High Deductible Health Plans (HDHP) – A Simple Cost Comparison Tool

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Many municipalities are looking for ways to control rising health insurance costs while continuing to offer high-quality coverage to employees. One strategy that can generate meaningful savings – without reducing benefits – is to move from a fully insured, low-deductible plan to a high deductible health plan (HDHP) paired with either:

- a Health Reimbursement Arrangement (HRA), or
- a Health Savings Account (HSA).

When structured thoughtfully, an HDHP/HRA or HDHP/HSA arrangement can **lower the municipality's total annual cost** while keeping employees' out-of-pocket exposure at or near current levels.

Here we explain the concept and offer a **simple, step-by-step way to compare costs**, including a sample side-by-side chart (Excel template in the sidebar under "Links") you can adapt with your own numbers.

Why HDHPs Can Reduce Costs

HDHPs typically have:

- **Lower monthly premiums**
- **Higher deductibles and out-of-pocket maximums**

The potential savings come from the lower premiums. The municipality can then use some of that savings to:

- Fund an **HRA** (employer-funded, not taxable to employees), or
- Contribute to an **HSA** (owned by the employee; tax-advantaged for both employer and employee).

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If the HDHP premium savings are **greater than** the amount you contribute to the HRA or HSA, the municipality comes out ahead financially – often with employees still protected from a large increase in risk.

Key Terms (in Plain Language)

- **Fully insured, low-deductible plan**: Traditional plan with higher premiums and lower deductibles/copays.
- **HDHP (High Deductible Health Plan)**: Plan with lower premiums, higher deductibles; must meet IRS rules to be paired with an HSA.
- **HRA (Health Reimbursement Arrangement)**:
  - Funded only by the employer.
  - Reimburses eligible medical expenses, up to a set limit.
  - Unused funds may roll over, depending on plan design.
- **HSA (Health Savings Account)**:
  - Individually owned, portable account.
  - Employer and employee can contribute (subject to IRS limits).
  - Funds roll over year to year and can be invested.
  - Requires enrollment in a qualified HDHP.

How to Do a Simple Cost Comparison

You can evaluate whether a move to an HDHP/HRA or HDHP/HSA makes sense using a quick four-step analysis. You'll need your **current premium rates** and the **proposed HDHP premium rates** for each coverage tier.

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Step 1: Gather Your Data

For each coverage type (Single, Two-Person, Adult + Children, Family), collect:

1. Current plan (fully insured, low-deductible):
    - Monthly employer premium contribution
    - Annual employer premium cost (monthly × 12)
2. Proposed HDHP:
    - Monthly employer premium contribution
    - Annual employer premium cost
3. For the HDHP approach, determine:
    - How much the municipality would contribute to an HRA or HSA per year, by coverage type.

Step 2: Calculate Annual Employer Premium Savings

For each coverage tier:

Employer premium savings = (Current annual employer premium) – (Proposed HDHP annual employer premium)

If this number is **positive**, the HDHP premiums are lower and there is potential for savings.

Step 3: Subtract Planned HRA or HSA Contributions

Next, estimate how much of the premium savings you would use to fund the HRA/HSA.

Net employer savings = (Employer premium savings) – (Annual HRA/HSA contribution)

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If **Net employer savings > 0**, the HDHP/HRA or HDHP/HSA strategy is expected to reduce your total cost.

Step 4: Review Employee Impact

Finally, look at:

- Deductibles and out-of-pocket maximums under each option.
- How much of the higher HDHP deductible is offset by the HRA/HSA.
- Employee contributions, if any, to premiums and/or HSA.

The goal is to **balance municipal savings with reasonable protection for employees**.

Sample Comparison Chart (Template)

Below is a template you can fill in with your own numbers. Amounts shown are for illustration only.

Assumptions for this example:

- Current Plan: Low-deductible fully insured copay plan
- Proposed Plan: HDHP with HRA
- Employer pays 100% of premiums (for simplicity)
- Employer funds HRA but not HSA in this example

A. Annual Employer Premium Cost

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Coverage Tier	Current Plan: Annual Employer Premium	Potential HDHP Plan: Annual Employer Premium
Single	$9,000	$7,200
Two Person	$18,000	$14,400
Adult + Children	$17,000	$13,600
Family	$22,000	$17,600

B. Annual Employer Potential Premium Savings (A)

Coverage Tier	Premium Savings (Current to Potential HDHP)
Single	$1,800
Two Person	$3,600
Adult + Children	$3,400
Family	$4,400

C. Employer Potential HRA (or HSA) Contributions

Coverage Tier	Annual Employer HRA Contribution
Single	$1,000
Two Person	$2,000
Adult + Children	$2,000
Family	$2,500

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D. Net Employer Potential Savings (B – C)

Coverage Tier	Net Employer Potential Savings per Contract
Single	$800
Two-Person	$1,600
Adult + Children	$1,400
Family	$1,900

To estimate **total municipal impact**, multiply the "Net Employer Potential Savings per Contract" by the number of employees enrolled in each tier, then sum across tiers.

You can use our **Sample Health Insurance Comparison Chart (Template)** (XLSX, 18.7 KB) spreadsheet to help you with your calculations.

Practical Tips for Municipalities

- **Involve employees early.** Explain that the municipality is redirecting a portion of premium savings to an HRA or HSA to protect them from higher deductibles.
- **Model worst-case scenarios.** Look at what happens if an employee hits the deductible or out-of-pocket maximum, with and without the HRA/HSA.
- **Consider HSA advantages.** HSAs offer triple tax benefits (pre-tax contributions, tax-free growth, tax-free withdrawals for qualified expenses) and can be a valuable long-term asset for employees.
- **Review compliance requirements.** HDHP and HSA rules (including contribution limits) change periodically; coordinate with your tax advisor, plan administrator, benefits consultant or VLCT to ensure compliance.

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Need Assistance? Consider VLCT's Health Insurance Advisory Services Program

VLCT's Health Insurance Advisory Services (HIAS) program provides participating groups with customized consultative support and services for health insurance related issues. It is delivered by VLCT in conjunction with Acrisure, VLCT's exclusive broker partner in providing life and disability insurance and health insurance advisory services to participating VLCT members.

VLCT's Health Insurance Advisory Services provide:

- Education and communication assistance for health insurance options and benefits
- Advice and assistance with overall benefits strategy
- Financial modeling of benefit plan and funding options
- Assistance with pre-enrollment, enrollment, and post-enrollment activities
- General support of health benefit plan administration, including working with insurers
- Forms, templates, and information to help participants comply with the Affordable Care Act (ACA)
- Up-to-date information on ACA and other health insurance laws
- Support and attendance at meetings of members' governing boards, managers, and employees
- Support for compliance with relevant state and federal regulations

This ***optional program*** is open to all VLCT members. For an ***annual administrative fee of $500 annually plus a $15 per subscriber fee per month***, a formal Health Insurance Advisory Services Agreement will be put in place so members can receive the support and services listed above.

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To learn more about VLCT's Health Insurance Advisory Services, contact Kelley Avery, Senior Benefit Programs Administrator, at 1-800-649-7915 or kavery@vlct.org.

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Publication Date
06/09/2026

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