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Testimony of Jonathan Rosenberg
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To the New York City Council Committee on Civil Service and Labor
Oversight Hearing on the Health Care Savings Agreement

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Good Afternoon Chairmen Dromm and Miller and committee members. My name is Jonathan Rosenberg, and I am the director of budget review for the New York City Independent Budget Office. I appreciate the opportunity to testify before this joint committee today.

IBO continues to monitor the progress of the city's and the Municipal Labor Committee's (MLC) joint health care savings initiatives. Our office has appeared before this committee in prior years to offer our assessment of the annual progress. While we applaud the collaborative efforts to find budgetary savings through increased efficiency and effectiveness in the city's provision of health care, it is disappointing that the vast majority of savings realized to date have come in the form of paper gains from lower-than-expected premium increases and other accounting maneuvers. But instead of focusing my testimony on issues that have already been thoroughly discussed, I instead wish to focus today's testimony on key provisions of the most recent joint agreement.

The agreement dated June 28th, 2018 lays out a broad schedule of targets for new health savings totaling $1.1 billion in fiscal years 2019 through 2021: $200 million in 2019, $300 million in 2020, and $600 million in 2021. Under the agreement at least $600 million of the total savings must be recurring. These savings are intended to defray some of the cost of wage increases in the current round of collective bargaining. These savings goals, an average of $367 million per year, are less ambitious than the $850 million-per-year requirements of the previous agreement, although with more realistic health care cost growth projections, the initiative should result in measurable progress in controlling health insurance costs.

A key feature of the prior agreement between the MLC and the city covering fiscal years 2015 through 2018 was a provision designating a portion of the excess savings above the agreed-upon target of $3.4 billion for pensionable lump-sum bonus payments to be proportionately distributed to the members of the various city unions. According to the most recent report from the Office of Labor Relations (OLR), the prior round of savings initiatives generated a surplus of $51 million over the target amount, subject to certification by the city's actuary. However, rather than providing the previously promised employee bonuses, the parties now intend to credit these surplus savings towards the new fiscal year 2019 health care savings goal of $200 million, reducing the target for new initiatives in that year to $149 million.

Similarly, in the prior agreement, the allocation of recurring savings for fiscal year 2018 that exceeded the target of $1.3 billion were to be "subject to negotiation between the parties." According to OLR, these savings exceeded the target by $35 million, pending certification. As with the aforementioned nonrecurring surplus, the most recent OLR report states that the city and the MLC intend to repurpose these recurring savings to reduce their obligations to generate new health care savings in the next three fiscal years and beyond. After accounting for these surplus funds from the prior agreement, the city and the MLC are only obligated to find $114 million in new savings for fiscal year 2019, and a total of $944 million through 2021.

The tangible savings achieved under the prior agreement were the result of increases in premiums, changes in services provided, and efficiencies borne by the workforce from fiscal years 2015 through 2018. However, using surplus funds from these prior initiatives to reduce future employees' savings targets avoids making changes that would actually alter the cost of delivering health benefits to city workers and retirees.

Unlike the prior agreement, the new agreement between MLC and the city does not include any provision for returning excess savings to the employees. Rather, the new agreement allows for the transfer of the first $68 million of recurring savings exceeding the $600 million target to fund a $100 per member contribution by the city to the unions' welfare funds. This is in addition to two $100 per member contributions the city will make to union welfare funds at the beginning of fiscal years 2019 and 2020 using funds from the Health Insurance Stabilization Fund (HISF).

The HISF was established in fiscal year 1984 to provide a reserve that could be used to "maintain…the current level of health insurance benefits provided under GHI." The city's employer contribution for the cost of health care provision is equalized to the HIP premium rate, with the stabilization fund intended to cover the difference should GHI rates exceed those of HIP. The HISF shields city employees from health insurance paycheck deductions in years when the relative costs of the city's major health plans, HIP and GHI, reverse.

Since 2002, GHI's premiums have been lower than those of HIP. The difference between the HIP premium rate paid by the city and the lower GHI premium has been deposited annually by the city in the HISF. The city is also required by terms of its collective bargaining agreements to make an annual contribution to the fund of $35 million. The city and organized labor must agree on any unplanned expenditures from the fund. The stabilization fund has become a steady source of reserve income for the city, and has been used for both recurring and substantial one-time payments to the workforce in labor negotiations. The 2015-2018 Health Savings Agreement withdrew $1 billion from the fund to defray the cost of wage increases, and also forgave a $148 million loan by the fund used by Mayor Bloomberg to satisfy federal mental health parity requirements. The balance of the fund at the conclusion of fiscal year 2018 was $1.6 billion, after $254 million in expenditures in that year.

Health Insurance Stabilization Fund Balance by Fiscal Year, ***dollars in*** *millions*								
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Starting Balance	**$421**	**$588**	**$894**	**$744**	**$1,706**	**$789**	**$1,830**	**$1,586**
Interest Earned	5	4	3	4	7	9	17	19
Revenues	400	501	37	1,200	372	1,248	97	292
Expenditures	(238)	(198)	(190)	(241)	(1,295)	(216)	(358)	(254)
Ending Balance	**$588**	**$894**	**$744**	**$1,706**	**$789**	**$1,830**	**$1,586**	**$1,643**

According to preliminary reports from the Mayor's Office of Management and Budget, the family premium rate for HIP is actually lower than that of the GHI rate for fiscal year 2019. This could likely result in a net *reduction* in the HISF balance, consistent with the fund's original role as a short-term reserve in years when the GHI rate exceeds the rate for HIP. If this trend continues in future years the stabilization fund surpluses may not be available as a source of health insurance "savings." While the current balance in the HISF is robust, it is uncertain how long that could be sustained if the HIP rate remained lower than the GHI rate for an extended period. If the fund were to be depleted the city and the unions would eventually have to face difficult decisions to either reduce employee benefits or increase employee contributions. Nevertheless, the 2018 agreement assumes there will be contributions from the surplus in each year of the plan.

Though the targets of the de Blasio Administration's and the Municipal Labor Committee's second round of health care savings initiatives are less ambitious than the first, IBO is hopeful that the new agreement's call for a new Tripartite Health Insurance Policy Committee can make meaningful, mutually beneficial changes to the way that the city delivers health insurance to its workforce. The stated topics of discussion for the committee are largely commonsense reforms with tangible financial consequences. We will continue to monitor their developments.

Thank you for your time. I will gladly answer any questions.