

The AC commends the Town, its employees, and retirees for having reached a constructive agreement on health benefits – an agreement to enter the GIC that we perceive to be “win-win”. This agreement reduces costs borne by taxpayers and premiums paid by subscribers. It also provides mitigation of high out-of-pocket costs incurred by subscribers needing greater medical care. While it is impossible for us to predict the actual costs any individual will incur, we believe that many subscribers will see a decrease in their total costs as a result of this agreement.

By entering the GIC, Lexington will no longer be self-insured. This means that our subscriber population will now be part of a much larger risk pool (the GIC subscriber population is over 100 times larger than Lexington’s). This larger pool is healthier and younger – that is to say closer to the benchmark norms – than Lexington’s subscribers due to its broader demographics and larger size and should serve to help control the fluctuation of costs.

We appreciate the Town’s caution in projecting healthcare costs for FY13. The choice of plan by subscribers among the 11 plans available to active and non-Medicare eligible retirees and the 6 Medicare supplement plans for retirees is a critical factor in determining the Town’s cost of healthcare benefits. For its projection, the Town has used a distribution of plan choices informed by how subscribers from other municipalities migrating to the GIC have chosen among the menu of options. We do not, however, have a history of our subscribers selecting among the various GIC plans to guide expectations and therefore have recommended and welcome the Town’s choice to project FY2013 enrollments conservatively. This is important because, in our independent analysis, the range of possible costs due to subscriber plan choice is more than \$7M. Costs range from roughly a little more than \$15M if all subscribers choose their cheapest option to a bit less than \$24M if they opt for the most expensive plans. Neither of these extremes, however, seems likely due to characteristics of the plan choices. We are confident that reserves and unallocated funds are sufficient to cover any worst-case distribution and that the distribution model used for this budget request represents a likely result.

We also welcome the respite in rapidly increasing underlying health care costs. These increases are well below the 8.5% the Town used in initial budgeting (for example, the average increase in GIC premiums for FY13 over FY12 was 1.4%). This good fortune, however, may be transient. While the size of the GIC subscriber population may provide greater negotiating power than was available to

Lexington's former self-insured plan, and the availability of "Limited Network Plans" and provider tiering models in the GIC are attempts to rein in costs, these factors do not change the underlying cost structure of the health care system. Should healthcare costs return to their former rapid growth, we foresee continued pressure on the operating budget by this line item in future years.