in FY22, to $16.5 million in FY25. This amount is budgeted to increase to $24.3 million in FY26. This figure matches the rebate guarantees provided in the contract with Anthem.

The FY27 expenses for the Fund are budgeted to increase by $30.3 million, or 17.7%, above the FY26 approved budget. This budgetary growth is predominantly from robust increases in claims expenses. Healthcare claims grew by 26.8% from FY23 to FY25 and are projected to increase by an additional 12.0% in FY26. Pharmacy claims have been the primary driver of these cost increases. Administrative costs are expected to increase by 8.9% in FY27. This is due to a larger number of employees utilizing the healthcare plans and inflated costs of services from Henrico’s healthcare partners.