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

Health Insurance Trust

REVENUE

Health Insurance Rates

EXPENSES

Paid Claims
Expenses

Percentage breakout based on FY05 results

Premiums

Health Insurance Trust

Expenses

Paid Claims

- MHP 36.2%
- NETB 14.2%
- HPHC 42.5%
- MEDEX 7.1%

- Admin Fee 7.2%
- Reinsurance 3.5%
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
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%)
* FY04 adjustment to fund balance of ($314,000) due to prior audit error

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

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Rates Above A-B Trust</td>
<td>12 towns</td>
</tr>
<tr>
<td>Rates Equal to A-B Trust</td>
<td>7 towns</td>
</tr>
<tr>
<td>Rates Below A-B Trust</td>
<td>7 towns</td>
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</tbody>
</table>
## FY07 Costs

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