Health Insurance: Questions and Answers

Q: Describe the Health Insurance Trust Fund

A: The Health Insurance Trust is a joint purchasing agency of the town of Acton and the Acton-Boxborough Regional School District allowed by law under Mass. General Laws Chapter 32B. The Trust permits the constituent entities to self-insure which has historically enabled the entities to provide coverage to our employees at below market rates. In return the Trust accepts the risks associated with and the responsibility for paying all allowed claims.

Q: How is the Trust managed and how does it work?

A: The fund is managed by a board of Trustees, who include the Treasurers of the municipal and school systems in town, a member of the Board of Selectmen, a member of the School Committee and a member of the Finance Committee. The fund receives its income from member contributions, including the town and schools as well as from individuals including municipal employees, local school employees and regional school district employees. The fund also derives income from investments, namely interest, as well as some reinsurance income for claims that exceed a certain dollar amount. The fund’s expenses are divided into paid claims, an administration fee paid to an external management firm, and the cost of reinsurance protection. The Trust pays all the health insurance claims and associated costs for eligible employees and eligible retirees and eligible family members of the constituent entities. The Trust is paid by the constituent entities directly on a monthly basis for this coverage. The Trust contracts with Blue Cross Blue Shield of Massachusetts and Harvard Pilgrim Health Care to administer the claims. These two providers give our covered beneficiaries access to their networks and support services.

Q: How does the Trust pay claims?

A: The Trust pays for the actual costs of the medical services provided to the beneficiaries. This includes doctors, hospitals, prescription drugs, and the like. Blue Cross and Harvard administer the health insurance plans, but they bill the Trust for the actual services that the town and schools’ employees, retirees and their families receive.

Q: If there is a very large claim, how does the Trust cover it?

A: The Trust has elected to be paid for all claims above a certain level by a third party insurer. Such “reinsurance” protects the Trust against catastrophic claims. Currently we carry re-insurance for all individual incident claims over $100,000. This amount can and will vary based on price and the willingness of re-insurers to cover our beneficiaries.
Q: Is the Trust allowed to expend money on things other than Health Care?

A: Yes, The Trust is allowed to cover its ordinary operating costs, provided that they are directly related to the provision of Health Insurance to the Beneficiaries. We currently pay Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care, Cook and Company, our re-insurance provider, our liability insurance provider, our auditor, and other administrative costs. The Trustees do not receive any compensation.

Q: Who are these providers and why are we contracting with them?

A: Blue Cross Blue Shield and Harvard Pilgrim Health Care provide our beneficiaries with access to their networks and directly administer claims from physicians, hospitals and pharmacies at their rates.

Cook and Company provide administrative and support services to the Trust and our beneficiaries. They assist us in obtaining bids for and managing our relationship with our reinsurance company. They also provide us with claims review and support and provide advice regarding the setting of rates in the coming year.

Reinsurance – As noted above, to protect the Trust against potentially very large claims, the Trust purchases reinsurance from a third party provider. The Trustees select this provider through a competitive bid process. Last year Allianz Insurance through American Stop Loss provided reinsurance and this year Companion Insurance, a Cook & Co. Company was the winning bidder on the reinsurance contract. This contract will be put out to bid again this coming year.

Auditor – We have contracted with an outside auditor, Borgatti Harrison & Co. to audit our books. The audit for FY03 has been completed and is available for review.

Liability insurance - As the Trust is a separate entity from the Town and the School districts, it has to carry its own liability insurance.

Bookkeeping/treasury functions - Currently the municipal finance staff has provides these functions free of charge and has done so since the inception of the trust in 1984. Due to the increasing burdens placed on municipal staff including this function, the Town has indicated its desire to withdraw from providing this function. The Trustees are currently looking for an entity to replace the municipal finance staff in this function.

Q: What is the employer/employee split for Health Insurance premiums?

A: The member contributions, which make up the lion's share of the Trust income, actually come from the Town and School Budgets as a payroll deduction. The town and the school employees pay 15% of the cost of health insurance, and the town and school
budgets pick up the remaining 85%. Retirees pay 50% of their cost.

Q: How is the employee share of the premium determined?

A: Health insurance benefits are part of the negotiated labor union contracts that the town and schools have with teachers, police, fire and others. It is not a matter for the Trustees.

Q: What is the actual cost for Health Insurance to the town and school employees?

A: For the last eight to ten years, the HITF has enabled Acton to provide extremely low cost, high quality health insurance coverage to its employees. Just to give you an idea, the cost for a family HMO plan such as Harvard Pilgrim that Acton offers is about $650/month. The same plan on the street costs $1,250/month and is going up again in December. The same is true for Blue Cross Blue Shield. The current cost for the BCBS Master Health Plus family plan is about $750/month. This plan is only available to corporate executives in the mass market, and therefore no market rate is available for regular employees but the BCBS PPO family plans run at least $1,200/month.

Q: How long have these insurance premiums been below market rates?

A: The cost for the above plans has remained between $400 and $700 per month for at least 10 years.

Q: What does this mean?

A: It means that for the last several years, taxpayers, employees and retirees have been getting a significant break in terms of the cost of health insurance. If the cost for health insurance had tracked market rates over that time, we all would have paid much more.

Q: So far you have talked about the fund revenues. What about the fund's expenses? How have they tracked over time?

A: We were also fortunate in that during the period 1996-2000, our claims rate (or the cost of paying for our claims) were not as high as projected. This meant that the fund had lower expenses than projected, and in turn the Trust built up a sizeable fund balance. In addition, we were able to capture a sizeable return on our reinsurance policy that contributed significantly to the fund balance. Finally, while interest rates were high in the late 1990s, that balance also created a sizeable interest income stream.
Q: So it sounds like the fund should have a hefty balance?

A: It did. In 1999, the Trust fund got to a point where it had a balance of $8 million.

Q: Where did the surplus monies that were in the fund go to?

A: While maintaining a significant balance might be a good thing in a "general" fund, when it comes to taxpayer dollars the town officials decided that if there is a surplus that it should be returned to the taxpayers and our employees. The way this was accomplished was by implementing rate freezes (as indicated above) and by granting a "no-pay period" (so-called holidays) for one or two months in some years. This caused the fund balance to be drawn down.

Q: What was the net result of these actions?

A: These actions reduced the cost of health insurance to the budgeting entities (the municipal and school operations), and our employees. As noted above we have all paid substantially less than our cost of health care coverage, market rates and substantially less than the cost of health insurance in virtually all other cities and towns for similar types of coverage.

Q: I’ve heard that money was taken out of the Trust fund and diverted to non-health insurance items.  Is that true?

A: No. Such action is not possible because the fund can only pay claims costs and other costs directly associated with the Trust, and thus monies could not be diverted to any other use.

Q: What has happened recently and why is the fund balance still shrinking?

A: In early 2002, the Trustees made the decision to hold rates firm and take two no-pay periods for the coming fiscal year (July 2002-June 2003). The Trust fund balance was still at $6.5 million at that point and not projected to decline appreciably the rest of that fiscal year. Claims cost increases escalated dramatically in the latter half of FY02 and throughout FY03. By the end of FY02, fund balance had fallen to about $5.3 million rather than $ 6.4 million that had been anticipated. The Trustees were planning on claims increases of 8% and the actual increase for FY02 was 15%.

Q: What happened in FY03?

A: First, the rate of claims cost increases continued to rise significantly. This increase is
due in part to the escalating costs of health care, driven by more costly procedures (like MRIs and Cat Scans that are becoming more routine), higher costs for prescription drugs, and more access to health care in general. Keep in mind that these costs are largely out of our control. The Trustees were expecting an increase of 12% when in fact it was closer to 17%. Second, we still do not have premium rates that cover our claims costs and thus are far too low. We need to bring rates up to cover claims costs and to maintain an adequate fund balance. Interest rates have fallen and our success in the reinsurance market has declined which means other sources of income to the Trust have also dropped.

Q: Can the Trust fund ever reach a zero balance?

A: No. By state law, we need to maintain a certain minimum balance in the fund for claims that have been incurred but have not been reported to the fund.

Q: What have the Trustees decided to do to fix the problem?

A: The Boards met, along with the Trustees, and looked at a multi-year plan to solve this problem. Last December there was a public meeting to which union representatives were invited to outline the scope of the problem, to discuss possible solutions, and analyze how to plan for the future. This involved a complicated exercise looking at rates, reinsurance, interest and claims. The net result of this plan was that an overall 51% increase in the cost of health insurance (a 31% rate increase coupled with 12 month funding, i.e., no holidays) was needed in this current budget year (FY04), followed by a 51% increase in rates for the FY05 budget year, all this assuming that the rate of claims increases runs at about 15% per year. That trend seems to holding for the current year, but it will be watched closely. The bottom line is that we have kept health care costs considerably below what most employees (and employers) pay for the past several years, and we now must begin to pay the true cost of health care.

If you have other questions about the Trust, please feel free to contact us.

The current trustees are:

Peter Ashton
Marie Altieri
John Ryder
Tess Summers
John Murray