



THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE

110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • FAX (212) 442-0350 • EMAIL: iboenews@ibo.nyc.ny.us
<http://www.ibo.nyc.ny.us>

**Testimony of George Sweeting, Deputy Director of the
New York City Independent Budget Office
On Health Insurance Coverage Cost Savings
To the New York City Council Committees on Civil Service & Labor and Finance
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Good morning Chairs Miller and Ferreras-Copeland and members of the civil service and finance committees. I am George Sweeting, deputy director of the New York City Independent Budget Office. Thank you for the opportunity to appear before you today regarding health insurance cost savings.

The Mayor's Office of Labor Relations has reported that the city achieved its health insurance cost savings target of \$400 million in fiscal year 2015 and has achieved some of the savings needed to meet the \$700 million target for 2016. While this is good news as far as the budget is concerned, the savings achieved so far have less to do with controlling health insurance costs than with budget accounting and one-time actions.

The annual health insurance savings targets, which have a cumulative value of \$3.4 billion through 2018, were laid out in an agreement between the city's Office of Labor Relations (OLR) and the Municipal Labor Committee (MLC) to achieve savings that offset some of the cost of the current round of collective bargaining settlements between the city and most of its workers.

Reducing the city's cost of health insurance by improving the health of city workers and by finding ways to encourage workers to use less costly means of accessing medical services were important objectives of the agreement between OLR and the MLC. Some of the savings reported for 2015 stem from such efforts. These include \$19 million from imposing stricter preauthorization requirements on hospitalizations and diagnostic tests and more comprehensive case management for those with chronic conditions. Beginning in 2016, the city has introduced or expanded programs to help prevent diabetes among its employees and to help those living with the disease manage it more effectively.

Another new program discourages use of emergency rooms for non-emergency cases through higher co-pays and by offering employees referrals to alternative care options such as urgent care clinics and appointments with available in-network physicians. The city has also enhanced the incentive payment that encourages city employees with access to health insurance from another source to opt-out of city coverage. An existing program that gives city employees online and phone access to nurses for consultations and advice prior to going to a doctor's office or a hospital is also being expanded. Until today, the city has not released estimates of the potential savings from these and other similar initiatives.

Clearly, such changes have the potential to slow the growth of the city's health insurance costs while still providing access to a set of comprehensive benefits. But a large part of the savings achieved in 2015 and of the savings that are expected for 2016 stem from changes that have more to do with accounting for differences between projected and actual expenses and from removing some individuals from coverage who did not qualify and other one-time actions, none of which "bend" the health care cost curve.

There have been savings relative to what the city had budgeted in the 2015 adopted budget, which is the benchmark used for the OLR/MLC agreement. But some of the largest items have little to do with the current and future behavior and health of city workers. Of the \$400 million in savings in 2015, \$148 million results from the decision by the MLC not to require the city to reimburse the health stabilization fund after an arbitrator overturned a Bloomberg Administration initiative that used money from the fund to maintain parity between mental health benefits with general health insurance benefits from 2011 through 2015. Another big item is the \$108 million in savings achieved by ending health insurance coverage for some dependents of city workers identified in an audit as not being eligible for coverage. There was no mention of attempting to recover the cost of the premiums paid in the past for those dependents. While it is good news that the city finally identified these cases, it is not clear that the averted costs represent savings that should count as part of a collective effort by the city and the MLC to alter the trajectory of health insurance costs.

Two other items credit the “savings” that resulted when actual premium costs for both primary insurance and for secondary coverage for Medicare recipients came in lower than the city had anticipated when the 2015 budget was adopted. Per the agreement between OLR and the MLC, such differences are counted towards the health insurance savings target. Although the savings amount to a combined \$55 million in 2015, they are expected to be much more substantial in 2016 and in subsequent years. We learned today that savings will be \$419 million in 2016 and \$622 million in 2017, over half the savings in each year.

The city’s assumptions in June 2014 for health insurance inflation were higher than the health care trend rates implied in the Office of the Actuary’s other post-employment benefits, or OPEB, estimates, particularly in 2016 through 2018, the last year of the agreement. At least in the first few years of the agreement, actual costs have been much lower than either set of projections. It makes sense that some savings from lower than budgeted health insurance premium costs should be credited towards the OLR/MLC savings initiatives. But to the extent that some of the savings results from a too high assumption of health insurance inflation, then it may not be appropriate to credit all of the savings to the agreement.

Fiscal Year	Pre-Medicare/Primary			Medicare/Secondary		
	OMB	HCCTR	Actual	OMB	HCCTR	Actual
2015	9.00%	9.00%	1.22%	8.00%	5.00%	0.32%
2016	9.00%	8.50%	2.89%	8.00%	5.00%	~0.00%
2017	9.00%	8.00%	5.98%	8.00%	5.00%	
2018	9.00%	7.50%		8.00%	5.00%	
2019	7.00%	7.00%		5.00%	5.00%	

Note: OMB values were those used in the 2015 adopted budget

Proper identification of savings that result from initiatives stemming from the OLR/MLC agreement is important, because under the agreement, if the savings targets are not achieved there are additional steps that come into play, including arbitration to choose from a menu of more onerous ways to meet the savings targets, including employee contributions for health insurance.

Thank you again for the opportunity to testify. I am happy to answer your questions.