Background Information on the Health Insurance Trust

Overview

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. The Trust Agreement governing operation of the Trust was revised in 2003 and approved by the town at town Meeting in April 2003.

The Trust is managed by a Board of Trustees, that 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 Trust 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 as well as retirees. 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.

Expenses Incurred by the Trust

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 treasury services firm, our auditor, and other administrative costs. The Trustees do not receive any compensation.

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 provides 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. 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. This year Kanawah Insurance is
providing reinsurance based on a competitive bid selection held last June. This contract will be put out to bid again this coming year. We have contracted with an outside firm, Borgatti Harrison & Co. to provide treasury services including bookkeeping, record keeping, billing, and the like. Last year and again this year we hired Bill Fraher to perform an audit of the Trust. The state is now requiring such audits. The audit for FY05 should be completed by the end of October. As the Trust is a separate entity from the Town and the School districts, it has to carry its own liability insurance.

**IBNR (Incurred but not reported)**

One other expense item that must be discussed is what is called “IBNR” and it reflects claims that the Trust has incurred (e.g., a doctor visit by an employee), but the Trust has yet to receive a bill for that claim – hence the term “claims that have been incurred but not reported.” There can be a lag of up to 6 months between when a claim is incurred and when the provider is required to bill for it. Typically the lag is much shorter, but at the end of the fiscal year, there are always a certain number of claims, usually representing a month or more, that have yet to be billed to the Trust. These are not reflected in the income statement of the Trust but are carried as a liability against the Trust on the balance sheet. In FY04, the Trust had about $640,000 in IBNR.

**Reinsurance**

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. In addition, 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. Last year, the Trust encountered a significant number of large claims in excess of $100,000 and received reimbursement of such claims in excess of $750,000.

**Income Received by the Trust**

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. 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.

During the period 1995 and 2004, the Trust has enabled Acton to provide extremely low cost, high quality health insurance coverage to its employees. For example, in 2002 the cost for a family HMO plan such as Harvard Pilgrim that Acton offers was about $650/month. The same plan on the street cost $1,250/month. The same
was true for Blue Cross Blue Shield. The 2002 cost for the BCBS Master Health Plus family plan was about $750/month. No market rate is available for regular employees for this plan as it is only offered on a very limited basis (primarily to government employees), but the BCBS PPO family plans cost about $1,200/month at that time. The cost for these plans remained between $400 and $700 per month below market rates for at least 10 years. In 2003, due to budget pressures including a declining fund balance and rapidly escalating claims costs, the Trust began the process of raising rates to equate with costs. Rates in 2005 were set so as to ensure that contributions would cover claims and administrative costs.

The benefit of having rates below claims costs has meant that for the last several years, taxpayers, employees and retirees have been getting a significant break in terms of the cost of health insurance. Unfortunately we are no longer able to charge rates that are below anticipated costs, and over the last two years, rates have been raised more than the increase in costs in order to bring these two into line. In FY04, the Trust raised rates by 31%, followed by a 51% increase in rates in FY05. In FY06, the Trust raised rates another 26% in order to begin to rebuild fund balance. Claims costs in each of these three years has been increasing by approximately 18 per cent per year.

In addition, we began offering a new plan, Network Blue, a Blue Cross HMO, and that has resulted in significant migration of employees to this plan. Last year in projecting anticipated migration, more employees migrated to the less expensive plans than we anticipated, and we were left collecting less money into the Trust than expected. This has also led to a further decline in fund balance. The higher amount was nevertheless appropriated and this “excess” was turned back by the governmental entities to flow to free cash and E&D. Thus while at one time we had a fund balance in the Trust of over $7 million, that fund balance has now dropped to less than $500,000. For FY06, the Trustees voted to increase rates sufficient to increase fund balance by $500,000 if revenues and expenses follow the projections. The figure below shows the trend in the Trust’s costs and revenues over the last ten years.
It is really too soon to tell this year whether the trend in claims costs will follow our projection. We forecast a 13 percent increase in claims costs for this year which is about in line with general market increases. There is some indication that the increase in health care costs have begun to diminish slightly. The latest Kaiser Family survey indicates about a 10 percent increase in health care costs. Whether the Trust will follow this trend is still to be seen.

Acton/Acton-Boxborough HIT Products and Rates

The health insurance products that are offered by the Trust must meet the requirements of current Collective Bargaining Agreements, and therefore are the result of negotiated contracts. Any changes to product offerings may be subject to negotiation, and must meet the requirements of current contracts as well as any applicable state law. In some cases, the health insurance trust may add products without negotiating a change to the contract, but all other changes require negotiations. State law requires municipalities to offer an indemnity plan, and the indemnity plan offerings, costs, and percentage split is required by law to be the same among all units within a municipal entity.

All current HIT offerings have been negotiated. The HIT offers Blue Cross/Blue Shield Master Health Pl (MHP) as its indemnity plan. This product is not offered by many companies, and is generally only offered within some Massachusetts municipalities. As a result, the costs have risen much faster than the rates of other health
insurance products. To replace this product in AB’s current offering would require agreement among all six collective bargaining units and it would need to be replaced with an indemnity plan. The high cost of this plan has caused a significant percentage of town and school employees and retirees to move to an HMO product over the last two years. Many employees that have made the move to an HMO have described the HMO health care services to be equally as good as MHP, and out of pocket expenses to be much lower. For example, an annual physical through an HMO costs $5, while the same is not covered by MHP. One issue that the trust is trying to address is that MHP is the only product that we currently offer that provides regular (non-emergency) healthcare coverage outside of New England.

The HIT offers two HMO products: Harvard Community Health Plan (HCHP) and an HMO product from Blue Cross/Blue Shield called Network Blue. The monthly costs for these plans for both employees and the town and schools are less than ½ the cost of MHP. The co-pays that we offer are below industry standards at $5 per visit. The standard HMO offerings from HCHP and BCBS have $15 co-pays. Both companies estimate that a $10 increase in co-pays could decrease rates by 2% percent.

The HIT also provides a prescription drug benefit. Subscribers pay a $5 co-pay for each generic prescription; and a $10 co-pay for non-generic prescriptions. HCHP and MHP’s standard offerings include a three tier drug program where subscribers pay $10 for a generic in-plan prescription; $25 for a non-generic in-plan prescription; and $45 for an out-of-plan prescription. Both companies estimate that a change to a three tier drug program could decrease rates by 4 percent.

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<th>Acton-AB Trust</th>
<th>Industry Standards</th>
<th>Potential Savings in Rate Increases</th>
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<tr>
<td>Health Insurance Co-Pays</td>
<td>$5</td>
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<tr>
<td>Prescription Drug Benefit Co-Pays</td>
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**Health Insurance Industry Trends - Future Options**

Beyond the standard HMO and Indemnity plans that are available in the market, the health insurance industry is moving to more consumer driven plans. Recent legislation allows individuals to save health care funds and roll them from year to year (HSA) with the ability to withdraw monies in retirement without tax impact. Employers
also have the ability to donate to savings accounts that can grow from year to year (HRA). These two savings options allow employers to provide high deductible plans, while mitigating the impact to beneficiaries. Beneficiaries would have much more at stake in making wise decisions about spending health care dollars. The trustees are not in a position to recommend any of these alternatives yet, but recommend that we continue to follow the industry as these plans evolve. Types of plans available:

**High Deductible Plans**

The savings plans are used in conjunction with new deductible plans. Employers can structure plans with any of the following deductibles:

- **Individual/Family Deductibles**
  - $1000/$2000  or $2000/$4000  or $3000/$6000

**HRA (Healthcare Reimbursement Accounts)**

An HRA is an account that allows an **employer** to contribute funds towards employee’s out of pocket health care expenses and deductibles. The employee receives a card (such as a Mastercard) to which they can charge expenses related to health insurance and medical costs such as deductibles, co-payments and co-insurance. As an example, the employer can implement a family deductible of $4,000, and pay $2,000 towards the family’s health care costs into an account for them. The money can be rolled into future years. The employer’s healthcare costs for that family could go down by $4,000 per year, and since they’ve put $2,000 into an account, they save $2,000 per year for that family.

**HSA (Healthcare Savings Accounts)**

An HSA is an account that allows the employee to contribute pre-tax funds towards their out of pocket health care expenses. The rules for an HSA are similar to those for a 401K plan. Employees can save money over time which will roll to future years and can be carried from one employer to another. The employer does not contribute funds to this account. These accounts can also serve as a general retirement savings account, as families can draw on the account in retirement age without tax impact for any need, not just medical.