

# Memo

**To:** Acton Board of Selectmen, Acton-Boxborough Regional School Committee,  
Acton Finance Committee

**From:** John Petersen

**CC:** Acton Health Insurance Trustees, Peter Savage, Steve Mills, Marie Altieri

**Date:** July 20, 2009

**Subject:** Acton Health Insurance Trust – Overview

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## Introduction

The Acton Health Insurance Trust was formed in 1985 to allow Acton to self-insure and offer health insurance to its current and retired employees including employees of the Acton-Boxborough Regional School District. Health insurance is one of the most important employee benefits and, after salaries, the largest expense in the town budget. The Trust's cost of providing health insurance in FY10 will be \$14 million, 16% of the \$85 million combined town and school budgets. The purpose of this document is to provide an overview of the Acton Health Insurance Trust including its operation, decision-making and current financial status.

## Formation & Structure of the Trust, Covered Groups

The Acton Health Insurance Trust is a joint purchasing agency of the town of Acton and the Acton-Boxborough Regional School District. The Health Insurance Trust was formed in 1985 under Massachusetts General Laws 32B; an updated Trust Agreement was approved by Town Meeting in 2003. The Acton Water District was part of the original trust but moved to MMA when the trust was reformed in 2003. 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 for individual insurance. In return the Trust accepts the risks associated with and the responsibility for paying all allowed claims.

The Trust is managed by a Board of Trustees consisting of 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 current trustees are John Murray, Tess Summers, Peter Berry, John Petersen and Bob Evans. The trust employs a health insurance consultant, Cook & Co., whose representative, Peter Savage, attends all meetings of the trust. The trust employs an accountant, Borgatti Harrison, to provide treasury services including receipt and disbursement of trust funds, billing of retirees, investment of cash, and provision of quarterly income statements and balance sheets to the trustees. The trust pays for an independent audit at year-end. The trust meets monthly, typically the third Thursday of each month.

The trust provides insurance for approximately 1100 insurance contracts through five different plans: Master Health Plus, Blue Care Elect, NetBlue, Harvard Pilgrim Health Care, and Medex. The Trust pays all the health insurance claims and administrative costs for enrolled employees and retirees and eligible family members of the constituent entities in excess of co-pays and plan deductibles. Approximately 2/3 of the insured are school employees and 1/3 are municipal. While the total covered population of 1100 contracts provides reasonably predictable costs and is considered by the insurance industry to be a "credible" size, the smaller groups associated with each plan are not large enough to provide reliable year to year expense estimates. Year-end enrollment and claims (unaudited) are shown in Table 1.

Table 1. Health Insurance Enrollment & Claims by Plan – June 2009

<b>Plan</b>	Individual	Family	Total	% enroll	Claims*	% Claims
Master Health Plus	49	95	143	12%	3,054,483	24%
Blue Care Elect	5	18	24	2%	490,059	4%
NetBlue (HMO)	135	203	337	29%	3,280,802	26%
HPHC (HMO)	99	264	363	31%	4,375,851	35%
Medex	286	--	286	25%	1,278,674	10%
<b>Total</b>	<b>574</b>	<b>579</b>	<b>1153</b>		<b>\$12,479,869</b>	

\*Claims only, does not include administration or reinsurance expenses

The fiscal year of the trust is July 1<sup>st</sup> to June 30<sup>th</sup>. The Trust makes four important decisions every year. In February, the trust sets rates for each plan for the fiscal year that begins July 1. In May, the trust selects a health insurance consultant. In June, the trust decides whether or not to reinsure and selects a reinsurance policy. In October, the Trust reviews and approves the annual financial statement and audit report for the year completed the previous June. On a quarterly basis, the Trust reviews the Income Statement and Balance Sheet. On a monthly basis the Trust reviews the cash flow of trust. The primary difference between the cash flow analysis and the audited financials is that the cash flow shows reinsurance payments early in the FY (typically Q1) but these payments are actually associated with claims (and are associated with the reinsurance policy) from the previous FY.

The trust does not negotiate health insurance offerings or payment conditions with the covered groups. Health insurance benefits are part of negotiated labor union contracts or other agreements between the various bargaining units and the Board of Selectmen and/or School Committee. The trustees may add insurance options as they did recently with the Blue Cross PPO. Some retirees are enrolled in premium-based plans (Harvard Senior, Tufts Medicare Advantage) that are not part of the trust.

### **Revenues and Expenses, Reinsurance**

The Trust revenues are direct payments from the town and schools and the employees of the town and school (via payroll deductions). Retired employees also make payments to the trust. The fund receives income from investments, namely interest, and reinsurance income for claims that exceed the reinsurance limits. Co-pays and deductibles paid by covered individuals are made directly to the insurance providers and do not flow through the trust.

The fund's expenses are divided into paid claims, plan administration expenses paid to each plan provider (Blue Cross, Harvard Pilgrim Health Care), a consulting fee paid to an external management firm (Cook & Co), and the cost of reinsurance. The cash flow summary for the recently completed fiscal year is shown in Table 2, the dominance of claims cost is shown in Figure 1.

Table 2. Cash Flow Summary FY09, Jul08 through Jun09

<u>Paid Claims</u>	<u>Admin. Fee</u>	<u>Reinsurance Premiums<sup>1</sup></u>	<u>Other Costs<sup>2</sup></u>	<u>Total Costs</u>	<u>Contribution To Trust</u>	<u>Favorable Variance</u>
12,479,869	893,588	429,276	(504,699)	13,298,035	13,525,147	227,113

1. Premiums are for FY09 (current year)

2. Reinsurance reimbursements are primarily payout against policy from FY08 (previous year)

The Trust pays all the health insurance claims and administrative costs for enrolled employees and enrolled retirees and eligible family members of the constituent entities. Examples of claims would include physician charges, lab tests, hospital charges, and drugs. 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, support services and negotiated rates.

The Trust has reinsurance to protect against catastrophic losses as the result of very large individual claims. Reinsurers attempt to price their policies so that they will return 85% of the premium against claims and retain 15%

for their expenses and profit. Thus a \$400,000 policy is expected (by the insurer) to generate claims of \$340,000. Acton has typically had claims larger than our premium, making reinsurance not an expense but a source of revenue for the trust.

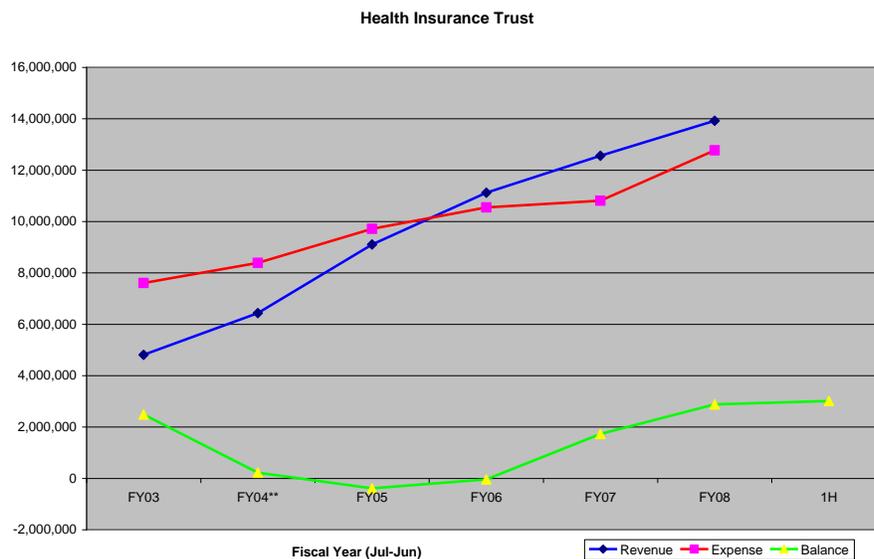
Figure 1. Paid Claims are the major Trust Expense



### Health Insurance Trust IBNR, Unrestricted Net Assets

By law, the Health Insurance Trust must maintain a balance to cover the cost of claims which have not been submitted (Incurred But Not Reported, IBNR). IBNR is maintained as a liability on the balance sheet. Massachusetts municipal entities also carry a reserve to cover unpredictable, catastrophic medical events which may lead to large claims.

Funds in excess of liabilities are the unrestricted assets of the Trust. The unrestricted net assets required to buffer against catastrophic losses vary by the size of the entity and nature of the catastrophe. Large entities (whole states) might maintain a balance of 10-15% of annual expenses. Small entities might maintain balances of 30% or even higher. The unrestricted net assets of the trust as of June 30, 2009 are approximately \$3.1 million or 21% of the \$14.4 million expenses expected for FY10. The expenses, revenues and balance (unrestricted net assets) of the trust are shown in the graph below and are tabulated as Appendix A (1993 to present).



## Health Insurance Rates

Assuming that the assets of the trust are correctly sized, the health insurance rates are set by the trustees so that revenues will equal expected expenses. In practice, the trustees (like the insurance providers) place most weight on recent expense increases. While different entities use different historical periods, the Acton trust is sufficiently volatile that a three year period is required to provide reasonable stability for the next year cost estimate. The trustees elected to increase rates, on average, by 6% for FY10. The rate history of the plans in the Acton Health Insurance Trust is shown in Table 3. Assuming the same enrollment as FY09, the trust revenue is estimated to be \$14.4 million.

Table 3. Rate History Rate History of Acton Health Plans

FY	MHP		Medex	HPHC		Net Blue	Net Blue	Blue Care Elect	
	Ind Rate	Fam Rate	Ind Rate	Ind Rate	Fam Rate	Ind Rate	Fam Rate	Ind Rate	Fam Rate
	\$/mo	\$/mo							
2000	353	768	173	201	443				
2001	265	576	200	242	532				
2002	265	576	230	242	532				
2003	265	576	230	242	532				
2004	344	749	276	295	649				
2005	588	1305	300	367	824	367	824		
2006	738	1643	378	458	1041	458	1041		
2007	801	1778	389	536	1217	536	1217		
2008	1004	2226	389	572	1295	572	1295	884	1778
Sch 2009*	1004	2225	389	555	1256	538	1217	884	1778
Sch 2010*	1054	2381	413	577	1331	559	1290	928	1902

\*School rates; municipal rates are slightly higher due to lower copays

**Appendix A. Acton Health Insurance Trust Accounting, Trust Expenses, Revenues and Trust Fund Balance**

	<b>BEG</b>	Employee &						<b>END</b>			
<b>BEG</b>	<b>FUND</b>	Employer	INVEST	INCR	TOTAL	TOTAL	NET	<b>FUND</b>		Balance as	
<b>DATE</b>	<b>Balance</b>	Contrib	Income	w/ Deposit	Revenue	Expend	Profit/Loss	<b>Balance+</b>	Source	% annl exp	Year
FY93	469,857	2,996,280	22,432		3,018,712	2,012,895	1,005,817	1,475,674	AUDIT	73%	1
FY94	1,475,674	4,375,990	0		4,375,990	3,248,115	1,127,875	2,603,549	AUDIT	80%	2
FY95	2,603,549	3,992,537	137,681		4,130,218	2,925,911	1,204,307	3,807,856	AUDIT	130%	3
FY96	3,807,856	3,227,938	204,180		3,432,118	2,739,230	692,888	4,500,744	AUDIT	164%	4
FY97	4,500,744	3,328,602	281,973		3,610,575	1,566,616	2,043,959	6,544,703	AUDIT	418%	5
FY98	6,544,703	4,320,867	364,956		4,685,823	3,658,414	1,027,409	7,572,112	AUDIT	207%	6
FY99	7,572,112	4,006,873	399,746		4,406,619	3,845,395	561,224	8,133,336	AUDIT	212%	7
FY00	8,133,336	3,968,665	451,031		4,419,696	4,931,421	-511,725	7,621,611	AUDIT	155%	8
FY01	7,621,611	4,002,790	450,063	115,020	4,567,873	5,106,717	-538,844	7,082,767	AUDIT	139%	9
FY02	7,082,767	4,478,140	172,824		4,650,964	6,447,046	-1,796,082	5,286,685	AUDIT	82%	10
FY03	5,286,685	4,718,160	88,436		4,806,596	7,603,006	-2,796,410	2,490,275	AUDIT	33%	11
FY04**	2,176,228	6,413,526	21,435		6,434,961	8,389,480	-1,954,519	221,709	AUDIT	3%	12
FY05	221,709	9,096,409	7,752		9,104,161	9,715,326	-611,165	-389,456	AUDIT	-4%	13
FY06	-610,779	11,101,560	16,862		11,118,422	10,546,873	571,549	-39,230	AUDIT	0%	14
FY07	-22,368	12,536,187	24,873		12,561,060	10,807,731	1,753,329	1,730,961	AUDIT	16%	15
FY08	1,730,961	13,822,334	97,875		13,920,209	12,769,552	1,150,657	2,881,618	AUDIT	23%	16
1H FY09	2,881,618	6,863,528	41,403		6,904,931	6,776,627	128,304	3,009,922	unaudit		17

\*\* Per FY04 audit, fund balance was adjusted to correct a prior year's error on advanced contributions in the amount of -\$314,047. Increase in total trust expenses does not adjust for increase in subscribers, increases on a per subscriber basis are lower Trust year is Jul-Jun