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TESTIMONY BEFORE THE NEW YORK CITY COUNCIL COMMITTEES ON FINANCE AND CIVIL SERVICE

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"Update on Health Care Savings Under Recent Collective Bargaining Agreements"

Good morning. I am Maria Doulis, Vice President of the Citizens Budget Commission (CBC). CBC is a nonpartisan, nonprofit civic organization that serves as an independent fiscal watchdog of New York State and New York City governments. Thank you for the opportunity to testify today.

CBC has been monitoring New York City's efforts to find health savings. CBC has long advocated negotiating changes to health insurance as part of collective bargaining and applauded the labor-management agreement that committed to meet annual savings targets: $400 million in fiscal year 2016, $700 million in fiscal year 2017, $1,000 million in fiscal year 2018, and $1,300 million in fiscal years 2015 to 2018 ($3.4 billion in total).

As we have stated previously to this Committee, the guiding principles of this exercise should be to "bend the curve" on rising health care costs and to account for any savings produced clearly and honestly.

The results announced to date—for fiscal years 2015, 2016, and 2017— get a mixed grade. While some worthwhile and significant initiatives have been agreed upon, the savings targets have been met primarily with savings from lower-than-anticipated premium rate increases, not true reforms.

The City and MLC get high marks for changes that will reduce healthcare costs on a recurring basis. These changes are anticipated to save $477 million, or 23 percent, of the three-year, $2.1 billion target. The most significant of these changes is the just-announced transition from the existing HIP HMO plan to the HIP HMO Preferred plan, which will lower the benchmark premium rate and save the City an estimated $85 million in fiscal year 2017.

New care management programs for chronic conditions, including diabetes, are projected to save a combined $23 million in fiscal year 2017.

The City and MLC also used a data-driven approach to find savings in the GHI plan. The plan was converted to a minimum premium plan and new co-pays will be introduced to discourage overutilization of emergency rooms, urgent care clinics, and specialists. These changes are expected to generate $147 million in savings in fiscal year 2017.

They get poor marks for claiming savings worth an estimated $1.1 billion, or 52 percent of the total, from lower than projected premium rate increases. Consistent with long-term trends, the financial plan projected health insurance spending to increase at an annual rate of 9 percent in fiscal years 2016 and 2017; but, the City's actual rate increases in those years will be 2.9 percent and 6.0 percent. Absent this agreement, these savings would have been available for the general budget.

Claiming such a large credit from a slowdown in health care inflation absolves the City and MLC of responsibility for continuing to make the changes necessary to fully modernize the City's health insurance plan. The parties have demonstrated they can work collaboratively and productively to achieve the right kind of savings: reforms that reduce overutilization and have the potential to improve health outcomes for city employees.

They get a mark of incomplete for $528 million in savings derived from other sources. These savings come primarily from terminating ineligible dependents following the conclusion of a long-overdue audit, but also from funds taken from the Health Insurance Stabilization Fund (HISF). The audit is a large source for savings and it is important to gain authority to conduct audits regularly as a matter of managerial discretion.

The HISF was established in 1984 with annual deposits made by the city to fund the difference between the HIP and GHI plans, so that employees would not have to contribute to premiums out-of-pocket. The HISF is expected to be the source of more than $200 million in savings announced to date. The fund was also tapped for $1 billion at the outset of collective bargaining negotiations in 2014, and will be used to fund preventative services at an annual cost of $48 million. Despite these large withdrawals, the HISF retains a balance well over $1 billion in taxpayer-provided funds. The City continues to contribute large amounts to the fund—even though it no longer serves its original purpose because the cost of HIP premiums has exceeded that of GHI since 2001.

As part of their efforts to reform health care provision, the City and MLC should work together to end further deposits by the City into the fund.