

Memorandum

To: Chairperson Allysa Black and Members of the House Health Committee

From: Mark Hage and Bobby-Jo Salls, VEHI Trust Administrators

RE: Background information on the **Vermont Education Health Initiative** (VEHI)
Projected Health Care Spend for School Districts: FY25 & FY26
Four Health Care Plans Offered by all Public Schools (See page 9)
Main Systemic Factors Driving Premium Rate Increases

Date: February 7, 2025

On behalf of VEHI, thank you for the invitation to speak with you today. We want to stress at the outset, VEHI is not alone in facing rising prices, especially for hospital and pharmaceutical services. This is a critical problem across the state, regionally, and nationally. All self-insured risk pools and insurance carriers are confronting the same systemic problems and cost drivers and struggling to meet the challenges they pose.

The information and perspectives we will share today are anchored chiefly to cost projections and drivers, premium rates, and allocation of VEHI spending for **FY25** and **FY26**.

Bobby-Jo and I would be happy to take questions during our presentation or at the end at the committee's pleasure. First, some background on VEHI.

What is VEHI?

1. The [Vermont Education Health Initiative](#), established in the 1990s, is a non-profit, self-insured, intermunicipal insurance association. We are regulated by the Vermont Department of Financial Regulation (DFR) and we contract with Blue Cross and Blue Shield of Vermont (BCBSVT) for actuarial and administrative services, including claims processing and customer support.
2. We provide health insurance benefit plans to every public school in Vermont, to several private educational institutions, to non-Medicare eligible retirees in the Vermont State Teachers' Retirement System (VSTRS), and, since 2022, to Medicare retirees who are not yet eligible under CMS rules for VSTRS's Medicare Advantage plans.
3. Currently, roughly **34,500 active school employees and their dependents** are enrolled in health insurance coverage through VEHI. Additionally, in partnership with VSTRS, there are approximately 800 non-Medicare retirees and their dependents and 1,000 Medicare retirees and their dependents.

4. Our [Board of Directors](#) consists of six members, three appointed by the Vermont-National Education Association and three appointed by the Vermont School Boards Association.
5. The management team responsible for day-to-day operations consists of four individuals: three employed by the **Vermont School Boards Insurance Trust** (VSBIT) (Bobby-Jo Salls, Jon Steiner, and Chris Roberts) and one by **Vermont-NEA** (Mark Hage). Most interactions with central office staff and local union leaders and school employees are facilitated by Ms. Salls and Mr. Hage. VSBIT and Vermont-NEA were the founding organizations of VEHI, dating back to the mid-1990s.
6. Additionally, VEHI offers school districts competitive dental and LTD benefit plan programs in tandem with Delta Dental and National Insurance Services, respectively.
7. Our PATH [Wellness Program](#), which is administered and managed by VSBIT staff, is long established and popular statewide with school employees.

VEHI Benefit Plans

1. VEHI offers [4 health insurance plans](#) to school districts, public and private. They provide access to the same medical and Rx benefits and medical networks. (Please see the attached document for more details.)
2. Additionally, VEHI offers [three benefit plans](#) to non-Medicare enrollees in VSTRS, and one Medicare supplement plan (VSTRS-65) to Medicare enrollees not eligible for Medicare Advantage, as explained above.
3. VEHI sets the premiums for its benefit plans for active employees annually, on a fiscal-year basis, in collaboration with BCBSVT's actuarial team. Our premium rates for retirees are set on a calendar-year basis.
4. Our premium rates for both subscriber populations, active and retired, are subject to review and approval by DFR. Further, to accommodate school budget-setting timelines, VEHI's active premiums are filed with DFR well in advance of their effective date. For example, the rates that go into effect on July 1, 2024, and run through June 30, 2025 (i.e., FY25), were filed in the fall of 2023.
5. Cost-sharing between public school boards and public-school employees for health insurance expenses is set by the terms of statewide health care bargaining. This includes cost-sharing amounts for both **premiums** and **out-of-pocket expenses** (deductibles, copayments and co-insurance) between school districts and school employees. Per the terms of statewide bargaining, school districts provide funding to health spending accounts (HRAs/HSAs) to assist employees with their out-of-pocket expenses.

VEHI Projected Aggregate Spend on ACTIVE School Employees for Claims, Administration, Wellness, Reinsurance, Reserves and Mandates (FY25 & FY26), plus FY25 & FY26 Premium Rates

- **FY25:** \$350 million (projected) -- We project to pay out **\$6.4 million per week** in claims.
- **FY26:** \$382 million (projected)

VEHI FY 25 Health Rates (Approved)

VEHI Monthly Health Plan Rates FY 25 in effect July 1, 2024 - June 30, 2025					
	Single	Self + Spouse	Parent + Child(ren)	Family	Percent Increase Over FY 24
Platinum	\$1,202.97	\$2,405.95	\$2,011.55	\$3,403.19	15.7%
Gold	\$1,177.89	\$2,355.79	\$1,971.27	\$3,334.30	15.9%
Gold CDHP	\$1,099.51	\$2,064.93	\$1,699.88	\$3,045.65	16.4%
Silver CDHP	\$1,013.90	\$2,027.82	\$1,709.17	\$2,885.25	16.7%

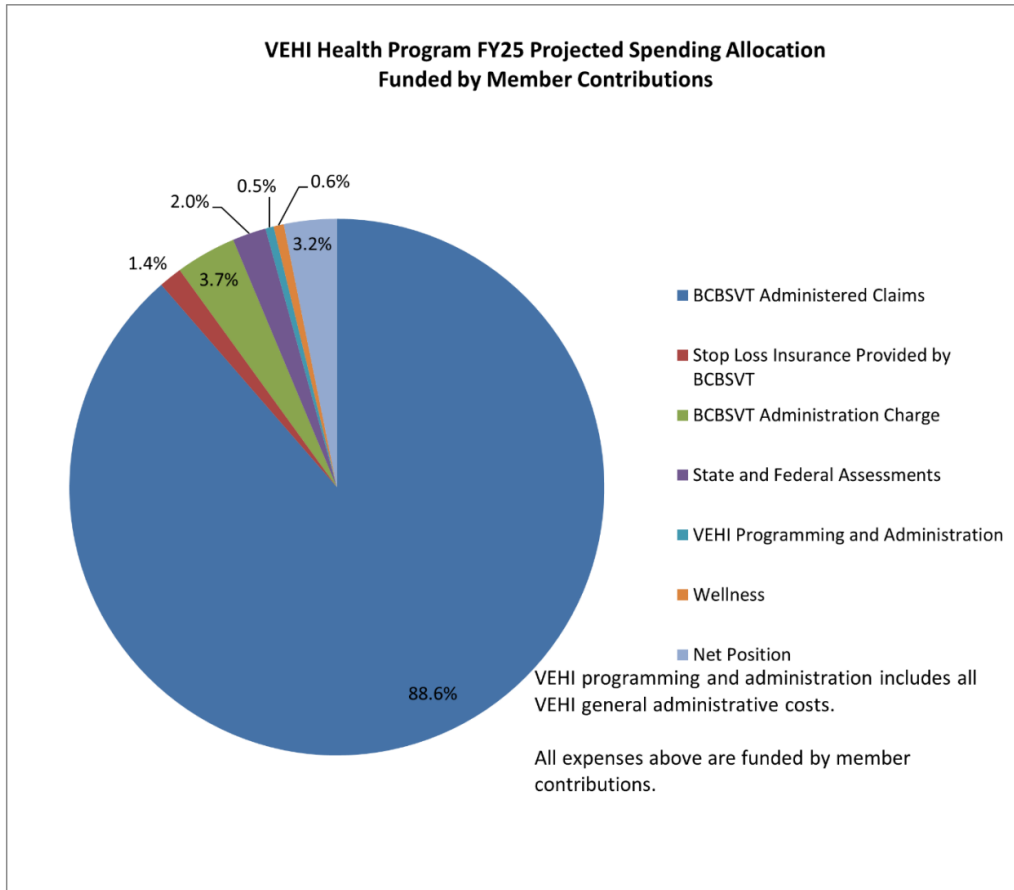
FY 26 Approved Health Rates

VEHI Monthly Health Plan Rates FY26 in effect July 1, 2025 - June 30, 2026 - Approved					
	Single	Self + Spouse	Parent + Child(ren)	Family	Percent Increase Over FY 25
Platinum	\$1,339.21	\$2,678.44	\$2,239.37	\$3,788.62	11.3%
Gold	\$1,312.77	\$2,625.55	\$2,197.00	\$3,716.11	11.5%
Gold CDHP	\$1,230.72	\$2,311.36	\$1,902.74	\$3,409.12	11.9%
Silver CDHP	\$1,134.21	\$2,268.44	\$1,911.97	\$3,227.61	11.9%

FY25 Spending Allocation of Premium Dollars

As you can see from the graph below, **89 percent** of premium dollars in this fiscal year (FY25) are allocated to pay incurred claims. This is in line with past years. **3.7 percent** of our aggregate spend covers BCBSVT administrative services; **3.2 percent** sustains our “net position” (e.g., financial reserves); **.5 percent** is dedicated to internal management and administrative costs; **2 percent** is needed to pay state and federal mandate charges; and **.6 percent** funds our Wellness Program. We run a lean operation.

As VEHI has done in the past, we have included a pie chart that delineates how VEHI allocates money for programs and expenses on behalf of school districts and school employees.



What is driving premium increases?

Premiums are increasing for everyone in Vermont and nationally. The biggest factor is price inflation. VEHI, like all risk pools and insurance carriers, has been impacted greatly by rising **hospital budgets** and **hospital prices**; also, like everyone else, we are experiencing sharp spikes in costs for prescription medications, notably for **specialty drugs**.

- Hospital costs (inpatient and outpatient services combined) account for approximately **55 percent** of our total spend.
- Prescription medications drive **20 percent** of our total spend.
- **4 percent** of our claims are attributable to primary care and **12 percent** to specialty office visits.

Here is what we shared with school districts and their local unions about VEHI's [FY24](#) (July 2023 – June 2024) premium rate increase:

*As in past rating cycles, we analyzed medical and pharmaceutical price inflation, plan enrollment and cost-sharing trends, utilization of medical and Rx services, mandates and fees, and administrative costs. **Increases in medical and pharmacy prices are responsible for virtually the entire increase in FY24 premiums, with higher commercial rates charged by hospitals being the most significant factor.** This, coupled with an unfavorable market for investments, has driven the need for the increase to cover FY24 expenses.*

Here is what VEHI explained to school districts and local unions about its [FY25](#) (July 2024 – June 2025) premium rate increase:

*Breaking down FY25's medical trend, **two-thirds is attributable to higher medical prices.** Continued increases in hospital budgets and in prices for hospital services, plus more expensive pharmaceutical charges, remain the major cost drivers. We are not alone in this regard. In a recent FAQ explaining to Vermonters its affiliation with Blues Michigan, **Blue Cross and Blue Shield of Vermont noted that the main driver of premium increases in FY24 is "rising hospital budgets, and the cost of inpatient and outpatient services, and pharmaceutical prices."***

One third of our FY25 rate increase is attributable to an increase in utilization of services, hospital and non-hospital based, which we explained to our members this year as follows:

***One third of the medical trend increase for FY25 is pegged to an increase in utilization of services.** Services for members in our pool increased in FY23, as it did for the Blues' membership statewide, as people returned to care, post-pandemic, after deferring treatments for ongoing medical conditions, and, generally, as more folks with medical needs now feel comfortable returning to hospitals and physician practices after a long hiatus.*

One more thing about FY25's rates. 2.6 percent of that year's rate renewal figure was for the purpose of strengthening VEHI's net position (i.e., financial reserves).

Here is what we shared with school districts and their local unions about VEHI's [FY26](#) (July 2025 – June 2026) premium rate increase:

There are several factors, but simply put, the primary ones are (a) the price of medical care and prescriptions and (b) the utilization of services. In this post-COVID period, some VEHI subscribers

have needed more services – and these services are more expensive. This dynamic is playing out across the state, regionally, and nationally. VEHI is not unique in this respect.

The biggest problem, though, for VEHI and everyone else, is still the medical prices we are charged. As in past years, the inflationary impact of rising hospital budgets and prices, combined with sharp spikes in the cost of prescription medications, notably specialty drugs, is the leading cause of the proposed FY26 premium increase.

Utilization Trends & Concentration of Medical Spending

While claims, as we said, are trending upward, VEHI's utilization trends are stable from year to year. This is generally the case for any large risk pool. What we mean by this is that most high-cost medical and prescription utilization is highly concentrated among a relatively small percentage of patients. For example, in 2023, VEHI claimants, when stratified by **costs**, broke down as follows:

- **Top 1 percent** of claimants (*345 people*) accounted for **25 percent** of our total spend, at an average cost of **\$255,757** per member per year.
- **Top 5 percent** of claimants (*1,727*) accounted for **52 percent** of our total spend, at an average cost of **\$104,854** per member per year.
- **Bottom 50%** of claimants (*17,268*) accounted for just **4 percent** of total cost, at an average of **\$927** per member per year.
- High-cost members in our pool – meaning those whose claims exceeded \$100,000 – who numbered just **474** in 2023, incurred total costs of **\$98,345,776**. This group represented **30 percent** of total costs. Of the 474 patients in this cohort, **283** (60 percent) were new to it in FY23.

In any given year, the great majority of our members receive little or modest amounts of care.

Rx Price Trends

Here is select data to help you better understand what VEHI (and others in the private insurance market) are facing with respect to prescription medications. The price trends here are staggering, and utilization of some of these expensive medications is rising. As you'll see, a utilization increase with high-cost prescriptions does not have to be large to have a big impact on costs.

In the first nine months of 2023 (January through September):

- VEHI incurred a gross Rx cost (*prior to estimated negotiated rebates being applied*) of **\$55.1 million** compared to **\$46.2 million** for the same period in 2022.
- Overall Rx cost/inflationary trend rose **22.5 percent**. Specialty drug cost trend rose **20.6 percent**, and the cost trend for non-specialty medications rose **24.9 percent**.

- Specialty medications account for **56.1 percent** of total VEHI Rx spending.
- In the first nine months of 2023, specialty medications came in at **\$30.9 million** in costs, even though only **829 VEHI patients** had been prescribed them. This group represented just **3.2 percent** of our total patient count and **2.3 percent** of our total claim count.
- The average gross cost per patient on **specialty medications** was **\$37,319**.
- Conversely, **21,633 VEHI patients** needed medications that cost between \$1 and less than \$1,000, with a gross cost per patient of just **\$155**.
- Just **246 VEHI patients** needed medications that cost **\$50,000 or more**. But in the aggregate, their claims represented **42 percent** of VEHI's gross cost.
- **84 percent** of our Rx claims were for generic medications, the least expensive on the market.

VEHI works diligently with its independent Rx consultant, **Remedy Analytics**, and with the pharmacy team at **BCBSVT** to analyze and manage pharmaceutical costs without compromising access to high-quality care. Nonetheless, the prices for high-cost medications present an enormous and accelerating challenge.

Where is VEHI looking in the future to substantially reduce costs and to constrain medical inflation, notably with respect to hospital and Rx spending? Our efforts will target both systemic reforms and regulation, and internal actions we can take largely on our own:

On the reform side of things, with a focus on the systemic drivers of health care costs and state regulation:

1. Our Board of Directors heard a presentation on **reference-based pricing benchmarked to Medicare rates** in 2023 for inpatient and outpatient hospital services. Mark Hage's interest in this pricing methodology, as he testified earlier this week on behalf of VT-NEA, was triggered by RBP initiatives in several states, including Montana and Oregon, and by a report by [State Auditor Doug Hoffer](#) in 2021. We have noted, too, that **Oliver Wyman's Act 167 Report** recommends that the Green Mountain Care Board begin the process of moving to a RBP reimbursement formula for certain Vermont hospitals at 200 percent or less of Medicare.

VEHI was likely **the first commercial insurance pool in Vermont** to research RBP benchmarked to Medicare rates as a potential initiative to lower hospital costs, and we will be following closely what happens in the legislature and the Green Mountain Care Board in 2025 and beyond in this regard.

2. VEHI endorsed a successful legislative initiative in 2024 that Vermont-NEA first advocated for in 2020, then again in 2023 and 2024: a **Prescription Drug Affordability Board** to regulate the prices of high-cost medications.

Last year, the Legislature authorized the creation of a division at GMCB to design a **framework and methodology** for lowering Rx prices and spending. In due course, we anticipate this new regulatory division will bring more rationality and lower costs to the prescription medication market.

Internally, with respect to VEHI benefit design and services, we will be investigating ways our benefit plans and wellness program can implement or support innovative ways to reduce hospital and Rx costs, while also simplifying administrative duties for patients and central offices:

- We will continue to work closely with our pharmaceutical consultants at Remedy Analytics. One of the future research projects we have started discussing is alternative Pharmacy Benefit Managers (PBMs).

Nationally, the three big PBMs control **80 percent** of the market. There is virtually no competition in the PBM market and the profit margins are very high. The new and smaller entities in this field, though still for-profit and limited in number, can perform the traditional functions of a PBM but at much lower costs and higher levels of transparency. Would this be viable for our risk pool in Vermont and for our members? We're going to find out.

- VEHI has also begun discussing how our benefit plans in the future can be modified or refined to meet the medical needs of our members and make the cost of medical care more affordable for them and for school districts. This could include, among other measures, reducing the number of plans and their cost-sharing structures.

This would include, but not necessarily be limited to:

- a. Expanding access to **telehealth services** (in fact, we just launched our first telehealth project for physical therapy and pain reduction with Hinge Health);
- b. Exploring benefit design options that might be able to facilitate easier access to **primary care, mental health, and chronic disease management**. Affordable access to primary care and mental health counseling, together with chronic disease management, keeps people healthy and lowers costs associated with potentially avoidable hospitalizations and ER visits. It also helps keep patients, especially those with chronic diseases, prescription adherent. Most health care costs are associated with chronic diseases.
- c. Identifying and contracting with in state or out of state **Centers of Excellence** – these hospitals and medical facilities deliver high-cost care and surgeries at lower cost.

- d. Refining or expanding options for wellness through our own **Wellness Program**, which is long running and popular.

Health Plans for Licensed Employees CY25	VEHI Platinum Member Cost Share	VEHI Gold Member Cost Share	VEHI Gold CDHP Member Cost Share	VEHI Silver CDHP Member Cost Share
HRA or HSA Funding for Licensed Employees	HRA \$1,900 Single/ \$4,000 All other tiers	HRA \$1,900 Single/ \$4,000 All other tiers	HRA \$1,900 Single/ \$4,000 All other tiers	HRA or HSA \$1,900 Single/ \$4,000 All other tiers
Medical Deductible	\$500 Single/ \$1,000 All other tiers	\$1,200 Single/ \$2,400 All other tiers	\$1,800 Single/ \$3,600 (aggregate) All other tiers	\$3,000 Single/ \$6,000 All other tiers
Medical Out of Pocket Maximum	\$1,500 Single/ \$3,000 All other tiers	\$1,800 Single/ \$3,600 All other tiers	\$2,500 Single/ \$5,000 (aggregate) All other tiers	\$4,000 Single/ \$8,000 All other tiers
Prescription Deductible	\$0	\$0	Included in medical deductible	Included in medical deductible
Prescription Out of Pocket Maximum	\$1,300 Single/ \$2,600 All other tiers	\$1,300 Single/ \$2,600 All other tiers	\$1,650 Single/ \$3,300 (aggregate) All other tiers (included in Medical OOPM)	\$1,650 Single/ \$3,300 All other tiers (included in Medical OOPM)
Total Health Plan Out of Pocket Exposure before HRA or HSA (Medical and Rx Combined)	\$2,800 Single/ \$5,600 All other tiers	\$3,100 Single/ \$6,200 All other tiers	\$2,500 Single/ \$5,000 (aggregate) All other tiers	\$4,000 Single/ \$8,000 All other tiers
Total Out of Pocket Exposure AFTER HRA or HSA (Medical and Rx Combined)	\$900 Single/ \$1,600 All other tiers	\$1,200 Single/ \$2,200 All other tiers	\$600 Single/ \$1,000 All other tiers	\$2,100 Single/ \$4,000 All other tiers
Benefit Specifics by Plan				
Preventive PCP Visit	\$0	\$0	\$0	\$0
Primary Care Physician / Mental Health or Substance Abuse Visit	\$25	\$25	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance
Specialist Visit	\$35	\$35	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance
Urgent Care Facility	\$75	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance
Emergency Room	\$250	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance
Inpatient, Outpatient, Radiology, DME, Ambulance, etc.	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance
Generic tier 1 / tier 2 / Brand / NP Brand	\$4 / \$10 / \$20 / 50%	\$4 / \$10 / \$20 / 50%	Deductible, then 20% coinsurance	Deductible, then 20% coinsurance
Wellness Prescriptions	\$4 / \$10 / \$20 / 50%	\$4 / \$10 / \$20 / 50%	No member cost	No member cost

October 3, 2024