



# Montgomery County Government

## MEMORANDUM

March 18, 1993

TO: Marilyn Praisner, Chair  
Management and Fiscal Policy Committee

FROM: Karen Orlansky, <sup>VO</sup> Program Evaluator  
Office of Legislative Oversight

SUBJECT: Memorandum Report: Review of Group Insurance Component of the Self-Insurance Fund

### I. PURPOSE OF OLO'S REVIEW

In December 1992, the MFP Committee received a briefing from the Director of the Office of Management and Budget concerning the FY92 retained earnings deficit in the Group Insurance component of the County Government's Self-Insurance Fund. As a result of that briefing, the MFP Committee requested the Office of Legislative Oversight to review:

- The roles of the various departments and contract consultants involved in the collection and analysis of Group Insurance related data;
- The overall decision process for establishing employee and employer contributions to the Group Insurance component of the Self-Insurance Fund; and
- Procedural changes that have or will be made to improve the flow of timely information to the County Executive and Council related to claims costs, insurance dividends, and reserves.

This memorandum summarizes OLO's findings and offers a number of recommendations for the Committee to consider.

### II. METHODOLOGY

Information related to this assignment was obtained through document reviews and interviews with the Directors and staff of the Office of Management and Budget, Office of Personnel, and Department of Finance. Other individuals interviewed were: a representative from The Prudential Insurance Company of America (the County's third-party claims administrator and carrier of certain insurance policies); a representative from William M. Mercer, Inc.,

(the County's actuarial and benefits consultant on contract to the Office of Personnel); the former Staff Director of the County Council; and staff from the Personnel Departments of M-NCPPC, MCPS, and Montgomery College.

OLO received full cooperation from all parties.

### III. OVERVIEW OF THE GROUP INSURANCE COMPONENT OF THE SELF-INSURANCE FUND

Group Insurance is one of three components in the County's Self-Insurance Fund. The other two components are Unemployment Insurance and Liability and Property Coverages.\* Revenues and expenses in the Self-Insurance Fund are recorded on an full accrual basis. The Self-Insurance Fund is a proprietary fund, and is audited as a single entity.

In FY92, Group Insurance expenses accounted for approximately \$48 million (63%) of the \$76 million in total Self-Insurance Fund expenses. The Group Insurance component consists of all revenues and expenses associated with the following employee benefit programs: health, dental, optical, prescription drug card, life, and long-term disability (LTD) insurance.

At present, for health coverage, members of the County's Group Insurance plan have the option of choosing among the Prudential Indemnity Medical Plan, the Prudential Choice Plan (offered since January 1991), or a Health Maintenance Organizations.\*\* The Indemnity Medical Plan provides reimbursement for incurred expenses at a predetermined rate. The Choice plan has three parts: a managed care health plan, the payment of insurance premiums with pre-tax dollars, and a Flexible Spending Account. All of the Health Maintenance Organizations provide care on a prepaid basis for a fixed cost per month.

The County's Group Insurance plan includes benefits for active employees and retirees\*\*\* of the County Government and the following other entities: Housing Opportunities Commission, Revenue Authority, Washington Suburban

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\* The Liability and Property Coverages component of the Self-Insurance Fund is administered by the Risk Management Division in the Department of Finance, and includes claims relating to vehicle, fire, and general liability, as well as workers compensation claims. In addition to the County Government, this component includes the following participating agencies: MCPS, Montgomery College, M-NCPPC, the Fire Departments, City of Rockville, Revenue Authority, HOC, Housing Authority of Rockville, Town of Somerset, and Village of Martin's Addition.

\*\* For 1993, in addition to the Indemnity and Choice plans, members of the County's Group Insurance Plan were offered the option of participating in the following six HMOs: Group Health Association, Columbia, HealthPlus, HealthKeepers, Kaiser Permanente, MD-IPA.

\*\*\* Retirees are eligible to continue to participate in the health, dental and life insurance programs.

Transit Commission, the Fire Corporations, Strathmore Hall, Montgomery Community Television, Inc., Montgomery County Credit Union, and judges of the Circuit and District Courts. In addition, it includes a handful of State employees (in the Department of Assessment and Taxation, the District Court, and Parole and Probation), who were formerly County employees at the time their function was taken over by the State. Payments for claims are paid through a third-party administrator (The Prudential Insurance Company of America) without regard to the claimant's current or former employer.

Table 1 (page 3a) shows the year-end balance of retained earnings in the Group Insurance component of the Self-Insurance Fund for the past ten fiscal years. The data indicate:

- Between FY83 and FY87, the year-end balance increased each year. The annual increase in retained earnings ranged from half a million dollars to \$2 million, with a median increase of \$1.5 million/year over the four year period.
- Between FY88 and FY92, the year-end balance declined each year. The annual decrease in retained earnings ranged from \$616,000 to \$6.1 million, with a median decrease of \$3.3 million/year over the five year period.
- There was a deficit in the year-end balance for the Group Insurance component for the past two fiscal years. In FY91, there was a retained earnings deficit of \$406,096, and in FY92 the retained earnings deficit increased to \$6,544,315.

The recovery plan for the Group Insurance component and associated year-end balance projections for FY93-FY97 are discussed later in this memorandum. (See page 14.)

County Code Chapter 20, Article VII, Insurance, establishes the County's Self-Insurance Fund. Section 20-37(e)(4) requires that, "the appropriation for the Self-Insurance Program will provide for premium costs, claims expense, risk management program costs, and sufficient increases to the claims reserve to maintain an unencumbered reserve of four million dollars." A review of the legislative history of this provision suggests that the four million dollar minimum was established only for the Liability and Property Damage component of the Fund, and was not intended to apply to Group Insurance or Unemployment Insurance.

#### **IV. THE ROLES OF THE VARIOUS DEPARTMENTS, OFFICES, AND CONSULTANTS**

##### **A. Executive Branch**

Three Executive Branch departments have responsibilities directly related to Group Insurance. This section describes the relevant responsibilities of the Personnel Office, Finance Department, and Office of Management and Budget. Recent efforts to design an improved system for collecting and tracking Group Insurance data are discussed at the end of this section. The annual process of establishing premiums and recent changes to that process are described in Part V of this memorandum, beginning on page 8.

Table 1

Group Insurance Component of the Self Insurance Fund  
Year-End Balance FY83 - FY92

<u>Fiscal Year</u>	<u>Year End Balance</u>
1983	\$4,654,109
1984	\$6,818,909
1985	\$8,478,983
1986	\$8,993,858
1987	\$10,368,805
1988	\$9,752,232
1989	\$6,331,744
1990	\$2,752,897
1991	(\$406,096)
1992	(\$6,544,315)

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Source: Montgomery County Comprehensive Annual Financial Reports, FY83 - FY92.

**1. Personnel Office.** The Employee Services Division of the Personnel Office administers the County's employee benefits programs, and maintains County personnel files and records. As needed, the Employee Services Division provides assistance on benefits-related issues to individual employees and retirees, as well as to other County offices, including the Labor/Employee Relations Division of the Personnel Office, the Office of Management and Budget, the Office of the County Executive, and the County Council.

The employee benefit programs administered by the Employee Services Division are: health insurance, dental insurance, optical insurance, prescription drug card insurance, life insurance, long-term disability insurance, and retirement. Except for retirement, all expenses and revenues related to these benefit programs are accounted for in the Group Insurance component of the Self-Insurance Fund. Expenses and revenues related to retirement are separately accounted for in the Retirement Fund; the assets of the Retirement Fund are managed by the Board of Investment Trustees.

The Employee Services Division is the designated contract administrator for two Group Insurance-related contracts:

- The Prudential Insurance Company of America: The County's contract with Prudential is complex and covers a number of different aspects of the County's benefits program. Prudential is the County's third-party administrator for all of the employee benefit plans except for retirement. (HMOs do not require a third-party administrator.)

The County's contract with Prudential for the Indemnity Medical Plan, Choice Plan, dental insurance, and prescription drug card insurance is for a Minimum Premium Plan (MPP) of insurance. Under a MPP arrangement, the County agrees to self-insure all claims up to an agreed upon maximum, above which Prudential assumes financial responsibility.

The County's life insurance and optical insurance plans with Prudential are fully insured plans. This means that the County pays Prudential fixed premium payments, and all life and optical insurance claims are paid by Prudential. For disability retirement benefits, Prudential serves as the County's claims administrator, although the carrier of the fully insured long-term disability policy is with another insurance company (CIGNA).

In addition, the County has a separate contract with Prudential to handle all COBRA payments and claims.\*

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\* COBRA payments refer to the County's obligations under federal law to offer qualified employees the option of continued health insurance at group rates for a specified time period after certain events such as employment termination, divorce, or the age of majority of a dependent.

- William M. Mercer, Inc.: The County's current contract with William M. Mercer, Inc. was entered into in 1989, and has been extended for three additional one-year periods. Mercer's role is primarily to provide actuarial and underwriting consulting services. The contract provides that the Employee Services Division must approve all services rendered under the contract. In addition to providing an actuarial valuation of the Employees Retirement System, Mercer has provided actuarial consulting services with respect to plan design, funding alternatives, and level of reserves for the group health and life insurance programs offered by the County.

Finally, the Employee Services Division is responsible for reviewing and reconciling all bills received from the HMOs, all of which offer prepaid health services for a fixed annual fee. On a monthly basis, the Employee Services Division prepares the appropriate payment vouchers for the HMOs, and forwards them to the Accounts Payable section in the Finance Department for payment out of the Group Insurance fund.

**2. Finance Department.** The Accounting Division of the Finance Department is responsible for classifying, recording, and reporting all financial transactions of the County. The Accounting Division's work includes maintaining accounting records for all funds, and compiling the County's monthly and annual financial reports.

The Accounting Division classifies, records, and reports all financial transactions of the Group Insurance component of the Self-Insurance Fund and the Group Insurance Reserves Expendable Trust Fund.\* On a weekly basis, the Accounting Division is responsible for making the necessary wire transfer of funds from the Self-Insurance Fund to Prudential for payment of claims. On a monthly basis, the Accounts Payable section makes payments to HMOs from the Self-Insurance Fund, based upon invoices and payment vouchers received from Employee Services.

Reports on the Self-Insurance Fund are included in the Department of Finance's monthly financial reports, with additional detail provided in the County's Comprehensive Annual Financial Report (CAFR). Since May of 1992, the Accounting Division has directly provided the Employee Services Division with information on the amount of funds wired to Prudential.

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\* Life insurance dividends and contributions from active employees for the pre-funding of post retirement life insurance are deposited in the Group Insurance Reserves Expendable Trust Fund. Funds deposited in this Trust Fund are used as a source of revenue for the Group Insurance component of the Self-Insurance Fund.

**3. Office of Management and Budget.** OMB's responsibilities include preparing the Executive's annual capital and operating budgets. OMB also conducts fiscal planning, and oversees administration of the County's budget. OMB's duties include providing fiscal analysis and staff support on compensation issues to other Executive Branch offices as well as to the County Council.

Working in conjunction with the Office of Personnel and other Executive branch offices, OMB prepares the compensation related sections of the Executive's recommended operating budget. Preparing the Executive's operating budget includes working with the Personnel Office to calculate the revenues and expenses associated with Group Insurance for active and retired employees.

For active County Government employees, the amounts for the County's contribution to group insurance premiums are included in the Executive's recommended budgets for individual departments. Since FY87, to pay for the County's contribution for retirees' group insurance premiums (health, dental, and life insurance), the Executive's budget has included a separate appropriation to the Group Insurance Retirees Non-Departmental Account.\*

Interviews with OMB staff indicate that, during the years that the position existed, the Chief of the Budgets Division was largely responsible for compensation-related issues. This position became vacant in early FY92, and due to fiscal constraints, the position was never filled. The Chief of the Budgets Division position was officially abolished in the FY93 budget.

In the Executive's FY92 budget, an additional Management and Budget Specialist position was approved to provide analytical support on fiscal issues related to compensation matters, and to represent OMB in the collective bargaining process. Again for fiscal reasons, this position was not filled, and the compensation specialist position was officially abolished in the FY93 budget.

OMB's duties related to compensation and collective bargaining are currently assigned to two Senior Management and Budget Specialists in the Budgets Division. Although these individuals have other assignments, their primary responsibility for the past 18 months has been to focus on salary and fringe benefits related issues.

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\* Until FY87, no separate County appropriation was provided for the cost of the retirees insurance program. The County's share had been entirely funded through life insurance dividends, investment income, and use of the Group Insurance Reserve Trust. Table 2 (page 6a) lists the amounts requested, appropriated, and actually spent from the Group Insurance Retirees-NDA, FY87-FY93.

Table 2

**Group Insurance Retirees, Non-Departmental Account**  
**FY87 - FY93**  
**(in \$000's)**

<u>Fiscal Year</u>	<u>Executive Request</u>	<u>Council Approved</u>	<u>Actual</u>
FY87	\$1,000	\$1,000	\$1,000
FY88	1,000	1,000	1,000
FY89	1,500	1,000	1,000
FY90	2,500	3,000	2,831
FY91	4,500	4,500	3,230
FY92	4,600	4,600	4,600
FY93	4,600	4,600	8,500*
FY94	10,250**		

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\* Projected by Office of Management and Budget.

\*\* As requested in Executive's Recommended FY94 Operating Budget.

Source: County Executive Recommended Program Budgets, FY87 - FY93, and Office of Management and Budget Memorandum to Management and Fiscal Policy Committee, December 8, 1992.



## **B. Legislative Branch**

The County Council's responsibilities related to Group Insurance have primarily been linked to the Council's budget and oversight responsibilities.

Each year, the Executive submits to the Council the Executive's recommended capital and operating budgets. By Charter, the Council must approve the budget, and has the authority to add to, delete from, increase or decrease any appropriation item in the Executive's recommended budget. The County Government budget includes appropriations for employee compensation and benefits. In particular, the Compensation Section of the Executive's recommended budget includes funding for the benefits for both active and retired employees.

In addition to approving annual appropriations, the Charter requires the Council to employ a certified public accountant to conduct an annual audit of all financial records and actions of the County. By law, the Office of Legislative Oversight is charged with managing the contract for the Council's audit. The audit includes review of the Self-Insurance Fund. As currently structured, the audit of the Self-Insurance Fund is conducted at the fund level, and does not include a separate review of the component parts.

## **C. Recent Efforts to Improve Data Collection.**

During the Fall of 1992, the Executive Branch initiated an effort to improve the collection, tracking, and analysis of Group Insurance data.

Over the past several months, staff from OMB, Finance, and Employee Services have been working collaboratively with the County's benefits consultant (Mercer) and the County's third-party administrator (Prudential) to design and implement a better system for collecting and tracking revenue and expenses in the Group Insurance component of the Self-Insurance Fund.

One of the specific objectives is to design a tracking and reporting system that provides more timely and detailed data about Group Insurance revenues and claims. The new system will allow for analysis of revenue and expense data by benefit plan (e.g., Indemnity Plan vs. Choice Plan vs. dental insurance plan vs. optical insurance plan vs. prescription drug card plan vs. HMOs), and by participant subgroups (e.g., active vs. retired employees; County Government employees vs. employees of outside entities). Among other things, the new system will provide quantitative information about the relationship between premiums and total plan costs.

According to Executive Branch staff, the new data collection system will be operational within the next several months. The improved data reports are directly related to improvements being made in the premium rate setting process, which is discussed in the following section.

## V. THE PROCESS OF ESTABLISHING PREMIUMS FOR GROUP INSURANCE

### A. Background

1. **General.** A comprehensive review of the County Government's strategy for funding employee benefits was beyond the scope of this assignment. However, in order to understand the decision process for establishing premiums, the following aspects of the County's approach to funding Group Insurance are relevant:

a. For purposes of funding, the County Government's practice has been to consider its health, life, and long-term disability (LTD) insurance benefits as a composite program. The revenues and expenses for health, dental, optical, prescription drug card, life, and long-term disability (LTD) insurance are pooled into the Group Insurance component of the Self-Insurance Fund, which as explained earlier in this memo, covers benefits for active and retired employees of the County Government and a number of outside entities.

b. For health benefits, members of the County's Group Insurance plan currently have the option of choosing among the Indemnity Medical Plan, the Choice Plan (offered since January 1991), or a Health Maintenance Organizations (six HMOs are currently offered.) According to current policy:

- All active and retired employees enrolled in one of these health plans are required to participate in the County's life insurance and dental insurance plans;

- In addition, all active employees enrolled in a health plan are required to participate in the County's long-term disability insurance plan, and must also contribute a set amount each pay period for "pre-funding post retirement life insurance";\* and

- Active employees enrolled in a health plan have the option of enrolling in the optical insurance plan and/or the prescription drug card insurance plan.

c. In terms of the County's funding arrangements with the Prudential Insurance Company of America, the Indemnity Plan, Choice Plan, dental insurance plan and prescription drug card insurance plan are subject to a Minimum Premium Plan of insurance. This means that although these plans are primarily self-insured by the County, there is a written agreement that Prudential will pay for claims above a certain negotiated margin.

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\* According to rates effective 1/1/93, for each active County employee, the monthly contribution for pre-funding of post retirement life insurance is \$.28 from the employee and \$1.35 from the County. In FY92, a total of \$138,178 in pre-funding of post retirement life insurance premiums was collected and deposited in the Group Insurance Reserves Trust fund. Funds deposited in the Group Insurance Reserves Expendable Trust Fund, including this \$138,178, were used in FY92 as a source of revenue for the Group Insurance component of the Self-Insurance Fund.

The County's optical insurance and life insurance plans are also through Prudential, but are fully insured plans, which means that the County pays a fixed cost per month and Prudential is responsible for all claims. (The County's long-term disability insurance policy is also a fully insured plan, but the carrier is CIGNA.)

d. Since 1978, the ratio of employer to employee contributions to premiums charged for the Indemnity Plan has been 83/17. This ratio is incorporated into the County's agreements with each of its employee organizations. (Because, as explained below, revenue in addition to premiums has been used to fund the Indemnity Plan, the total County contribution to total Indemnity Plan costs has been higher than 83 percent and the employee share correspondingly lower.)

e. Health Maintenance Organizations (HMOs) provide care on a prepaid basis for a fixed cost per month. The County's policy towards HMO premiums has been to provide a contribution that is equal to either the County's share of premium charged for the Indemnity Plan, or 83 percent of the HMO premium, whichever is lower; the employee's share is then calculated as the difference. Since the advent of the Choice plan, the maximum County's contribution to HMO has been calculated as a composite of the Indemnity and Choice premiums. For example, this year the actual ratio of employer/employee contributions for single HMO subscribers ranges from 64/36 to 83/17, depending upon the HMO.

**2. Use of Revenues in Addition to Premiums.** For many years, the County Government's practice has been to hold down increases in Indemnity Plan premiums by funding total Indemnity Plan costs with premiums plus revenues from other sources. In other words, because of a subsidy provided from other revenue sources, it was not necessary to establish premiums for the Indemnity Plan at a level sufficient to cover actual total plan costs.

Over the years, these other sources of revenue used to subsidize total Indemnity Medical Plan costs have been:

- Dividends from the County's life insurance policy (generated from surplus life insurance premiums);
- Post-retirement life insurance payments paid by all active employees; and
- Investment income.

Between FY87 and FY91, the most significant source of revenue (in addition to premiums) used to fund total Indemnity Plan costs was the use of retained earnings that had accumulated in the Group Insurance component of the Self-Insurance Fund. Over the years, the retained earnings in the Group Insurance component had been build up largely from life insurance dividends and interest income.\*

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\* Life insurance dividends are deposited in the Group Insurance Reserve Expendable Trust Fund, and transferred to the Group Insurance component of the Self-Insurance Fund as a source of revenue.

As reviewed earlier, by 1987, the retained earnings in the Group Insurance component of the Self-Insurance Fund had reached \$10 million (see Table 1, page 3a). Interviews with Executive Branch staff indicate that a conscious decision was made in 1987 to begin drawing down the Group Insurance balance as a source of revenue to defray increased premiums in the Indemnity Plan. The decision was based upon the rationale that a \$10 million balance was larger than necessary, and that both the County and employees (who belonged to the Indemnity Plan) would benefit from holding down Indemnity premiums.\*

According to Executive Branch staff, the reason for containing premium rate increases for the Indemnity Plan was to reduce adverse selection effects of employee choices among the various plans, while design and cost containment changes such as the Choice Plan were given time to work. In addition, because of the County's policy towards budgeting employer/employee contributions to HMOs, containing Indemnity premiums has also held down the level of the County's employer contributions to HMOs.

When asked about the history of the County's practice of subsidizing Indemnity Plan premium costs, Executive Branch staff cite two Council Resolutions, one passed in 1966 and another passed in 1974:

- In June 1966, Council Resolution No. 5-2838 authorized establishment of the Employee Group Insurance Reserve Fund. According to the Resolution, this interest earning expendable trust fund was to be used as a repository of life insurance dividends. The Resolution states that "it is possible that in future years, such dividends may have to be used to defray increased premium costs or to finance additional benefits".\*\*

- In June 1974, Council Resolution No. 7-1802 explicitly approved the use of \$534,450 from the Employee Group Insurance Fund "to partially defray the cost of said premium of the employees group insurance plan during Fiscal Year 1975". The Resolution references the 1966 resolution that established the Employee Group Insurance Reserve Fund, and reports that the Reserve Fund balance as of June 30, 1973 was \$1,911,985.

These two Council Resolutions are attached at the end of this memorandum report as Attachment A and Attachment B.

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\* Until FY87, it should also be understood that there was no separate appropriation for the County Government's share of premiums for retirees, because the County's share of retirees' Group Insurance premiums had been funded primarily from life insurance dividends and investment income. Since FY87, a separate appropriation to contribute towards the County's cost of premiums for retirees has been made to a Non-Departmental Account, titled: Group Insurance-Retirees. The amounts appropriated each year to this NDA are shown in Table 2, page 6a.

\*\* In 1966, the County still operated under the Council Manager form of government.

Although OLO was unable to locate any similar Council Resolutions for the years since FY75, it is the perception of the Executive Branch staff interviewed that the County Council has understood and supported the Executive's decision to defray Indemnity Plan premium increases by using other revenue sources, including life insurance premiums, interest income, and retained earnings in the Group Insurance component. Each year, the Executive's recommended operating budget has reflected the Executive's funding decisions regarding Group Insurance. Except for some minor amendments to the Executive's recommended contribution to the Group Insurance-Retirees NDA, the Executive's Group Insurance recommendations have been approved consistently by the Council.

#### **B. The Process of Setting Group Insurance Rates**

Prior to 1992, there was no written formal process for establishing health or life insurance premiums. According to interviews with Executive Branch staff, the process that had been followed for many years was an informal one. In general, the Personnel Office periodically reviewed the rates, and any recommendations for proposed rate changes were informally discussed with OMB staff, and in some cases, Council staff.

In January of 1992, the OMB Director initiated a more formal process for the setting of rates for health and life insurance. The respective roles of OMB, the Personnel Office, and the Finance Department were outlined in a January 19, 1992 memorandum from the OMB Director to the Personnel Office Director. According to the memo, the Personnel Office is responsible for submitting proposed rates and relevant materials to OMB for consideration. OMB, with assistance of the Finance Director, then reviews the proposed rates with the Personnel Office, and makes a decision in time for transfer season and preparation of the operating budget.

The more formal process was followed for the first time last year in the setting of rates for CY 1993. Based upon interviews with Executive Branch staff involved, it appears that the rate setting process this past year was different from earlier practices in a number of ways:

- OMB was able to dedicate substantial staff time and effort to analysis of the proposed rate changes;
- OMB's analysis included review of the revenue and expenditure assumptions used to determine rate changes;
- The County's actuarial benefits consultant (Mercer) participated more actively in the analysis; and
- Department of Finance staff were also involved in reviewing the assumptions used to calculate proposed rate changes.

One of the conclusions of the 1993 rate setting process was the need for improved data collection and analysis. Because the County's practice has been to consider its health, dental, optical, prescription drug card, and life insurance benefits as a composite program, the rate setting process in the past has not emphasized evaluation of the revenues and expenses of the component programs. In addition, data about actual claims experience were not being obtained on a timely basis to be considered.

As reviewed earlier (see page 7), OMB, Personnel Office, and Finance Department staff have been working over the past several months to design and implement a more timely and detailed data collection and tracking system. One of the stated objectives of the new system will be to compile monthly data about the revenues and expenses of separate programs (e.g., Indemnity, Choice, dental, optical, prescription card). This will then allow for more informed decisions to be made about the pricing strategy for each program, to include the ability to identify which programs are being fully funded through premiums and which programs are not.

### **C. Lessons From the Group Insurance FY92 Deficit**

Fundamentally, a deficit balance is created by a gap between revenues and expenses. Based upon a review of relevant documents and staff interviews, it is OLO's conclusion that, in retrospect, the \$6.5 million FY92 deficit in Group Insurance retained earnings was caused by several factors. While OLO acknowledges that an increase in Group Insurance claims (expenses) contributed to the deficit situation, OLO concludes that a larger portion of the gap between expected revenues and expenses occurred as a result of incorrect revenue assumptions used in the rate setting process, and the absence of a long-term funding strategy for Group Insurance.

This section reviews what OLO considers to be the most significant factors that contributed to the \$6.5 million year-end deficit of retained earnings in the Group Insurance component of the Self-Insurance Fund.

**1. No limit was placed on the use of Group Insurance retained earnings as a source of revenue to defray Indemnity Plan premium increases.** In 1987, the decision was made to begin drawing down the Group Insurance balance of \$10 million, and approximately \$3 million/year was used over the next four years as a major source of revenue to defray increased premiums in the Indemnity Plan. Based upon document reviews and interviews with key staff, it is apparent that the decision to draw down retained earnings was not accompanied by either: a decision that the balance should not fall below a target level; or a longer-term plan for generating revenue when the \$10 million balance was used up.

**2. An inadequate flow of information about the status of Group Insurance revenues and expenses led to the use of an incorrect revenue assumption about the availability of retained earnings.** The Personnel Office initiated the rate setting process for 1992 in the Spring of 1991. At that time, the assumptions used for rate setting purposes included a revenue assumption that another \$3 million in retained earnings would be available in CY 1992. In retrospect, it is evident that assuming \$3 million was available in retained earnings was incorrect because the Group Insurance component ended FY91 with a deficit balance of \$406,096. According to the staff involved with rate setting, the deficit in retained earnings was not known until the Fall of 1991, after rates for CY 1992 had already been established and publicized.

It is OLO's view that the use of the incorrect retained earnings assumption reflects an inadequate flow of information between the staff tracking actual revenues and expenses in Group Insurance, and staff responsible for making recommendations about health and life insurance rates. As discussed earlier in this memo, the need for more detailed and timely Group Insurance data was identified during this past year as a result of the more formal rate setting process initiated by OMB. The improved data collection and tracking system is expected to enhance the rate setting process in the future.

**3. A miscommunication led to the use of an incorrect revenue assumption concerning the use of funds appropriated to the Group Insurance-NDA for retirees.** In retrospect, a second revenue assumption used in setting rates for 1992 was incorrect. The 1992 rate setting analysis (conducted in the Spring of 1991) assumed that the \$4.6 million allocated to the Group Insurance-Retirees Non-Departmental Account (NDA) was in addition to the County's payment of the employer share of premiums for the retirees. This revenue assumption essentially resulted in a double-counting of revenue because the NDA was appropriated for the County's payment of the employer share of premiums for retirees, and was not intended as a subsidy to be provided in excess of premium payments.

Based upon interviews with those involved, it appears that the use of the incorrect assumption about the Group Insurance-Retirees NDA was the result of a miscommunication between the County's Personnel Office and the County's actuarial benefits consultant (Mercer), who was requested to develop a number of different rate/claim scenarios. Mercer relied upon assumptions provided by the Personnel Office.

The use of the incorrect revenue assumption about the Group Insurance Retirees-NDA was not discovered until mid-1992. In January of 1992, Executive Branch staff met with Mercer's actuary to review the implications of the FY91 year-end deficit of \$406,096. At that time, the actuary was requested to develop some best case/worst case scenarios for FY92. In retrospect, one of the reasons that the \$6.5 million FY92 deficit was not projected was that the January 1992 projections continued to rely upon a misunderstanding of the \$4.6 million NDA.

Under the more formal rate setting process initiated last year, there is a reduced chance of this happening again because two other offices (OMB and Finance) are taking more active roles in reviewing all assumptions used in rate setting. In addition, Mercer has become more involved with the County's overall health and life insurance funding strategy, and would more likely be in a position today to question whether the revenue assumptions used are accurate.

**4. There was an unexpectedly large increase in Group Insurance claims in FY92.** Table 3 (page 13a) lists the total Group Insurance claims (Indemnity Plan, Choice Plan, dental, optical, prescription card, and life insurance), and the percent change between each year FY89 to FY92. (Data for FY93 are projected). Compared to the six percent increase between FY90 and FY91, the 17 percent increase in Group Insurance claims between FY91 and FY92 was larger than expected. The increase, however, was still below the margin negotiated with Prudential under the County's Minimum Premium Plan insurance arrangement.

**Table 3**  
**Group Insurance Claims**  
**FY89 - FY93**

<u>Fiscal Year</u>	<u>Claims (in \$000's)</u>	<u>Percent Change From Previous FY</u>
1989	\$25.2	-
1990	31.0	22%
1991	32.5	6%
1992	38.2	17%
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1993*	41.2	8%

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\* Projected.

Source: Office of Management and Budget, December 9, 1992 memorandum to  
County Council.



According to the County's benefits consultant (Mercer), the increase in claims between FY91 and FY92 was between \$1 and \$1.5 million above that projected by the County, based upon the County's prior experience. However, although the 17 percent increase in claims between FY91 and FY92 was larger than the increase experienced between FY90 and FY91, the 17 percent was less than the 22 percent increase that occurred between FY89 and FY90. In addition, according to the County's benefits consultant, the health care cost increases experienced by the County have not been out of line with health care cost increases being experienced throughout the country.

As reviewed earlier in this memo, the more formal rate setting process implemented in 1992 involves review of both revenue and expenditure assumptions. In addition, the County's actuarial benefits consultant is playing a more active role in the rate setting process, and as a result, there will be greater use of actuarial projections of claims.

#### **VI. GROUP INSURANCE RECOVERY PLAN**

The December 8, 1992 memorandum to the MFP Committee from the Directors of the Office of Management and Budget and Office of Personnel outlined a recovery plan for the Group Insurance component of the Self-Insurance Fund.\* According to the memorandum, the following plan was developed in consultation with the County's actuaries and endorsed by the County Executive:

- A 25 percent rate increase in Indemnity Plan premiums, an 18 percent rate increase in Choice Plan premiums, and a 12 percent increase in HMO premiums for calendar year 1993;
- A \$3.9 million increase to the Group Insurance-Retirees Non-Departmental Account in FY93; and
- An additional \$1.3 million/year County contribution to Group Insurance for five years.

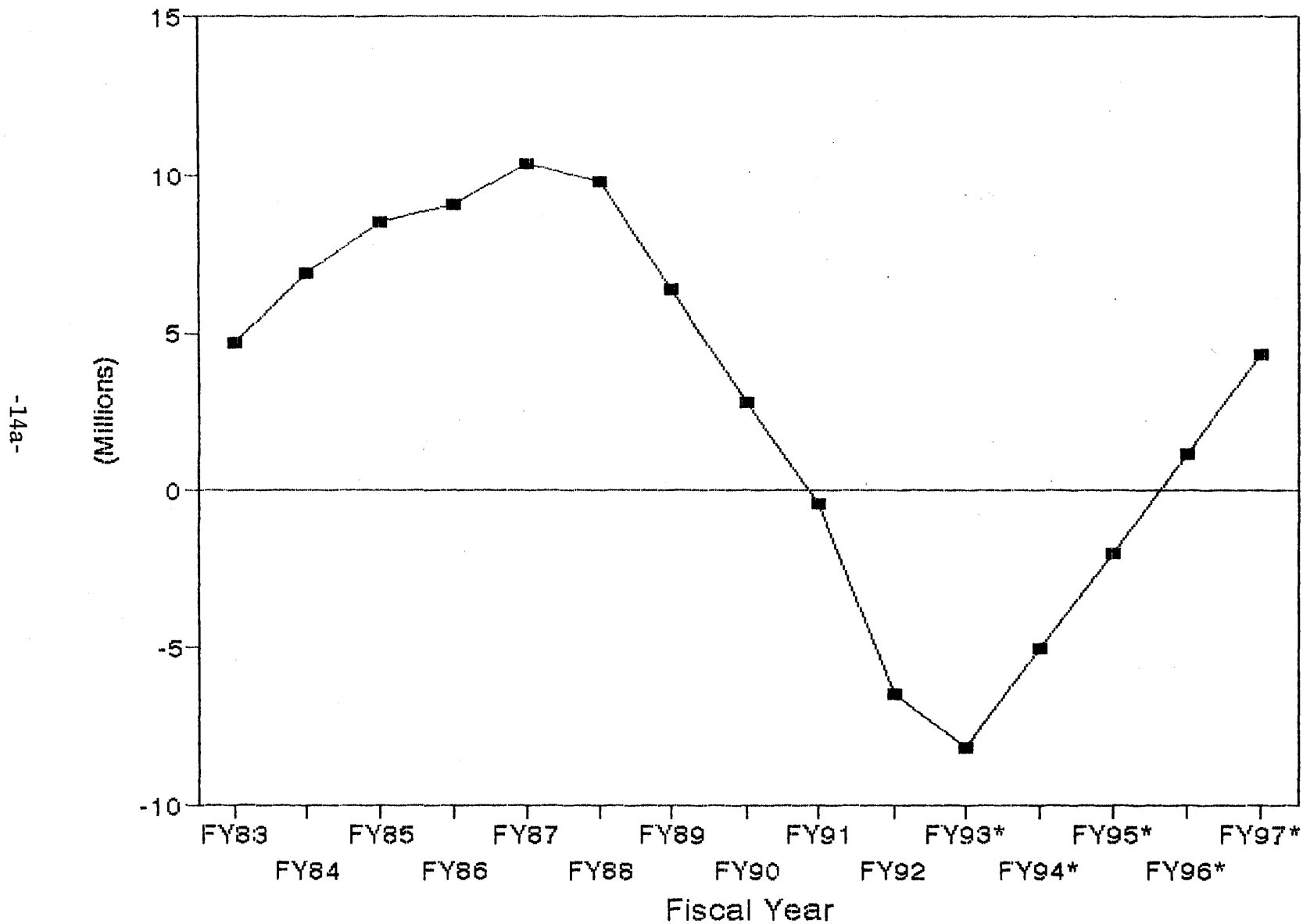
A formal request for a FY93 supplemental appropriation of approximately \$5.2 million (for the \$3.9 million increase to the Retirees NDA and \$1.2 additional County contribution) will be submitted to the Council before the end of this fiscal year.

OMB projects that even if this recovery plan is fully implemented, the Group Insurance component will continue to operate with a year-end deficit balance through FY96. (The chart on page 14a depicts OMB's projected recovery plan.) It must be recognized that what actually occurs could be better or worse, depending upon whether the revenue and claims assumptions turn out to be on target.

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\* The December 8, 1992 memorandum is attached to the end of this memorandum report as Attachment C.

# Group Insurance Year-End-Balance FY83-FY97\*



\*Data for FY93-FY97 are projected by OMB based upon the recovery plan.

The County Executive's Recommended FY94 Operating Budget (as transmitted to the Council on March 15, 1993) reflects the proposed Group Insurance recovery plan. The Executive's budget assumes that, effective January 1, 1994, Indemnity premiums will increase another 25 percent, and Choice premiums will increase another 18 percent. The Executive also recommends allocating \$10.2 million to the Group Insurance Retirees-NDA, which is an increase of \$5,650,000 over the FY93 allocation of \$4.6 million.

In addition, the Executive recommends a number of structural changes to the health benefits package for all employees except for members of the FOP. Specifically, for current employees, the Executive proposes, effective January 1, 1994, to increase the Indemnity Plan deductibles, increase Prescription Card co-pays, and reduce the number of available HMOs from six to three. For employees hired after July 1, 1993, the Executive proposes to limit the health plan choices to a Point of Service plan and two HMOs, and to provide a cafeteria plan approach for health, life, dependent care, and long-term disability benefits. Many of these changes are consistent with the Council's guidance regarding employee benefits, as outlined in Council Resolution 12-872, Policy Guidance on the Collective Bargaining Process and Employee Benefits, adopted by the Council in October 1992.

## VII. OLO RECOMMENDATIONS

**Recommendation (1): The Executive Branch should be commended for its decision to develop a more formal rate setting process, and its efforts to improve the collection, analysis, and reporting of Group Insurance data.**

Executive Branch staff have already taken important steps to improve the collection, analysis, and reporting of Group Insurance revenues and expenses, and to formalize the rate setting process. OLO recommends that refining information about the revenues and costs of Group Insurance should remain an Executive Branch priority.

In recent months, OMB, Office of Personnel, and Department of Finance staff have been working collaboratively to design and implement a more detailed and timely data collection system. Improvements will include the ability to analyze the costs and revenues of plan components (e.g., Indemnity Plan, Choice Plan, dental, vision, prescription drug card), and the claims experience of participant sub-groups, (e.g., active employees, retirees, County employees vs. outside entities).

The improved collection and analysis of Group Insurance data will enable the Executive Branch to make more informed and timely decisions regarding revenues and claims in the Group Insurance component, to include making decisions about establishing premiums for the various plan components. As discussed earlier in the memorandum, the positive results of the more formal rate setting process, which was initiated in 1992, are already evident.

**Recommendation (2): The Executive should clarify which department/office is responsible for coordinating the different facets of managing the County's Group Insurance plan.**

The Office of Personnel, Department of Finance, and Office of Management and Budget each have key responsibilities for different aspects of the County's Group Insurance plan. Under the current system, no one office is responsible for coordinating all aspects of managing Group Insurance.

Managing Group Insurance is a complex challenge. At minimum, it involves the following:

- Making policy decisions such as: what should be the substance and design of benefit programs; who is eligible to participate; and how should the components of the Group Insurance plan be funded;
- Tracking, analyzing, and reporting data on the multiple components of Group Insurance, and then using the data for making recommendations on factors such as the design of benefit packages and the appropriate rate structure;
- Negotiating and managing contracts for insurance plans, claims administration, and actuarial advice;
- Providing staff support to other Executive Branch offices and the Council regarding different aspects of employee benefits;
- Preparing the sections of the Executive's operating budget that relate to the funding of Group Insurance;
- Completing daily administrative responsibilities of reviewing bills, preparing vouchers, and making payments;
- Maintaining and updating employee records regarding benefits so that the appropriate deductions are made from each employee's paycheck; and
- Answering questions and advising active and retired employees from the County Government and a number of outside entities about their health and life insurance benefits.

Although these tasks are diverse, they are also inter-related. The Executive should clarify which department/office has overall responsibility to coordinate the various aspects of managing Group Insurance. A clear delineation of responsibility should improve the flow of information among the different actors, and provide for greater oversight of the component parts.

Note: The Executive's Recommended FY94 Operating Budget includes a proposal to implement a group management approach to improve the efficiency and effectiveness of Executive Branch departments and offices. The Administrative and Financial Services group will include the Office of Management and Budget, Personnel Office, Department of Finance, and Office of the Public Advocate. The Office of Management and Budget is assigned as the Group Leader. The Executive's proposed redesign may serve well to respond to OLO's recommendation to clarify responsibility for coordinating the management of Group Insurance.

**Recommendation (3): The MFP Committee should schedule a worksession with Executive Branch staff to discuss the long-term funding strategy for Group Insurance, and to review how this strategy fits with the direction for health care cost containment outlined in Council Resolution 12-872, Policy Guidance on the Collective Bargaining Process and Employee Benefits.**

Council Resolution 12-872, Policy Guidance on the Collective Bargaining Process and Employee Benefits, was adopted by the Council on October 27, 1992. This Resolution outlines the Council's policy guidance on the future of employee benefits, including health care. Resolution 12-872 endorses the approach taken in Model 4 of the Williams, Thatcher and Rand Report (optional indemnity, point of service, and closed HMOs), with the longer term objective for all agencies of moving towards Model 3 (point of service plan and closed HMOs, with an indemnity option for out of area retirees).

The MFP Committee should schedule a worksession with Executive Branch staff to discuss the long-term funding strategy for Group Insurance, and how this strategy fits with the Council's policy guidance outlined in Resolution 12-872. The discussion should include a review of the different revenue sources, (e.g., premiums, life insurance dividends, pre-payment of life insurance premiums from active employees), and general policy decisions about which components (if any) of Group Insurance should be subsidizing other components.

The MFP Committee's discussion of Group Insurance funding should also address the question of whether a statutory minimum balance should be established for retained earnings in the Group Insurance component. As indicated earlier in this memorandum, the law governing the Self-Insurance Fund requires that, "the appropriation for the Self-Insurance Program will provide for premium costs, claims expense, risk management program costs, and sufficient increases to the claims reserve to maintain an unencumbered reserve of four million dollars." A review of the legislative history of this provision indicates that the four million dollar minimum was intended only to cover the Liability and Property component of the Self-Insurance Fund, and was not intended to include Group Insurance or Unemployment Insurance.

In addition, given that all agencies are undoubtedly facing the challenge of funding increasing health costs, the MFP Committee may want to expand their review to look at the group insurance funding strategies of other County and Bi-County agencies.

**Recommendation (4): The audit of the Self-Insurance Fund should include a special focus on the Group Insurance component.**

As currently structured, the Self-Insurance Fund is audited at the fund level, with no separate audit of the three component parts. At least for the next several years, OLO recommends that the audit of the Self-Insurance Fund include a special focus on the Group Insurance component. A special focus on Group Insurance would better enable the auditor to comment on the flow of expenses and revenues in Group Insurance, even if such changes are not material to the County audit as a whole.

Because the Group Insurance component is managed in a completely different way from the other components of the Self-Insurance Fund, the Committee may also want to examine the advantages of separating Group Insurance out from the Self-Insurance Fund.

**VIII. A RELATED MATTER: THE OVERALL FY92 YEAR-END BALANCE OF THE SELF-INSURANCE FUND**

In the course of gathering data for this assignment, it came to OLO's attention that the Self-Insurance Fund as a whole recorded a FY92 year-end retained earnings deficit of \$12.1 million; \$6.5 million of the deficit was accounted for in the Group Insurance component and \$6.1 million in the Liability and Property Damage component. The Unemployment Insurance component ended FY92 with a positive \$566,722 in retained earnings.

This OLO memorandum report dealt with the Group Insurance retained earnings deficit, and the \$6.1 million retained earnings deficit in the Liability and Property Damage component was outside the scope of this OLO review. OLO suggests, however, that the Committee may want to schedule some time with Department of Finance staff (and appropriate staff from the other agencies that participate in the County's Self-Insurance Fund) to discuss the issue of the Liability and Property Damage deficit.

cc: Councilmembers

William H. Hussmann, Chief Administrative Officer  
Robert Kendal, Director, OMB  
Timothy Firestine, Director, Department of Finance  
William Garrett, Director, Personnel Office  
Stephen Farber, Council Staff Director  
Deborah Snead, Assistant for Audits and Evaluations

ko/cca  
703/28

Resolution No. 5-2838

Re: Employee Group  
Insurance Plan  
Reserves

WHEREAS the County has an experienced-rated employee group insurance plan which is financed by deductions from the bi-weekly pay of participating County employees and contributions of the County Government, and

WHEREAS dividends have accrued and may accrue in any year that the adjusted premium is less than the total payment made by the County and its employees, and


WHEREAS the plan is experienced-rated, it is possible that in future years such dividends may have to be used to defray increased premium costs or to finance additional benefits, and

WHEREAS it is not practical to make a pro-rata distribution of such dividends which may occur from time to time, and

WHEREAS the County Council has concluded that in the interest of good employee relations and employee morale that such dividends be placed in interest-earning reserve for future use,

NOW, THEREFORE, BE IT RESOLVED by the County Council of Montgomery County, Maryland, that any dividends that have accrued or that may accrue in the future be placed in interest-earning reserve with either the insurance company or with the County Government or both as may be determined by the County Manager.

ATTEST:

  
Richard E. Frederick, Clerk  
to the County Council for  
Montgomery County, Maryland

June 28, 1966





Resolution No. 7-1802

Introduced: June 18, 1974  
Adopted: June 18, 1974

COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND

By: County Council

Subject: Employees' Group Insurance Fund

WHEREAS, by adoption of Resolution 5-2838, on June 28, 1966, the County Council did establish that dividends accrued by the County from the experience-rated employee group insurance plan be placed in interest-earning reserve as determined by the County Manager; and

WHEREAS, the County Council, in adopting said reserve, provided that such dividends may have to be used to defray increased premium costs and to finance additional benefits; and

WHEREAS, said interest-earning reserve was duly established and is reported in the Accounts of Montgomery County as Employees' Group Insurance Fund; and

WHEREAS, the Fund Balance of said fund as of June 30, 1973, is reported by the Director of Finance to be \$1,911,985.00; and

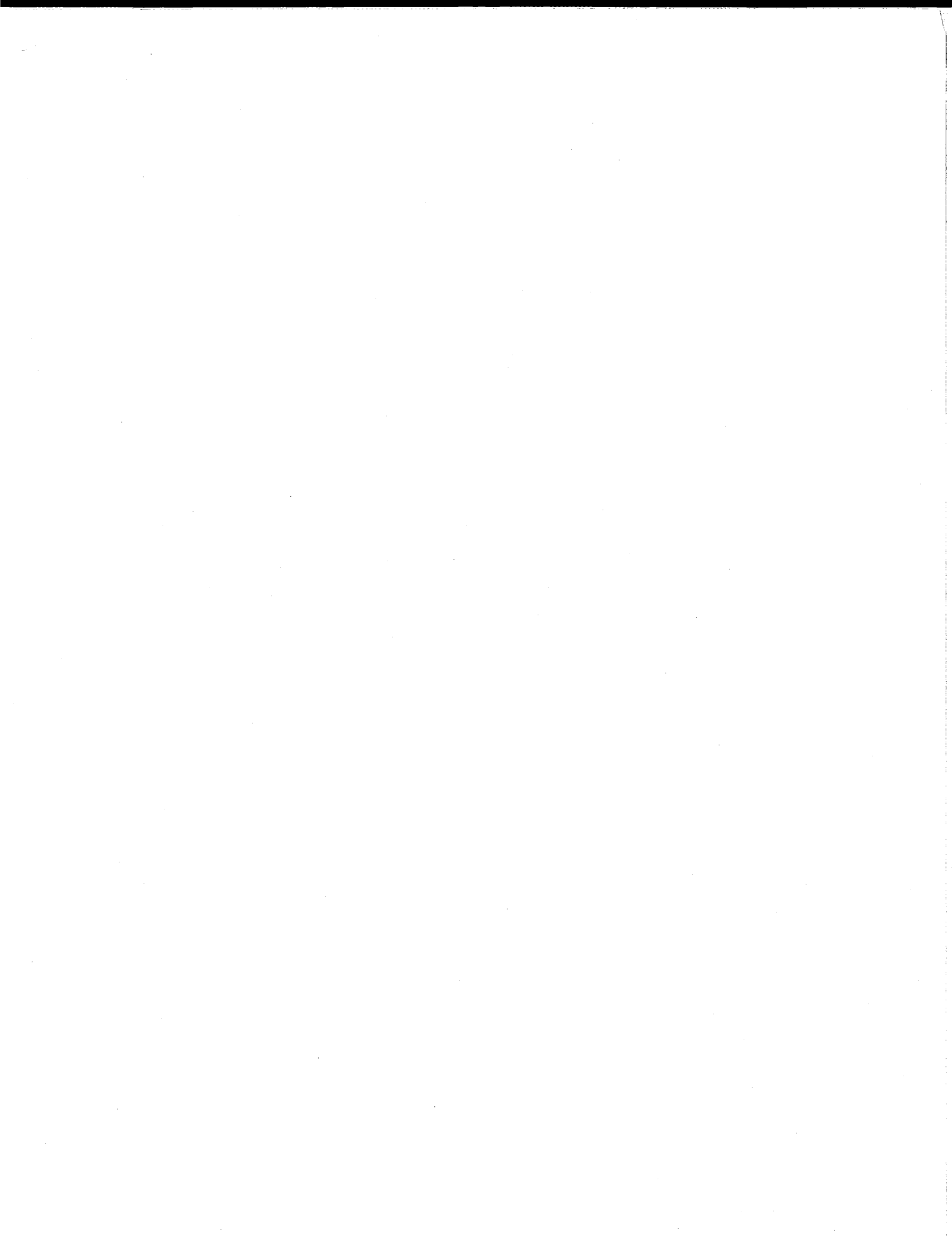
WHEREAS, the County Executive recommended in his funding recommendations that a portion of the Fund Balance be used to partially finance the cost of the premium of the employee group insurance plan.

NOW, THEREFORE, BE IT RESOLVED by the County Council for Montgomery County, Maryland, that \$534,450 of said fund balance be expended to partially defray the cost of said premium of the employees' group insurance plan during Fiscal Year 1975.

A True Copy.

ATTEST:

*Anna P. Spates*



## MEMORANDUM

December 9, 1992

**TO:** Marilyn Praisner  
President, County Council

**FROM:** Robert K. Kendal  
Director, Office of Management and Budget

William P. Garrett  
Director, Office of Personnel

**SUBJECT:** Briefing: Health Care Costs FY 93 and Beyond

### Purpose:

The purpose of this briefing is to advise you of the current situation related to health care costs for the County government.

### Problem:

The FY 92 year-end balance in the Group Insurance section of the Self-Insurance Fund is a deficit of \$6.5 million. This deficit condition is projected to worsen significantly in FY 93 and beyond if corrective actions are not taken.

OMB's work to date has clarified that we ended FY 92 with a sizable deficit in the Group Insurance Fund. The deficit appears to have been caused by the following:

- a sharp increase in claims in FY 92;
- the reduction of funds from the Group Insurance Reserves Expendable Trust which were used to fund retirees health;
- a past practice of drawing on fund balance rather than keeping premiums at a higher level in an effort to keep HMO costs down; and,
- the high rate of inflation for health care in general.

### Background:

Over the years the County Government has succeeded in keeping down the cost to the taxpayer of health insurance fringe benefits by careful plan design, by asking employees and retirees to pay a reasonable share of the costs, and by drawing on other sources of funds in certain cases. During the last decade we have also experienced a growth in claims expenses lower than the national average. The favorable results of our policies and experience can be seen in the attached inter-jurisdictional comparisons which show that even with the rate increases that will need to go into effect in January, the County Government's health insurance costs are still below those in other area jurisdictions.

The County's plan design initiatives, funding policies, and steadfastness in collective bargaining have held down the cost to the taxpayer on a per employee basis and have saved several million dollars in the aggregate in recent years alone compared to the practices of others (plan design alone saves 10-15 percent annually in claims). And without the success of these practices, the fiscal situation we have all had to deal with over the past three years would have been much worse. The County Council's active support of these policies has been key to their success.

These historical achievements notwithstanding, we must now respond to a growing gap between costs and available funding. The causes of this gap can be summarized as follows:

First, during FY 92, after the rates had been set and the budget adopted the prior winter and spring, we experienced a 17.5 percent increase (\$32.5 to \$38.3 million) in claims costs over FY 91. Further, this sharp increase was not clear at the time the employee and employer rates were developed for calendar year 1992 and the budget prepared for fiscal year 1993.

Second, life insurance dividends/reserves of \$1.8 million per year on average over FY 89-FY 92, which we had been able to use to help fund the costs of health insurance, have fallen off significantly because the cost of life insurance has increased due to aging employees (active and retired). Heretofore, life insurance premiums substantially exceeded amounts needed to pay claims, and that excess was returned in the form of dividends.

Third, we have been able to hold down employee and employer rates for the indemnity plan by drawing on prior years' fund balances. This policy of containing indemnity plan rate increases has advantaged the taxpayer by reducing adverse selection effects of employee choices among our various plans while plan design/cost containment changes such as the Choice Plan were given time to work.

Obviously, rates were going to have to rise at some point, but we had been hoping to hold down the impact of such increases on employees and the County until the recession subsided. Unfortunately, the significant increase in claims cost in FY 92, and the reduction in available life insurance dividends/reserves, have now required us to confront significant rate increases earlier than we had planned on.

With the help of the County's actuaries, we have examined numerous alternative strategies. We have picked the one that, in our judgement, best balances the burden among employees and the County as employer and best distributes the solution over fiscal years. For FY 93, appropriations are projected at this point to be insufficient to cover the costs implied by the actions we must take. Had more information been known last winter regarding the claims cost increase that was occurring and regarding the decrease occurring in life insurance dividends/reserves, budget increases for FY 93 could have been included in the May 15th actions by the Council. In the absence of that information, we need to catch up with necessary budget adjustments.

#### **Health Insurance Rates and Recovery Plan:**

Executive staff in consultation with the County's actuaries has recommended, and the County Executive has endorsed, the following plan:

- 25 percent rate increase on the Prudential Indemnity Medical Plan, and an 18 percent increase on the Prudential Choice Plan for calendar year 1993;
- \$3.9 million increase to the Retirees Health Insurance NDA in FY 93; and,
- a surcharge on the County portion of the Prudential Indemnity Plan, Choice Plan and HMO Plans carried out for five years to recover the fund deficit.

These proposals call for an FY 93 supplemental appropriation of approximately \$5.2 million distributed as follows: \$3.9 million to the Retiree's Health Insurance NDA and \$1.3 million to cover the rate increases (including the surcharge for deficit recovery) effective January 1, 1993. Note: a decision to reduce this amount would intensify the growing deficit. In addition, delay in implementing the rate increase would also increase the deficit.

Other options were considered and rejected due to their significantly worse impact on the County and our employees in the shorter run.

**Next Steps:**

The following next steps have been or will be taken in conjunction with the above proposals:

- Announcement of the new insurance rates was included in the bulletin to employees.
- The employees health benefits transfer season was initiated December 1.
- A briefing was scheduled for Councilmembers.
- Meetings as needed will be scheduled with union representatives.

**Future Changes to be considered (not to be construed to be conclusive):**

Many of the suggested changes listed below are negotiable:

- phase out the indemnity plan and move toward the Point of Service (POS) approach with closed HMOs (Model 3 recommended by Council's consultants);
- change current basis for County contributions (Actives and Retirees);
- use experience rating for HMOs with high enrollment;
- eliminate HMOs with low enrollment;
- pursue joint contracting for HMOs; and,
- increase the drug card plan co-payment.

**Attachments:**

- Sample Comparison of Indemnity Plans
- Group Insurance Fund Fiscal Summary
- Group Insurance Fund Assumptions
- Claims Trends: Montgomery County Government-Medical Actives
- Claims Trends: Montgomery County Government-Medical Retirees
- Rate Increases for Calendar Year 1993 - Health Benefits
- Enrollment in Health Plans by Bargaining Unit
- County Council Resolution No. 12-872: Policy Guidance on the Collective Bargaining Process and Employee Benefits, October 27, 1992
- Executive Summary: Working Group Report on Health Benefits for Active and Retired Employees submitted to Montgomery County Council, November 1991

RKK:bcd

cc: Mr. Potter  
Mr. Hussmann  
Mr. Lynch  
Mr. Firestine

SAMPLE COMPARISON OF INDEMNITY PLANS

PLAN YEAR - MONTHLY RATES (EMPLOYER AND EMPLOYEE SHARE)

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
SELECTED JURISDICTIONS	TYPE OF PLAN	SINGLE COVERAGE						PERCENT CHANGE '87-'92	1993	COMMENTS (per '92 survey) Dental Drug Card	
		OCTOBER 1987	OCTOBER 1988	OCTOBER 1989	OCTOBER 1990	OCTOBER 1991	OCTOBER 1992				
1. Baltimore County	Indemnity Self-Insured	81.60	118.35	163.32	178.20	185.00	210.71	158.2%		No	No
2. Fairfax County	Indemnity Self-Insured	90.12	94.62	141.94	185.00	204.00	202.00	124.1%		No	No
3. Fairfax County Public Schools	Indemnity Self-Insured	93.45	112.14	172.66	189.92	199.42	Not listed	113.4%		No	Not avail.
4. Howard County	Indemnity Self-Insured	85.42	152.00	200.26	194.02	231.59	232.75	172.5%		No	Yes
*****											
5. * WSSC	Indemnity Self-Insured	104.10	109.47	125.89	138.48	166.18	199.42	91.6%		No	Yes
* *		121.10	157.43								*
* *											*
6. * M-NCP&PC	Indemnity Self-Insured	79.13	94.22	112.05	112.05	211.83	230.80	191.7%		Yes	Yes
* *			142.56								*
* *											*
7. * MCPS	Indemnity Self-Insured	144.18	164.84	195.51	230.94	266.29	243.06	68.6%		Yes	Yes
* *											*
8. * Montgomery County	Indemnity Self-Insured	103.34	109.02	115.02	119.90	119.90	137.89	33.4%	172.28	Yes	No*
* *											*
* *											*
*****											

Source: Local Government Personnel Association Comprehensive Benefits Surveys: October 1987, 1988, 1989, 1990, 1991, 1992.

\* Montgomery County's drug card plan is a stand alone optional plan not part of the indemnity plan.

12/07/92  
OMB

GROUP INSURANCE FUND  
(Includes Health, Life, and Long Term Disability)

	(A)	(B) FY 89 ACTUAL	(C) FY 90 ACTUAL	(D) FY 91 ACTUAL	(E) FY 92 ACTUAL	(F) FY 93 BUDGET	(G) FY 93 ESTIMATE	(H) FY 94 PROJECTED	(I) FY 95 PROJECTED	(J) FY 96 PROJECTED	(K) FY 97 PROJECTED
1.	Prior Year Fund Balance	9,752,232	6,331,744	2,752,897	(406,096)	0	(6,544,315)	(8,189,165)	(7,385,275)	(4,339,425)	(1,144,585)
	Revenues										
2.	County Contribution - Actives	17,055,264	19,520,857	21,381,742	22,480,953	27,044,470	28,179,000	34,097,000	39,552,000	44,298,000	49,614,000
3.	County Contribution - Retirees*	1,000,000	2,830,629	3,230,000	4,600,000	4,600,000	8,500,000	10,000,000	12,500,000	15,700,000	19,700,000
4.	Employee contribution - Actives	5,318,908	6,518,315	7,572,460	7,993,197	9,192,180	7,575,000	8,421,000	9,390,000	10,448,000	11,625,000
5.	Employee contribution - Retirees	1,614,293	2,032,306	2,027,106	2,128,457	2,447,880	2,447,730	2,814,890	3,237,120	3,722,690	4,281,090
6.	Outside Agencies contributions**	974,033	1,168,878	1,328,374	1,489,971	1,711,230	1,713,470	1,970,491	2,266,060	2,605,970	2,996,870
6a.	Fire Contribution - Actives	incl. on line 4									
7.	Other contributions***	188,311	178,548	283,346	535,308	317,600	299,000	343,850	395,430	454,740	522,950
8.	Pre-funding contribution	127,947	134,719	138,550	138,178	140,000	138,000	138,000	138,000	138,000	138,000
9.	Dividends/Reserves	1,207,970	1,687,776	1,916,462	2,562,480	2,500,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
10.	Interest on investments	1,000,334	1,007,455	693,316	0	0	0	0	0	0	0
11.	Other interest income	6,104	6,225	4,311	5,305	5,300	0	0	0	0	0
12.	Miscellaneous	0	0	0	53	0	0	0	0	0	0
12.	Total Revenues	28,493,164	35,085,708	38,575,667	41,933,902	47,958,660	49,852,200	58,785,230	68,478,610	78,367,400	89,877,910
13.	Total Funds Available	38,245,396	41,417,452	41,328,564	41,527,806	47,958,660	43,307,885	50,596,065	61,093,335	74,027,975	88,733,325
	Expenditures										
14.	Pru. claims & life premiums	(25,208,139)	(30,730,302)	(32,547,544)	(38,239,216)	(37,900,000)	(41,187,000)	(46,536,000)	(52,537,000)	(60,605,000)	(70,238,000)
15.	HMO premiums	(4,742,722)	(5,770,809)	(6,858,232)	(7,183,333)	(7,523,850)	(7,817,000)	(8,637,000)	(9,718,000)	(10,936,000)	(12,311,000)
16.	Claims administration charges	(1,820,083)	(1,961,120)	(2,066,347)	(2,388,568)	(2,294,810)	(2,248,000)	(2,521,000)	(2,881,000)	(3,365,000)	(3,943,000)
17.	In-house administrative costs		(103,512)	(141,793)	(138,887)	(138,000)	(143,050)	(147,340)	(151,760)	(156,310)	(161,000)
18.	Employee pre. refunds	(17,140)	(41,809)	(5,512)	(7,294)					0	0
19.	Professional Services			0	(17,000)						
20.	Attorney's fees			(5,778)	(12,995)						
21.	Actuarial fees		(33,350)	(48,200)	(11,811)						
22.	Other O.E.****	(59,952)	(14,625)	(17,565)	(20,822)	(62,000)	(62,000)	(100,000)	(105,000)	(110,250)	(115,760)
23.	Interest expense	(65,616)	(9,028)	(43,689)	(52,195)	(40,000)	(40,000)	(40,000)	(40,000)	0	0
24.	Total Expense	(31,913,652)	(38,664,555)	(41,734,660)	(48,072,121)	(47,958,660)	(51,497,050)	(57,981,340)	(65,432,760)	(75,172,560)	(86,768,760)
25.	Year-end balance	6,331,744	2,752,897	(406,096)	(6,544,315)	0	(8,189,165)	(7,385,275)	(4,339,425)	(1,144,585)	1,964,565

\*This line reflects funds in the NDA established for retirees health and does not include funds from the Group Insurance Reserves Trust. Funding for retirees was provided through the Group Insurance Reserves Trust Fund which provided all County funding for retirees health prior to FY 87. In FY 87 the County established an NDA to provide additional funding for retirees health. In FY 89 the surplus in the trust was fully expended as the funding sources (primarily life insurance dividends and interest) were insufficient to cover premiums for retirees health.

\*\*Outside Agencies include: HOC, Parole and Probation, Assessment and Taxation, District Court, Revenue Authority, WSTC (Wash. Suburban Transit Commission), Montgomery Co. Television, Strathmore Hall.

\*\*\*Other contributions include COBRA and Judges Contributions. FY 92 includes a payment of \$287,265 which represents a life insurance premium refund.

\*\*\*\*Other OE for FYs 93-97 includes all operating costs as described in lines 18-22.

OMB  
12/04/92

## GROUP INSURANCE FUND ASSUMPTIONS

### GENERAL:

1. NO CHANGE IN BASIC STRUCTURE OF THE CURRENT PLAN.
2. Migration to Choice increases from 10% to 30% in FY 93, then remains flat.
3. No increase in Active population; 5% increase per year in retiree population.

### REVENUE ASSUMPTIONS:

1. Increase in Pru plan premiums of 25% per year for Calendar Years 93 and 94, then 15% per year.
2. Increase in HMO premiums of 12% per year.
3. Employer rates include a deficit recovery of \$1.3 million per year calendar years 93 through 97.
4. Future life insurance dividends will be approximately \$1 million per year.
5. Employee contributions (Active and Retiree) will increase 15% per year FY 93 EST. - FY 97.
6. Other contributions will increase 15% per year FY 93 EST. - FY 97.

### EXPENDITURE ASSUMPTIONS:

1. Life, LTD, and Vision premiums stay flat FY 93 - FY 97; FY 92 and FY 93 LTD premiums are reduced for premium holiday negotiated in FY 92.
2. Active employees' annual claim cost trend rates begin at 8% for FY 93 and increase to 15% per year in FY 96.
3. Retirees' annual claim cost trend rates are 15% per year to FY 96, then 16 % for FY 96 and 17% for FY 97.
4. Pru admin. costs are approximated at 6% of claims (but the actual calculation is more complex).
5. In-house administrative costs will increase 3% per year FY 93 EST. - FY 97.
6. Operating expenses will increase 5% per year FY 94 -97 (lines 18-23).

### IMPLICATIONS

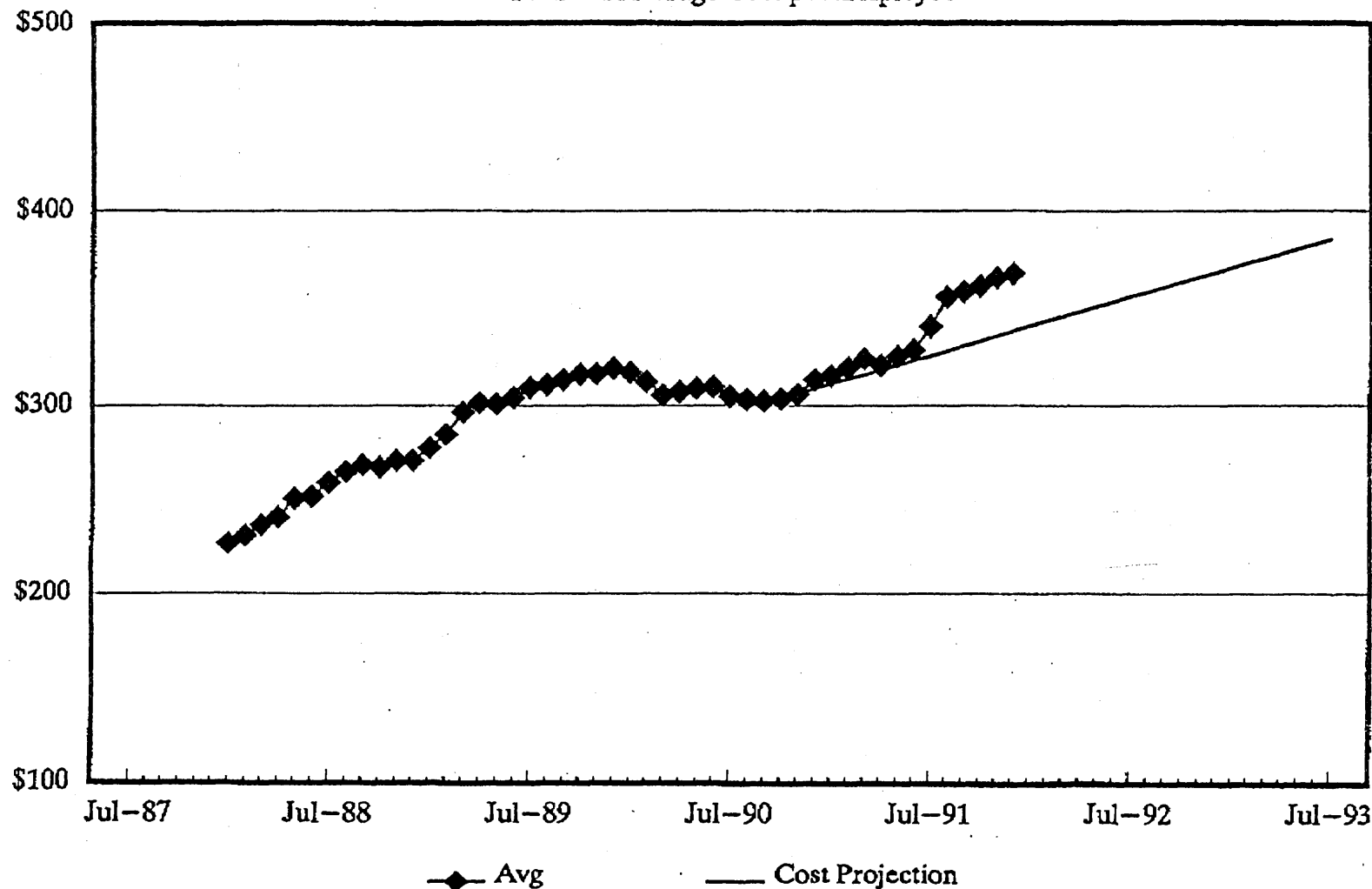
- Cost of retirees is increasing twice as fast as actives due to projected increase in number of retirees and faster rate of increase in claims.
- Plan design changes must be made to slow down the increases in costs.

OMB  
12/4/92



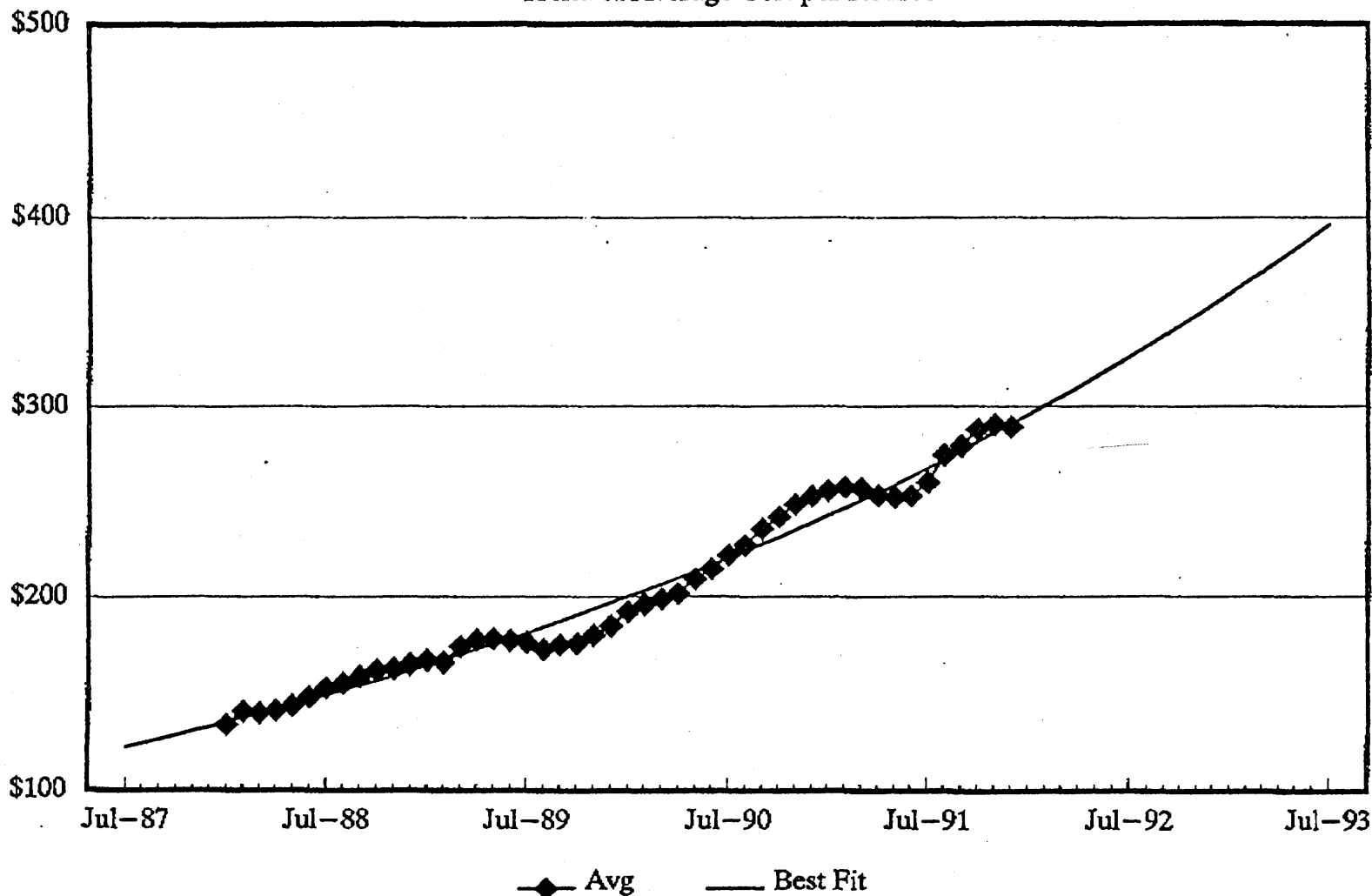
# Montgomery County Government – Medical Actives

Trend of Average Cost per Employee



# Montgomery County Government – Medical Retirees

Trend of Average Cost per Retiree



Based on claims experience through August, 1992.

—◆— Avg

— Best Fit

RATE INCREASES FOR CALENDAR YEAR 1993 - HEALTH BENEFITS

CALENDAR YEAR MONTHLY RATES

EMPLOYER RATES SELECTED PLANS		CY 92	EMPLOYER BASE RATE CY 93	PERCENT CHANGE CY92-93	EMPLOYER RATES WITH SURCHARGE CY 93	PERCENT CHANGE CY92-93
Pru Indemnity - Medical	Ind.	\$95.05	\$119.25	25%	\$125.97	33%
	Family	\$255.99	\$321.16	25%	\$339.30	33%
Pru Choice - Medical	Ind.	\$80.79	\$95.59	18%	\$102.31	27%
	Family	\$217.59	\$257.46	18%	\$275.60	27%
MDIPA	Ind.	\$95.05	\$112.16	18%	\$118.88	25%
	Family	\$255.99	\$302.05	18%	\$320.19	25%
Kaiser	Ind.	\$95.05	\$112.16	18%	\$118.88	25%
	Family	\$255.99	\$302.05	18%	\$320.19	25%
Dental	Ind.	\$19.40	\$23.74	22%	n/a	
	Family	\$49.62	\$60.73	22%		
Drug Card	Ind.	\$26.36	\$40.33	53%	n/a	
	Family	\$54.44	\$83.29	53%		
Vision	Ind.	\$1.25	\$1.49	20%	n/a	
	Family	\$3.07	\$3.70	20%		

EMPLOYEE RATES SELECTED PLANS		CY 92	EMPLOYEE BASE RATE CY 93	PERCENT CHANGE CY92-93	EMPLOYEE RATES WITH SURCHARGE CY 93	PERCENT CHANGE CY92-93
Pru Indemnity - Medical	Ind.	\$19.47	\$24.43	25%	NONE	n/a
	Family	\$52.43	\$65.78	25%		
Pru Choice - Medical	Ind.	\$16.55	\$19.58	18%		
	Family	\$44.57	\$52.73	18%		
MDIPA	Ind.	\$29.41	\$32.21	10%		
	Family	\$81.54	\$89.50	10%		
Kaiser	Ind.	\$67.55	\$64.26	-5%		
	Family	\$166.75	\$172.99	4%		
Dental	Ind.	\$3.97	\$4.86	22%		
	Family	\$10.16	\$12.44	22%		
Drug Card	Ind.	\$5.40	\$8.26	53%		
	Family	\$11.15	\$17.06	53%		
Vision	Ind.	\$0.25	\$0.31	20%		
	Family	\$0.63	\$0.76	20%		

OMB  
12/08/92

ENROLLMENT IN  
HEALTH PLANS BY BARGAINING UNIT

	(A) PLAN	(B) MCGEO	(C) FOP	(D) IAFF	(E) NON- UNION	(F) TOTALS
1.	PRU - MEDICAL & DENTAL	2,120	445	383	1,279	4,227
2.	CHOICE - MEDICAL & DENTAL	355	78	32	164	629
3.	Q1 & Q2 (CHOICE)	2	0	0	19	21
4.	MDIPA	581	138	123	185	1,027
5.	KAISER	209	32	18	59	318
6.	GHA - HIGH	36	6	0	14	56
7.	GHA - LOW	34	3	3	9	49
8.	HEALTH PLUS-HIGH	102	18	8	22	150
9.	HEALTH PLUS-LOW	15	1	4	3	23
10.	COLUMBIA	26	4	4	15	49
11.	PHYSICIANS CARE	11	3	1	0	15
12.	SUBTOTAL	3,491	728	576	1,769	6,564
13.	DENTAL - SUPPLEMENT	0	0	0	250	250
14.	OPTICAL PLAN	2,741	488	378	1,638	5,245
15.	DRUG CARD	1,726	286	212	974	3,198

NOTE: Enrollment data as of November 16, 1992.

OMB  
11/20/92

Resolution No.: 12-872  
Introduced: October 27, 1992  
Adopted: October 27, 1992

COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND

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By: County Council

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Subject: Policy Guidance on the Collective Bargaining Process  
and Employee Benefits

Background


1. On May 12, 1992 the County Council established by resolution a Working Group on the Collective Bargaining Process and Employee Benefits to advise the Council on: (a) a coordinated and comprehensive collective bargaining system that relates to the County Council's Spending Affordability process; (b) a health benefits system that controls escalating costs and is fair to employees; and (c) policy positions on other benefit issues.
2. The Council designated the members of the Working Group to be the members of the Management and Fiscal Policy Committee, who were to serve as the Policy Steering Committee, as well as agency and employee representatives, who were appointed by separate resolution on June 2, 1992.
3. In the FY 93 budget the Council directed the Council Office to retain a health benefits consultant to help determine specific new ways for the County to restrain the rapid growth of employee health care costs. The Council Office contracted with Williams, Thatcher & Rand (WTR), which presented its report to the MFP Committee on September 10, 1992.
4. During June, July, and August 1992 the Working Group held a total of nine meetings and examined a large number of options for the MFP Committee and the Council to consider.
5. On October 9, 1992 the MFP Committee considered these options, and on October 20, 1992 the Council reviewed and endorsed the Committee's recommendations, which are intended to provide policy guidance for all agencies (County Government, Montgomery County Public Schools, Montgomery College, and the Maryland-National Capital Park and Planning Commission).
6. On October 9, 1992 the MFP Committee also agreed to consider technical amendments to the collective bargaining law after the November 3 vote on Question B, which would change the budget calendar. The MFP Committee also requested additional information in order to examine other health care issues, including prefunding retiree health benefits, relating premiums to salary levels, and establishing a health and welfare fund board composed of employer and employee representatives.

Action

The County Council for Montgomery County, Maryland, approves the following resolution:

1. The County Council calls on all agencies to use the Spending Affordability Guidelines set annually by the Council in October as guidelines for their entire budgets, including both program and compensation.
2. The County Council, in order to help reduce the high rate of increase in health care costs, endorses the approach taken in Model 4 of the WTR report (optional indemnity, point of service plan, and closed health maintenance organizations) with the longer-term objective for all agencies of moving toward Model 3 (POS plan and closed HMOs). Both models include an indemnity option for out-of-area employees and retirees.
3. The County Council endorses the concept of consolidating administrative functions, including joint purchasing and similar arrangements, in order to achieve cost savings for both the HMOs and indemnity plans of the agencies.
4. The County Council endorses the concept of increasing co-payments for prescription drugs, with specific details to be developed by the agencies.
5. The County Council endorses the concept of a wellness program, with the stipulation that agency efforts should be carefully targeted, coordinated with other health care objectives, and operated with a cooperative and collegial approach in order to achieve savings in administrative and facilities costs.
6. The County Council endorses the concept of expanded flexible benefits programs, with the stipulation that there should be greater communication, cooperation, and coordination among the agencies in the development and implementation of these programs.
7. The County Council also supports other "family-friendly" policies, such as flexible work schedules and child care, with the stipulation that agencies should focus and coordinate the programs they now offer and are contemplating.
8. The County Council endorses the concept of a defined contribution retirement plan with these features: (a) a defined benefit (or safety net) element, as in the Federal Employees' Retirement System plan; (b) application of the plan to prospective employees with optional participation by current employees; and (c) plan portability.
9. The County Council endorses the concept of early retirement plans, with the stipulation that any such plans must be budgetarily sound in both the short term and the long term.

This is a correct copy of Council action.

  
Kathleen A. Freedman, CMC  
Secretary of the Council

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# WORKING GROUP REPORT ON HEALTH BENEFITS FOR ACTIVE AND RETIRED EMPLOYEES

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Submitted To

The Montgomery County Council  
Rockville, Maryland

November 1991



Montgomery  
County Council

## I. EXECUTIVE SUMMARY

Healthcare cost-containment is a major issue for employers, employees, unions, taxpayers, and providers as health benefits consume an increasing portion of payroll and welfare fund dollars. Healthcare costs have soared from \$100 billion in 1970 to over \$666 billion in 1990. Despite public and private efforts to curb costs, healthcare spending claimed 12.2 percent of the gross national product (GNP) in 1990, compared with 11.6 percent in 1989 and 5.3 percent in 1960.

National healthcare costs are expected to continue growing at an annual rate of 10 percent to 11 percent a year. At this rate, these costs are expected to grow at about three percentage points faster than the GNP's growth. Business will continue to underwrite roughly 30 percent of the cost, with government paying 42 percent to 45 percent and individuals the rest. Today, about 34 million Americans lack health insurance. By the year 2000, national healthcare costs are expected to exceed \$1.6 trillion, or more than 16 percent of the GNP. Based upon historical data and trends, Montgomery County's healthcare benefits expenditures are likely to exceed \$225 million by the end of this decade as compared to \$113 million today.

Today, the financial ramifications of continuing healthcare cost inflation--and the Financial Accounting Standards Board's decision to transform post-retirement medical liabilities for active employees into a current expense--have made healthcare cost-containment a strategic imperative in both the private and public sectors. Today, employers better understand the relationship between rate increases and delivery systems. This affects their purchasing decisions. Convincing employees of the merits of a partnership approach to the problem usually involves proving to employees that such efforts are not a heartless ploy to cut healthcare costs. Innovative strategies are being developed to keep healthcare benefits both competitive and affordable.

However, no matter what cost-containment strategies are undertaken by County agencies, efforts are likely to be outweighed by inflationary increases in healthcare costs. Increasing health insurance premium costs are jeopardizing existing benefits plans and the level of covered services. Improvement of Montgomery County's healthcare benefits delivery system, including efforts to contain costs more effectively, will demand a greater partnership approach within all County agencies. The County's financial situation dictates innovative cost-containment actions now.

Successful cost-containment must involve benefits managers, the nine different labor unions, employees, and providers alike. Greater emphasis must be placed on working together. More effective and efficient benefits management will determine the future success of the County's healthcare cost-containment initiatives. The Working Group supports the concept of restraining the increase in the total cost of healthcare. The Working Group believes there are numerous opportunities to achieve this end by cooperative actions between agency and union leadership.

The Working Group understands that the Montgomery County Council is most interested in containing the costs of healthcare. The Working Group stresses to the Council, however, the need to continue to explore the causes of any major differences in County agency health benefits plans; report findings to agency and union leadership and to the Council.



Based upon the data analysis depicted in Chapter III, it is suggested that the specially designated Task Force proposed in this Report identify any major health benefit plan differences among the five County agencies and report its findings to agency and union leadership and to the Council.

Resolving major differences by adopting a uniform benefits structure with fewer benefits and/or a lower level of employer subsidization than the current County average would lower the County's healthcare costs. There are, however, competing considerations:

- Healthcare benefits and costs are only one element of total compensation. As such, they must be viewed within the larger context of the judgments the five agencies have made about their total compensation policy. To modify any particular element of a total compensation package -- such as health benefits -- will change the package as a whole, and therefore the balance between its various elements.
- Healthcare benefits and costs are presently determined in large measure by collective bargaining. Under existing laws and regulations, each agency conducts collective bargaining separately. This leads to variety among the agencies in health benefits as well as other terms and conditions of employment. Variety in health benefits can, but does not necessarily, lead to higher overall County costs for healthcare and to differences in the level of subsidies for healthcare provided to employees of different agencies. Nevertheless, the County's interest in uniformity as a tool to lower its health benefit costs must be weighed against the value of the collective bargaining process within the overall framework of labor-management relations.
- Members of the Working Group have personal opinions about the relative merits of collective bargaining or other mechanisms for determining health benefits. Personal opinions also exist about whether the value of collective bargaining outweighs any interest the County has in uniform benefits. The Working Group takes no position on these issues, or on the ultimate issue of the desirability of uniform health benefits, because these are policy/political decisions for the Council to make.

The Working Group found it difficult to compare insurance premium rates of the five County agencies. Also, a major concern of the Working Group is how the information and recommendations contained in this report will be used by the County Council. The Working Group urges the County Council to use this Report in a judicious manner. The following recommendations are made to help contain the County's health benefits costs:

- Maximize Benefits Communications to Active and Retired Employees
- Create an Interagency Health Benefits Task Force Assigning Specific Responsibilities with Realistic Timeframes
- Consider Retaining a Health Benefits Consulting Firm to Assist the Task Force
- Ensure That All Five County Agencies Have an Active, Ongoing Joint Health Benefits Review Committee to Promote Plan Communications, Contain Costs, Better Meet Needs of Changing Work Environment, and Constantly Monitor Claims Experience