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VLCT MEMO

TO: Members of the VLCT Health Trust
FROM: Steven E. Jeffrey, Executive Director, Vermont League of Cities and Towns
DATE: November 27, 2006
RE: The Power of Pooling

Today we have an opportunity to show Vermont taxpayers what we are made of. Should cities and towns chase short-term savings at the expense of higher long-term costs? For years we have heard the question at town meeting, "what are we doing to control the cost of health insurance?" This year your Health Trust offers a bold answer to that question! Together we can succeed!

For many years now, Vermont property taxpayers have benefited greatly from superior performance and huge savings for cities and towns from risk sharing pools. The Vermont League of Cities and Towns, through its three self-insurance pools, has proven for almost 30 years the substantial benefits and value of pooling.

By banding together and sharing resources Vermont's small cities and towns can achieve the same type of savings and market clout that large employers and businesses can achieve. The VLCT Property and Casualty Intermunicipal Fund provides superior property, casualty and workers' compensation coverage and has returned over \$8 million to its 346 members since it began operations in 1987. The VLCT Unemployment Trust has also provided stable rates and savings to its 246 members since 1978.

Perhaps most spectacular of all is the savings provided by the VLCT Health Trust. Average annual rate increases for the Health Trust have averaged below 10% since 1990. Since 1995, VLCT Health Trust rates have increased a cumulative 327.11%. This seems like a huge and mind boggling increase until one considers the increase in the general health inflation trend in Vermont over the same time period of 561.1%!

This differential in rates has resulted in huge savings for Vermont municipalities. During 2006, health insurance premiums to Health Trust members were approximately \$35 million. If Health Trust rates had risen at the same rate as Vermont medical cost inflation since 1995, total 2006 premiums would have exceeded \$60 million.

By this calculation Health Trust members are saving their taxpayers \$25,000,000 for the year 2006 alone!

While the Health Trust's rates may not always be the lowest, our 25-year history has demonstrated conclusively that pooling saves big money and provides the best value over the long term. Our 2007 renewal has become a major challenge to our pool. As a result of our decision to move our health insurance program from Blue Cross to CIGNA we have created a competitive market where there was none.

Sponsor of:

VLCT Health Trust, Inc.

VLCT Municipal Assistance
Center

VLCT Property and Casualty
Intermunicipal Fund, Inc.

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As we negotiated our renewal with Blue Cross we were told after much hard negotiation that a rate increase of 23.6 % was the bottom line for Blue Cross. In addition to this, the Health Trust would have needed to add 5.4% to the rates to provide the level of surplus required in the Blue Cross proposal. Thus the total rate increase would have been 29%. The total average rate increase from CIGNA – the details of which are being announced this week – is 12%. Since we announced our decision to switch to CIGNA, and in a few cases before the decision was made, Blue Cross began providing quotes to Health Trust members with more than 50 employees. These quotes have typically been for rate increases of less than 10%. In some cases Blue Cross quoted increases of 15-20% before our decision, only to lower them to 10% and below after our decision. If successful, this market conduct could very well drive the VLCT Health Trust out of business. If the Health Trust were to go away, all of our 297 members would each have to seek health insurance on their own. The result would be higher health insurance cost and property tax rates for years to come.

Please attend one of the VLCT Health Trust regional briefings being held this week around the state. Staff members, who will be joined by CIGNA representatives, will present the new CIGNA products and services and the rates for your comparable plans. They will also assist municipal officials and employees to compare their current BCBS plans with the CIGNA plans, and begin completing the appropriate paperwork to make the transition. The three-hour meetings will allow ample time for questions. Visit the VLCT website at <http://www.vlct.org/eventscalendar/> for details and registration information.