5-Year Plan Health Care Savings
May 24, 2018

Overview of $62 Million Health Care Savings

Year	Savings	Source
2020	$6 million	The Vermont Education Health Benefit Commission (VEHBC) Report estimates $11.8 million in lost savings – Governor's plan would restore savings by requiring HSAs during transition period. $6 million is a conservative first year estimate of $11.8 million savings. VEHBC Report, Page 8: http://www.dfr.vermont.gov/sites/default/files/VEHBC%20Final%20Report.pdf Plus: transitional statutory premium split of 80/20 (80% paid by the school district and 20% paid by the school employee) compare favorably to current locally negotiated premium splits of approximately 86/14
2021	$12 million	Full estimate of restored savings from Vermont Education Health Benefit Commission Report (VEHBC) Plus: transitional statutory premium split of 80/20 (80% paid by the school district and 20% paid by the school employee) compare favorably to current locally negotiated premium splits of approximately 86/14
2022	$14 million	Full estimate of restored savings from Vermont Education Health Benefit Commission Report (VEHBC) Plus: added inflationary savings and reduced health care utilization
2023	$14 million	Full estimate of restored savings from Vermont Education Health Benefit Commission Report (VEHBC) Plus: added inflationary savings and reduced health care utilization
2024	$16 million	Full estimate of restored savings from Vermont Education Health Benefit Commission Report (VEHBC) Plus: added inflationary savings and reduced health care utilization
Total	$62 million	

Background on $11.8 Million

The bi-partisan Vermont Educational Health Benefits Commission (VEHBC) used actuarial analysis to calculate that district-level negotiated outcomes resulted in an estimate of $11.8 million in lost savings when compared to initial FY2018 estimates.

Two factors contributed to these lost savings: (1) higher than expected health reimbursement arrangement (HRA) funding by employers; and (2) a corresponding increase in induced utilization.

The increase in induced utilization can primarily be attributed to the widespread adoption by school districts of HRAs. As opposed to health savings accounts (HSAs), funds in HRA accounts with no rollover revert to employers at the end of a plan year (so-called "use it or lose it"). As a result, HRAs often result in high levels of "induced utilization" because employees are incentivized to obtain unnecessary health care services or purchase health care supplies to use all such funds in their accounts before they become unavailable.

As a result, the 2019 VEHI health care plans experienced a 16% premium increase, 7% of which was directly attributable to the adoption of HRAs as compared to HSAs. This 7% premium rate increase translates into the $11.8 million in lost savings mentioned above.

- Because much has been made about potential fiscal cliffs resulting from the use of one-time money, it is worth noting that VEHI used about $8 million in reserves to buy down rate increases for 2019 plans. This use of reserves is not an ongoing option and VEHI plans already face upward pressure for 2020 to backfill this one-time payment.

To recoup these savings, the Governor's plan proposes a statutorily prescribed health care benefit for fiscal plan years 2020 and 2021 with an 80/20 premium split and well-funded HSAs.

- **Premium Spilt**: The 80/20 premium split compares favorably with the approximate average 86/14 splits negotiated at the local level and will result in tax payer savings.

- **Well-Funded HSAs**: the HSA funding is based on the average out-of-pocket costs experienced in plan year 2017 (prior to the transition to high deductible plans) to ensure school employees are not paying more out-of-pocket than they previously had. These arrangements will ensure the $11.8 million in lost savings will be restored in lower premiums.