



THE CITY OF NEW YORK
OFFICE OF THE MAYOR
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DE BLASIO ADMINISTRATION DETAILS \$400 MILLION IN HEALTH SAVINGS FOR FY15, ON TRACK FOR EVEN GREATER SAVINGS IN FUTURE YEARS

City is Guaranteed Unprecedented \$3.4 Billion in Health Savings Over Next Four Years, \$1.3 Billion Recurring Every Year After as Part of Agreement with Municipal Labor Committee

Today, the de Blasio administration announced that it will reach \$400 million in health care cost savings for Fiscal Year 2015, part of the unprecedented and guaranteed health savings agreed upon with the Municipal Labor Committee last year. In total, the City and the MLC have agreed to at least \$3.4 billion in savings over the next four years, and \$1.3 billion in recurring savings every year after. The Office of Labor Relations detailed the FY2015 savings - as well as savings already secured for future years - in its FY2015 Q3 report to the Mayor.

For over 20 years, the City was unable to modernize its employee benefit programs and develop more efficient and cost-effective approaches to health care. Any changes required agreement between the City and municipal unions.

When the de Blasio administration took office, every contract with municipal workers was expired. Since then, the administration has reached agreements with 76 percent of the workforce, representing both civilian and uniformed employees. Incorporated in those contract settlements is an agreement with the MLC to fundamentally bend the health care cost curve with \$3.4 billion in savings from FY2015 through FY2018, and \$1.3 billion in savings recurring every year after.

"For decades, the City's hands were tied when it came to modernizing our approach to health care. By changing the conversation with our workforce from one of deadlock and confrontation to real problem solving and collaboration, we were able to secure these unprecedented savings - which serve the City, our workers, and taxpayers alike," said **Mayor de Blasio**. "We've already locked in our \$400 million in savings this year, and are on track for even greater savings in the coming years."

Specific savings for FY2015 and beyond are detailed in the following report, sent to the Mayor earlier today:



OFFICE OF LABOR RELATIONS

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April 1, 2015

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 Status of Healthcare Savings Q3 Fiscal 2015

The Office of Labor Relations (OLR) is pleased to report that we will reach the goal to attain \$400 million in healthcare cost savings for fiscal year 2015. The City and the Municipal Labor Committee (MLC) have been exploring many different initiatives aligned with four approaches to generating savings to bend the health care cost curve for the City's health plans.

First, we aggressively attacked rates on all fronts --both the State-approved HIP HMO rates that drive the premium rates, and the rates from our insurers and vendors.

Second, we are initiating audits of all of our programs. The first was a major undertaking to ensure that we were covering only eligible workers.

Third, we are looking at changes in the way health care is being delivered to our workforce to improve quality and make it more efficient.

Fourth, we are focusing on improving the health of the workforce, our families and our retirees.

All savings are being fully realized by the City. That includes savings from programs and initiatives that result in a lower amount actually paid for services, and savings from agreement with the MLC to lower the City's equalization payment to the Health Insurance Stabilization Reserve Fund (Stabilization Fund).

Nearly as important as the actual cost savings implications, is the cooperative framework in which these discussions are now taking place. The City and the MLC are working collaboratively on developing the strategies that will achieve the \$3.4 billion health cost savings goal for fiscal years 2015 - 2018.

There have been eight specific strategies that resulted in the \$400 million savings for FY 2015. In keeping with our agreement with the MLC, these savings are measured against the City's original budget for FY 2015.

1. Funding structure change in the City's GHI Plan - \$58 million

The funding structure was changed from a fully insured plan to a minimum premium plan arrangement. This results in significantly lower risk charges, administrative fees, and positive tax implications.

2. Empire Blue Cross Blue Shield reduction of FY 2015 administrative charges - \$4 million

Empire Blue Cross agreed to a reduction in their fiscal year 2015 administrative fees.

3. Dependent Eligibility Verification Audit (DEVA) - \$108 million

The DEVA program established whether dependents listed for City employees and retirees were actually eligible, to ensure that health premiums reflected an accurate headcount. Coverage for ineligible dependents was terminated, and where that resulted in a change in status such as moving from "family" to "individual" health coverage, savings were realized from lower health premiums.

4. Mental Health Parity "Relief" - \$153 million

The last administration contended that the cost of health plan compliance with Federal mental health parity regulations -- which required that mental health benefits be equal to medical benefits -- be borne by the Stabilization Fund. This issue was arbitrated and in late 2014 it was ruled that the City had to reimburse the Stabilization Fund for mental health benefit costs covered by the stabilization fund during 2011 - 2015. However, the MLC agreed that these costs, which would have otherwise have been paid by the City, be retained by the City to meet part of the FY 2015 health care savings obligation.

5. Changes to the Care Management program - \$15 million

Effective March 1, 2015, the existing pre-authorization program was enhanced to provide a timely and comprehensive review of hospital admissions and length of hospital stays. In addition, the previously limited case management program was expanded to include case management for all complex and high cost acute and chronic conditions, providing much needed services to employees, dependents and retirees with severe medical conditions. New maternity management and readmission management programs have also been implemented. These programs are going into effect late in the fiscal year but are expected to produce savings of \$50 million or more in 2016. The vendor has guaranteed the savings.

6. Specialty Drugs (PICA) Program Changes - \$7 million

An audit of the specialty drug program identified provisions in the contract with Express Scripts that could be renegotiated to deliver substantial savings to the City. In addition, certain cost management provisions such as preauthorization and drug quantity management programs were added to enhance savings. Some changes took effect January 1, 2015 and others will take effect May 1, 2015, so FY 2016 savings are projected to increase to about \$19 million.

7. HIP Rate Savings - \$17 million

Based on historical trends for the last 15 years, projections estimated a 9 percent increase in the HIP rate for FY 2016. However, as a result of the administration's advocacy, the rate was finalized at 2.89%. This has some impact on FY 2015 expenses due to one agency with a different fiscal year that affects FY 2015 costs. The major impact of this savings is still to be recognized in FY 2016.

8. Premiums on the City's GHI Senior Care Plan finalized at 0.32% - \$38 million

Similar to the HIP rate, the 8% increase budgeted for Senior Care premium increases for FY 2015 was finalized at 0.32%.

Recognizing that many thousands of employees live with the profound health impact of Diabetes, we are also in the process of implementing a program that will provide case management support services for patients with Diabetes, as well those with as Gestational Diabetes. It is currently in the implementation stage and will begin July 1, 2015, with savings guaranteed by the vendor of at least \$3 million in FY 2016. To help the one-third of the workforce that could potentially be pre-diabetic, we are also piloting both worksite and online availability of the CDC's evidence based Pre-Diabetic Prevention Program.

Work has already begun on other FY 2016 initiatives, putting the City and the MLC on track to reach the \$700 million FY 2016 goal. As noted above, many of the FY 2015 programs will have even greater impact once they have been in place for a full year, setting the stage for meeting and possibly exceeding the FY 2016 goal of \$700 million in savings.

Some of the many potential cost savings initiatives we are exploring for FY 2016 implementation include:

- Strategies to reduce emergency room utilization, including potential changes in copays to lead to more appropriate health care choices.
- Access to a 24 hour Nurse Line, physician telephonic access, and on line appointments to increase access to primary care.
- Identification and promotion of new and innovative health care delivery models that to provide access to the highest quality care.
- Changes in the delivery of mental health benefits.
- Expanding pre-authorization requirements to include outpatient procedures.
- Enhanced incentives for employees and retirees with other coverage to opt out of the City's programs.

- Medicare Advantage programs.

We also continue to actively pursue our commitment to improving the health and wellbeing of the workforce. Our "Culture of Health" team has been focusing on developing workforce wide strategies to promote smoking cessation, fitness, and better nutrition, and reduce stress and drug and alcohol abuse. To support these efforts, we will be introducing an employee health section of our website that offers valuable information and tools to help educate the workforce about health issues and our wellness programs.

With some of the \$400 million of FY 2015 savings recurring next year, along with the full year impact of programs implemented in late FY 2015 and the new programs being planned, we are confident that the FY 2016 goals are also achievable. We have already identified approximately \$624 million of the \$700 million goal for FY 2016.

We know that meeting the more aggressive FY 2017 and FY 2018 goals will require even greater cooperation to implement programs with even more significant impact to bend the health care cost curve. However, we have successfully changed the dialogue between the City and its workforce to one of collaboration and problem solving - resulting in these unprecedented savings that benefit the City, our workers, and all New Yorkers.