HEALTH BENEFITS FINANCIAL CONTEXT

February 26, 2026

CITY OF BOSTON

FINANCE CABINET

CITY OF BOSTON HEALTH BENEFITS OVERVIEW

- The City of Boston provides group health insurance, life insurance, and dental insurance to employees, retirees, and dependents
- ***Self-insurance:*** The City self-insures for all non-Medicare plans through the Health Claims Trust Fund, while most Medicare plans are fully-insured
    - With self-insurance, the City assumes the financial risk for medical claims incurred by covered employees/retirees/dependents, rather than purchasing fully-insured coverage
- ***Rate-setting:*** Rates (premiums) for all plans are renewed annually
    - For fully-insured plans, the insurance carrier sets the rates
    - For self-insured plans, our actuary helps calculate new premium rates for the upcoming year to cover projected expenses and meet reserve goals
- **PEC:** Since 2011, all public employee unions bargain collectively for health benefits through the Public Employee Committee (PEC), consisting of union representatives and a retiree representative
    - The City and PEC enter into a new agreement every 5 years, with the exception of the current 2 year extension (covering FY26-FY27)
    - Unlike rates, plan design changes (deductibles, co-pays, etc.) and cost sharing (employee/employer % split) are negotiated as part of the agreement

HOW THE HEALTH CLAIMS TRUST FUND WORKS

Through the Trust Fund, the City pays for claims and other expenses directly, as opposed to paying insurance premiums to health insurance companies.

- ***Revenues:***
  - Employee and retiree contributions, withheld from paychecks or pension payments
  - Employer (City) contributions, paid regularly from the City's annual operating budget
- ***Expenses:***
  - Eligible medical and prescription claims
  - Administration fees for third party administrators to administer benefits and process claims
- ***Reserves:***
  - **Incurred But Not Reported (IBNR) reserve:** For *anticipated* claims that have been incurred but not yet paid due to lags in claim reporting and payments
    - Estimated annually at the end of every fiscal year as part of fund liabilities (expenses)
  - **Catastrophic trust fund reserve:** For future *unanticipated* high-cost claims
    - Annual reserve target is currently set at 10% of total expenditures (per internal City policy, in alignment with best practices)

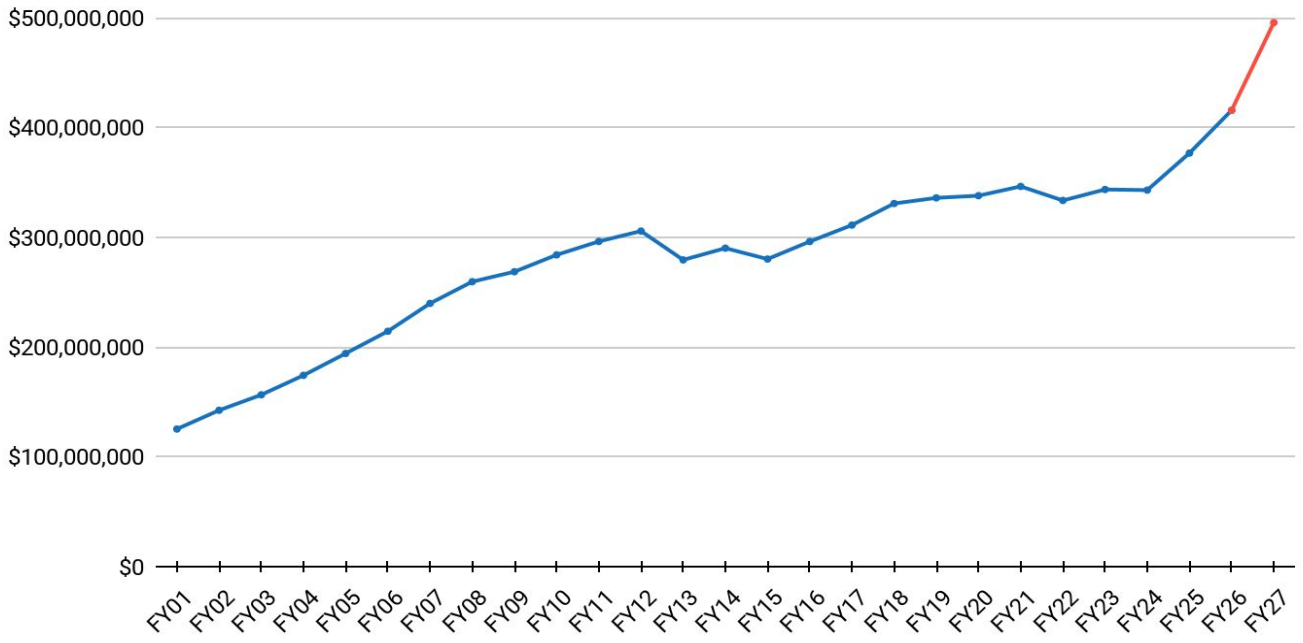
TRUST FUND CONTEXT: FY18 - FY26

- **FY18:** City implemented multi-year plan to spend down a surplus that had built up in the Trust Fund, over and above the 10% catastrophic reserve target
  - To do so, we started annually setting non-Medicare rates lower than projected costs for the upcoming year
  - Goal was to spend down the surplus responsibly over time to avoid creating additional rate instability
- **FY18-FY25:** Plan moved forward smoothly, with members seeing **single-digit annual rate increases**
- **FY25: Trust Fund experienced unexpected jump in claims activity**, with costs coming in higher than projected and wiping out all remaining surplus (as well as most of the catastrophic reserve) driven by:
  1) ***Increasing nationwide health care costs***
  2) A *series of unusually* ***high-cost claims***
  3) A ***dramatic increase in utilization of GLP-1 drugs*** *for weig*ht loss (Wegovy, Zepbound, etc.)
- **FY26: Due to continuous high claims activity, the Trust Fund is projected to have a negative year-end fund balance for the first time**
  - Even if the fund is in deficit, or with a negative fund balance, the City does *not* have the option to stop, delay, or withhold payment of claims or third-party administrator expenses

FY27 RATE INCREASE & IMPACTS

- Our goals for FY27 non-Medicare rate-setting are:
  - Closing the Trust Fund deficit (we are bound by state law and fiduciary duty to address the deficit by FY27)
  - Building back at least part of the Trust Fund catastrophic reserve
- Based on the City's goals and budget availability, assuming no changes to our health coverage, our actuary proposed a rate increase of **22.6%**
  - Builds back a 2.5% reserve (a quarter of what our actuary recommends as best practice)
- ***Operating budget impact:*** Absorbing a 22.6% rate increase would result in an **$80 million increase** to the City's operating budget, including BPS and BPHC, over FY26
  - For the last eight years, average annual increase has been $10.6 million
- ***Employee impact:*** A 22.6% rate increase would be the largest year-over-year premium increase for employees in recent history
  - An employee on the BCBSMA Standard HMO family plan (the most popular non-Medicare plan), would see their monthly premium jump from $655 to $803, an **increase of $148 monthly and $1,773 annually**

OPERATING BUDGET HEALTHCARE COSTS OVER TIME



- City operating budget expenditures include BPS and BPHC
- Expenditures reflect the employer share of health, life, and dental insurance premiums
- FY01-FY24 are actuals, FY25-26 are budget, FY27 is estimate using 22.6% rate increase

POSSIBLE INTERVENTIONS TO LOWER FY27 RATES

- Plan design changes could bring down FY27 rates
- ***Option: Implement utilization management (UM) for non-specialty medications***
  - FY27 rate increase: **20.3%**
  - Budget savings compared to 22.6%: **$9.2 million**
  - UM for medications is standard practice across the health insurance market and is commonly used to help ensure clinically appropriate prescribing while containing costs
  - We already have UM on our MGB plan, and we have it on our BCBSMA plans for specialty medications only (we're currently the only BCBSMA account without UM in place for non-specialty medications)
- ***Option: Discontinue coverage of GLP-1s for weight loss only, and implement UM***
  - FY27 rate increase: **17.3%**
  - Budget savings compared to 22.6%: **$17.7 million**
  - Based on claims data in the first three months of FY26, discontinuing coverage for weight loss would impact approximately 7.7% of non-Medicare plan members
  - The GIC is discontinuing coverage for weight loss, as are insurers and other large public employers

HOW THE HEALTH CLAIMS TRUST FUND WORKS