THE CITY OF WATERTOWN

Finance Department
106 Jones Street
PO Box 477
Watertown, WI 53094-0477
(920) 262-4000

To: Finance Committee
From: Mark Stevens
Date: October 12, 2026
RE: High-Deductible Health Plan (HDHP) Implementation

DeanCare Health has provided two high-deductible health plan (HDHP) options for consideration. Both are able to be paired with HSA or HRA funding mechanisms (explained below). The primary difference is how the deductible applies to families: **aggregate** versus **embedded**.

Plan Options

Plan 1-2: $3,000 / $6,000 **Aggregate** Deductible

- The entire $6,000 family deductible must be met before the plan pays for any non-preventive services.
- All family members contribute toward the same deductible bucket.

Plan 1-5: $3,500 / $7,000 **Embedded** Deductible

- Each family member has a $3,500 individual deductible.
- Once one member reaches $3,500, the plan begins cost-sharing for that individual, even if the family has not met the $7,000 total.

Key Differences

	Aggregate (Plan 1-2)	Embedded (Plan 1-5)
Individual deductible	None	$3,500 per person
Family deductible	$6,000 (must be fully met)	$7,000 (combined)
When cost-sharing begins	Only after full family deductible	After one member meets their individual deductible
Employee experience	Slower relief; less intuitive	Earlier relief; easier to understand

Recommendation:

With the input of our broker, for broadest employee benefit and clearer plan administration, I recommend selecting the **embedded** deductible plan (Plan 1-5). It provides earlier financial protection for the first high-use family member, which is the most common real-world pattern in employee groups. Even though the family max is higher, the *practical* out-of-pocket experience is better for a larger share of households.

HDHP Pairing Options: HSA vs. HRA

An HDHP medical plan requires the city to choose a funding mechanism that allows employees to access funds for eligible medical expenses. Two mechanisms are available under federal regulations: a Health Savings Account (HSA) or a Health Reimbursement Arrangement (HRA).

Health Savings Account (HSA)

A tax-advantaged, **employee-owned** savings account to be used for qualified medical expenses.

Key Features

- Employee-owned and fully portable
- Triple tax advantage (pre-tax contributions, tax-free growth, tax-free medical spending)
- Employees may contribute their own funds
- Funds roll over indefinitely and can be invested
- Minimal administrative burden for the city

Advantages

- Builds long-term financial security for employees
- Highly valued by employees with predictable or chronic medical needs
- Supports retirement readiness (medical expenses in retirement)
- Simple and predictable employer cost structure

Limitations

- Employees must be HSA-eligible (HDHP required)
- Employer contributions are optional but common

Health Reimbursement Arrangement (HRA)

An **employer-funded** reimbursement account used to reimburse employees for eligible medical expenses.

Key Features

- Employer-funded only; employees cannot contribute
- Employer retains ownership and unused funds
- Rollover rules vary based on city design
- No investment or long-term growth
- Requires claims processing and administrative oversight

Advantages

- Strong employer cost control
- Flexible plan design (eligible expenses, rollover limits, caps)
- Useful for targeted reimbursement strategies

Limitations

- No portability for employees
- No long-term value or retirement benefit
- More administrative complexity and employee confusion
- Perceived as "use it or lose it," even when rollover is allowed

Recommendation:

While HRAs provide stronger employer control, they generally provide less long-term value to employees and require more administrative oversight. HSAs, by contrast, offer employees long-term portability, tax benefits, and lower administrative complexity. I recommend that the city pair an HSA with its HDHP offering and allow employees to make their own contributions.

City Contribution Level

A key rationale for offering an HDHP is the cost savings to both the employer and employees who may not be high utilizers of medical services. Employers can incentivize enrollment by sharing a portion of the premium savings as a contribution to employees' HSA accounts. This helps employees manage potential out-of-pocket (OOP) costs under the HDHP and makes the plan more attractive and financially feasible.

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Recommendation:
The annual premium savings between the HMO and HDHP plans are $1,460 for single coverage and $3,584 for family coverage. Under the HDHP, the OOP limits are double those of the HMO, increasing from $1750/$3500 (S/F) under the HMO to $3500/$7000 (S/F) under the HDHP. I recommend that the city base its employer contribution on approximately 75% of the family-tier savings. Applying this percentage to the family savings ($3,584 × 75% = $2,688) results in a proposed annual contribution of $2,700 when rounded. A proportional single-tier contribution of $1,350 is recommended. With this funding structure, the effective net out-of-pocket exposure for employees on the HDHP would be approximately $2,150 for single coverage and $4,300 for family coverage—compared to $1,750 and $3,500 under the HMO. I also recommend that the City distribute its HSA contributions to active participants quarterly at the beginning of each calendar quarter.