

Legislative Budget Analysis
Proposed FY 2023 Operating and Capital Budgets
Office of the County Auditor
Baltimore County, Maryland
HEARING DATE: May 17, 2022



Insurance Contributions

Director of Budget and Finance: Ed Blades

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Questions Sent to Department	Thursday, April 14, 2022
Responses Received	April 30, 2022 – May 5, 2022
Analysis considers all agency responses.	

BALTIMORE COUNTY
FISCAL YEAR 2023 BUDGET ANALYSIS

INSURANCE CONTRIBUTIONS (043)

BUDGET SUMMARY

\$ in Thousands

	GENERAL	SPECIAL	TOTAL	% Change Prior Year
PROPOSED CHANGE				
FY 2022 - 2023 Change	\$ 14,192.0	-	\$ 14,192.0	9.5%
BUDGET TRENDS				
FY 2021 Actual	\$ 139,921.9	-	\$ 139,921.9	
FY 2022 Approp.	148,837.7	-	148,837.7	6.4%
FY 2023 Request	163,029.7	-	163,029.7	9.5%
FY 2023 Budget Analysis	163,029.7	-	163,029.7	9.5%
POTENTIAL REDUCTIONS*	TBD	-	TBD	

*Potential Transfer of \$54.4 million Identified

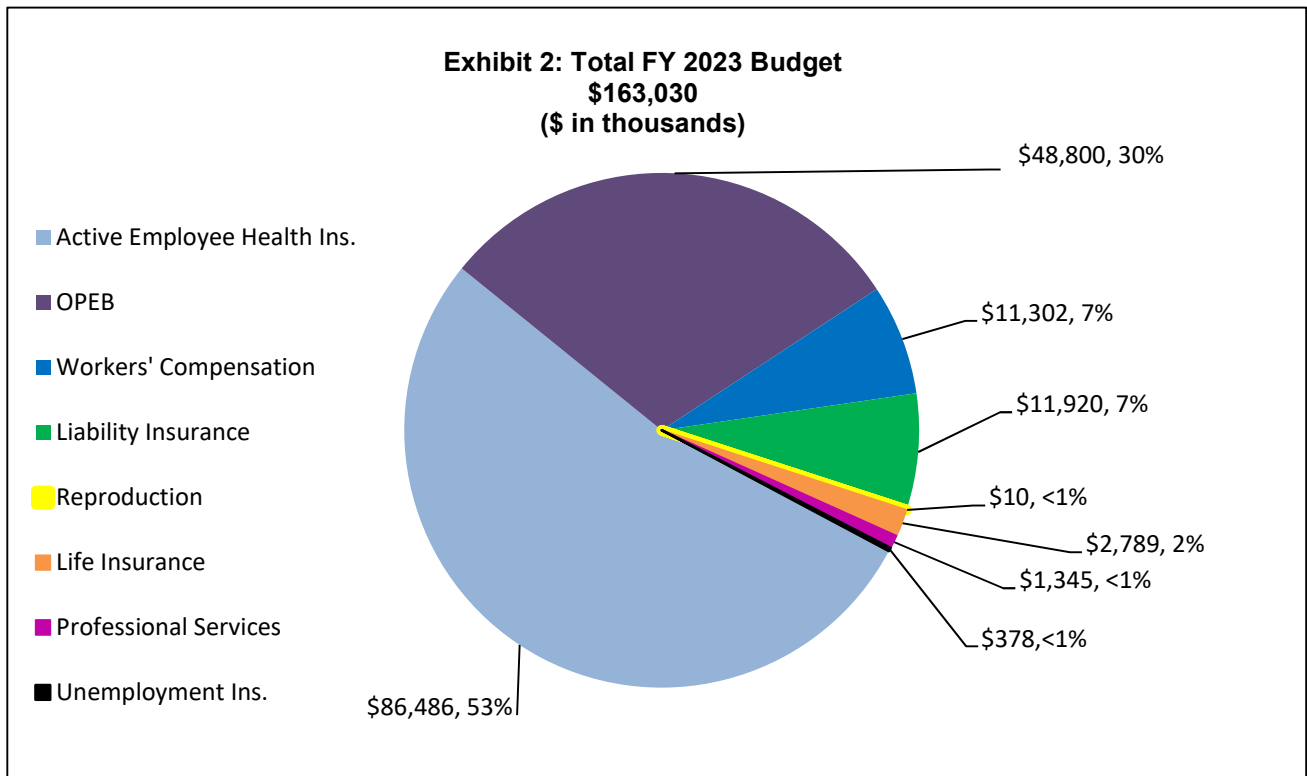
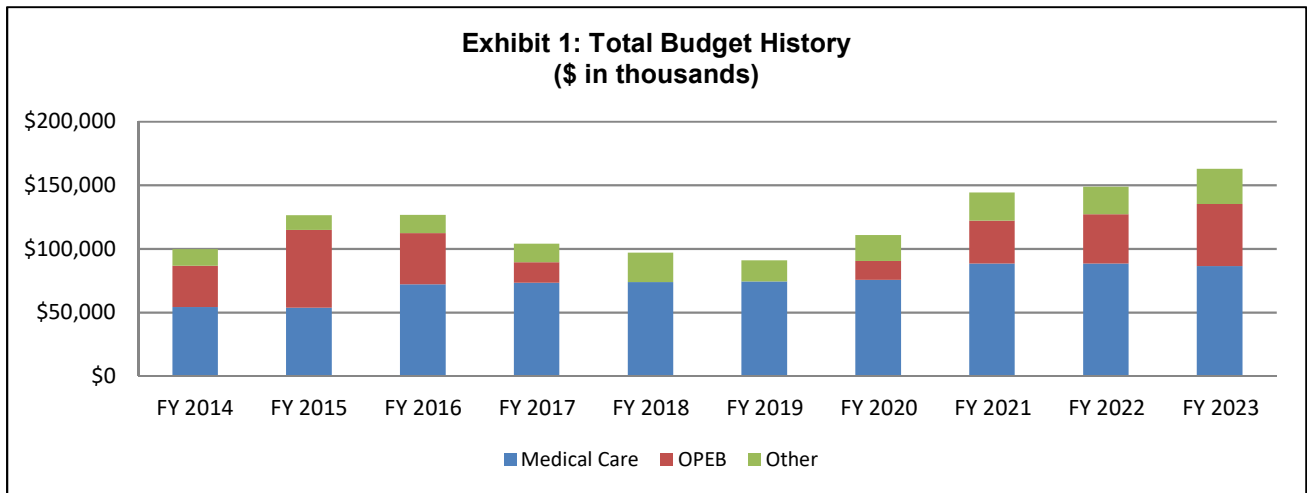
PERSONNEL

No Personnel

INSURANCE CONTRIBUTIONS (043)

BUDGET SUMMARY:

The proposed FY 2023 General Fund budget for the Insurance Contributions program totals \$163.0 million, an increase of \$14.2 million, or 9.5%, over the FY 2022 appropriation. The increase is primarily attributable to increased contributions for Other Post-Employment Benefits (OPEB) for County retirees and liability insurance. 53% of the proposed budget is planned for health insurance for active employees, compared to just 45% in FY 2015 when the County exceeded its required contribution for OPEB. **See Exhibits 1-3 for additional detail.**



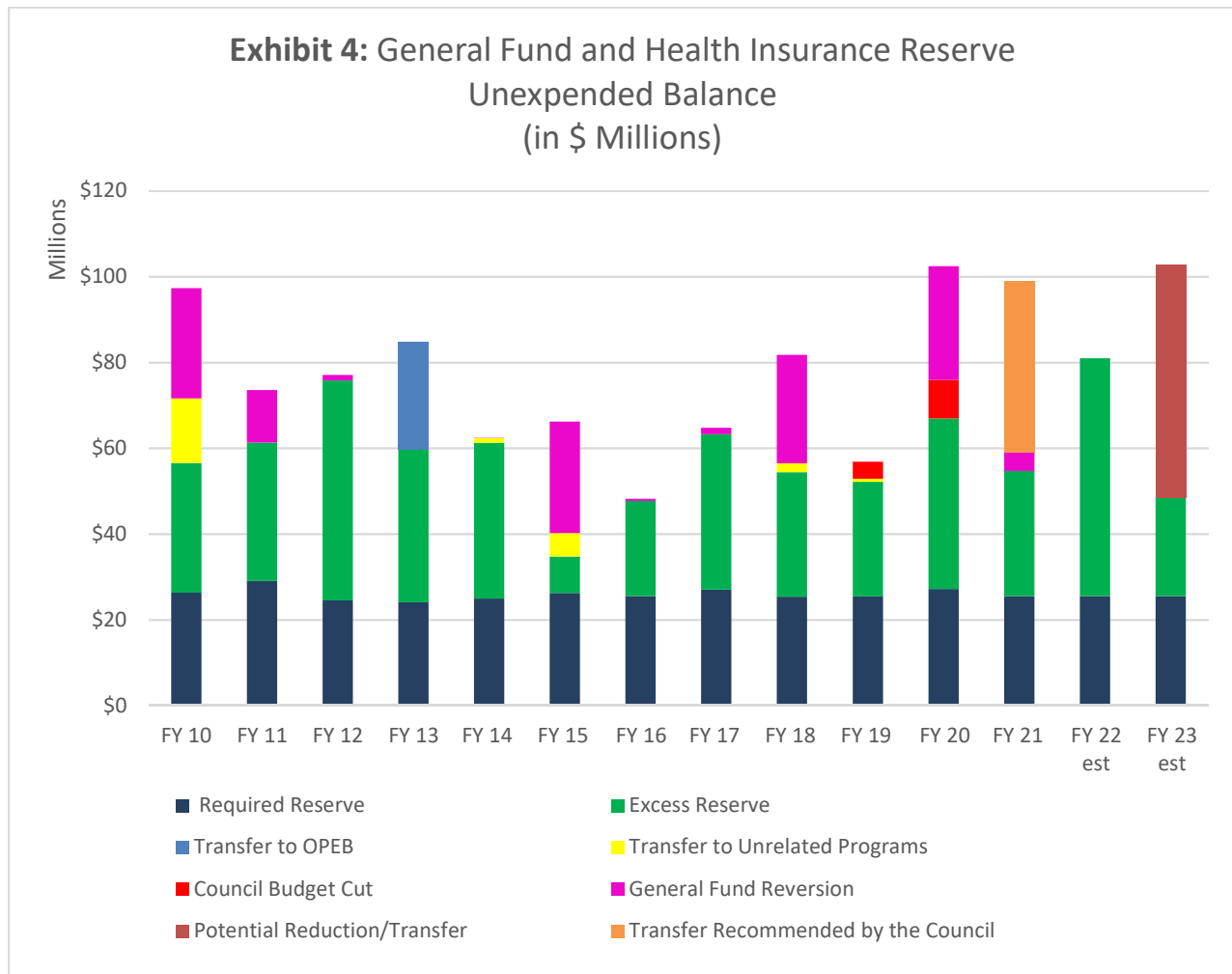
INSURANCE CONTRIBUTIONS (043)

Exhibit 3				
FY 2023 Proposed Budget (\$ in 000's)⁽¹⁾				
How Much it Grows:	<u>Health Insurance</u>	<u>OPEB Contrib</u>	<u>Other ⁽²⁾</u>	<u>Total</u>
2022 Appropriation	\$ 88,404	\$ 38,700	\$ 21,734	\$ 148,838
2023 Request	86,486	48,800	27,744	163,030
\$ Increase/(Decrease)	\$ (1,918)	\$ 10,100	\$ 6,010	\$ 14,192
% Increase/(Decrease)	-2.2%	26.1%	27.7%	9.5%
 Where it Goes:				
General Government Insurance Contributions ⁽¹⁾				
OPEB.....		\$		10,100
Liability Insurance.....				6,294
Auto/General Liability.....	\$	5,018		
Workers' Compensation.....		863		
Excess Property Insurance.....		356		
Other.....		57		
Professional Services (e.g., pre-employment physicals).....				58
Unemployment Insurance.....				5
Life Insurance.....				(347)
Health Insurance.....				(1,918)
Total.....		\$		14,192

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

⁽²⁾ Includes employee life insurance, workers' compensation, liability insurance, unemployment insurance, professional services, and reproduction.

INSURANCE CONTRIBUTIONS (043)



OPERATING BUDGET HIGHLIGHTS:

The proposed FY 2023 General Fund budget for General Government's Insurance Contributions program totals \$163.0 million, an increase of \$14.2 million, or 9.5%, over the FY 2022 appropriation.

The budget includes:

- \$86.5 million for Employee Health Insurance, a decrease of \$1.9 million;
- \$48.8 million for OPEB, an increase of \$10.1 million, or 26.1%, over the FY 2022 adjusted budget; and
- \$6.3 million net increase in Liability Claims primarily due to: \$5.0 million increase for Auto/General Liability; \$863 thousand increase in Workers' Compensation; and \$356 thousand increase for excess Property Insurance.

INSURANCE CONTRIBUTIONS (043)

POTENTIAL BUDGET REDUCTIONS:

As an alternative to reducing the budget for Insurance Contributions, the Council may wish to encourage the Administration to use \$54.4 million of the funds budgeted for Active Employee Health Insurance as follows:

- *\$33.3 million to fund the full estimated "PAYGO" cost of Retiree Health Insurance; and*
- *\$21.1 million towards the County's accrued OPEB liability.*

The Council made a similar recommendation to transfer Health Insurance Fund surplus at this time last year, resulting in a \$40 million transfer from the Health Insurance Fund to the OPEB Trust Fund at the end of FY 2021.

Based on projections by the County's health care consultant/actuary, and presuming the FY 2023 Insurance Contributions budget is adopted as proposed, the County's Health Insurance Reserve Fund will be \$77.3 million over-funded by the end of FY 2023. At the same time, the proposed FY 2023 budget includes OPEB funding of \$87.0 million, which represents 66.5% of the amount the consultant projects will be necessary to cover current-year costs for retirees during FY 2023. County Code, Section 10-14-104 states: "Each year, the county shall appropriate and pay to the Other Post-Employment Benefits Trust Fund an amount that is sufficient to pay...the county's estimated cost of all post-employment health and life insurance claims the Trust Fund is projected to pay for following year; and all or part of the difference in the estimated cost of the following year's claims and the annual required contribution...."

The \$54.4 million amount represents 70.4% of the excess funding in the Health Insurance Reserve as of June 30, 2023 as projected by the County's health care consultant/actuary. Such a transfer would keep intact the full, recommended Incurred But Not Reported (IBNR) Reserve and 29.6% (approximately \$22.9 million) of the projected excess reserve funding as of June 30, 2023, as follows:

	Health Insurance Reserve (\$ in millions)
Balance at June 30, 2021	\$ 54.7
FY 2022 Est. Operational Surplus	26.3
Estimated Balance at June 30, 2022	81.0
FY 2023 Est. Operational Surplus	21.9
Est. Balance at June 30, 2023	102.9
Est. FY 2023 IBNR Requirement (per consultant)	(25.6)
Est. Excess at June 30, 2023	\$ 77.3

INSURANCE CONTRIBUTIONS (043)

To put the magnitude of the Health Insurance Reserve's excess funding (\$77.3 million, as projected by the County's health care consultant/actuary, as of June 30, 2023) into perspective:

- In FY 2021, the Administration transferred \$40 million of the Health Insurance Contributions appropriation to OPEB, reverted \$4.3 million of the appropriation to the General Fund, and the Health Insurance Reserve Fund still ended the year with a balance of \$54.7 million.
- For FY 2022, the health care consultant/actuary estimates that the County's claims experience (for General Government, BCPS, and CCBC) will yield a \$26.3 million operational surplus, and the Administration's planned General Fund reversions for FY 2022 do not indicate an intent to revert any Insurance Contributions funding. As a result, the Health Insurance Reserve Fund is projected to end the year with a balance of \$81.0 million (in the absence of any transfers or reversions).
- For FY 2023, the health care consultant/actuary forecasts a \$21.9 million operational surplus, projecting premium equivalents totaling \$360.9 million compared to costs totaling \$339.0 million. **In the absence of any transfers or reductions to the FY 2023 appropriation, the Health Insurance Reserve Fund is projected to end FY 2023 with a balance of \$102.9 million.**

TOPICS FOR DISCUSSION:

1. OPEB Funding and Retiree Healthcare

The proposed FY 2023 General Fund budget for OPEB contributions (including component unit contributions) totals \$87.0 million, an increase of \$17.0 million over the FY 2022 contribution, as follows:

Agency	(\$ in millions)		
	FY 2022	FY 2023	Incr.
Ins. (Gen.Gov.) (043)	\$ 38.700	\$ 48.800	\$ 10.100
BCPS (035)	28.000	33.000	5.000
CCBC (033)	2.100	3.800	1.700
BCPL (037)	1.200	1.400	.200
General Fund Total	<u>\$ 70.000</u>	<u>\$ 87.000</u>	<u>\$ 17.000</u>

INSURANCE CONTRIBUTIONS (043)

Based on the Administration's current OPEB plan, the County's OPEB contributions will be increased by a level amount (\$17 million) through FY 2026 so that the contributions are at the PAYGO cost level by FY 2026, with contributions after FY 2026 to increase by a level amount so that the plan will be 50% funded by 2050. For the 10-year period after FY 2050, contribution levels are set so the plan remains 50% funded during the period.

In recent years, the County has made changes to retiree health care benefits in order to reduce claims payouts for medical care and prescription drugs. Effective January 1, 2021, Medicare eligible retirees of General Government, CCBC, and Libraries electing to receive County benefits were required to select a Labor First menu medical/prescription plan. Effective January 1, 2022, BCPS Medicare-eligible retirees electing to receive County benefits also became required to select a Labor First menu medical/prescription plan. As a result of these changes, only premium offsets to Medicare-eligible retirees are being paid out of the OPEB Trust Fund; the County will no longer be paying Medicare claims out of the OPEB Trust Fund.

In April 2021, the County's health care consultant/actuary estimated that BCPS's move to the Baltimore County Private Medicare Exchange in CY 2022 would reduce projected PAYGO OPEB costs substantially during the FY 2022 – FY 2050 OPEB plan period, equating to a \$775 million reduction in the amount of County contributions required for OPEB to be 50% funded by 2050. In January 2022, the County's health care consultant/actuary performed an additional study, with the benefit of having information available regarding the type of Medicare plans selected by BCPS retirees. The Office advised that the January 2022 study revealed that a much higher percentage of BCPS retirees selected more expensive Medicare advantage programs than anticipated (based on the distribution of plans selected by Baltimore County Government retirees). As a result, the consultant revised the County's PAYGO OPEB upward, along with contribution levels necessary for the County to reach an employer contribution in FY 2026 that equals or exceeds PAYGO. The January 2022 study indicated that BCPS's move to the Baltimore County Private Medicare Exchange in CY 2022 would reduce projected PAYGO OPEB costs equating to a \$569.2 million reduction (down from \$775 million) in the amount of County contributions required for OPEB to be 50% funded by 2050. The January 2022 study further determined a PAYGO level of \$138 million in FY 2026 (versus \$120 million in the April 2021 study). The January 2022 study also indicated that level increases of \$17.0 million in employer contributions (versus \$12.5 million in the April 2021 study) would be necessary from FY 2022 – FY 2026 to reach PAYGO levels in FY 2026.

The Administration asked the health care consultant/actuary about the appropriateness of maintaining a 50% funding target level after 2050. The health care consultant/actuary noted that if employer contributions after reaching the funding target were to increase, it might be an indication that it would be prudent to consider a higher funding target or a plan change; most stakeholders would not expect contributions to increase after reaching the funding target. The health care

INSURANCE CONTRIBUTIONS (043)

consultant/actuary further advised that the Plan's contribution amounts needed after 2050 to maintain a 50% funding level are projected to decrease significantly (as shown in the table below), due largely in part to the plan changes made to the OPEB benefits provided to post-2007 hires in the County and post-2011 hires in the School and College.

The OPEB Plan's funding targets for FY 2022 – FY 2060 – Labor First for all plans are:

\$ in Thousands					
FY 2022	\$ 70,000	FY 2035	\$ 201,400	FY 2048	\$ 276,800
FY 2023	\$ 87,000	FY 2036	\$ 207,200	FY 2049	\$ 282,600
FY 2024	\$ 104,000	FY 2037	\$ 213,000	FY 2050	\$ 288,400
FY 2025	\$ 121,000	FY 2038	\$ 218,800	FY 2051	\$ 130,000
FY 2026	\$ 138,000	FY 2039	\$ 224,600	FY 2052	\$ 133,250
FY 2027	\$ 155,000	FY 2040	\$ 230,400	FY 2053	\$ 136,581
FY 2028	\$ 160,800	FY 2041	\$ 236,200	FY 2054	\$ 139,996
FY 2029	\$ 166,600	FY 2042	\$ 242,000	FY 2055	\$ 143,496
FY 2030	\$ 172,400	FY 2043	\$ 247,800	FY 2056	\$ 147,083
FY 2031	\$ 178,200	FY 2044	\$ 253,600	FY 2057	\$ 150,760
FY 2032	\$ 184,000	FY 2045	\$ 259,400	FY 2058	\$ 154,529
FY 2033	\$ 189,800	FY 2046	\$ 265,200	FY 2059	\$ 158,392
FY 2034	\$ 195,600	FY 2047	\$ 271,000	FY 2060	\$ 162,352

Financial Condition of the Trust Fund

The OPEB Plan's fiduciary net position reflects the value of assets accumulated to pay future benefits net of current liabilities. Employer and retiree contributions, as well as investment income, increase fiduciary net position. Benefit payments, administrative expenses, as well as investment losses, decrease net position. Over time, increases and decreases in the Plan's fiduciary net position measure whether the System's assets available for benefits are improving or deteriorating.

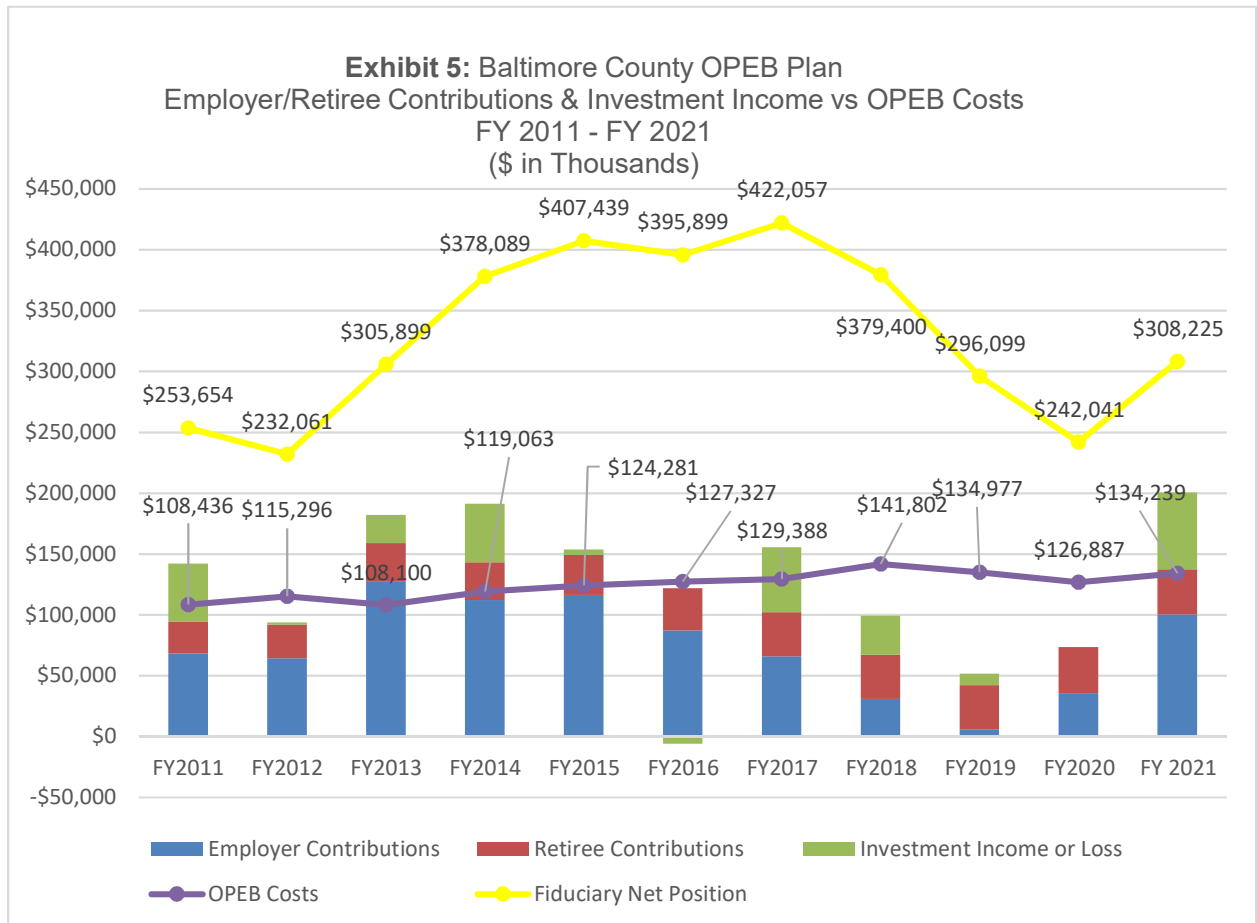
Fiduciary net position increases when employer/retiree contributions and investment income/losses exceed OPEB costs. As the County's OPEB contribution has not kept pace with PAYGO costs, the Plan's ability to grow its assets to meet long-term benefit costs becomes increasingly dependent on investment performance.

INSURANCE CONTRIBUTIONS (043)

Exhibit 5 provides a history of the impact of employer and retiree contributions, net investment income, and OPEB costs on the System's fiduciary net position from FY 2011 – FY 2021.

- In FY 2021, the System's fiduciary net position increased 27.3%, or \$66.2 million, from \$242.0 million on June 30, 2020, to \$308.2 million on June 30, 2021 due to increased net investment income and employer contributions. The annual money-weighted rate of return on OPEB Plan investments, net of OPEB investment expense, was 27.0%, compared to 0.27% for the year ended June 30, 2020. The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. In FY 2021, employer contributions increased by \$64.9 million, from \$35.4 million in FY 2020 to \$100.3 million in FY 2021. The increase was primarily due to two factors: a FY 2021 supplemental appropriation of \$25 million and a \$40 million transfer of surplus funds from the Health Insurance Fund (as recommended by the County Council).
- In FY 2020, despite a \$29.7 million increase in employer contributions, the Fund's fiduciary net position declined due to investment losses most likely attributable to the fiscal impact of the COVID-19 pandemic. The System's fiduciary net position decreased 18.3%, or \$54.1 million, from \$296.1 million on June 30, 2019, to \$242.0 million on June 30, 2020.
- In FY 2019 and FY 2018, the Fund's fiduciary net position declined precipitously due to lower investment income returns coupled with lower contributions. For example, in FY 2018, retiree contributions and investment returns were not sufficient to compensate for the \$35.1 million decline in employer contributions from the previous fiscal year. By comparison, the chart reflects that in FY 2017, higher investment returns and increased retiree contributions were able to compensate for a \$21.2 million decline in employer contributions from the previous fiscal year.
- **The purple line in the chart reflects OPEB costs, which have shown very modest growth over the past decade and have remained stable in recent years.**

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The Office should be prepared to discuss:

- ***Impacts of the Labor First changes, both on retirees and on the County's OPEB liability;***
- ***Projected impacts of the proposed Plan B DROP for Police and Fire on the County's OPEB liability; and***
- ***How the County's OPEB funding plan compares to the funding plans of other local jurisdictions.***

2. County Contribution for General Government Active Employee Health Insurance

The proposed FY 2023 budget includes \$86.5 million for General Government employee health insurance, a decrease of \$1.9 million, or 2.2%, from the FY 2022 budget. The Office advised that the decline is due to a projected decline in enrollment in health plans (based on the most

INSURANCE CONTRIBUTIONS (043)

recent census data), with the retirement of individuals hired prior to July 1, 2007 and the shift of employees from the older pre-2007 structure to the post-2007 structure for medical plans.

The Office preliminarily estimates that, effective January 1, 2023, employee renewal premiums for medical coverage for General Government employees will increase by 4.8%. The Office advised that this estimate will be finalized upon further analysis of claims experience and the impact of a new contract for health and dental insurance; the current contract with Cigna expires on December 31, 2022. The Office indicated that there is an RFP committee currently reviewing proposals for new health, vision, and dental plans to be effective January 1, 2023, and expects a new contract to be presented to the Council for approval in August/September 2022. The Office further advised that any potential savings resulting from the new contract will be passed on to employees.

The County's health care consultant/actuary projects active employee claims experience for FY 2022 and FY 2023 will result in surpluses of \$26.2 million and \$21.9 million, respectively, assuming a 5.0% and 2.5% annual trend for medical and dental/vision, respectively, each year.

The Office should be prepared to discuss what the Administration is seeking, plan-wise, and customer service-wise, from its procurement for new health, dental, and vision insurance carrier offerings.

3. General Government Funding for Liability Claims

The proposed FY 2023 budget includes \$23.2 million for liability claims, an increase of \$6.3 million, or 37.2% over the FY 2022 appropriation. 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 Office advised that the \$5.0 million and the \$862 thousand increases for general and automobile liability claims and workers' compensation, respectively, are based upon recommendations of the County's actuarial consultant.

The Office should be prepared to discuss the reasons for these increases and the County's efforts to minimize claims.

BALTIMORE COUNTY
FISCAL YEAR 2023 BUDGET ANALYSIS

INSURANCE CONTRIBUTIONS (043)

APPROPRIATION DETAIL					
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	FY 2021 ACTUAL	FY 2022 APPROP	FY 2023 REQUEST	NET CHANGE	
				AMOUNT	%
4302 Insurance Contributions	<u>\$ 139,921,880</u>	<u>\$ 148,837,747</u>	<u>\$ 163,029,722</u>	<u>\$ 14,191,975</u>	<u>9.5%</u>

BALTIMORE COUNTY
FISCAL YEAR 2023 BUDGET ANALYSIS

INSURANCE CONTRIBUTIONS (043)

PERSONNEL DETAIL									
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	FY 2021		FY 2022		FY 2023		NET	
	ACTUAL		APPROP		REQUEST		CHANGE	
	FULL	PART	FULL	PART	FULL	PART	FULL	PART
4302 Insurance Contributions	--	--	--	--	--	--	--	--