

November 15, 2010

Ref: SF 10025
CC File 100859

MEMORANDUM

TO: Finance and Personnel Committee

FROM: Mark Nicolini
Budget and Management Director

SUBJECT: Health Care Transfer in CC File Number 100859

Purpose of Transfer

The Finance and Personnel agenda for November 17 includes a combined Fund Transfer Request of \$6.75 million from the Health Care Claims Account (\$1.75 million), Health Care Dental Account (\$250,000) and Worker's Compensation Account (\$4.75 million) to fund greater than anticipated expenditures in the Health Care HMO Account. Most of the shortfall can be offset by savings from other Health Care Accounts as well as the Worker's Compensation Account; however, a contingent fund transfer will likely be needed to cover an additional \$1.5 - \$2.0 million year end gap.

The 2010 Health Care Account was budgeted with the assumption that a projected \$3 million savings from the 2009 Worker's Compensation account would be carried over to cover expenditures in the HMO account. It's also important to note that each year transfers are necessary between the HMO and Claims account to offset unforeseen shortages caused by the dynamics of migration between the two plans. The 2010 HMO shortage is partly a result of those shifts as well as additional factors including:

- Health Care appropriations carry over from 2009 to 2010 proved to be less than estimated in the budget
- Account savings from significant position eliminations generated lower than estimated savings during 2010
- Timing of collective bargaining units decreased the amount of premium income that was estimated for expenditure offset

Expenditures to Date

Total projected 2010 Employee Health Care Benefits expenditures are approximately \$127.9 million. If this transfer is approved, the total amount of funds available will be \$126.2 million. It is likely that a contingent fund transfer will be needed to plug an estimated remaining gap of \$1.5 - \$2.0 million in the health care accounts. The 2010 Worker's Compensation Account is projected to have sufficient funds available to cover year end expenditures (estimated at \$12.7 million) with the approval of the \$4.75 million transfer.

	2010 Adopted Budget & Available Funds	Projected 2010 Expenditures	Difference
HC Claims	\$22,000,000	\$19,500,000	\$2,500,000
HMO	\$91,461,000	\$102,500,000	-\$11,039,000
Dental	\$2,200,000	\$1,950,000	\$250,000
Administration	\$3,981,500	\$4,000,000	-\$18,500
Carry Over	\$1,785,713		\$1,785,713
Worker's Comp Available Funds	\$4,750,000		\$4,750,000
Totals	\$126,178,213	\$127,950,000	-\$1,771,787

Recommendation:

Approve the transfers in the amounts requested so that DER can make the upfront December HMO payment for both active and retired employees. This transfer will likely cause a shortage in the Claims account when year end payments and accruals are finalized. Due to the uncertainty of year end Claims Account expenditures, an additional month of account experience will facilitate a better estimation of the total contingency funds needed. The projected Contingent Fund exposure constitutes an approximate 1.3% shortfall from the Employee Health Care Account.

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