



TOWN OF UPTON, MASSACHUSETTS

BOARD OF SELECTMEN

October 4, 2016

MEMO TO: Board of Selectmen
FROM: Blythe C. Robinson
Town Manager
RE: Health Insurance Options – FY 2018

A significant portion of the Town's budget each year is the purchase of health insurance for the Town's employees, families and retired employees. In the current budget the Town's contribution to premium is \$721,916 that reflects a 12.8% increase in cost of the plans over FY16. This increase appeared high, though it was less than surrounding towns the bids we received from other companies. Prior to the budget process beginning for FY18, I wanted to discuss with you what direction you'd like to go to manage this cost for next year.

Included in your packet is the Town's experience data over the past eight years we have been a member of the MIIA Health Benefits Trust. A key factor in the pricing of plans is the Town's loss ratio or put another way, the amount of claims paid on the Town's behalf relative to premium contribution. Insurance companies would like to see a loss ratio under 90% (for every \$1.00 of premium the claims paid was .90 cents). MIIA looks at a rolling 24-month average as part of the renewal. As you will note, Upton's loss ratio in most years has been well above this, reaching as high as 161%. However, in FY16 we had our best year ever with a loss ratio of 86.29%, and FY 17 has gotten off to a good start. Despite this good news, our renewal for FY18 will average the last two years which currently stands at 124.39%, which will likely equate to an increase again next year. MIIA believes that medical trend is running at about 9%/year and prescription drugs as much as 17%, which will also negatively affect their pricing.

Last year we spent an extensive amount of time reviewing health insurance with the Insurance Advisory Committee (IAC). We put the plans out to bid, receiving pricing as high as a 20% increase. We also looked at various plan design changes to introduce plans that matched those offered by the Group Insurance Commission (GIC) and which implemented deductibles. Furthermore, with those GIC-like plans, MIIA also offered a limited doctor/hospital network that employees could choose, and those would have further reduced costs by 5%. At the end of the day, the IAC was resistant to changing to deductible plans, even with an offer by the Board of Selectmen to share the plans first year of savings with those employees without being required to do so. The Town does have an option to implement such changes through a process allowed under Massachusetts G.L. c32B, §21/22. Below are the options that could be considered, which I would like to discuss with you at Tuesday's meeting. The options available to the Town are:

1. Keep the status quo – The cost of the plans has gone up, but improved experience in the last year has improved our loss ratio, and hopefully the rate range from MIIA will also be lower. Employees'

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preference would be to keep the plan they have rather than make changes. At this point I would plan a 10% increase in health insurance costs for next year, which will also result in Federal Affordable Care Act Cadillac taxes in 2020.

2. Change Carriers – as mentioned earlier we brought in an outside insurance consultant who bid out our plans to other carriers last year resulting in two bids, the highest at a 20% increase. With an improved loss ratio we might receive more competitive rates if we bid it again to have a comparison to MIIA. The Cadillac Tax will still be an issue here.

3. Make Plan Design Changes - plan design changes that result in meaningful premium cost reductions are done by instituting deductibles. Besides co-pays, plans call for employees paying a deductible for some services before insurance picks up the balance of a bill. The deductibles offered last year range from as low as \$250/ind and \$750/family to \$1,000/\$2,000. No doubt this is essentially cost shifting to the employee, but the premium deduction was at least 4.1% and higher depending on the deductible threshold. The limited hospital/doctor network meant a further 7% reduction. Plan design changes give the Town the best case for cost avoiding the impact of the Cadillac tax. Employees are naturally not very happy about this option, although they realize that it is a reality, and that we will have to institute these at some point. This is the option I recommend.

So how do we get there? There are several options to do that, and if you agree that we should make plan design changes, then the method is important and somewhat a political decision. The options for this are:

1. Insurance Advisory Votes Willingly to Change: Since we instituted this several years ago the IAC has made two plan design changes cooperatively. The IAC is made up of 7 members, 4 – each from a union, and 3 non-union. I'm not on the committee, but I staff and lead it. This group voted last year not to make the changes outlined above. The other options are:

2. IAC agrees to a change, but Town offers an HRA: An HRA account is federal law option by which the Town puts the value of the deductibles into an account and pays the employee back the deductible amount they incur. Both Mendon and MURSD have done this. It does save some money but it is a yearly gamble about how much will be spent, and eliminates the incentive employees have to change their behavior by shopping smarter for services in order to avoid the deductible where possible. The Town would have to budget \$27,000 to meet the obligation whereas the premium savings would be about \$37,000 thus would only save about \$10,000 next year and potentially annually. I don't recommend this option.

3. Selectmen adopt G.L. c 23B, § 21/22: The state law changed in 2011 to allow Towns to make plan design changes in health insurance without negotiations as long as they followed a prescribed process. It enables us to make cost saving changes as long as we share 25% of the first year's savings with employees. This is typically done with premium holidays for the employees up to that threshold. If the savings is about \$10,000 the average employee would save 2 weeks of premium which would be about \$100/individual and \$300/family plan. This is the least friendly option, but it gives the Town the ability manage its cost and once the mitigation is made in the first year, the Town can make future changes as it sees fit with no sharing.

4. Ask IAC to agree to Plan Design Changes and Offer Mitigation without the Law: This was what we offered last year which was not accepted - offering the 25% mitigation for the plan design change without implementing the law or an HRA. The pros and cons of this are:

- Most friendly option to the employee – would cost Town about \$9,700 (more if employees choose limited network)
- Eliminates forcing the change on employees
- Creates expectation by employees that anytime we make a change we'll give them something
- No HRA – once we put one in we'd likely never be able to eliminate it and there would be an expectation that as deductibles increase in the future so would the HRA contribution. HRA contribution is factored into the calculation for the Cadillac tax.

Thank you for reviewing this before the meeting so that you have a good overview of the issues and we can discuss how to approach this.

MIA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

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Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2016	C			72,986			1,975	74,960		74,960
FY2017 Claims										
7/1/2016	P			82,039			3,278	85,316		85,316
FY2017 Premiums										
				82,039			3,278	85,316		85,316
FY2017 Loss Ratios										
				88.97%			60.24%	87.86%		87.86%

Paid claims data represents fee for service paid claims only and does not include IBNR or administrative costs.

MIDA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

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Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2015	C			87,188		4,691	111	91,989		91,989
8/1/2015	C			51,001		111	542	51,654		51,654
9/1/2015	C			39,932		45	933	40,910		40,910
10/1/2015	C			56,084		51	824	56,959		56,959
11/1/2015	C			60,393		35	1,113	61,541		61,541
12/1/2015	C			74,418			994	75,412		75,412
1/1/2016	C			38,871			1,051	39,922		39,922
2/1/2016	C			76,656			3,840	80,496		80,496
3/1/2016	C			65,234			1,162	66,396		66,396
4/1/2016	C			84,209			1,235	85,444		85,444
5/1/2016	C			81,089			1,858	82,947		82,947
6/1/2016	C			111,141			817	111,958		111,958
FY2016 Claims				826,217		4,933	14,478	845,627		845,627
7/1/2015	P			76,721			3,096	79,817		79,817
8/1/2015	P			78,377			3,096	81,473		81,473
9/1/2015	P			78,377			3,096	81,473		81,473
10/1/2015	P			80,181			3,096	83,276		83,276
11/1/2015	P			82,722			3,096	85,818		85,818
12/1/2015	P			81,328			3,096	84,424		84,424
1/1/2016	P			81,328			3,096	84,424		84,424
2/1/2016	P			78,377			3,278	81,655		81,655
3/1/2016	P			76,901			3,278	80,179		80,179
4/1/2016	P			78,377			3,278	81,655		81,655
5/1/2016	P			72,977			3,278	76,255		76,255
6/1/2016	P			76,245			3,278	79,523		79,523
FY2016 Premiums				941,913			38,059	979,972		979,972
FY2016 Loss Ratios				87.72%			38.04%	86.29%		86.29%

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MIA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2014	C			72,321		7,099		79,420		79,420
8/1/2014	C			130,142		5,300		135,442		135,442
9/1/2014	C			62,427		3,709		66,136		66,136
10/1/2014	C			83,238		5,681		88,918		88,918
11/1/2014	C			54,784		4,058		58,842		58,842
12/1/2014	C			51,365		5,341		56,706		56,706
1/1/2015	C			105,252		6,654		111,906		111,906
2/1/2015	C			144,522		11,633		156,155		156,155
3/1/2015	C			199,267		9,149		208,415		208,415
4/1/2015	C			420,221		4,275		424,495		424,495
5/1/2015	C			129,028		6,445		135,474		135,474
6/1/2015	C			116,056		7,473		123,529		123,529
FY2015 Claims				1,568,624		76,815		1,645,438		1,645,438
7/1/2014	P			74,961		9,673		84,634		84,634
8/1/2014	P			73,483		9,673		83,156		83,156
9/1/2014	P			75,701		9,673		85,374		85,374
10/1/2014	P			78,805		9,673		88,479		88,479
11/1/2014	P			78,362		9,673		88,035		88,035
12/1/2014	P			77,623		9,673		87,296		87,296
1/1/2015	P			77,623		9,673		87,296		87,296
2/1/2015	P			74,099		9,673		83,772		83,772
3/1/2015	P			75,701		8,364		84,065		84,065
4/1/2015	P			75,701		9,104		84,805		84,805
5/1/2015	P			75,701		9,104		84,805		84,805
6/1/2015	P			66,494		10,242		76,736		76,736
FY2015 Premiums				904,252		114,200		1,018,452		1,018,452
FY2015 Loss Ratios				173.47%		67.26%		161.56%		161.56%

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MIIA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

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Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2013	C			98,572		3,696		102,268		102,268
8/1/2013	C			101,628		5,165		106,793		106,793
9/1/2013	C			23,452		5,968		29,420		29,420
10/1/2013	C			112,186		2,885		115,071		115,071
11/1/2013	C			95,287		4,093		99,380		99,380
12/1/2013	C			78,164		4,478		82,642		82,642
1/1/2014	C			55,381		3,803		59,183		59,183
2/1/2014	C			52,689		4,235		56,924		56,924
3/1/2014	C			94,407		5,143		99,551		99,551
4/1/2014	C			56,460		4,458		60,918		60,918
5/1/2014	C			58,061		3,986		62,047		62,047
6/1/2014	C			79,914		3,595		83,508		83,508
FY2014 Claims				906,201		51,505		957,705		957,705
7/1/2013	P			74,792		8,292		83,083		83,083
8/1/2013	P			72,351		8,292		80,642		80,642
9/1/2013	P			74,159		8,292		82,451		82,451
10/1/2013	P			74,159		8,292		82,451		82,451
11/1/2013	P			72,351		8,292		80,642		80,642
12/1/2013	P			70,542		8,292		78,833		78,833
1/1/2014	P			73,719		8,292		82,010		82,010
2/1/2014	P			74,159		8,810		82,969		82,969
3/1/2014	P			74,159		8,810		82,969		82,969
4/1/2014	P			74,159		8,810		82,969		82,969
5/1/2014	P			74,159		8,810		82,969		82,969
6/1/2014	P			74,159		8,810		82,969		82,969
FY2014 Premiums				882,870		102,089		984,959		984,959
FY2014 Loss Ratios				102.64%		50.45%		97.23%		97.23%

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MIA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

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Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2012	C			43,570		2,509		46,080		46,080
8/1/2012	C			88,540		2,722		91,262		91,262
9/1/2012	C			120,787		2,454		123,241		123,241
10/1/2012	C			193,566		2,182		195,748		195,748
11/1/2012	C			496,093		5,842		501,935		501,935
12/1/2012	C			127,477		1,386		128,863		128,863
1/1/2013	C			204,929		1,457		206,386		206,386
2/1/2013	C			137,146		3,685		140,831		140,831
3/1/2013	C			84,118		3,614		87,733		87,733
4/1/2013	C			93,196		2,524		95,720		95,720
5/1/2013	C			62,383		5,340		67,722		67,722
6/1/2013	C			104,247		4,067		108,314		108,314
FY2013 Claims				1,756,052		37,783		1,793,835		1,793,835
7/1/2012	P			69,561		5,966		75,528		75,528
8/1/2012	P			71,339		5,966		77,305		77,305
9/1/2012	P			71,339		5,966		77,305		77,305
10/1/2012	P			73,902		5,966		79,869		79,869
11/1/2012	P			72,351		5,966		78,317		78,317
12/1/2012	P			72,351		5,966		78,317		78,317
1/1/2013	P			72,351		5,653		78,004		78,004
2/1/2013	P			72,351		5,653		78,004		78,004
3/1/2013	P			67,797		7,538		75,335		75,335
4/1/2013	P			66,785		6,596		73,381		73,381
5/1/2013	P			68,430		6,596		75,025		75,025
6/1/2013	P			68,430		6,596		75,025		75,025
FY2013 Premiums				846,987		74,429		921,417		921,417
FY2013 Loss Ratios				207.33%		50.76%		194.68%		194.68%

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MIDA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

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Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2011	C			69,126		3,379		72,505		72,505
8/1/2011	C			146,678		5,330		152,007		152,007
9/1/2011	C			60,554		2,220		62,774		62,774
10/1/2011	C			57,016		2,645		59,661		59,661
11/1/2011	C			77,460		2,660		80,120		80,120
12/1/2011	C			82,631		2,019		84,651		84,651
1/1/2012	C			80,195		3,022		83,217		83,217
2/1/2012	C			107,083		3,542		110,625		110,625
3/1/2012	C			66,949		1,858		68,807		68,807
4/1/2012	C			68,737		1,988		70,725		70,725
5/1/2012	C			61,403		4,017		65,420		65,420
6/1/2012	C			122,092		2,578		124,670		124,670
FY2012 Claims				999,924		35,258		1,035,181		1,035,181
7/1/2011	P			68,020		3,430		71,450		71,450
8/1/2011	P			68,020		3,430		71,450		71,450
9/1/2011	P			68,279		4,287		72,566		72,566
10/1/2011	P			62,118		4,470		66,587		66,587
11/1/2011	P			64,365		5,145		69,510		69,510
12/1/2011	P			64,365		5,145		69,510		69,510
1/1/2012	P			74,664		5,966		80,630		80,630
2/1/2012	P			71,108		5,966		77,075		77,075
3/1/2012	P			79,286		5,966		85,252		85,252
4/1/2012	P			76,441		5,966		82,408		82,408
5/1/2012	P			77,125		5,966		83,092		83,092
6/1/2012	P			78,903		5,966		84,869		84,869
FY2012 Premiums				852,694		61,704		914,398		914,398
FY2012 Loss Ratios				117.27%		57.14%		113.21%		113.21%

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MIA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

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Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
7/1/2010	C			59,717		1,977		61,694		61,694
8/1/2010	C			58,784		2,470		61,253		61,253
9/1/2010	C			71,928		2,391		74,319		74,319
10/1/2010	C			71,945		1,752		73,697		73,697
11/1/2010	C			48,889		1,258		50,148		50,148
12/1/2010	C			68,345		1,395		69,740		69,740
1/1/2011	C			54,322		2,390		56,712		56,712
2/1/2011	C			64,587		1,238		65,826		65,826
3/1/2011	C			143,615		2,281		145,897		145,897
4/1/2011	C			85,617		2,225		87,842		87,842
5/1/2011	C			79,439		1,809		81,247		81,247
6/1/2011	C			62,680		1,443		64,124		64,124
FY2011 Claims				869,870		22,629		892,499		892,499
7/1/2010	P			58,004		2,151		60,155		60,155
8/1/2010	P			60,716		2,151		62,867		62,867
9/1/2010	P			59,360		2,151		61,511		61,511
10/1/2010	P			60,146		2,020		62,166		62,166
11/1/2010	P			60,507		3,011		63,519		63,519
12/1/2010	P			62,385		3,011		65,397		65,397
1/1/2011	P			68,963		3,001		71,964		71,964
2/1/2011	P			68,963		3,001		71,964		71,964
3/1/2011	P			68,963		3,001		71,964		71,964
4/1/2011	P			68,963		3,001		71,964		71,964
5/1/2011	P			68,609		2,326		70,935		70,935
6/1/2011	P			68,020		3,430		71,450		71,450
FY2011 Premiums				773,598		32,256		805,854		805,854
FY2011 Loss Ratios				112.44%		70.15%		110.75%		110.75%

Paid claims data represents fee for service paid claims only and does not include IBNR or administrative costs.

MIDA HEALTH BENEFITS TRUST
 Detail of Claims, Premiums & Loss Ratios as of 7/31/2016, Upton

Month	Type	VIP	BCE	HMO	Choice	MX	MX2	Subtotal	DENTAL	Total
	Total Claims			6,999,873		228,921	16,452	7,245,246		7,245,246
	Total Premiums			5,284,353		384,679	41,337	5,710,369		5,710,369
	Total Loss Ratios			132.46%		59.51%	39.80%	126.88%		126.88%
	Last 24 months Claims			2,395,505		74,648	16,452	2,486,606		2,486,606
	Last 24 months Premiums			1,853,242		104,527	41,337	1,999,106		1,999,106
	Last 24 months Loss Ratios			129.26%		71.42%	39.80%	124.39%		124.39%

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