General Information

Each state employee who elects medical coverage is enrolled into the Ohio Med PPO plan, a fully self-insured health benefits plan. The plan is managed by two third party administrators (TPAs), Medical Mutual of Ohio (MMO) and UnitedHealthcare (UHC). Each employee who is enrolled is the health plan will be automatically assigned an administrator based on the first three digits of their home Ohio Zip codes.

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 and UHC for the processing of claim payments. Monthly, DAS receives reports from the TPA's 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 as of the beginning and the end of the month being reported.

Due to the changes in how the State provides medical coverage to its employees, Aetna, The Health Plan, and Paramount still had cash balances at the end of FY 2013. DAS is scheduled to allocate any cash remaining from these three plans to the MMO and UHC plans at a percentage of 35% and 65%, respectively. Because of this, OBM has allocated Aetna's cash balance and IBNR liability, as of June 30, to MMO and UHC based on the percentages above. The Health Plan and Paramount are immaterial amounts and no allocations will be done.

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:

	Fund 8080's Assets, allocable to the individual plan (i.e. Ohio Med, UHC), which include • the Plan's Share of Fund 8080's Cash Equity Balance per DAS • Cash on Deposit with the plan administrator
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 determines that a material employee health benefits surplus exists for the two 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 and under program code 8610C for UHC. 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 both plans, the State's employer share of total premiums paid during fiscal year 2013 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, 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 a material 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	$XXX	
Expenses (by function)		$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.

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-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.

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.

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.
- 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.