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Date: August 3, 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 the Status of Healthcare Savings, Q4 Fiscal Year 2015**

Introduction

We are pleased to report that the City has achieved its first-year goal of saving \$400 million in health care costs in FY15; that all signs point to meeting the goal of \$700 million in savings for FY16; and that we are on our way to meeting our goal of \$3.4 billion in total savings through FY 2019. These savings are being achieved with unprecedented collaboration with the Municipal Labor Committee (MLC) and through a wide range of targeted strategies. In the coming year, we will be rolling out a series of initiatives that will help make our employees healthier and reduce costs across the system.

FY 2015 Savings

As anticipated, we have achieved the full Fiscal Year 2015 goal of \$400 million in healthcare cost savings. All savings are being fully realized by the City through programs that resulted in a lower amount actually paid for services, or from agreement with the Municipal Labor Committee (MLC) to lower the City's equalization payment to the Health Insurance Stabilization Reserve Fund (Stabilization Fund).

There were eight specific strategies that resulted in the \$400 million savings for FY 2015. As the agreement with the MLC stipulated, the savings for these programs were measured against the

City's original budget for FY 2015. The savings amounts are indicated below. Details on these programs were included in the last quarterly report, and are attached to this report as Exhibit A.

1. Funding structure change in the City's GHI Plan - \$58 million
2. Empire Blue Cross Blue Shield reduction of FY 2015 administrative charges - \$4 million
3. Dependent Eligibility Verification Audit (DEVA) - \$108 million
4. Mental Health Parity relief - \$148 million
5. Changes to the Care Management program - \$19 million
6. Specialty Drugs (PICA) Program changes - \$8 million
7. HIP Rate savings - \$17 million
8. Premiums on the City's GHI Senior Care Plan finalized at 0.32% - \$38 million

Data Analysis

One of the most significant deficiencies in the City's previous approach to healthcare cost management was the failure to obtain and merge data from its multiple health plans to analyze and understand the nature of the overall health care utilization and expense.

With the City and the MLC now working collaboratively, one important phase we recently completed was to collect and merge data to identify the drivers of healthcare spending and develop specific initiatives to address the various areas of expense. The preliminary data analysis is being performed by our actuarial consultant, Milliman Inc., and should be completed by the end of August 2015. This analysis will help inform the prioritization of future programs that will improve access to quality health care while bending the healthcare cost curve for the City's health plans.

FY 2016 Savings

The City and the MLC are continuing to work collaboratively to meet the challenge of identifying new savings that bend the health care cost curve, through a broad range of innovative initiatives that will produce these unprecedented savings while enhancing the health of the workforce.

Approximately \$636 million of the \$700 million goal for FY 2016 is already accounted for as a result of recurring savings or increased savings from the programs initiated in FY 2015. These savings include those derived from the change in the funding structure, the Dependent Eligibility Verification Audit, changes to the Care Management program, changes to the Specialty Drug contract and program, HIP rate savings and GHI Senior Care savings. We are confident that the full FY 2016 goal of \$700 million will be achieved as a result of the many new programs being planned for this fiscal year.

There are several important new initiatives that are being implemented or are under development for FY 2016 that will deliver the balance of the savings goal for the year and set the stage for further expanding FY 2017 and FY 2018 savings. Many of these key initiatives are designed to more aggressively bend the cost curve for New York City's employee health spending by promoting more appropriate health care utilization.

These programs include:

Opt-Out Incentives

The City could gain significant savings if more employees opted out of the City's health plans and selected other coverage made available to them. The current opt-out provision in the City's plan pays \$500 for an individual and \$1,000 for a family annually for employees that voluntarily select other coverage. Fewer than 2% of active employees currently select this option. We have been studying the potential impact of increasing the existing incentives for active employees to encourage more of them to select other forms of available coverage. We are carefully analyzing our data to determine the optimal incentive amounts to offer that will help secure additional savings.

Reducing Emergency Room Utilization

Many issues that lead to expensive emergency room visits can be better treated in other settings that encourage the use of preventative care and other alternatives. This can be enabled through a multi-pronged approach, including changes in employee copays for emergency room services to lead to more appropriate health care choices, improved access to urgent care centers, access to an online appointment service that provides immediate appointments with in-network primary care providers and specialists, and 24-hour telephone and online access to physicians.

Expanded Care Management Programs

The City recently published an RFP seeking new vendors and enhanced care management programs. New programs under consideration include expanded chronic disease management programs and new pre-authorization requirements for outpatient surgical and radiology procedures. These programs are anticipated to go into effect January 1, 2016 and will significantly expand on the care management savings realized in FY 2015.

Diabetes Case Management Program

Diabetes is a growing epidemic in the United States: nearly 30 million people have diabetes. Patients diagnosed with diabetes can prevent serious complications by carefully managing their disease. To help our employees who are diabetic, beginning July 1, 2015, 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. An outreach letter was sent to the first wave of potential enrollees; several hundred employees have already enrolled in the program.

24 Hour NurseLine Program

Access to quick and low-cost medical advice will be an important factor in reducing more expensive alternatives. The 24-hour NurseLine program, currently offered to all City employees covered by the CBP plan, provides around-the-clock access to registered nurses for patients with symptoms or health questions. This valuable program has not been well publicized and, therefore, has had minimal utilization – so the City is implementing a plan to publicize the availability of the program.

Flu Shot Program

Flu shots are an important preventative step to reduce more costly ER and doctor visits. The free flu shot program, which began for employees last year, will be offered again beginning in September 2015. This year it will be expanded to include covered dependents and pre-Medicare retirees. Flu shots will be offered at no cost to employees at participating worksite locations, as well as at physician offices and participating pharmacies throughout the City. We hope to substantially increase the number of people getting the flu shot in general, and especially at participating worksite locations.

Identification and Promotion of New and Innovative Health Care Delivery Models

Working with the MLC, our health plans, and providers, the City is exploring new models of more efficient and less costly care delivery, including:

- Accountable Care Organization (ACO) programs, in which selected hospital and provider groups would accept risk and provide access to better coordinated care
- Tiered networks to promote the use of providers that have demonstrated quality and cost effectiveness by providing financial incentives to employees to use qualified providers
- Centers of Excellence for transplants, radiology, dialysis, behavioral health, and other high-cost care
- Providing financial incentives for employees to use primary care based “medical home” facilities.

Promoting a Healthier Workforce in FY 2016 and Beyond

An important component of the overall approach to health care cost savings involves helping our workforce get healthier and stay healthier. To that end, we have been working on a number of different approaches to health and wellbeing. Several new programs are going into effect in FY

2016 that will advance an improved and sustainable “Culture of Health” among the workforce, and many other approaches are in the exploratory stage:

Diabetes Prevention Program

As many as one in three people may be pre-diabetic. The Centers for Disease Control (CDC) has demonstrated that people can delay and often prevent the onset of Diabetes using a regimen of modest lifestyle changes in diet and exercise, called the National Diabetes Prevention Program (NDPP). The NDPP is offered around the City by a number of community based organizations but is typically costly for individuals to attend.

The City is rolling out a worksite-based approach to the NDPP and has begun a free worksite program at selected agencies. The first of these worksite initiatives began at the Department of Environmental Protection (DEP) in Queens in June. In conjunction with this new initiative, the City will also be piloting free online classes with the same CDC-authorized curriculum for employees who prefer that. We hope that these new initiatives will establish that both the worksite and online methods of delivery provide valuable prevention support to our employees, and we can support authorizing our health plan providers to cover the full costs of the NDPP in the community, at worksites, and online.

Weight Control, Nutrition, and Fitness

We are examining a number of different programs and approaches to address fitness, weight control, and obesity. We are working on a potential demonstration project to offer weight control classes for employees. We are also working with the NYC Parks Department to offer their “Shape Up” classes at worksite locations.

Smoking Cessation

We are working with the NYC Department of Health and Mental Hygiene to expand outreach of their smoking cessation program for City employees.

Employee Health Website

OLR will soon be introducing a new look to its website, including an Employee Health and Wellbeing section that contains valuable information and tools to help maximize access to appropriate healthcare and educate the workforce about health issues and the City’s health and wellbeing programs.

We are pleased that the first fiscal year of the health care cost savings initiative was successful, both in reaching the initial savings goal and in creating a more collaborative approach between the City and its municipal unions in this important effort. We believe this successful partnership will continue to meet -- and potentially exceed -- the savings targets for the upcoming fiscal years.

EXHIBIT A

FISCAL YEAR 2015 HEALTHCARE COST SAVINGS PROGRAMS

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 lower 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" - \$148 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 - \$19 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 and are expected to produce even more significant results in 2016.
6. **Specialty Drugs (PICA) Program Changes - \$8 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 took effect May 1, 2015.
7. **HIP Rate Savings - \$17 million**
Based on historical trends for the last 15 years, projections estimated a 9% 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**
The 8% increase budgeted for Senior Care premium increases for FY 2015 was finalized at 0.32%.

TOTAL FISCAL YEAR 2015 HEALTHCARE COST SAVINGS = \$400 MILLION