



# CITIZENS BUDGET COMMISSION

One Penn Plaza Suite 640 New York, NY 10119

**TESTIMONY BEFORE THE  
NEW YORK CITY COUNCIL FINANCE COMMITTEE  
Wednesday, April 5, 2006 – 11:00 a.m.**

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Good morning and thank you for the opportunity to testify. I am Elizabeth Lynam, Deputy Research Director at the Citizens Budget Commission. The Citizens Budget Commission is a nonpartisan, nonprofit civic organization that since 1932 has been devoted to influencing constructive change in the finances and services of New York City and New York State government.

I have a few brief comments to share with you today on the formation of the proposed health insurance trust fund. And, of course, I am happy to take questions after my remarks.

Let me start by saying that the Commission strongly supports the formation of a health insurance trust fund.

The City's current policy of paying the full cost of comprehensive health insurance for retired workers and their dependents creates an enormous future fiscal obligation. Until recently there has been no requirement to estimate or report the magnitude of that liability, and the City and other public employers have not done so. However, recent changes in generally accepted accounting principles will require that the City estimate the size of this liability, and preliminary estimates suggest it may be as high as \$50 billion in total and \$4-5 billion annually, if converted to an actuarially-funded system. Although there is no requirement to fund this liability, neglecting to do so may adversely affect the City's credit rating and standing in public credit markets.

The proposal to establish a health insurance trust fund and to deposit approximately \$3 billion in that fund this year and next will significantly improve the situation. The proposed deposits exceed the cash liability by about \$1 billion, leaving the City in two years with \$2 billion in added resources to help finance future obligations at the end of fiscal year 2007. That would be a meaningful contribution to dealing with a difficult long-run problem. As such, this fund is potentially a strong tool for fiscal responsibility.

However, its strength will be determined by three factors:

- First, deposits into this fund need to be irrevocable; there should be no potential to divert them to other purposes in the future.
- Second, the Fund's transactions and condition need to be transparent. Since the Fund will be an off-budget entity maintained with deposits from the general fund, there should be consistent, comprehensive and clear reporting of its activities to ensure transparency and accountability.

- Third, deposits should continue beyond the first two years. The City should commit to a long-term funding policy for retiree health insurance benefits, and should appropriate funds in each future year in accord with a predetermined schedule in order to reduce its unfunded liabilities for this purpose.

The proposed Health Insurance Trust Fund also is important and promising because it helps highlight the large and rising costs associated with the current policy of paying the full costs of health insurance for retirees and their dependents. As the CBC documented in its recent report, *The Case for Redesigning Retirement Benefits for New York's Public Employees*, this policy is unusual and unnecessarily generous relative to other large employers. In the ongoing negotiations with municipal employee unions City leaders should give priority to changes that will reduce the future cost of retiree health insurance, such as requiring some employee and retiree contribution towards premium costs.

Creating a health insurance trust fund this year by seizing the opportunity presented by the City's large surpluses represents an important first step toward beginning to deal prudently and prospectively with what poses a potential future risk—the new GASB 45 requirement. The measure will start the City on a course toward permanently accounting for—in a separate and discrete fund—a cost that heretofore has been less than transparent. The \$2 billion, although a drop in the bucket against a \$50 billion liability, will surely be regarded by bond-raters and credit markets—to name just a couple of entities following the impact of GASB 45 closely—as a proactive and more-than-timely initial response. The Citizens Budget Commission urges the Council to work cooperatively with the Mayor to establish the trust and to fund it at at least the level proposed in the preliminary plan.

In closing let me thank you again for the opportunity to testify before you today.