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June 6, 2014

Robert Linn, Commissioner
Office of Labor Relations
40 Rector Street
New York, NY 10006-1705

Dear Bob,

I am writing on behalf of the Citizens Budget Commission to congratulate you on the ratification of the United Federation of Teachers (UFT) contract you were instrumental in negotiating and to offer input on the effective implementation of the accompanying agreement with the Municipal Labor Committee (MLC) relating to health insurance program savings.

The UFT contract is innovative, covering nine years and providing much needed predictability for the City's Financial Plan. It presents a seven-year pattern for wage settlements with other unions that is reasonable and affordable. Moreover, the MLC agreement for health insurance savings has the potential to achieve significant reforms and taxpayer savings.

At our May 30, 2014 meeting you and Dean Fuleihan said suggestions from the CBC about achieving health care savings would be welcome. Accordingly, we offer the following:

1. As a first step, as specified in the agreement with the MLC, an objective system for measuring savings should be established. The basic principle for defining qualifying savings should be that ***they are recurring and of a nature that truly "bends the curve" in health care costs by making the system operate more efficiently***. This means savings that lead directly to reductions in per person or per family premium costs. As you know CBC believes the surest and fairest way to realize such savings is premium cost sharing with employees. These savings are easily identified, predictable, and create incentives for employees to seek additional cost containment measures.

2. Absent cost sharing, measures that lower premiums fall into two categories – those that lower per enrollee utilization of particular services or procedures, and those that lower per service payments to providers. Lower provider payments can be based on lower fees per service or higher deductibles or copayments for services.

3. Therefore, to be considered a valid savings measure under the MLC agreement, reform should be associated with specific changes in the plan

benefit structure that either reduce provider payment levels for, or reduce utilization of, a particular service. The calculation of the savings should be rooted in data from the plans on the previous payment amounts per service and utilization rates, the preceding trends in payment amounts and utilization rates which provide a basis for reasonable baseline projections, and actual reductions from those trends in fiscal years 2015-2018 which provide a basis for calculating the savings from the baseline projections. Data relating to the historical pattern and data on actual results should be tracked and made publicly available each month or quarter. An illustration of an appropriate methodology for calculating savings for a hypothetical centralized radiation service initiative is attached to this letter.

4. Because it will not be possible to know the amount of savings from initiatives until well after the end of a fiscal year (because actual payments and utilization data from the plans will be available only with one or more months' lag), there should be advance agreement on how any shortfall in savings will be offset. The City should have a reliable mechanism for recouping amounts of planned savings not actually achieved during a fiscal year.

5. Savings should be based on an agreed upon baseline number of people covered. Increases or decreases in covered lives should not affect the calculation of savings. That is, policy decisions such as increases or decreases in headcount and demographic trends such as increased numbers of covered retirees should not affect the baseline for calculating savings.

6. Reductions in the number of people covered due to eligibility audits are a distinctive type of savings. Because the MLC has grieved implementation of reductions in the rolls from a current audit, the most practical course may be to credit savings related to these actions toward the targets in exchange for union cooperation in eliminating the ineligible enrollees. However, an agreement should be reached that assures there will be regular audits in the future as a matter of managerial discretion.

7. A significant source of potential savings may be possible through changing the status or eligibility of retirees, for example, by moving some or all from City plans to those available on the New York State Health Exchange with federal subsidies. Such options should be studied as part of the joint efforts under the MLC agreement.

8. National and regional trends in health care inflation unrelated to the initiatives launched as a part of this joint effort should not affect the calculation of savings. Lower inflation than anticipated in the City's Financial Plan, absent a clear causal connection to the initiatives identified as part of the MLC agreement, should not be credited towards the savings target (nor should higher than anticipated rates be a basis for a deduction).

9. Temporary “freezes” or low premium rate increases not supported by specific benefit structure changes should not be credited as savings. Past experience shows that such measures are merely deferrals of payments likely to be subsequently offset by future rate increases necessary to replace reduced reserves. An example of such artificial savings are those claimed by Mayor Rudolph Giuliani and the MLC from a three-year rate freeze by HIP during fiscal years 1996-1998; it was followed by rate increases to make up for lost reserves.

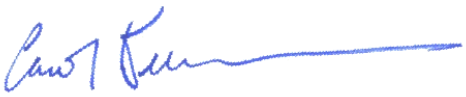
10. Additional funding taken from the Health Insurance Stabilization Fund beyond the $1 billion already agreed upon should not count as savings. It does nothing to make the delivery of health care more efficient and is not recurrent.

11. Savings from centralized purchase of prescription drugs not offset by reductions in related union welfare fund contributions should not be counted as savings, since the union welfare funds, not City taxpayers, will benefit from those savings under the MLC agreement.

This list is not meant to be exhaustive. ***The policy underlying all calculations of savings under the agreement should be that only specific measures that make health care delivery more efficient will be credited toward the savings goal.***

We hope you find these suggestions useful. CBC staff would be glad to contribute toward effective implementation of the MLC agreement. Once again, congratulations on the ratification of a significant labor agreement that has great potential for achieving substantial health care savings.

Sincerely,



Carol Kellermann
President

cc: Dean Fuleihan
Harry Nespoli

Attachment

Illustration of Savings Calculation Using a Hypothetical Program to Centralize Radiation Services

Baseline assumption is 1,000,000 enrollees. Fiscal year 2014 average payment per service is $100 and average utilization of service is 20 per 1,000 enrollees. Historical trend in payment per service is an annual increase of 3.0 percent and in utilization per 1,000 enrollees is an annual increase of 5.0 percent. Actual experience after implementation of the program of centralized services is:

	FY2015	FY2016	FY2017	FY2018
Change in average payment	0%	1%	1%	2%
Change in utilization	0%	2%	2%	2%

Calculation of Savings

	FY2014	FY2015	FY2016	FY2017	FY2018
Baseline	$2,000,000	$2,163,000	$2,339,285	$2,529,936	$2,736,126
Actual	2,000,000	2,000,000	2,060,400	2,122,624	2,208,378
Savings		163,000	278,885	407,312	527,748