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Testimony on Oversight of Changes to Municipal Retirees' Health Care Plan

Testimony before the City Council Committee on Civil Service and Labor

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Good morning, Chair Miller and members of the Committee on Civil Service and Labor. My name is Ana Champeny, and I am Deputy Research Director at the Citizens Budget Commission (CBC). CBC is a nonprofit, nonpartisan think tank and watchdog dedicated to constructive change in the services and finances of New York City and New York State governments.

Thank you for the opportunity to testify on changes to New York City's retiree health care benefits. Succinctly put, we believe that this approach to financing retiree health benefits is sound and creative. However, it fails to provide any fiscal savings to the City and thus does not satisfy the City's legitimate need to reduce recurring spending in reasonable ways, such as bringing retiree and employee benefits more in line with those of other public and private sector workers.

Eligible New York City retirees are provided comprehensive health benefits. For those eligible for Medicare, the current benefits include 100 percent reimbursement of Medicare Part B premiums and a choice of supplemental Medicare plans ("Medigap" plans), including options with no retiree premium contribution that cost the City about $2,400 per member per year. The new program only affects the Medigap plan benefit; the City will continue to fully reimburse Medicare Part B premiums. Retirees not yet eligible for Medicare are enrolled in health plans available to City employees, which also include options with no premium contribution. The City makes union welfare fund contributions for retirees for supplemental benefits.

The costs of these health and welfare benefits are high, have been increasing at twice the rate of inflation, and confer a significant long-term liability for the City. This year, retiree health and welfare benefits will cost the City $3.1 billion, including $2.6 billion for pre-Medicare insurance, Medicare Part B reimbursement, and Medigap plans. The City will spend another $504 million for union-administered welfare fund contributions for retirees. Retiree health insurance costs have grown an average 5.5 percent from fiscal year 2014 to fiscal year 2022, slightly above the 4.3 percent annual average increase for employee health insurance costs. The City's current liability for retiree health benefits, also known as other postemployment benefits (OPEB), is $122 billion.

CBC has long advocated for changes to health care benefits for retirees (and employees) to rein in spending. New York City retiree health benefits are relatively generous. New York State retirees contribute to premiums for a Medigap plan and retirees in Boston, San Francisco (hired after 2009), and Houston contribute to premiums for a Medicare Advantage Plan. In *The Price of Promises Made*, CBC recommended reducing the cost of retiree health benefits by 50 percent and presented a menu of options, including premium sharing for Medicare and pre-Medicare eligible retirees, and elimination or reduction of Part B premium reimbursement.

The approach of the City and Municipal Labor Committee (MLC)—a consortium of municipal labor unions that negotiate with the City for health benefits for all City workers—allows retirees to either enroll in the new Medicare Advantage Plus plan with no premium contribution or opt out and remain in their current Medigap program by paying the roughly $200 monthly premium. In fact, the City's Medicare Advantage Plus plan is designed to provide comprehensive coverage, with enhancements beyond traditional Medicare, such as transportation to appointments and coverage of hearing aids. Furthermore, the Advantage Plus plan negotiated by the City and MLC requires no payment by the City, since the federal government pays the premium. A recent ruling by a State Supreme Court judge has delayed the implementation of the new plan temporarily due to its roll out, but not due to the plan's design.

This approach would reduce both the City's cost of retiree health insurance by $600 million annually and the City's long-term OPEB liability. However, it fails to provide any savings to the City's operating budget. The agreement is to deposit the $600 million "savings" into the Health Insurance Premium Stabilization Fund (HISF) rather than reducing City expenditures for retiree health benefits. Spending is not reduced, and budget gaps remain unchanged.

The City still has to spend the same amount of money, but instead of paying for Medigap premiums, it transfers the funds into the off-budget HISF, which is jointly controlled by the City and the MLC. HISF funds are used to provide additional health benefits to employees, cover

difference in premiums between the two primary health plans offered by the City, and on occasion, to fund collective bargaining increases or health care savings. Effectively this agreement uses the reduced cost of retiree health insurance benefits to support benefits or salaries of current employees.

Retiree health insurance benefits are costly, and the CBC supports the Administration's effort to work with the MLC to reduce costs without sacrificing services; in fact, Medicare Advantage Plans are quite common, enrolling 45 percent of Medicare beneficiaries in New York State and 42 percent of beneficiaries nationally, and frequently offered to municipal retirees.

However, this agreement starts right and then veers off course to miss the finish line because the resulting savings do not flow to the City's bottom line as part of the annual budget process, and instead are used to bolster other labor-related costs. Still, the change in how benefits are financed is welcome and should pave the way for employee premium contributions for health insurance coverage.

Thank you for the opportunity to testify. I'd be happy to answer any questions you may have.