

October 13, 2005

To: LCOG Executive Committee

From: Bob Swank

Subject: FY 2004-05 HRA Review

LCOG introduced a new health insurance plan for the FY04/05 fiscal year. The HRA (Health Reimbursement Arrangement) plan is a high deductible plan with an employer-funded account to help members to reach the deductible and maximum out of pocket amounts. The prior plan had a maximum out of pocket expense per member of \$1,000 and \$2,000 per family. The HRA has a \$2,500 deductible, the amount the member must spend before insurance pays for services, and a \$3,000 maximum out of pocket. For families the deductible is \$4,000 and \$5,000 maximum out of pocket. A critical component of the HRA plan is the employer-funded account for each employee. LCOG put \$2,000 pretax into each employee's account in FY04/05. The remaining balance in the employer-funded account can be rolled forward into future years so it provides a major incentive to spend health care dollars frugally.

Although there were many concerns about the plan change, and some initial administrative problems, the HRA plan was a big success for LCOG and for the employees. The total cost of insurance was reduced by over 10%, over \$80,000 from the prior PPO plan with the employees getting most of the savings. The paid claim loss ratio was only 51.5%, much lower than anyone expected and low enough that future rates should be lower. At the end of the year more than half of the employees had more than \$1,000 in their employer funded accounts, and only 13% spent the entire \$2,000. When these savings are combined with the money that employees did not have to spend for monthly premiums, most employees saved money.

The HRA offers more savings in future years. The excellent claim loss ratio in FY04/05 and the structure of the plan resulted in a less than 7% increase in total health insurance cost for FY05/06. Future years should continue to limit annual increases in health insurance premiums, and many employees will be able to add more savings to their employer funded accounts.