June 22, 2026

Health Insurance Costs: Making the HDHP Math Work for Municipalities

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Rising healthcare costs continue to squeeze municipal budgets, forcing local officials to balance fiscal responsibility with the need to offer competitive, reliable coverage to employees. One increasingly common strategy is to move from a traditional, 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).

The basic idea is straightforward: HDHPs have lower monthly premiums but higher deductibles and out-of-pocket limits. If a municipality can capture enough premium savings and redirect part of that savings into an HRA or HSA, it may reduce its total health insurance costs while still shielding employees from a big jump in financial risk.

Under an HRA, the municipality alone funds an employer-controlled account that reimburses employees for eligible medical expenses, up to a set limit. Under an HSA, the employee owns the account; both employer and employee can contribute (within IRS limits), funds roll over from year to year, and balances can be invested. HSAs also offer strong tax advantages, making them a powerful long-term benefit.

The financial test for cash-strapped municipalities is simple: do the premium savings from the HDHP exceed the dollars you commit to the HRA or HSA?

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A four-step comparison can answer that:

1. **Gather your data.** For each coverage tier (Single, Two Person, Adult + Children, Family), list your current annual employer premium cost and the proposed HDHP annual employer premium. Decide how much you would contribute to an HRA or HSA for each tier.
2. **Calculate premium savings.** Subtract the HDHP annual employer premium from the current annual employer premium. If the result is positive, the HDHP is cheaper on premiums and there is room for savings.
3. **Subtract HRA/HSA contributions.** From that savings amount, subtract the annual HRA or HSA contribution you plan to make. If the result is still positive, the HDHP/HRA or HDHP/HSA approach reduces your total employer cost for that tier.
4. **Review the employee impact.** Compare deductibles, out-of-pocket maximums, and how much of the higher HDHP deductible you are offsetting with HRA/HSA dollars. The goal is to create budget relief for the municipality without exposing employees to unreasonable financial risk.

A simple side-by-side chart can help you visualize the tradeoffs. In a sample scenario where the employer pays 100% of premiums and funds an HRA, the municipality sees net savings per contract across all tiers—even after setting aside HRA dollars—because the HDHP premium reduction is large enough.

For municipalities under intense budget pressure, this kind of structured analysis offers a disciplined way to explore plan design changes instead of across-the-board cuts or cost shifting. It can also support productive conversations with unions and employees when you can demonstrate that part of the premium savings will be reinvested to protect them.

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Want to take a deeper dive into strategies for using HDHPs to reduce health insurance costs?

Then check out our Resource: High Deductible Health Plans (HDHP) - A Simple Cost Comparison Tool for Municipalities.

VLCT's Health Insurance Advisory Services (HIAS) program can assist members with this analysis. HIAS offers education on plan options, financial modeling of HDHP/HRA and HDHP/HSA designs, support throughout enrollment, and up-to-date guidance on ACA and other legal requirements. For an annual fee, VLCT members can access these services and get help presenting options to boards, managers, and employees.

To learn more about HIAS, contact Kelley Avery, Senior Benefit Programs Administrator, at 1-800-649-7915 or kavery@vlct.org(opens in a new tab).

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