

Overview of Acton and Acton- Boxborough Health Insurance Trust

June 1, 2006

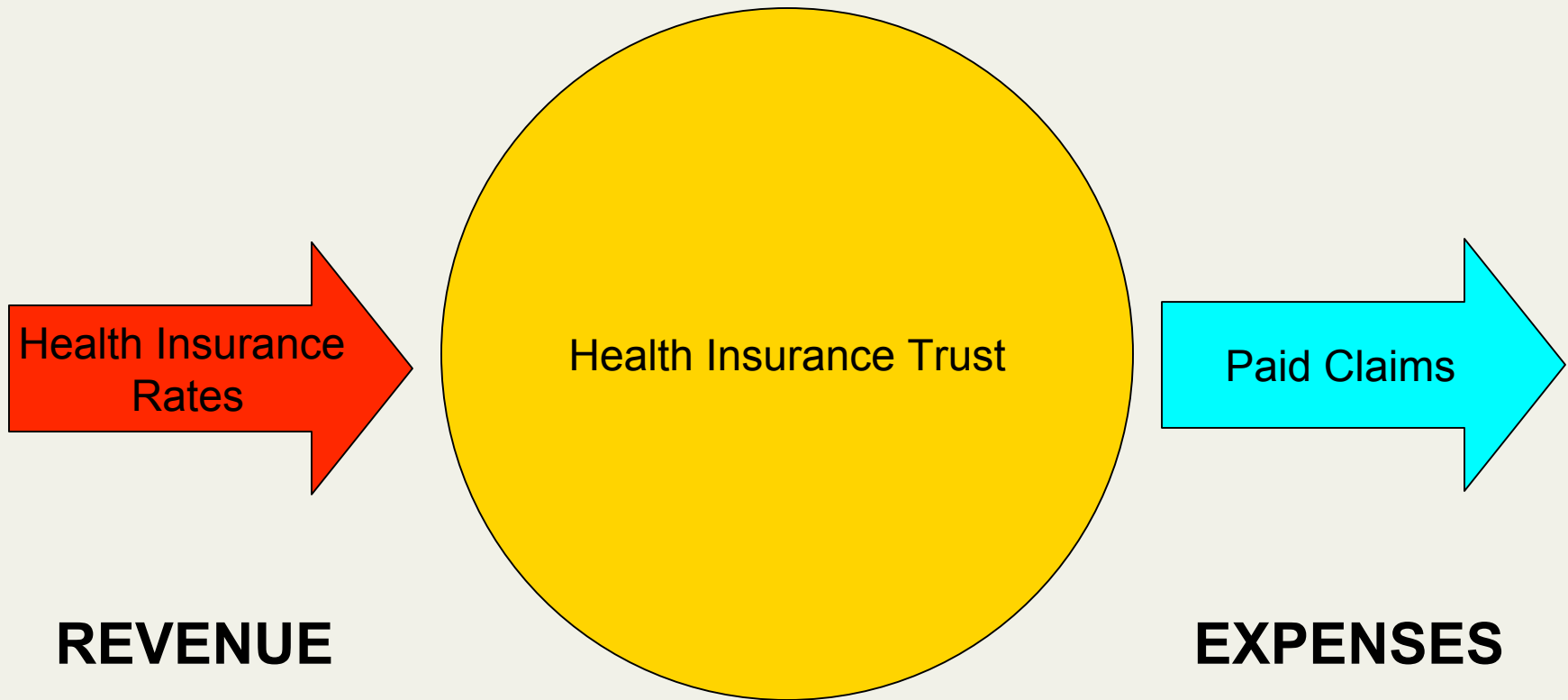
Health Insurance Trust

- Trust started in 1985
- Group purchase of health care coverage as authorized by MGL 32B
- Self-insured – not premium based
 - Saves money for both employer and employees
 - Certain level of risk incurred

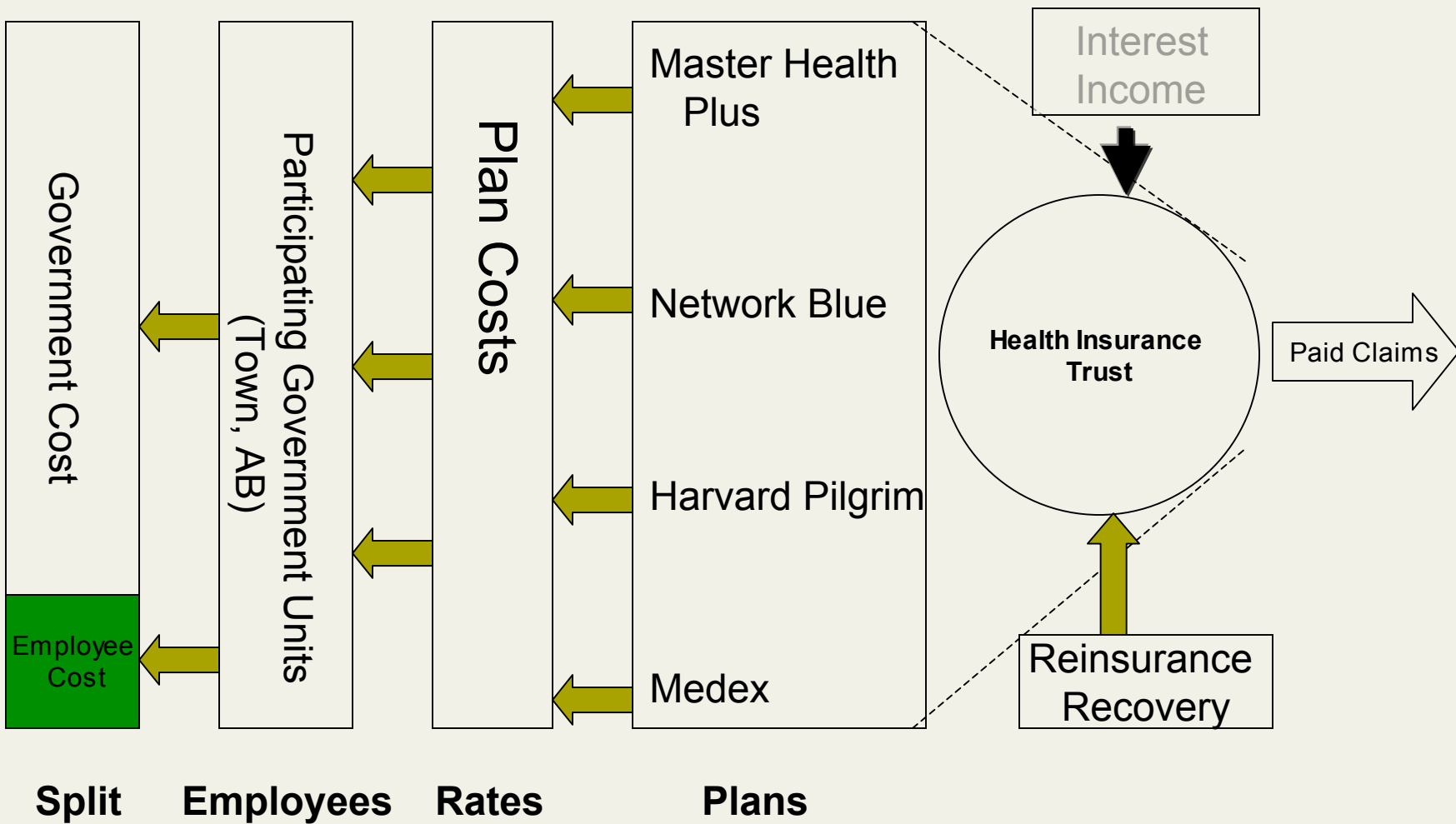
Health Insurance Trust

- Objective is to provide health care coverage to our employees and retirees
- Trust is managed by Board of Trustees
 - Membership
 - Utilize expertise of a health care industry consultant
 - Contract for treasury services

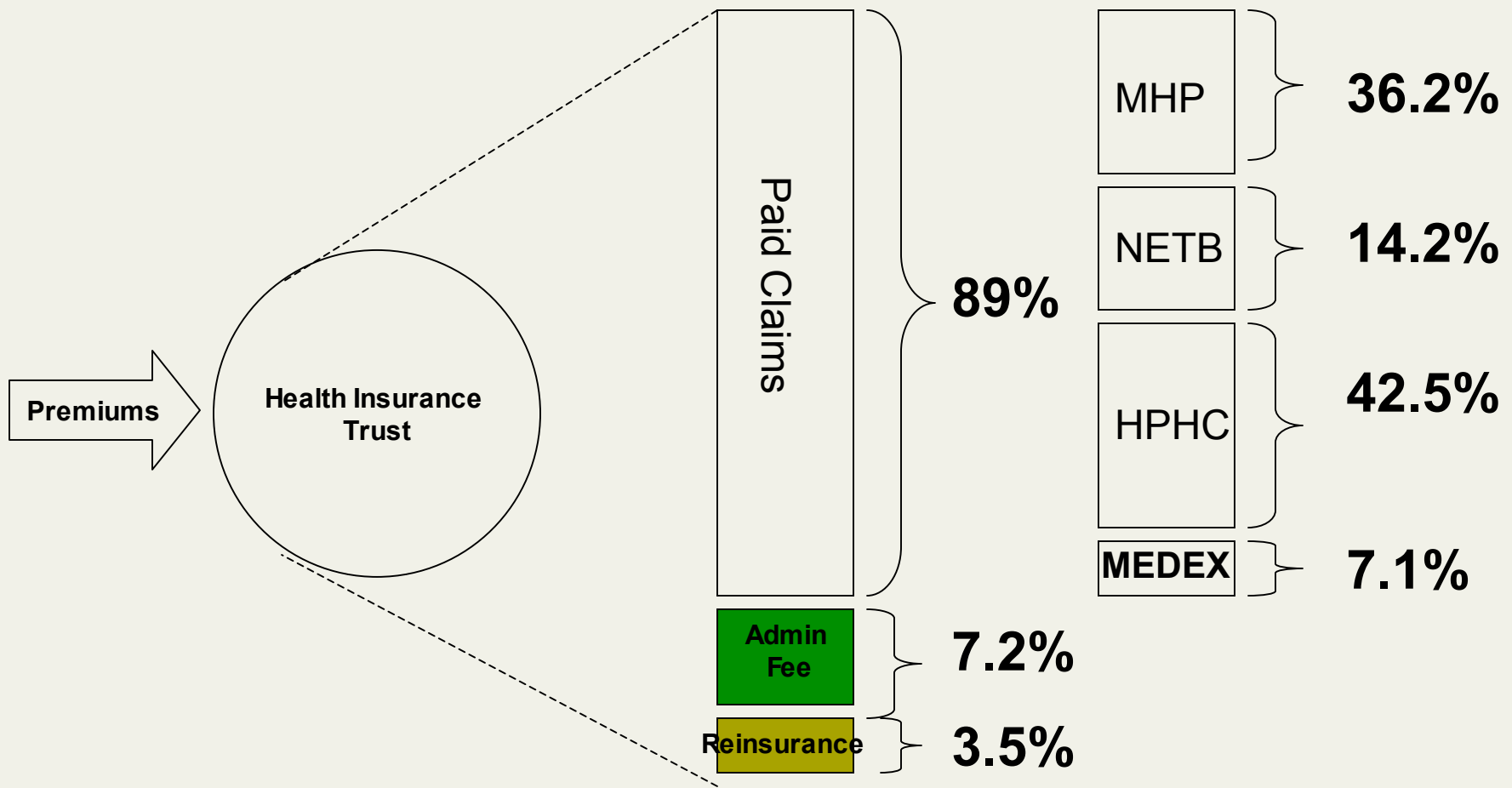
Health Insurance Trust: Simplified Cash Flow



Revenues



Expenses



Percentage breakout based on FY05 results

Reinsurance

- Insurance policy against very high claims
 - aka “Stop/Loss Coverage”
- Current Level: \$100,000/incident
 - We pay all costs up to \$100,000
 - Reinsurance carrier picks up 100% afterwards
- Drain on cash flow
 - We pay and then get reimbursed
- FY05 Revenue: \$798,000
 - Saved us \$450,000 !!

Quarterly Adjustment

- Trust contracts with providers calls for flat monthly payment (sort of “deposit” against actual claims)
- Each quarter the carriers reconcile actual claims against cumulative deposits
 - Net result is an “adjustment”
- Good quarter: we don’t owe carriers money (sometimes get a refund)
- Bad quarter: we owe carriers money

IBNR

- Claims that are **Incurred But Not Reported**
- At end of year we know additional claims exist that have not yet been reported to health care providers and hence to the Trust
- These claims must be paid and therefore we must maintain a reserve for such claims
- Fund balance estimate includes an accrual for IBNR

Rates

- Rates are set each year based on:
 - Forecasted cost increases for the coming year
 - Desired level of reserves
 - Anticipated number of plan participants
 - Consider the possibility of any migration from plan to plan
- Rates are set 5-6 months before the start of the new fiscal year

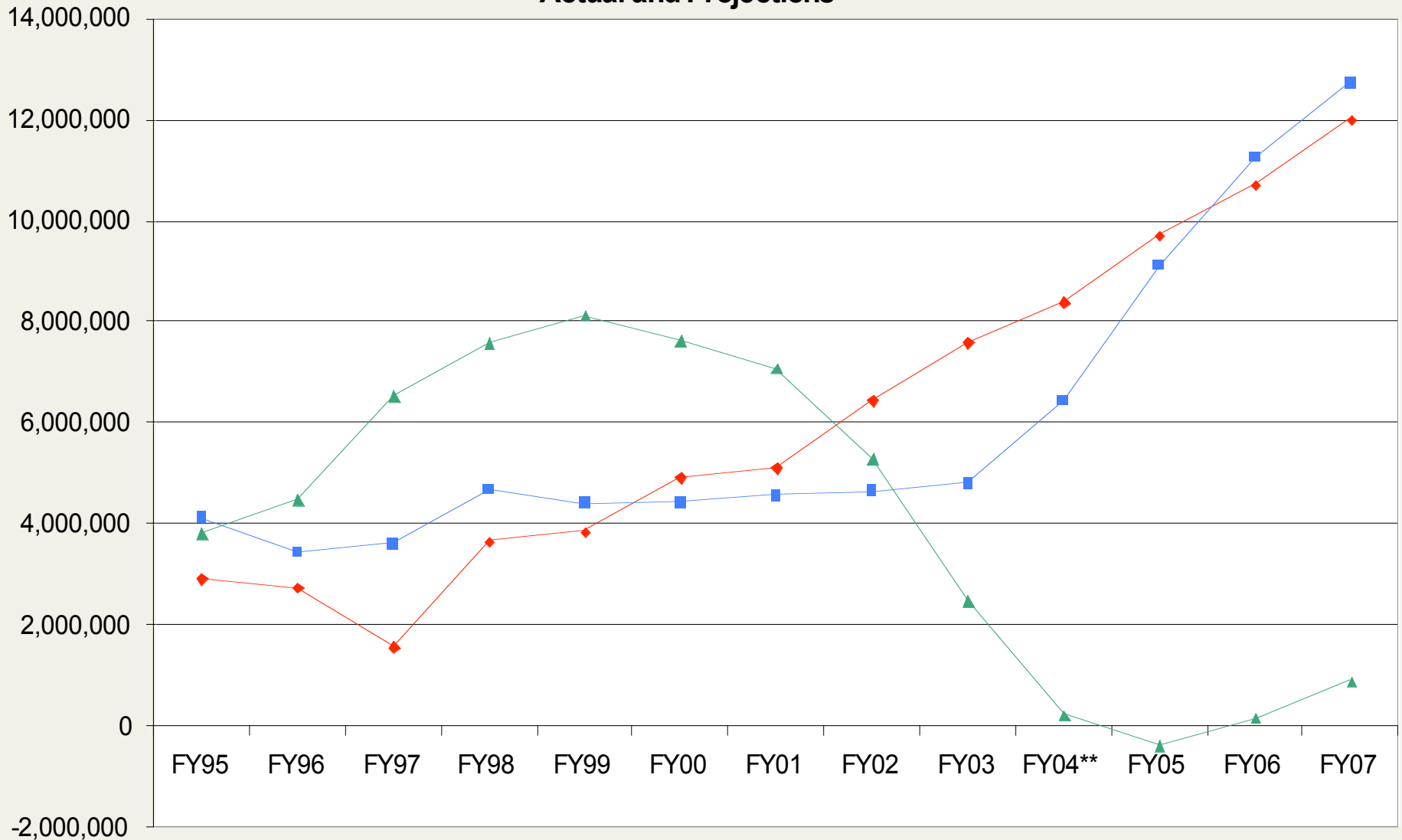
Why Have Rates Been Going Up So Much in Recent Years?

- No rate increases 1998-2002 and “holidays”
- Claims cost risen 15% per year during same period
 - Employees saved \$1.5 million between 1998-2003 vs. “market” rates
 - Governmental entities saved \$5.9 million between 1998-2003 vs. “market” rates

Why Have Rates Been Going Up So Much in Recent Years?

- Between 2003-2005, rates have had to catch up with claims cost increases
- Preliminary results for FY06 are promising
 - We appear to be generating a positive fund balance after consideration of IBNR
- FY07 rates were set to equate to anticipated claims cost increases
 - Vary depending on plan (8-16%)

Health Insurance Trust Revenues vs. Expenses Actual and Projections



** FY04 adjustment to fund balance of (\$314,000) due to prior audit error

◆ Trust Expenses
 ■ Trust Revenues
 ▲ Fund balance

Data for FY06 and FY07 are projections

Plan Offerings

- Blue Cross
 - MHP
 - Network Blue HMO
 - Medex
- Harvard
 - HMO
 - First Seniority (not part of the Trust)

Group Comparisons

- MHP (indemnity)
 - Highest cost plan
 - Not generally available outside municipal market
 - Our rates about equal to premium-based
- HMO products
 - Rates about equal to or slightly better than other plans
 - Below premium-based rates

Group Comparisons

Survey of area towns indicated that for HMO products we are priced slightly better than average:

Rates Above A-B Trust	12 towns
Rates Equal to A-B Trust	7 towns
Rates Below A-B Trust	7 towns

FY07 Costs

	Total Annual Cost	District Share	Employee Share	Retiree Share
Master Health Plus - Fam.	\$21,321.00	\$ 18,122.85	\$ 3,198.15	\$ 10,660.50
Master Health Plus - Ind.	\$ 9,579.00	\$ 8,142.15	\$ 1,436.85	\$ 4,789.50
NetBlue/Harvard - Fam.	\$14,597.28	\$ 12,407.69	\$ 2,189.59	\$ 7,298.64
NetBlue/Harvard - Ind.	\$ 6,421.20	\$ 5,458.02	\$ 963.18	\$ 3,210.60
Medex	\$ 4,672.08	\$ 3,971.27	\$ 700.81	\$ 2,336.04

Possible Alternatives

- Is self-insurance the best option at this point in time?
- Join a larger self-insured group?
- Go to premium-based rates?
- Move to state insurance plans when/if available?
- Requires weighing of **risk** vs. **control**