Legislative Budget Analysis

Proposed FY 2025 Operating and Capital Budgets

Office of the County Auditor

Baltimore County, Maryland

**HEARING DATE: May 9, 2024**

# Insurance Contributions

*Director of Budget and Finance: Kevin Reed*

*Insurance Administrator: Becky Ellis*

*Budget Office Analyst: Jennifer Berends*

*Legislative Analyst: Marie Jeng*

| | |
|---|---|
| Questions to Department Sent | Wednesday, April 24 |
| Responses Received | Thursday, May 2 |
| | |
| Analysis considers all agency responses. | |

BALTIMORE COUNTY
FISCAL YEAR 2025 BUDGET ANALYSIS

# INSURANCE CONTRIBUTIONS (043)

BUDGET SUMMARY

$ in Thousands

| | GENERAL | SPECIAL | TOTAL | % Change Prior Year |
|---|---|---|---|---|
| PROPOSED CHANGE | | | | |
| FY 2024 - 2025 Change | $ 7,040.5 | - | $ 7,040.5 | 3.7% |
| BUDGET TRENDS | | | | |
| FY 2023 Actual | $ 161,157.7 | - | $ 161,157.7 | |
| FY 2024 Approp. | 189,804.3 | - | 189,804.3 | 17.8% |
| **FY 2025 Proposed** | **196,844.8** | **-** | **196,844.8** | **3.7%** |

PERSONNEL

**No Personnel**

For further information contact: Office of the County Auditor Phone: (410) 887-3193

# INSURANCE CONTRIBUTIONS (043)

**BUDGET SUMMARY:**

The proposed FY 2025 General Fund budget for the Insurance Contributions program totals $196.8 million, an increase of $7.0 million, or 3.7%, over the FY 2024 appropriation as follows.

| | ($ in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Health Insurance | | OPEB Contribution | | Other[1] | | Total | |
| **2025 Request** | **$** | **94,424** | **$** | **68,000** | **$** | **34,421** | **$** | **196,845** |
| 2024 Appropriation | | 84,561 | | 72,300 | | 32,943 | | 189,804 |
| $ Increase/(Decrease) | $ | 9,863 | $ | (4,300) | $ | 1,478 | $ | 7,041 |
| % Increase/(Decrease) | | 11.7% | | -5.9% | | 4.5% | | 3.7% |

(1) Includes employee life insurance, workers' compensation, liability insurance, unemployment insurance, professional services, and printing (employee/retiree benefits guides).

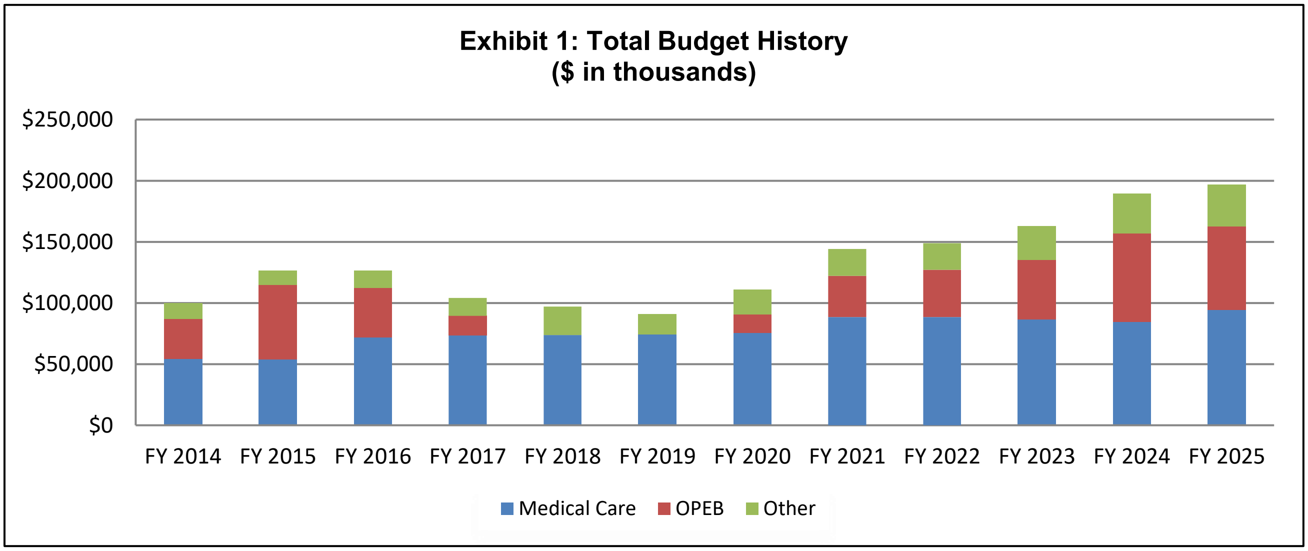
- **Health Insurance** - The budget increase is partially due to the cost of ending, in CY 2025, the bifurcated rate structure that has been in place since 2007. This cost is estimated at $4 million in FY 2025. The remaining increase is based on inflation in healthcare costs as well as higher than anticipated costs in FY 2024.
- **OPEB Contribution** - The budget decrease is due to the one-time additional $15 million contribution above the recommended contribution in FY 2024, partially offset by 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 $6.2 million above the recommended contribution in FY 2025.
- **Other** – The budget increase is due to increased costs for liability and workers' compensation insurance.

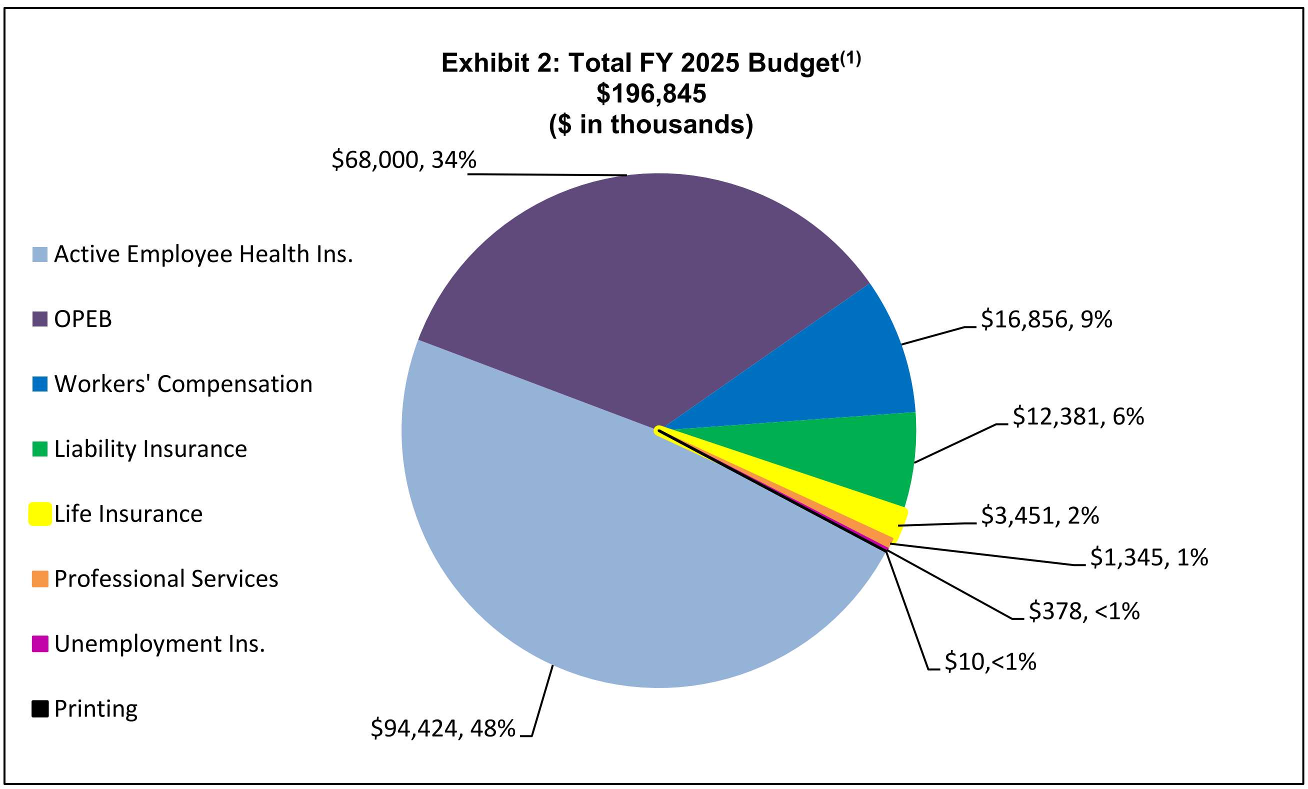
**The proposed FY 2025 budget comprises 7.1% of the County's General Fund Budget.**

**See Appendix A for program-level expenditure/appropriation for FY 2023 (actual), FY 2024 (appropriated), and FY 2025 (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)




[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.

# INSURANCE CONTRIBUTIONS (043)

**OPERATING BUDGET HIGHLIGHTS:**

The proposed FY 2025 General Fund budget for the General Government's Insurance Contributions program totals $196.8 million, an increase of $7.0 million, or 3.7%, over the FY 2024 appropriation. The budget includes:

- $94.4 million for Employee Health Insurance, an increase of $9.9 million, or 11.7%;
- $68.0 million for OPEB, a decrease of $4.3 million, or 5.9%, from the FY 2024 appropriation, which included an additional $15 million above the recommended contribution; and
- $1.0 million increase in Liability Claims due to an increase for Workers' Compensation partially offset by a decrease for Auto/General Liability.

**BUDGET FLEXIBILITY:**

The proposed FY 2025 budget includes a new discretionary cost with significant long-term cost implications: eliminating the current bifurcated health insurance rate structure – which applies to both employees and pre-Medicare retirees hired on or after July 1, 2007 – effective January 1, 2025. The Office estimates that annual costs of the proposed change will be $13 million by FY 2026; the proposed FY 2025 budget includes an additional $4 million to cover this added cost. The Office noted that actual cost impacts of the proposed change will depend on migration patterns of those choosing to join the County's health insurance plans. The Office further noted that while the proposed single-tiered rate structure would apply to pre-Medicare retirees, its judgment is that the vast majority of those hired on or after July 1, 2007 will not retire prior to becoming eligible for Medicare. The Office did not provide an actuarial analysis of the impact of the proposed policy change on the County's OPEB liability.

The Health Insurance Reserve Fund balance has provided the Administration with budget flexibility, by enabling the following alternative uses of funds during the FY 2019 to FY 2023 period:

- Two transfers to the OPEB Trust Fund totaling $94 million;
- One transfer to a non-Insurance program totaling $0.7 million; and
- Four General Fund reversions totaling $36.0 million (ranging from $1.6 million to $26.5 million).

The Health Insurance Reserve Fund balance need not exceed the recommendation of the County's healthcare consultant for covering "incurred but not reported" (IBNR) claims; however, in many years, it has done so. Any funding above the IBNR requirement may be considered "excess" funding. For FY 2025, based on the proposed appropriation level, excess funding in the Health Insurance Reserve Fund by June 30, 2025 totals $39.4 million. Because the County is contractually obligated (under labor memoranda of understanding) to subsidize health insurance premium costs, it is advisable to take the Employer-to-Employee premium ratio into account if considering potential reductions to (or transfers from) the Insurance Program. In other words, any reduction to the amount the County is contributing towards the premium should be assumed to bring about a proportional reduction to the amount that employees will contribute through their monthly premiums. After making an adjustment to account for this proportional reduction, the potential reduction amount totals $31.5 million, as follows.

| | Health Insurance Reserve ($ in millions) | |
|---|---|---|
| Balance at June 30, 2023 | $ | 28.1 |
| FY 2024 Est. Operational Surplus | | 14.2 |
| Estimated Balance at June 30, 2024 | | 42.3 |
| FY 2025 Est. Operational Surplus | | 22.8 |
| Est. Balance at June 30, 2025 | | 65.1 |
| Est. FY 2025 IBNR Requirement, per consultant | | (25.7) |
| **Est. Excess at June 30, 2025** | **$** | **39.4** |
| Employee Premium Consideration | | (7.9) |
| ***Potential Reduction (or Transfer) Amount*** | ***$*** | ***31.5*** |

In addition to the flexibility offered by the Health Insurance Reserve Fund balance, the Insurance Contributions Program contains other smaller potential pockets of budget flexibility, including any excess balance of the Self-Insurance Fund, which covers liability and workers' compensation claims. Such excess fund balance was responsible for the $1.6 million General Fund reversion by the Insurance Contributions Program during FY 2023.

**TOPICS FOR DISCUSSION:**

**1. OPEB Funding and Retiree Healthcare**

The proposed FY 2025 General Fund budget for OPEB contributions (including component unit contributions) totals $121.2 million, an increase of $2.2 million over the FY 2024 contribution, as follows:

| | ($ in millions) | | | | | |
|---|---|---|---|---|---|---|
| Agency | FY 2024 | | FY 2025 | | Incr./(Decr.) | |
| Ins. (Gen.Gov.) (043) | $ | 72.3 | $ | 68.0 | $ | (4.3) |
| BCPS (035) | | 40.4 | | 47.0 | | 6.6 |
| CCBC (033) | | 4.7 | | 4.4 | | (0.3) |
| BCPL (037) | | 1.6 | | 1.8 | | 0.2 |
| General Fund Total | $ | 119.0 | $ | 121.2 | $ | 2.2 |

# INSURANCE CONTRIBUTIONS (043)

Based on the Administration's 2021 OPEB funding plan, the County's OPEB contributions were scheduled to increase by a level amount through FY 2026 so that the contributions reach the PAYGO cost level by FY 2026. In the FY 2024 budget, the Administration 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 allowed the County's total FY 2024 OPEB contribution of $119 million to exceed estimated PAYGO costs, which are now expected to total approximately $114 million in FY 2024. In the FY 2025 budget, the Administration is again exceeding the recommended funding level, this time by $6.2 million, allowing the County's total FY 2025 OPEB contribution of $121 million to almost match estimated PAYGO costs, which are expected to total approximately $122 million in FY 2025. 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 were also 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 is no longer paying Medicare-eligible retiree claims out of the OPEB Trust Fund.

In March 2024, the County's healthcare consultant/actuary completed an OPEB contribution study, which served to update the previous contribution plan from January 2022 using the information provided in the FY 2023 OPEB valuation report dated January 30, 2024. This study predicts a PAYGO level of $129 million in FY 2026 (versus $138 million in the January 2022 study) and anticipates that level increases in the annual contribution of $6.6 million per year from 2026 through 2050 will bring the OPEB Trust Fund to a 50% funded level at the end of FY 2050.

The Administration asked the healthcare consultant/actuary about the appropriateness of maintaining a 50% funding target level after 2050, which 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). The healthcare consultant/actuary further advised that "while a higher contribution target could be considered, the 50% level does lead to a period of considerably lower costs if [the contribution plan is] adhered to until the funding target is reached."

# INSURANCE CONTRIBUTIONS (043)

The OPEB Plan's funding targets for FY 2024 – FY 2060 – Labor First for all plans are:

| $ in Thousands | | | | | |
|---|---|---|---|---|---|
| FY 2024 | $ 119,000 | FY 2037 | $ 201,600 | FY 2049 | $ 280,800 |
| FY 2025 | $ 121,000 | FY 2038 | $ 208,200 | FY 2050 | $ 287,400 |
| FY 2026 | $ 129,000 | FY 2039 | $ 214,800 | FY 2051 | $ 152,000 |
| FY 2027 | $ 135,600 | FY 2040 | $ 221,400 | FY 2052 | $ 155,800 |
| FY 2028 | $ 142,200 | FY 2041 | $ 228,000 | FY 2053 | $ 159,700 |
| FY 2029 | $ 148,800 | FY 2042 | $ 234,600 | FY 2054 | $ 163,700 |
| FY 2030 | $ 155,400 | FY 2043 | $ 241,200 | FY 2055 | $ 167,800 |
| FY 2031 | $ 162,000 | FY 2044 | $ 247,800 | FY 2056 | $ 172,000 |
| FY 2032 | $ 168,600 | FY 2045 | $ 254,400 | FY 2057 | $ 176,300 |
| FY 2033 | $ 175,200 | FY 2046 | $ 261,000 | FY 2058 | $ 180,700 |
| FY 2034 | $ 181,800 | FY 2047 | $ 267,600 | FY 2059 | $ 185,200 |
| FY 2035 | $ 188,400 | FY 2048 | $ 274,200 | FY 2060 | $ 189,800 |
| FY 2036 | $ 195,000 | | | | |

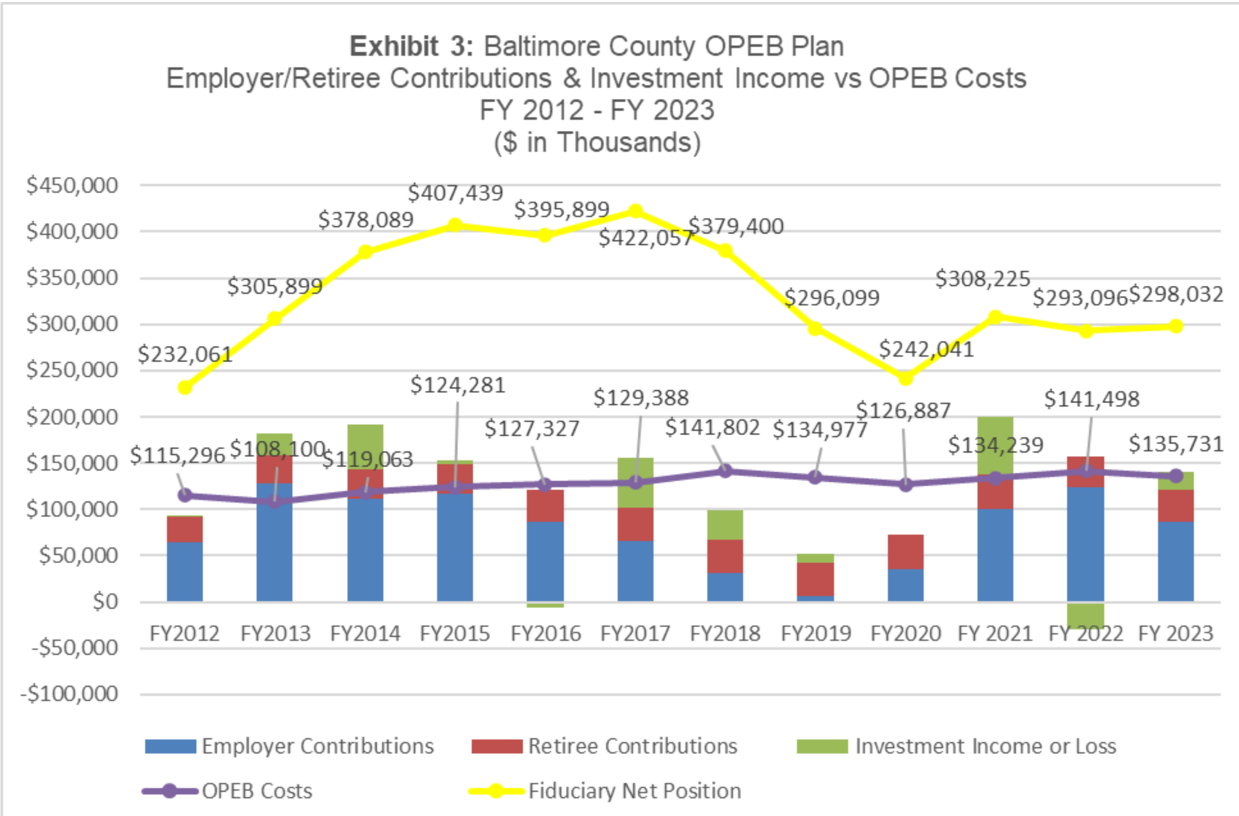
***Financial Condition of the Trust Fund***

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 2012 – FY 2023.

# INSURANCE CONTRIBUTIONS (043)




- In FY 2023, the Plan's fiduciary net position rose 1.7%, or $4.9 million, from $293.1 million on June 30, 2022 to $298.0 million on June 30, 2023, due to positive net investment income and a decrease in benefit payments, partially offset by decreased employer contributions. The annual money-weighted rate of return on OPEB Plan investments, net of OPEB investment expense, was 7.1%, compared to -10.2% for the year ended June 30, 2022. The money-weighted rate of return expresses investment performance net of investment expense, adjusted for the changing amounts actually invested. In FY 2023, employer contributions decreased by $37.3 million, from $124.3 million in FY 2022 to $87.0 million in FY 2023. The decrease was primarily due to a one-time $54 million transfer of surplus funds from the Health Insurance Fund in 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 including the $54 million transfer of surplus funds from the Health Insurance Fund mentioned above.
- 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.**

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

- ***Whether it requested an actuarial impact analysis associated with the newly proposed shift to a single-tiered health insurance rate structure on the County's annual OPEB contributions as well as on the OPEB accrued liability, and what the actuarial analysis concluded – or in the event none was obtained, how the Office weighed the costs and benefits of instituting the planned change; 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 2025 budget includes $94.4 million for General Government employee health insurance, an increase of $9.9 million, or 11.7%, over the FY 2024 budget. This increase is partially due to the cost of ending, in CY 2025, the bifurcated rate structure that has been in place since 2007. The Office advised that the County's healthcare consultant/actuary estimates the cost of this change to be approximately $4 million in FY 2025 and $13 million in FY 2026. The Office further advised that the main difference for employees hired on or after July 1, 2007 is that they will now pay the same rates for dependents as employees hired prior to July 1, 2007. (Currently, employees hired on or after July 1, 2007 pay a portion of the difference between the premium for an individual plan and the premium for a plan with dependents, while employees hired before July 1, 2007 do not.)

The Office preliminarily estimates that, effective January 1, 2025, employee renewal premiums for medical coverage for General Government employees will increase by 6.2%, with no increase to copays. The Office advised that renewal premiums will be finalized upon further analysis of claims experience.

The County's healthcare consultant/actuary projects active employee claims experience for FY 2024 and FY 2025 will result in surpluses of $14.2 million and $22.8 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:***

- ***Current and anticipated trends in employee health insurance costs, including the portion of the increase in the proposed FY 2025 budget that is not attributable to the cost of ending the bifurcated rate structure; and***
- ***How the County's health insurance cost increases compare with national medical care inflation rates.***

**3. General Government Funding for Liability Claims**

The proposed FY 2025 budget includes $29.2 million for liability claims, an increase of $1.0 million, or 3.6%, over the FY 2024 appropriation. This increase follows a larger increase of $4.9 million, or 20.8%, in FY 2024. Annually, the County seeks to appropriate and pay to the Self-Insurance (Liability) Fund an amount that will satisfy all liabilities expected to occur in the upcoming fiscal year. The Office advised that the Office of Law is working with County departments and offices to identify and assess areas of risk and implement strategies to minimize impact, limit claims where possible, and further best practices for effective risk management.

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

- ***The level of statistical confidence of the risk margin that was used to determine the amount of funding included in the FY 2025 budget; and***
- ***The County's efforts to minimize future liability claims.***

**4. Onsite Employee Healthcare and Wellness Initiatives**

On October 3, 2022, the Council approved a new contract with Cigna Health and Life Insurance Company for the administration of the County's employee medical insurance program. At the time, the Office advised that this contract was to include onsite employee care. Accordingly, it is anticipated that Cigna will be opening a health clinic for employees in the new County office building located at 305 Washington Avenue. The Office advised that the clinic will include two exam rooms and a lab that can be used for screenings, and will be staffed by a Nurse Practitioner (NP), a Medical Assistant (MA), and a Nurse (RN)/Health Educator; the clinic will provide a convenient, affordable option for employees to receive healthcare and is another way that the County is promoting employee wellness.

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

- ***The timeframe and costs to the County associated with opening this new healthcare clinic;***
- ***The types of services to be offered by the Nurse/Health Educator; and***
- ***Other ways by which the County demonstrates a commitment to employee wellness (e.g., the wide range of EAP services, consideration of covering GLP-1 drugs).***

## INSURANCE CONTRIBUTIONS (043)

APPROPRIATION DETAIL

| | FY 2023 ACTUAL | FY 2024 APPROP | FY 2025 REQUEST | NET CHANGE AMOUNT | NET CHANGE % |
|---|---|---|---|---|---|
| 4302 Insurance Contributions | $ 161,157,673 | $ 189,804,283 | $ 196,844,775 | $ 7,040,492 | 3.7% |

## INSURANCE CONTRIBUTIONS (043)

PERSONNEL DETAIL

| | FY 2023 ACTUAL | | FY 2024 APPROP | | FY 2025 REQUEST | | NET CHANGE | |
|---|---|---|---|---|---|---|---|---|
| | FULL | PART | FULL | PART | FULL | PART | FULL | PART |
| 4302 Insurance Contributions | -- | -- | -- | -- | -- | -- | -- | -- |