



# OFFICE OF LABOR RELATIONS

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September 6, 2016

**To: Bill de Blasio**  
Mayor, City of New York

**Anthony Shorris**  
First Deputy Mayor, City of New York

**From: Robert Linn**  
**Claire Levitt**

**Re: Report of the Status of Healthcare Savings, Q4 Fiscal Year 2016**

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## Introduction

On July 1, 2016, the New York City Health Benefits Program, in collaboration with the Municipal Labor Committee, implemented the most robust changes to its plans in decades. As a result of these changes, the City and the MLC project that we will successfully meet the \$1 billion in savings required for FY 2017. At this time, we can also project that current savings programs will achieve over \$3.25 billion of health care cost savings, leaving less than \$150 million in savings to be achieved in FY 2018 to meet the four year \$3.4 billion savings goal.

The changes that were implemented in July not only help secure the promised health savings, but also promote better utilization of health care resources and improved health outcomes for City employees. We implemented important modifications that provide economic incentives to rely more on primary care, which is widely recognized to be an important cornerstone to improving the quality of care and health outcomes while also reducing costs. As an integral part of our new plan, we implemented all the preventive care recommendations under the Affordable Care Act (ACA) for NYC employees covered by the GHI/CBP plan. As a result, those employees have access to free preventive care, including free coverage for services such as annual physical exams, well

woman visits, contraceptives, mammograms, colonoscopies and breastfeeding supplies, as well as free access to primary care at selected locations.

We also continue to work on developing programs to improve the health of New York City employees and their families. Our successful new arrangement with Weight Watchers has already enrolled nearly 10,000 people in the program, who are working towards improving their health through weight loss, fitness and healthier food choices.

### **Plan Design Changes**

As detailed in earlier reports, the City and the Municipal Labor Committee undertook a comprehensive analysis of claims data for the first time to get a clear picture of how our health care dollars were being spent, and then worked together to redesign the plan with value based design changes aimed at encouraging more appropriate utilization of health care resources. Recognizing that strong primary care is essential to improving health outcomes and lowering costs, new benefit design elements were incorporated into the plan to encourage employees to utilize the best site of care for their condition. Copays for the emergency room, urgent care, specialty care, radiology and diagnostic testing were increased, while copays for preventive care treatment and certain primary care visits were decreased.

These changes to the Empire Blue Cross/GHI/CBP Plan will result in savings of approximately \$85 million a year beginning in FY 2017.

To help support employees in adapting to these changes, we also implemented two important new programs to help employees find appropriate physician care and avoid unnecessary emergency room utilization:

- **Telemedicine** – Access to physician services is offered online and via telephone 24 hours a day. This service expands City employees’ access to immediate physician availability and helps reduce the costs and inconvenience of unnecessary emergency room utilization.
- **ZocDoc Online Scheduling**– A New York City customized version of the ZocDoc website is available to enable employees to view and select available physician appointment times online. The site will direct employees to physicians in their network and also indicate those Emblem-affiliated AdvantageCare Physicians (ACP) physicians where the copay is \$0.

Another important change that went into effect on July 1, 2016 is the introduction of a new and more cost effective HIP HMO Plan, which also provides an innovative approach to achieving better health outcomes by encouraging the use of preferred providers. The preferred providers are working under what are known as value based arrangements that provide incentives to improve medical management, enhance quality management and improve member engagement by meeting

core measures that improve health. The copay for using preferred providers remains at \$0; however, there is now a \$10 copay for care when a patient goes to a non-preferred provider. This program will result in over \$63 million dollars in annual savings beginning in FY 2017, lowering costs significantly while providing better quality care for employees in that plan.

Details regarding the GHI CBP and HIP HMO plan changes and other FY 2017 savings are provided in Exhibit A.

Other FY 2016 changes contributing to the savings include expansion of the care management program to include new pre-authorization requirements for outpatient procedures, expanded case management, a diabetes case management program, and continuation of the Dependent Eligibility Verification Audit, which has already resulted in over \$200 million in savings over two fiscal years and will continue to assure that newly enrolled dependents are eligible.

### **Savings Results**

As stated above, we are currently projecting that we have already secured over \$3.25 billion of the \$3.4 billion savings goal. In FY 2016, the \$700 million required savings will be achieved with the transfer of \$36 million from the City and MLC jointly-controlled stabilization fund; access to these funds would not be possible without agreement between the City and the MLC. This supplements the \$664 million in savings generated by the new programs. The \$36 million difference is the result of the City intentionally delaying the implementation of the new benefit plan (to July 1, 2016) to ensure effective communications with our employees, retirees, and dependents. However, as a result of the significant FY 2017 changes, we are able to project nearly a year in advance that we will exceed the \$1 billion target for FY 2017. Details are indicated in Exhibit A.

### **Promoting a Healthier Workforce**

Through our new WorkWell NYC campaign, OLR continues to work on advancing an improved and sustainable “Culture of Health” to support our workforce in getting healthier and staying healthier. A number of programs have already been implemented to address fitness, nutrition and obesity, smoking cessation and stress reduction for the City’s workforce. Since so many of our employees stay with us for many years and continue their coverage with the City as retirees, our investment in their health can lead to important future cost savings implications -- and even more importantly, it’s the right thing to do. While some of these approaches won’t have measurable savings in the next year or two, they are part of a long term strategy to improve the health of the population and thereby reduce long term health care costs.

Fundamental to our programs is our belief that making wellness programs available at the worksite will mean that they have an even greater chance of impacting people’s lives. Our free flu shot program is one important preventive step to reduce more costly ER and doctor visits. The program, which began for employees during the 2014-15 season, was expanded in 2015-16 to include covered dependents and pre-Medicare retirees and has resulted in an increase of over 26,000 flu

vaccinations in two years, a 19 percent increase compared to those vaccinated during the baseline 2013-14 season.

We know that obesity impacts more than one third of the population, and that obesity related conditions, including heart disease and diabetes, are leading causes of preventable death. Our new arrangement with Weight Watchers has already engaged thousands of people since June 1 in improving their health.

We are also working on the roll out of several agency based worksite wellness demonstration projects in 2016. The program will focus on helping employees address smoking cessation, stress management, hypertension, nutrition and fitness. By measuring the impact of these pilot programs, we hope to use the demonstration project experience to validate the effectiveness of wellness programming on health costs, employee engagement and reduced absenteeism, so that we can support scaling the program across City government.

OLR has introduced a new section on its website for Employee Wellness that contains valuable information, links and tools to help maximize access to appropriate healthcare and to educate the workforce about health issues and the City's health and wellbeing programs.

### **Future Plans**

Our future plans to meet the \$3.4 billion savings by the end of FY 2018 include developing a new approach to our hospital relationships, including an emphasis on the City's H+H hospitals. We are also looking to expand the use of patient centered medical home models. In addition, we are studying the impact of our behavioral health programs and looking for ways to address workplace stress. Further, we are examining ways to improve our retiree program costs through Medicare Advantage programs and other approaches. As you know, our agreement not only set forth the \$3.4 billion savings goal, but offered gainsharing with the workforce if we exceed the savings goal. We remain very optimistic that we can reach the savings goals set out by the City and the MLC and be able to realize savings that go even further.

EXHIBIT A

Projected FY 2016 and FY 2017 Savings		
	FY 2016	FY 2017
<p><b>Funding structure change in the City's GHI Plan</b>                      The funding structure change in FY'15 from a fully insured plan to a minimum premium plan arrangement (resulting in lower administrative expenses and positive tax implications) provides continued savings to the City. Savings in FY'17 are lower than in FY'16 to reflect a smaller spread in costs between a fully insured plan and a minimum premium arrangement as a result of the moratorium of the ACA health insurer fee in calendar year 2017.</p>	\$61 M	\$41 M
<p><b>Dependent Eligibility Verification Audit (DEVA)</b>                      The DEVA program, which was an audit of dependent eligibility for coverage, and that resulted in conversions of family to individual health contracts, provides continued savings from lower health premiums.</p>	\$110 M	\$103 M
<p><b>Changes to the Care Management program</b>                      In March/April 2015, the existing pre-authorization program was enhanced to provide a more comprehensive program. The previously limited case management program was expanded to include case management for all complex and high cost acute and chronic conditions as well as maternity management and readmission management programs. In January 2016, a new vendor was selected to administer the programs and to implement new pre-authorization requirements for outpatient procedures.</p>	\$38 M	\$39 M
<p><b>Specialty Drugs (PICA) program changes</b>                      The contract for the specialty drug program that was renegotiated in the previous fiscal year, and which also included certain cost management provisions such as preauthorization and drug quantity management programs, continues to deliver savings.</p>	\$32 M	\$32 M
<p><b>HIP Rate Savings</b>                      Based on historical trends, the City's budget estimated a 9% increase in the HIP rate for fiscals 2016 and 2017. However, the rate was finalized at 2.89% in FY'16, 5.98% in FY'17 (before a change to the HIP HMO Preferred Plan), and 7.84%<sup>1</sup> in FY'18. The HIP rate reduction generates savings as the amount representing the differential would have otherwise been paid into the stabilization fund for all active employees and pre-Medicare retirees.</p>	\$343 M	\$544 M
<p><b>HIP HMO Preferred Plan</b>                      The transition from the existing HIP HMO plan to the HIP HMO Preferred Plan effective July 1, 2016, not only lowers the overall cost to the City for employees enrolled in the program but also lowers the benchmark HIP rate that drives the payment for all employees. The City is obligated to make an equalization payment into a Health Insurance Stabilization Reserve Fund -- jointly controlled by the City and the MLC -- representing the difference between the HIP HMO rate and the GHI PPO rate. The HIP HMO Preferred Plan lowers the benchmark HIP rate and thereby lowers the City's obligation to the Stabilization Fund -- meaning savings for taxpayers.</p>	\$3 M	\$63 M
<p><b>GHI Senior Care Plan Savings</b>                      Similar to the HIP rate, the 8% annual increase budgeted for Senior Care premium increases for fiscals 2015, 2016 and 2017 was finalized at 0.32%, -0.07%, and 4.73%, respectively.</p>	\$77 M	\$100 M

<sup>1</sup> Initial rate for FY'18 proposed in August 2016.

<b>Projected FY 2016 and FY 2017 Savings</b>		
	<b>FY 2016</b>	<b>FY 2017</b>
<b>Lower Radiology Fees</b> Emblem has renegotiated the contract with their radiology providers for lower fees resulting in lower costs for the City. The program for lower rates was gradually introduced across geographical areas and providers in the first half of CY 2016 and savings associated with its full effect will be reflected in FY'17.	\$3 M	\$20 M
<b>Lower (Durable Medical Equipment) DME Fees</b> Emblem has selected a single source vendor for DME that offers lower fees resulting in lower costs for the City.		\$1 M
<b>GHI CBP Program Changes</b> Effective July 1, 2016, changes are being made to the GHI CBP program that will address the underutilization of primary care and the overutilization of the hospital emergency room and specialty care. Additionally, changes will address the costs and overutilization of high cost radiology procedures like MRIs and CT scans, and laboratory testing. The changes are expected to generate significant savings.		\$85 M
<b>Out-Of-Network Pricing Adjustment in the Behavioral Management Program</b> Adjustments were made to the reimbursement rate for services at out-of-network (OON) providers to encourage in-network utilization and to reduce overutilization of high cost OON providers.		\$3M
<b>Diabetes Management Program</b> The program, which focuses on gestational diabetes and complex case management for Stage 2 and Stage 3 diabetes, and, for which patients with diabetes and/or gestational diabetes are being offered one-on-one case management services with a registered nurse to help them manage their condition, is expected to generate savings.	\$1 M	\$1 M
<b>Buy-Out Waiver Incentive Pilot Program</b> The City launched a pilot program to determine the impact of an increased incentive for waiving coverage and receiving it elsewhere. The increased enrollment was not sufficiently large to offset the increased costs of the incentive for all enrollees in the program. This program will revert to the previous \$500 (individuals) and \$1,000 (families) incentives in CY 2017.	(\$3 M)	(\$3 M)
<b>Stabilization Fund Adjustment</b> This is the adjustment to reflect a contribution from the stabilization fund (SF) detailed above, as a result of the intentional delay in implementation of health plan changes. The actual SF adjustment is finalized at the end of the fiscal during true-up.	\$36 M	
<b>Total<sup>2</sup></b>	<b>\$700 M</b>	<b>\$1.028 B</b>

<sup>2</sup> Totals may not add due to rounding.