

Legislative Budget Analysis  
Proposed FY 2024 Operating and Capital Budgets  
Office of the County Auditor  
Baltimore County, Maryland  
**HEARING DATE: May 16, 2023**



**Insurance Contributions**

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Questions Sent to Department	Thursday, April 27, 2023
Responses Received	Friday, May 5, 2023
Analysis considers all agency responses.	

BALTIMORE COUNTY  
FISCAL YEAR 2024 BUDGET ANALYSIS

**INSURANCE CONTRIBUTIONS (043)**

BUDGET SUMMARY				
\$ in Thousands				
	GENERAL	SPECIAL	TOTAL	% Change Prior Year
PROPOSED CHANGE				
FY 2023 - 2024 Change	\$ 26,774.6	-	\$ 26,774.6	16.4%
BUDGET TRENDS				
FY 2022 Actual	\$ 145,330.7	-	\$ 145,330.7	
FY 2023 Approp.	163,029.7	-	163,029.7	12.2%
FY 2024 Request	189,804.3	-	189,804.3	16.4%
<b>FY 2024 Budget Analysis</b>	<b>189,804.3</b>	-	<b>189,804.3</b>	16.4%
POTENTIAL REDUCTIONS	-	-	-	

PERSONNEL
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No Personnel

## INSURANCE CONTRIBUTIONS (043)

### BUDGET SUMMARY:

The proposed FY 2024 General Fund budget for the Insurance Contributions program totals \$189.8 million, an increase of \$26.8 million, or 16.4%, over the FY 2023 appropriation as follows.

	(\$ in thousands)			
	Health Insurance	OPEB Contribution	Other <sup>(1)</sup>	Total
<b>2024 Request</b>	<b>\$84,561</b>	<b>\$72,300</b>	<b>\$32,943</b>	<b>\$189,804</b>
2023 Appropriation	86,486	48,800	27,744	163,030
\$ Increase/(Decrease)	\$ (1,925)	\$23,500	\$ 5,199	\$ 26,774
% Increase/Decrease	-2.2%	48.2%	18.7%	16.4%
<sup>(1)</sup> Includes employee life insurance, workers' compensation, liability insurance, unemployment insurance, professional services, and printing (employee/retiree benefits guides).				

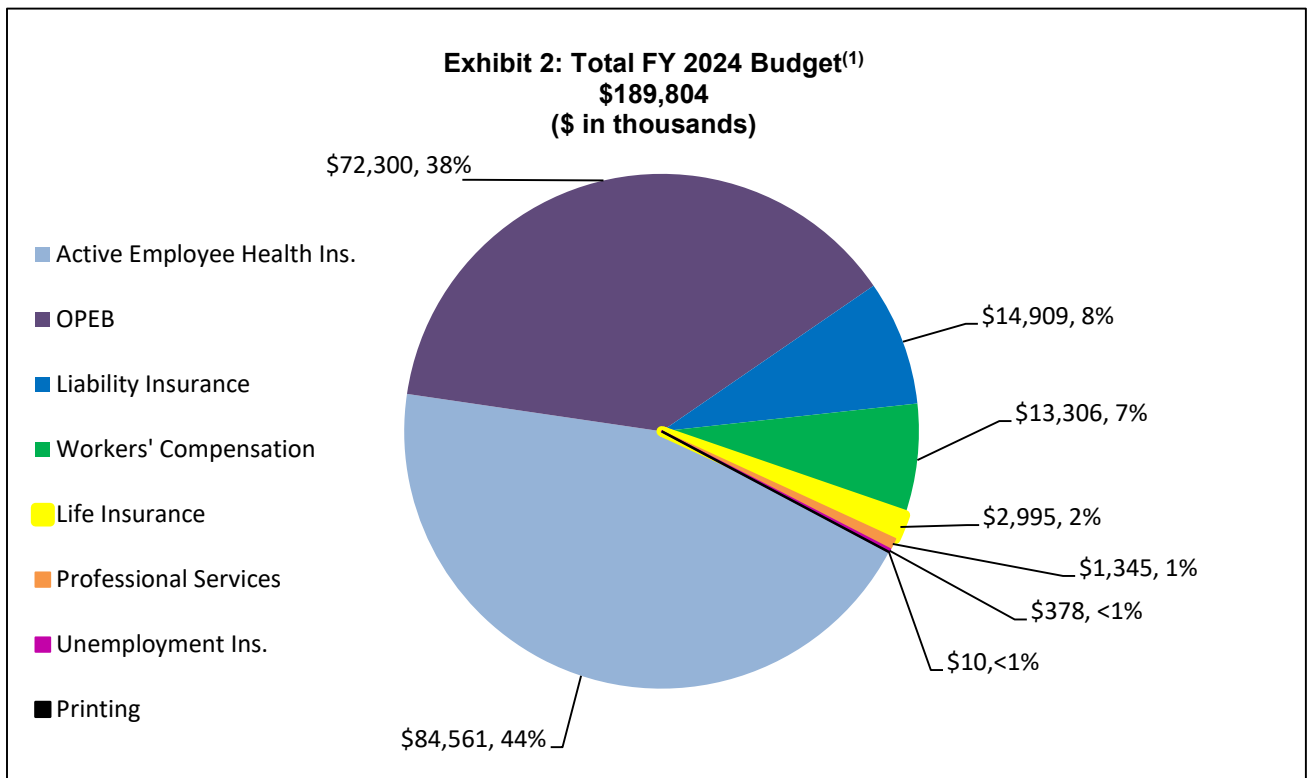
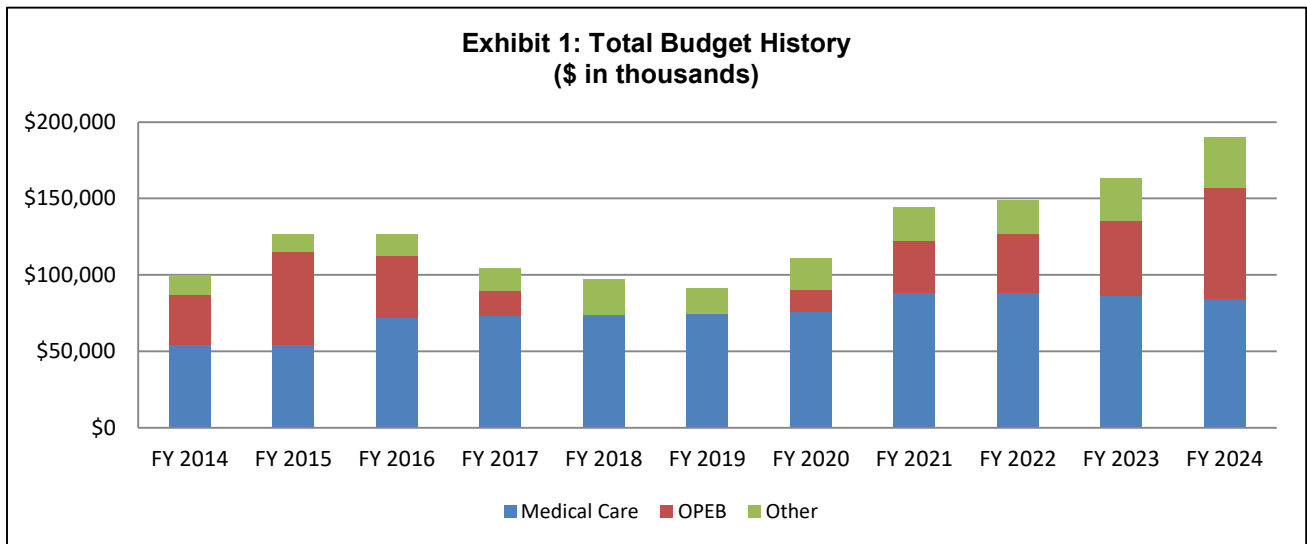
- **Health Insurance** - The budget decrease is based on projected expenditures for FY 2023, which total \$82.1 million, or approximately 5% less than budgeted expenditures.
- **OPEB Contribution** - The budget increase is attributable to the County's continued progress toward the goal of fully funding current-year costs (i.e., PAYGO costs) for retirees by FY 2026, including an additional \$15 million above the recommended contribution.
- **Other** – The budget increase is due to increased costs for liability and workers' compensation insurance.

The proposed FY 2024 budget comprises 3.9% of the County's total Operating Budget.

See Appendix A for program-level expenditure/appropriation for FY 2022 (actual), FY 2023 (appropriated), and FY 2024 (proposed). As indicated in Appendix B, no personnel are funded in the Insurance Contributions budget.

See Exhibit 1 for a budget history, and Exhibit 2 for the distribution of expenses across programs.

## INSURANCE CONTRIBUTIONS (043)



<sup>(1)</sup> 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.

## INSURANCE CONTRIBUTIONS (043)

### OPERATING BUDGET HIGHLIGHTS:

The proposed FY 2024 General Fund budget for General Government's Insurance Contributions program totals \$189.8 million, an increase of \$26.8 million, or 16.4%, over the FY 2023 appropriation.

The budget includes:

- \$84.6 million for Employee Health Insurance, a decrease of \$1.9 million;
- \$72.3 million for OPEB, an increase of \$23.5 million, or 48.2%, over the FY 2023 appropriation, including an additional \$15 million above the recommended contribution; and
- \$5.0 million increase in Liability Claims due to a \$3.0 million increase for Auto/General Liability and a \$2.0 million increase for Workers' Compensation.

### POTENTIAL REDUCTIONS:

**This analysis does not identify any potential reductions** in light of the reasonable projected balance of the Health Insurance Reserve:

	Health Insurance Reserve (\$ in millions)
Estimated Balance at June 30, 2023 *	\$ 12.3
FY 2024 Est. Operational Surplus	17.9
Est. Balance at June 30, 2024	30.2
Est. FY 2024 IBNR Requirement (per consultant)	(26.3)
<b>Est. Excess at June 30, 2024</b>	<b>\$ 3.9</b>

*\*Estimated Balance at June 30, 2023 is projected to be less than the consultant's recommended level for IBNR ("incurred but not reported") claims.*

## INSURANCE CONTRIBUTIONS (043)

### TOPICS FOR DISCUSSION:

#### 1. OPEB Funding and Retiree Healthcare

The proposed FY 2024 General Fund budget for OPEB contributions (including component unit contributions) totals \$119.0 million, an increase of \$32.0 million over the FY 2023 contribution, as follows:

Agency	(\$ in millions)		
	FY 2023	FY 2024	Incr.
Ins. (Gen.Gov.) (043)	\$ 48.8	\$ 72.3	\$ 23.5
BCPS (035)	33.0	40.4	7.4
CCBC (033)	3.8	4.7	0.9
BCPL (037)	1.4	1.6	0.2
General Fund Total	\$ 87.0	\$ 119.0	\$ 32.0

Based on the Administration's current OPEB plan, the County's OPEB contributions were scheduled to increase by a level amount (\$17 million) through FY 2026 so that the contributions are at the PAYGO cost level by FY 2026. In the FY 2024 budget, the Administration has exceeded the funding level recommended by this plan, with the General Government contributing an additional \$15 million to fund PAYGO costs for retirees. This additional funding allows the County's total FY 2024 OPEB contribution of \$119 million to exceed estimated PAYGO costs, which are expected to total approximately \$118 million in FY 2024. Contributions after FY 2026 are scheduled 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 healthcare 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-eligible retiree 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

## **INSURANCE CONTRIBUTIONS (043)**

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 projections upward, along with the contribution levels necessary for the County to reach an employer contribution that equals or exceeds PAYGO costs in FY 2026. 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 predicted 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 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:

## INSURANCE CONTRIBUTIONS (043)

\$ 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 Plan's assets available for benefits are improving or deteriorating.

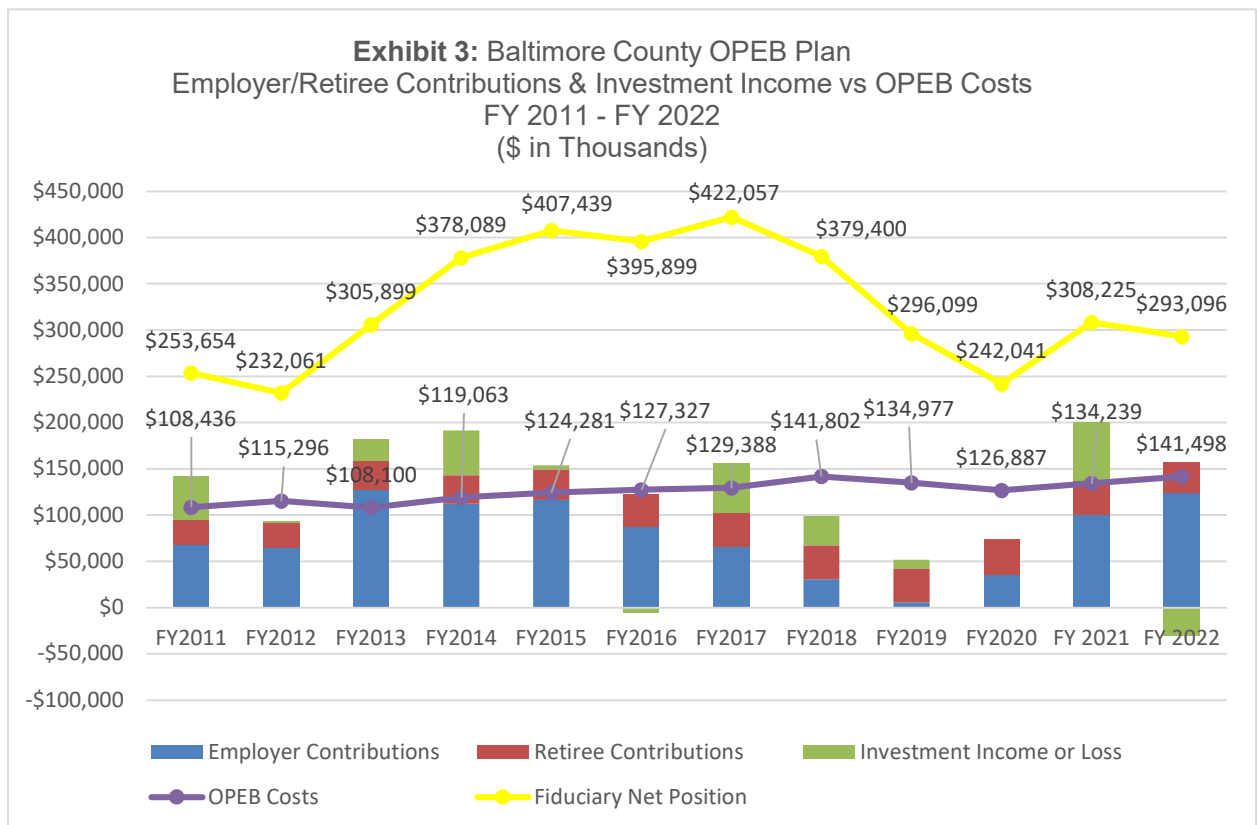
Fiduciary net position increases when employer/retiree contributions and investment income/losses exceed OPEB costs. As the County's OPEB contribution has not kept pace with PAYGO costs, the Plan's ability to grow its assets to meet long-term benefit costs becomes increasingly dependent on investment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

**Exhibit 3** provides a history of the impact of employer and retiree contributions, net investment income, and OPEB costs on the Plan's fiduciary net position from FY 2011 – FY 2022.

- In FY 2022, the Plan's fiduciary net position fell 4.9%, or \$15.1 million, from \$308.2 million on June 30, 2021 to \$293.1 million on June 30, 2022, due to negative net investment income, partially offset by increased employer contributions. The annual money-weighted rate of return on OPEB Plan investments, net of OPEB investment expense, was -10.2%, compared to 27.0% for the year ended June 30, 2021. The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. In FY 2022, employer contributions increased by \$24.0 million, from \$100.3 million in FY 2021 to \$124.3 million in FY 2022. The increase was primarily due to a \$54 million transfer of surplus funds from the Health Insurance Fund.

## INSURANCE CONTRIBUTIONS (043)

- In FY 2021, the Plan'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 strong net investment income and increased employer contributions including a \$40 million transfer of surplus funds from the Health Insurance Fund.
- 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.**



## INSURANCE CONTRIBUTIONS (043)

*The Office should be prepared to discuss:*

- *The likelihood that future OPEB contributions will exceed the funding level recommended by the plan; 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 2024 budget includes \$84.6 million for General Government employee health insurance, a decrease of \$1.9 million, or 2.2%, from the FY 2023 budget. As the Office advised last year, employee health insurance costs are expected to decline due to 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, 2024, employee renewal premiums for medical coverage for General Government employees will increase by 4.6%. This increase reflects the new contract with Cigna Health and Life Insurance Company for the administration of the County's employee medical insurance program, which was approved by the Council on October 3, 2022. The Office advised that renewal premiums will be finalized upon further analysis of claims experience.

The County's health care consultant/actuary projects active employee claims experience for FY 2023 and FY 2024 will result in surpluses of \$21.2 million and \$17.9 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 anticipated trends in employee health insurance costs, including whether it expects employer contributions for this item to begin rising again in FY 2025 following two consecutive years of declines.*

## INSURANCE CONTRIBUTIONS (043)

### 3. General Government Funding for Liability Claims

The proposed FY 2024 budget includes \$28.2 million for liability claims, an increase of \$5.0 million, or 21.5%, over the FY 2023 appropriation. This increase follows a larger increase of \$6.3 million, or 37.2%, in FY 2023. 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 additional funding was added to the FY 2024 budget to address current claims impacting this Fund, including longstanding litigation that has been cleared and settled. The Office further advised that the FY 2024 contribution exceeds the base funding level recommended by the County's actuarial consultant in an effort to move toward a risk margin that reflects a 75% level of statistical confidence.

***The Office should be prepared to discuss:***

- ***The decision to move toward a risk margin that reflects a 75% level of statistical confidence, as opposed to the base funding recommendation; and***
- ***The County's efforts to minimize future liability claims.***

BALTIMORE COUNTY  
FISCAL YEAR 2024 BUDGET ANALYSIS

**INSURANCE CONTRIBUTIONS (043)**

APPROPRIATION DETAIL
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	FY 2022 ACTUAL	FY 2023 APPROP	FY 2024 REQUEST	NET CHANGE	
				AMOUNT	%
4302 Insurance Contributions	\$ 145,330,690	\$ 163,029,722	\$ 189,804,283	\$ 26,774,561	16.4%

BALTIMORE COUNTY  
FISCAL YEAR 2024 BUDGET ANALYSIS

**INSURANCE CONTRIBUTIONS (043)**

PERSONNEL DETAIL
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	FY 2022 ACTUAL		FY 2023 APPROP		FY 2024 REQUEST		NET CHANGE	
	FULL	PART	FULL	PART	FULL	PART	FULL	PART
4302 Insurance Contributions	--	--	--	--	--	--	--	--