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## TESTIMONY BEFORE THE NEW YORK CITY COUNCIL COMMITTEE ON FINANCE

Testimony by Maria Doulis, Director of City Studies  
Citizens Budget Commission  
April 1, 2015

### “Examining Health Care Savings Under Recent Collective Bargaining Agreements”

Good morning. I am Maria Doulis, the Director of City Studies at 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 on New York City’s recent health savings agreement.

Before addressing the agreement, I want to note why this is an important issue. As CBC has reported, the cost of the City’s health insurance plan has grown rapidly in the last decade. Since fiscal year 2005 costs doubled from \$2.6 billion to \$5.3 billion in fiscal year 2015 to comprise 6.7 percent of the 2015 budget—more than what the City pays for police salaries.

CBC called for negotiating changes to health insurance as part of collective bargaining and was pleased when Mayor Bill de Blasio announced a health savings agreement with the first contract settlement. The City and the Municipal Labor Committee (MLC) agreed to save \$3.4 billion between fiscal year 2015 and 2018, with savings to recur in fiscal year 2019 and thereafter. The agreement included annual targets of \$400 million in fiscal year 2015, \$700 million in fiscal year 2016, \$1.0 billion in fiscal year 2017, and \$1.3 billion in fiscal year 2018. An independent actuary would be selected to verify the potential savings and an arbitrator would have the authority to impose measures in the event the parties could not agree.

This appeared to be a serious effort to reconsider the City’s health insurance arrangements. In June 2014, CBC President Carol Kellermann wrote to Labor Commissioner Bob Linn to suggest guidelines for identifying initiatives and quantifying savings.<sup>1</sup> The two most important were:

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<sup>1</sup> Carol Kellermann, President, Citizens Budget Commission, Letter to Robert Linn, Commissioner of Labor Relations, City of New York (June 9, 2014), [www.cbcny.org/sites/default/files/LETTER\\_06062014.pdf](http://www.cbcny.org/sites/default/files/LETTER_06062014.pdf).

1. **Initiatives should “bend the cost curve” and achieve recurring savings for City taxpayers.** Some ways to do this include establishing premium-sharing with employees and retirees, reducing per enrollee utilization of services, better managing chronic conditions, or lowering provider payments, which can be achieved through lower fees for service, higher deductibles, or higher copayments.
2. **Savings should be counted clearly and honestly.** Lower national and regional health care inflation, temporary premium rate “freezes,” and unusually low premium increases should not be credited as savings gained under the agreement.

In response, Commissioner Linn affirmed the City’s intention “to find real, permanent savings and fundamentally bend the curve when it comes to rapidly increasing health care costs”; however, he cited initiatives under consideration that would offer only one-time or temporary savings, such as premium rate caps.<sup>2</sup> In addition, he stated that all savings will be calculated relative to financial plan projections rather than actual results of specific initiatives—thereby divorcing any savings claimed from changes in the benefit structure of the health insurance program.<sup>3</sup>

To date, there has been no public report of savings attributable to specific initiatives. Nevertheless, the November modification gave credit to the MLC agreement for \$1.2 billion in savings (\$377 million in fiscal year 2016, \$414 million in fiscal year 2017, and \$454 million in fiscal year 2018). The savings are from lower than anticipated premium increases for employee and retiree health insurance plans. Consistent with past trends, the financial plan projected health insurance spending to increase at an annual rate of 9 percent; but, the City’s actual rate increase for fiscal year 2016 will be 2.89 percent.

As a result, savings that would have normally been reserved for general budget needs—such as funding libraries or maintaining public parks—and are attributable to a national slowdown in health care costs, are now being credited to the health savings agreement.

CBC estimates that if they repeat this process in future years—claiming savings for low rate increases against a 9 percent projected growth rate—the cumulative impact would be another \$1.2 billion. Thus total savings attributed to the MLC agreement could equal \$2.5 billion of the \$3.4 billion cumulative target—without any affirmative actions to improve the delivery of health care. And, those savings would not be available for other funding priorities.

Commissioner Bob Linn, his team, and labor leaders deserve credit for agreeing to work collaboratively to modernize the City’s health insurance plan. The Commissioner’s December 2014 status report describes exploring initiatives, such as reducing emergency room utilization and improving chronic disease management, which can improve health outcomes for the City’s workforce and save money for the City’s taxpayers. These initiatives are worth pursuing and should be the basis for meeting the savings targets established in the health agreement.

Thank you.

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<sup>2</sup> Robert W. Linn, Commissioner of Labor Relations, City of New York, Letter to Carol Kellermann, President, Citizens Budget Commission (June 9, 2014), [www.cbcny.org/sites/default/files/RESONSE\\_06102014.pdf](http://www.cbcny.org/sites/default/files/RESONSE_06102014.pdf).

<sup>3</sup> Carol Kellermann, “Statement on Commissioner Linn’s Response to CBC Letter on NYC Health Agreement with the Municipal Labor Committee” (June 10, 2014), [www.cbcny.org/sites/default/files/STATEMENT\\_06102014.pdf](http://www.cbcny.org/sites/default/files/STATEMENT_06102014.pdf).