General Information

The State of Ohio offers its employees the option to participate in one of three separate health-care benefit plans: Ohio Med Healthcare Plan, United Healthcare Plan (UHC), and Aetna Plan. The Ohio Med Healthcare Plan, which was established July 1, 1989 as a fully self-insured health benefits plan, is administered by Medical Mutual of Ohio under a contract with the State. The UHC is a health maintenance organization that has been traditionally offered as an option to state employees. Beginning July 1, 2002, however, the State converted the UHC Plan into a fully self-insured one that is administered by UHC under a contract with the State; the UHC Plan continues to offer employees the same benefits as were available from the health maintenance organization. Aetna is a health maintenance organization that has been traditionally offered as an option to state employees. Beginning July 1, 2005, however, the State converted the Aetna Plan into a fully self-insured one that is administered by Aetna under a contract with the State; the Aetna Plan continues to offer employees the same benefits as were available from the health maintenance organization.

For the Ohio Med Healthcare Plan, the UHC Plan and the Aetna Plan, the State's asset/liability position relative to an estimated health benefits funding surplus versus unfunded incurred, but not reported (IBNR) claims liability balance is calculated on the basis of annual actuarial evaluations performed during the year for each plan.

Employer and employee premiums for each plan are deducted monthly from payroll. The deductions that apply to the next month's coverage are recorded as expenditures/expenses in the state funds from which they originate and are deposited in Fund 124: Payroll Withholding, an agency fund. From Fund 124, DAS subsequently disburses the premium deductions using an intrastate payment voucher (VISE transaction), which also transfers and credits the moneys to another agency fund, Fund 808: State Employee Health Benefits.

From Fund 808, the premiums are disbursed to Medical Mutual of Ohio, UHC, and Aetna for the processing of claim payments. Monthly, DAS receives reports from Medical Mutual of Ohio that summarize 1.) claims processing activity for the previous month and for the fiscal year-to-date and 2.) the balance of cash on hand for Medical Mutual of Ohio, as of the beginning and the end of the month being reported. For the UHC and Aetna Plans, DAS annually requests the same information from UHC and Aetna related to claims processing for the fiscal year and beginning and ending cash on hand balances. For fiscal year 2007, however, DAS is requesting that the reports for the UHC and Aetna plans be provided to the State on a monthly basis.

Year-End Calculations of Surplus/(Deficit)

The State's estimated employee health benefits surplus/(deficit) balance, as of June 30, is calculated separately for each plan as follows:

Ohio Med Plan:

Fund 808's Assets, allocable to the Ohio Med Plan, which include

- Ohio Med Plan's Share of Fund 808's Cash Equity Balance per DAS, net of the portion of cash equity that represents employer/employee deductions deposited in June for July coverage under the plan
- Cash on Deposit with Medical Mutual of Ohio
- Employer & Employee Deductions on Deposit in Fund 124

Subtract: Gross IBNR Health Benefits Liability Estimate per the Actuary Report

Employee Health Benefits Funding Surplus (if positive)/Deficit (if negative)

United Health Care (UHC) Plan:

Fund 808's Assets, allocable to the UHC Plan, which include

- UHC Plan's Share of Fund 808's Cash Equity Balance per DAS, net of the portion of cash equity that represents employer/employee deductions deposited in June for July coverage under the plan
- Cash on Deposit with UHC
- Employer & Employee Deductions on Deposit in Fund 124

Subtract: Gross IBNR Health Benefits Liability Estimate per the Actuary Report

Employee Health Benefits Funding Surplus (if positive)/Deficit (if negative)

Aetna Plan:

Fund 808's Assets, allocable to the Aetna Plan, which include

- Aetna Plan's Share of Fund 808's Cash Equity Balance per DAS, net of the portion of cash equity that represents employer/employee deductions deposited in June for July coverage under the plan
- Cash on Deposit with Aetna
- Employer & Employee Deductions on Deposit in Fund 124

Subtract: Gross IBNR Health Benefits Liability Estimate per the Actuary Report

Employee Health Benefits Funding Surplus (if positive)/Deficit (if negative)

Government-wide Financial Statements

If OBM judges that a material employee health benefits surplus exists for any one of the three healthcare benefit plans, as of June 30, as determined on the basis of the foregoing calculation methods, so as to avoid overstating the expenses in the operating funds that pay assessments into Fund 808, OBM systematically allocates the surplus among the state agencies on the basis of each agency's percentage of total payroll deductions for the State's (employer's) share of premiums under the respective plan for the month of June (for July's coverage). When deposited in Fund 124, the State's payroll system reports the share of premiums paid by each state agency under deduction code A10 for Medical Mutual of Ohio, under deduction code ACO for UHC; and under deduction code ADO for Aetna; information on payroll deductions by state agency for these codes is available in reports produced by the Department of Administrative Services' Division of State Personnel (Payroll Services). For each plan, the surplus balance is multiplied by each respective state agency's percentage of total payroll deductions recorded for the State's share of the respective plan's premiums to derive the state agency's share of the estimated surplus.

Once OBM determines each agency's share of the surplus, OBM allocates this share to the various CAS funds assigned to the state agency. This allocation is calculated on the basis of each fund's percentage of state agency's payroll disbursements recorded on the CAS during the fiscal year.

When OBM allocates the surplus, a distinction is made between the portion of the surplus that results from premiums paid by the State as employer and the portion of the surplus that results from premiums paid by the employee. Only the portion of the surplus funded with premiums paid by the employer is allocated back to the respective state agencies. The portion of the surplus funded with premiums paid by employees is not allocated to the state agencies, because it represents amounts funded with non-state resources (i.e., employee deductions). Consequently, OBM reports the cash on deposit from premiums paid by employees as liabilities in Fund 808.

For the Ohio Med Program and for Aetna, the State's employer share of total premiums paid during fiscal year 2006 equaled 85 percent. For UHC, the State's employer share of total premiums paid during fiscal year 2006 equaled 85 percent of the average of all premiums paid by the various HMOs, including UHC. Therefore, the State's share of the premium for UHC is derived based on information comparing total state disbursements to total premiums paid to UHC. Beginning in fiscal year 2007, the employer's share for all three plans will be 85 percent, with no averaging.

In the Statement of Activities, the State reports the expense associated with premiums paid for Ohio Med, UHC, and Aetna, as adjusted by the reallocation of Fund 808's surplus funded with the employer's share of premiums as described above, as a program expense by function in the governmental activities column or the business-type activities column. Functional assignment of expense is determined on the basis of the state agency that funds employee health benefit expense through the payroll deduction process.

In the event of an employee health benefits funding surplus at year-end, the following adjusting journal entry is recorded, for the State's employer share only, for each appropriate expense function in the governmental activities column, or the business-type activities column, in the statement of activities.

	DR.	CR.
Cash Equity with Treasurer	$XXX	
Expenses (by function)		$XXX

To redistribute pre-funded amounts accumulated in Fund 808 for the State's employer share of employee health benefits so as to avoid the overstatement of expenses in the operating funds.

The portion of the cash equity in Fund 808, as of June 30, that represents a health benefits funding surplus due to employee deductions will be reported as an asset and a liability in the agency fund.

If a material, health benefits funding deficit is determined to exist for the respective healthcare plan, as of June 30, then a liability balance is reported for the State's employer share (as calculated using the same allocation process discussed above for a funding surplus). In the event of a funding deficit, the net unfunded employee health benefit liability for the State's employer share is recorded as follows.

	DR.	CR.
Expenses (by function)	$XXX	
Accrued Liabilities (Health Benefits)		$XXX

To record a liability for the estimated health benefits funding deficit for the State's employer share, as of June 30, and to accrue expenses for the related net unfunded liability.

The net unfunded employee health benefit liability for the employees' share is recorded as follows.

	DR.	CR.
Other Receivables-Receivable from Employees (for the employee's share)	$XXX	
Accrued Liabilities (Health Benefits)		$XXX

To record an asset and liability for the estimated health benefits funding deficit for the employee's share, as of June 30.

The portion of the cash equity in Fund 808, as of June 30, that consists of employer deductions deposited in June for July's coverage under the plans represents prepayments to the agencies that made the payments. This asset is recorded as follows, when considered by OBM to be material in amount.

	DR.	CR.
Other Assets-Prepaids	$XXX	
Expenses (by function)		$XXX

To reduce expenses associated with the State's employer share of prepayment of healthcare benefit claims.

The portion of the cash equity in Fund 808, as of June 30, that represents employee deductions deposited in June for July's coverage under the plans will be reported as an asset and a liability in the agency fund.

Governmental Fund Financial Statements
The same accounting treatment for employee health benefits funding surpluses and deficits, and for prepaid assets, as described above, is generally applied to the fund financial statements. In the fund financial statements, however, the surplus/deficit and prepaid asset for each plan is allocated by combining fund, and then by function. Also, for the governmental funds, expenditures are adjusted rather than "expenses" to coincide with the current financial resources measurement focus and modified accrual basis of accounting. For governmental funds, this liability is considered to be a "current" liability, since the State anticipates the liability will be liquidated within 60 days of year-end using available current resources.

The amount of the prepayment is also presented as a reservation of fund balance in the financial statements.

Note Disclosures
In its risk financing disclosures, the State includes the following for each healthcare plan, as required by Governmental Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issue*s:

- The basis for estimating the liabilities for unpaid claims.
- The carrying amount of liabilities for unpaid claims reported at present value in the financial statements.
- A reconciliation of changes in the aggregate claims liabilities for the current fiscal year and the prior fiscal year in tabular format that reports 1.) the amount of claims liabilities at the beginning of each fiscal year, 2.) incurred claims, representing the total provision for events of the current fiscal year and any change (i.e., increase or decrease) in the provision for events of the prior fiscal year, 3.) payments on claims attributable to events of the current fiscal year and prior fiscal year, 4.) other, including an explanation for each material item, and 5.) the amount of claims liabilities at the end of the each fiscal year.