



**STATE OF OHIO  
FINANCIAL REPORTING APPROACH — HEALTHCARE BENEFITS**

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**General Information**

The State of Ohio offers its employees the option to participate in one of five separate health-care benefit plans: Ohio Med Healthcare Plan, United Healthcare Plan (UHC), Aetna Plan, The Health Plan, and Paramount. 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. Beginning July 1, 2007, the State now has included The Health Plan (THP) and Paramount as a fully self-insured plan under contract with the State also as health maintenance organizations.

The State’s asset/liability position relative to 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 current month’s coverage are recorded as expenditures/expenses in the state funds from which they originate and are deposited directly into Fund 8080: State Employee Health Benefits, an agency fund.

From Fund 8080, the premiums are disbursed to Medical Mutual of Ohio, UHC, Aetna, THP and Paramount 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. DAS is also receiving monthly statements from UHC, Aetna, THP and Paramount Plans.

**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:

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|           |  |
|-----------|--|
|           | Fund 8080’s Assets, allocable to the individual plan (i.e. Ohio Med, UHC, Aetna, THP, Paramount), which include  |
|           | <ul style="list-style-type: none"> <li>• the Plan’s Share of Fund 8080’s Cash Equity Balance per DAS</li> <li>• Cash on Deposit with the plan administrator</li> </ul> |
| Subtract: | <ul style="list-style-type: none"> <li>• Gross IBNR Health Benefits Liability Estimate per the Actuary Report</li> </ul>   |
|           | <div style="text-align: right; padding-right: 40px;">Employee Health Benefits Funding Surplus (if positive)/Deficit (if negative)</div>                                |



**Government-wide Financial Statements**

If OBM determines that a material employee health benefits surplus exists for any one of the five healthcare benefit plans, as of June 30, as determined on the basis of the foregoing calculation methods, 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. This allocation is necessary to avoid overstating the expenses in the operating funds that pay assessments into Fund 8080. When the assessments are deposited in Fund 8080, the State’s payroll system reports the share of premiums paid by each state agency under program code 8600C for Medical Mutual of Ohio, under program code 8610C for UHC, under program code 8610D for Aetna, under program code 8610F for THP, and under program code 8610E for Paramount. Information on payroll deductions by state agency is available in reports from the Department of Administrative Services’ Division of State Personnel (Payroll Services).

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 for each plan. OBM allocates the estimated surplus to the various OAKS funds assigned to the state agency. This allocation is calculated on the basis of each fund’s percentage of the state agency’s payroll disbursements recorded in OAKS during the fiscal year.

A distinction is also 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. For all five plans, the State’s employer share of total premiums paid during fiscal year 2010 equaled 85 percent.

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 8080.

In the Statement of Activities, the State reports the expense associated with premiums paid for the five plans, as adjusted by the reallocation of Fund 8080’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 the expense is determined on the basis of the state agency that funds the employee health benefit expense through the payroll deduction process.

When an employee health benefits funding surplus exists at year-end, the following adjusting journal entry is recorded, for the State’s employer share only, by each appropriate expense function:

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

To redistribute pre-funded amounts accumulated in Fund 8080 for the State’s employer share of employee health benefits so as to avoid the overstatement of expenses in the operating funds.



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The portion of the cash equity in Fund 8080, as of June 30, that represents a health benefits funding surplus from employee deductions will be reported as an asset and a liability in the agency fund. *No entries will be posted to any agency funds as part of the health benefits entries. These amounts will be included in the compilation workpapers for the agency funds.*

When a material health benefits funding deficit exists for the respective healthcare plan, as of June 30, a liability balance is reported for the State’s employer share (as calculated using the same allocation process discussed above for a funding surplus). The net unfunded employee health benefit liability for the State’s employer share is recorded for a funding deficit 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-Receiveable 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.

**Governmental Fund Financial Statements**

The same accounting treatment for employee health benefits funding surpluses and deficits, as described above, is generally applied to the fund financial statements. However, the surplus/deficit for each plan is allocated according to the payroll distribution by agency worksheet in the fund financial statements. Also, for the governmental funds, expenditures are adjusted 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.

**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 Issues*:

- 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.



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- 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.