CITIZENS BUDGET COMMISSION

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Testimony on the Health Care Savings Agreement: A Look Back and a Look Forward

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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 submit testimony.

CBC has long advocated for reform of New York City's municipal health insurance program and is pleased to see the de Blasio Administration build upon the important precedent it set in 2014 when it included health insurance in collective bargaining negotiations. Savings to health benefit expenditures, which total $8.1 billion and constitute 9 percent of the fiscal year 2019 budget, are crucial to attaining labor settlements that are fair and reasonable for both City employees and taxpayers.

The previous agreement negotiated with the Municipal Labor Committee (MLC) spanning fiscal years 2015 to 2018 set a $3.4 billion health insurance savings target, and CBC has commented on its implementation in previous testimony before these committees.[1] The primary weakness in the agreement was the decision to credit savings from lower than projected growth in health insurance premiums to the health agreement. The City's conservative budget projections led to claiming $1.9 billion in health savings, 56 percent of the target, from this accounting decision.[2]

Twenty-six percent of the savings, approximately $900 million, advanced the purported goal of the agreement: to bend the health care cost curve and make the City's health plans more cost-effective. Meaningful changes included switching the funding structure of the GHI plan and adjustments to provider networks and co-pay structures to incentivize greater use of primary care while reducing overreliance on emergency rooms, urgent care centers, and specialists.

This is the challenge: meaningful changes require careful review of data, constructive dialogue, and willingness by both labor and management to disrupt the

status quo. In the new agreement, the City and the MLC commit to ongoing data review and outline areas for future study and potential reform, including issuing a new request for proposals (RFP) for all medical and hospital benefits. While this is positive, the incentives to make transformative changes are limited severely by two aspects of the agreement:

1. It sets smaller targets than the prior agreement, despite growing health insurance expenses; and
2. It makes the targets easier to achieve by "rolling" savings from the prior agreement and continuing to count savings against budget projections as health savings.

Less ambitious plan. The new agreement spans fiscal years 2019 to 2021 and sets a target of $1.1 billion in savings: $200 million in fiscal year 2019, $300 million in fiscal year 2020, and $600 million in fiscal year 2021. The targets represent 2.5 percent, 3.4 percent, and 6.3 percent of projected annual health expenditures in these years, which are estimated to be $8.1 billion in fiscal year 2019, $8.8 billion in fiscal year 2020, and $9.5 billion in fiscal year 2021. In contrast, the annual targets of the prior plan represented 5 percent of annual health benefit expenditures in fiscal year 2015, 11 percent in fiscal year 2016, 15 percent in fiscal year 2017, and 19 percent in fiscal year 2018.

To put it another way, the target savings drop from $1.3 billion in fiscal year 2018 under the previous agreement to only $200 million in fiscal year 2019 under the new agreement. The targets should have continued at the 2018 level to stimulate greater cooperation and movement on reforms.

Savings inappropriately transferred. Savings from the prior agreement in excess of $3.4 billion will be attributed to the new targets; currently, this is estimated to total $211 million per year, or 19 percent, of the $1.1 billion target. Any recurrent savings from the prior agreement should have been returned to the general fund.

Improper accounting. Conservative budget assumptions are meant to ensure fiscal flexibility, and any savings against high projections should be used for general operating needs, rather than claimed as a savings against labor costs. Attributing these savings to the health agreement essentially is claiming credit for work not done.

This agreement continues to estimate savings against projected health insurance premium growth of 7 percent in fiscal year 2019, 6.5 percent in fiscal year 2020, and 6 percent in fiscal year 2021. To be sure, these projections are lower than the 8 percent to 9 percent projected annual increases from which the last agreement was able to derive so much of its savings. Nevertheless, they are greater than increases

in the last five years: premium growth averaged 3.3 percent annually and health benefit expenditures grew 3.5 percent annually on average between fiscal years 2014 and 2018.

The MLC and the City have already secured agreement from EmblemHealth to limit increases in the HIP rate to 3.5 percent and 3 percent in fiscal years 2020 and 2021 by mandating enrollment of new employees in the HIP HMO for their first year and providing financial incentives for employees to change their pattern of care. These lower-than-anticipated premium increases are projected to save $658 million, or 60 percent of the agreement target.

In sum, the City and the MLC have already achieved an estimated 80 percent of the target savings, and the balance is expected to be generated from program and drug changes in the GHI plan.

With so much of the deal done, this agreement loses the momentum of the last and provides minimal impetus to tackle the challenges that remain, including the fragmented and inefficient provision of prescription drug, vision, and dental care via welfare funds; the antiquated and wasteful Health Insurance Stabilization Fund; and the costly provision of health insurance to retirees with no contribution to the cost of care.

Thank you again for the opportunity to submit testimony. I welcome your questions.

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[1] Testimony of Maria Doulis, Vice President, Citizens Budget Commission, before the New York City Council Committees on Finance and Civil Service, "Examining Health Care Savings Under Recent Collective Bargaining Agreements" (February 26, 2016), https://cbcny.org/advocacy/testimony-health-care-savings-under-recent-collective-bargaining-agreements, and (April 1, 2015), https://cbcny.org/advocacy/testimony-health-care-savings-under-recent-collective-bargaining-agreements.

[2] An additional $610 million, or 18 percent of the $3.4 billion total, is from one-time actions, most notably the termination of ineligible dependents stemming from an audit.