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New York City Council Committees on Finance, Civil Service and Labor

Testimony by Robert Linn, Commissioner, Mayor's Office of Labor Relations

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Introduction and Overview

Good morning Speaker Mark-Viverito, Chair Ferreras, Chair Miller and members of the Finance and Civil Service and Labor Committees. Thank you for the opportunity to testify here today.

I am joined at the table by Claire Levitt, the Deputy Commissioner for Health Care Cost Management and Ken Godiner, Associate Director of the Office of Management and Budget.

There has been a lot of confusion around the healthcare savings – so I truly welcome being here today to present this information to you. I want to point out that the nature of successful collective bargaining is not to discuss things publicly until there has been both agreement between the parties and approval by the membership – and this is made so much more complicated when you have 144 different unions and their diverging opinions represented in the Municipal Labor Committee.

As you know, the City and its municipal unions embarked last year on an unprecedented four year agreement to achieve \$3.4 billion dollars in guaranteed cost savings aimed at

bending the cost curve for New York City's health care programs. This is the result of changing the dialogue from one of confrontation and deadlock to collaboration and problem solving --- and it's great news not just for the City and our workforce, but for NYC taxpayers and our long-term fiscal health.

We are here today to report on the successful progress of the Municipal Labor Committee and the City towards meeting these goals in the first three quarters of fiscal 2015, and our plans for the future. In fact, we have released today our latest report detailing the \$400 million in savings secured for FY15, which I will discuss shortly.

Let me start by putting the labor - management healthcare efforts in the broader context of the de Blasio administration's collective bargaining negotiations.

When Mayor de Blasio took office in January 2014, every single contract with municipal workers had expired. In a little over a year, we've reached agreement with 76% of the workforce, both civilian and uniformed.

The administration from the very beginning was committed to a respectful and collaborative labor management program that solved the massive collective bargaining failure that we inherited, in a manner that was both fair to the workers and accepted as fiscally prudent by the financial monitors. In fact – all the agreements we have reached were ratified by the union membership by overwhelming majorities and have been universally applauded by the City's fiscal monitors as both prudent and solving a huge budgetary risk. For example, Standard and Poor's stated that with the labor pattern established last year, *"The City now has an element of certainty in its financial plan that it lacked in the past, when labor settlements and associated wage and benefit increases were unknown"*.

As part of that agreement, the administration committed to solving the intractable healthcare cost containment impasse that had developed in NYC for over two decades.

For the last two decades, while health care costs skyrocketed and employers all over the country adapted their programs, NYC did little to modernize its programs. City labor agreements require the City and the unions, represented by the Municipal Labor Committee, to agree on any changes to the health benefit plans. Collective bargaining strife precluded reaching agreement over the challenge of rising health care costs, even as it became standard operating procedure for public and private employers to modernize their benefit programs.

The City of New York Administrative Code calls for the City to pay health insurance for all City employees and pre-Medicare retirees and families at the HIP HMO rate. This made a lot of sense historically when HMOs were considered to be the most cost efficient model of health care delivery with the lowest rates. In 1984, the City committed 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. This purpose was to provide funds to equalize the gap between the HIP HMO and the GHI PPO rates and allow employees freedom of choice between an HMO and a PPO, with both remaining free to employees at the equalized rates. What was never anticipated in 1984 was that the HIP HMO rate would become far higher than the rate for the GHI PPO Plan and remain higher, as it has since 2001. That obligated the City to make substantial annual payments to the Stabilization Fund and as a result, at the beginning of fiscal year 2015, the Stabilization Fund had accumulated over \$1.7 billion dollars.

Meanwhile, in just the past ten years, the cost of providing health benefits to the New York City workforce doubled. In 2011, the Affordable Care Act further changed the landscape, requiring all employers to offer health care coverage with an expanded list of requirements like extending dependent child coverage to age 26, which was estimated to cost the City an additional \$65 million per year. These new requirements provided important protections for consumers and employees but the additional cost was also borne entirely by the City.

Attempts by prior administrations to have the workforce share in the costs for coverage resulted in arbitration and litigation, which the City would typically lose as a result of the collective bargaining agreement. In 2013, the year before Mayor de Blasio took office, an attempt by the City to unilaterally go out to bid for a new health plan ended in litigation by the MLC and forced a retraction of the RFP by the City.

The de Blasio administration would not conclude its new labor agreements without addressing the critical issue of healthcare cost containment. And last May under this Mayor's leadership we achieved an unprecedented agreement with the municipal unions.

First, \$1 billion dollars was released from the jointly controlled Stabilization Fund to cover part of the City's cost for the collective bargaining agreements.

Then we secured an agreement to have labor and management work together to generate cumulative health savings of at least \$3.4 billion over the four fiscal years 2015 through 2018. By agreement, the plan did not specify exactly how the health care savings were to be accomplished, only that it would be done by a collaborative collective bargaining effort between the City and the MLC aimed at bending the health care cost curve.

So, in addition to the \$1 billion which the City received from the Stabilization Fund, the four year plan is scheduled to secure \$3.4 billion in healthcare savings -- at least \$400 million for fiscal year 2015, \$700 million for fiscal year 2016, \$1 billion for fiscal year 2017 and \$1.3 billion for fiscal year 2018.

The \$3.4 billion is guaranteed by an arbitration process that will occur if the goals are not met. But the agreement with the MLC also stipulates that if the savings exceed the \$3.4 billion minimum, the first \$365 million of excess savings will go back to the workforce in a bonus payment – essentially a 1% bonus for the entire NYC workforce. If there are additional savings beyond that, the excess will be split between the City and the workforce 50/50. This innovative gain-sharing approach aligned labor and management's motivation to work

together and fundamentally changed the labor-management dynamic around the common objective of identifying health care savings. The bargaining over the specifics of the savings approaches has been taking place in a collegial and cooperative framework. By sharing a common goal where we will all participate in the benefits of a positive savings outcome, we've moved the dialogue with the unions from one of confrontation and deadlock to one of collaboration and partnership that truly benefits the City, our workers, and NYC taxpayers.

So I want to take a moment here to recognize the efforts of all of the MLC unions and their leadership in this regard, especially Harry Nespoli, President of the Sanitation Workers Union and Chairman of the Municipal Labor Committee, along with Arthur Pepper of UFT and Willie Chang of DC37, the co-chairs of the Labor Management Health Insurance Policy Committee. Their leadership and willingness to work with us to achieve our health care savings goals has helped transform our vision into reality. The groundwork that has been accomplished in less than a year creates real momentum toward the four year \$3.4 billion health cost savings goal -- and even the excess savings required to generate the shared component of the savings.

To lead the savings effort, the City created the position of Deputy Commissioner for Health Care Cost Management - a position that is focused on the issue of managing health care costs, and it speaks to how differently this administration is approaching the challenge. Since the moment Claire arrived about six months ago - she has been 100% dedicated to making this unique labor agreement successful and I wish to offer my appreciation for all she has accomplished so far. She comes to us from a background in both labor and health insurance, having formerly been a Trust Fund Administrator for a large labor-management fund and President of a Care Management company. Her approach to pursuing savings has been in the context of the "Triple Aim" - simultaneously improving the health of the population, enhancing the patient experience and outcomes, and thereby reducing the per capita cost of care. Working within the philosophy that improving care goes hand in hand with

generating savings, has also helped transform labor management contention into cooperation.

So here we are less than one year after this agreement was reached and I am pleased to report that we will meet the \$400 million dollar savings goal for the first fiscal year of the new agreement. The current and future savings initiatives align with four different approaches we have adopted.

First, we aggressively attacked rates on all fronts --both 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 Stabilization Fund.

There have been eight specific strategies that resulted in the \$400 million savings for FY 2015:

We are releasing our third quarter fiscal year 2015 report today with detailed information on how we will achieve the savings. So, let me take you through the details now.

Fiscal Year 2015 Savings Detail

As you know, the savings are measured against the original 2015 -2018 budget projections, a quantifiable and logical metric for determining the savings. As we take you through a brief

description of each of the initiatives that have already been implemented, it's important to appreciate that as many of them were implemented late in the 2015 fiscal year, they will have even greater financial impact in FY 2016. What's most important is that we are setting the stage for the future with many programs that will have recurring financial impact year after year.

- At the start of fiscal 2015, we changed the funding structure of the GHI medical plan, the plan which covers about 75% of the workforce for medical coverage. We changed from a fully insured program where all the risk was with GHI – something we paid more for -- to what's called a minimum premium plan arrangement. This results in significantly lower risk charges, lower administrative fees and positive tax implications, reducing the City's costs by **\$58 million** this year with minimal additional risk.
- On hospital coverage, we negotiated a reduction of **\$4 million** this year in Empire Blue Cross's administrative fees.
- To ensure that all health premiums reflected an accurate headcount, we went through an extensive audit to verify whether all dependents listed for City employees and retirees were actually eligible. As a result, there were about 14,000 contract conversions such as changing from family coverage to individual coverage where significant savings were realized by paying the far lower health premiums for an individual. Total savings from this program is projected to be **\$108 million this year**.
- In 2011, the City's plans became subject to the new federal Mental Health Parity requirements, which mandate that mental health benefits be equal to medical benefits. The last administration unilaterally concluded that the

difference should not be counted in the HIP rate used for determining the equalization payment. The MLC filed for arbitration in July 2013. In October 2014 an arbitration panel ruled that the City had to include the costs of mental health parity in the HIP rate that was used to calculate equalization -- obligating the City to pay **\$153 million** to the joint stabilization fund for 2011 – 2015. However, the Municipal Labor Committee agreed that the entire cost of this \$153 million could be retained by the City to meet part of the FY 2015 health care savings obligation. This took a previously contentious collective bargaining issue and turned it into a win for the health savings program.

- To help control costs for hospital admissions, the City has had a hospital preauthorization program in place since 1992. However, it hadn't been updated since that time. Recognizing that more than 50% of all health care expenses are incurred by only about 5% of the population, and that 1% of the population is responsible for over 20% of the spending, it is common today in most labor and public and private sector programs to assign nurse case managers to assist patients with severe, high cost medical conditions. These care coordination programs not only save money but provide much needed assistance to employees and their families facing significant illness and hardship. So beginning March 1, 2015, the existing pre-authorization program was enhanced to provide a more timely and comprehensive review of hospital admissions, and to provide nurse case managers for all patients with complex acute and chronic conditions, providing much needed assistance to employees, dependents and retirees with severe medical conditions. This will include patients with cancer, high risk maternity situations, transplants, HIV, and other conditions. In addition, a re-admission management program is being implemented to help ensure that patients have the services they need

when they are discharged from the hospital in order to prevent unnecessary readmissions. These programs are going into effect late in the 2015 fiscal year and the savings are about **\$15 million** in fiscal 2015. However, they are expected to produce savings of \$50 million or more in 2016. In fact, substantial savings guarantees are being provided by the vendor. In addition, since the current program had not been competitively bid for many years, the RFP will potentially allow us to use new vendors and new approaches to even further enhance our savings. This is a change that we expect to have significant impact on bending the health care cost curve, while providing needed support to our employees with extreme medical needs.

- Another area of significant focus for health care cost increases is prescription drugs. Although the individual union welfare funds provide the basic drug coverage for union employees, the City provides coverage for specialty drugs – like biologics and injectable drugs. This is an area of extraordinary – and growing - cost. We renegotiated provisions of the specialty drug program to deliver substantial savings to the City. In addition, certain cost management provisions -- such as additional preauthorization and drug quantity management programs -- were added to enhance savings. Some changes took effect January 1, 2015 and others will take effect on May 1, 2015. The FY 2015 savings are **\$7 million**, and the FY 2016 savings will grow to about \$19 million.
- As discussed, the costs of the City's health care contribution for employees and pre-Medicare retirees is tied to the rate approved by the state for the HIP HMO. We vigorously disputed the rate increase requested by HIP for FY 2016 and we were successful at getting the HIP rate to be approved at only 2.89%.

The budget prepared for fiscal years 2015 through 2018 assumed a 9% increase in the HIP rate each year, based on clear historical trends. This difference, as a result of the City's advocacy, will result in significant savings for FY 2016. The FY 2016 rate even has a modest impact on FY 2015 costs due to one agency with a different fiscal calendar, resulting in **\$17 million** in FY 2015 savings.

- Likewise, the Senior Care premium rate increase for FY 2015 that was originally budgeted at 8% was finalized at 0.32%. That results in another **\$38 million** of savings in FY 2015.

The impact of all these programs will generate the full \$400 million savings in FY 2015 and set the foundation for the greater savings required in the future years of the agreement.

As part of our cost containment efforts, we are also looking at ways to combat some of the specific diseases that impact New Yorkers. Diabetes affects about 29 million people in the US and about more than a quarter of them don't even know it. It is the 7th leading cause of death in the country. We know that many of our employees are living with the profound health impact of diabetes. To help address this problem, we are implementing a case management program that specifically provides special support for patients with diabetes. This program is in the implementation phase and will start up July 1, 2016. Savings of at least \$3 million in FY 2016 are being guaranteed by the vendor.

Finally, we are also implementing a program sponsored by the Centers for Disease Control aimed at preventing or delaying the onset of new cases of diabetes. Over a third of the population is thought to have pre-diabetes and are at risk for developing diabetes. The Pre-

Diabetic Prevention Program helps to identify people potentially at risk for diabetes and assists them in learning strategies to prevent the onset. Simple lifestyle changes have helped many people prevent or delay the onset of this disease. We plan to offer worksite programs as well as online programs to reach the widest number of employees and their families.

Creating a Culture of Health and Wellness for the Workforce

Unlike many other major cities, New York has not implemented any workforce wide wellness initiatives. So, we are looking at piloting a number of programs to encourage fitness, promote better nutrition, combat obesity, promote smoking cessation and reduce stress for the city's workforce. Many of these approaches won't have quantifiable savings we can specifically measure in the next year or two, but are a long term strategy to improve the health of the population and thereby reduce long term health care costs. 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 is not only the right thing to do but also can have significant future cost savings implications. To support these efforts, we are going to be introducing an Employee Health section of the OLR website this summer that will provide valuable information and tools to help educate the workforce about health issues and our wellness programs.

The first health and wellness effort was the Citywide Flu Shot Program last Fall which provided free flu shots to all city employees and increased access by making the shots available at worksites and pharmacies as well as physician offices. With the support of Harry Nespoli and the Sanitation Workers Union, as well as Dr. Mary Bassett and the Department of Health, the program was kicked off at 5 am in a Sanitation garage in the Bronx last November where I was among the first recipients of the flu shot. The program resulted in 10,000 flu shots in November and December alone. Plans are already underway to begin the next year's flu shot program early in September 2015 to maximize its impact.

Ongoing Savings in FY16 and Beyond

As I noted before, many of the FY 2015 programs will have even greater impact once they have been in place for a full year in FY 2016, setting the stage for meeting and possibly exceeding the FY 2016 goal of \$700 million in savings. I'll briefly walk through how the successful 2015 initiatives will carry over to 2016.

- The funding structure change to the City's GHI Plan to a minimum premium plan which saved \$58 million in FY2015, is projected to save **\$60 million** in FY 2016.
- The Dependent Eligibility Verification Audit (DEVA) which saved \$108 million in FY 2015 is projected to save **\$115 million** in FY 2016.
- The changes we've made to the Care Management program that will generate about \$15 million in savings in fiscal 2015 are projected to save about **\$50 million** in Fiscal 2016.
- Changes we made to the Specialty Drugs (PICA) Program in FY 2015 that are expected to save \$7 million in FY 2015 are projected to save **\$19 million** in FY 2016.
- The HIP Rate reduction that is generating \$17 million in revenue to the City in FY 2015 that would have otherwise been paid into the stabilization fund for all active employees in the GHI plan will generate \$335 million in savings for active employees and pre-Medicare retirees in FY 2016. The lower GHI Senior Care rate that is saving \$38 million in FY 2015 will save **\$42 million** in FY 2016.

- And finally, the Diabetic Management Program being implemented for July 1, 2015, is guaranteed by the vendor to save a minimum of **\$3 million in FY16**.
- So, overall we expect already agreed-upon initiatives to generate as much as **\$624 million** towards the 2016 savings goal of \$700 million, putting us well on the way to meeting or even exceeding the FY 2016 goal.

Future Plans for Fiscal Years 2016 and 2017

While we are already well on the way to meeting the FY 2016 goal, we are also actively working in partnership with the unions to explore many new programs under consideration for FY 2016 and 2017. It's important to keep in mind that this is an ongoing process, one that is essentially an extension of collective bargaining. So it's too early to say yet which of these programs will be adopted, or how much the savings could potentially be. But by reviewing the types of programs we are exploring to bend the health care cost curve, we can give you an idea of the breadth and depth of the approach the City and the MLC are devoting to this effort.

- We are exploring strategies to reduce unnecessary emergency room utilization by increasing access to urgent care centers and primary care physicians. A few initiatives we're looking at include access to telephonic physician appointments, the ability to make on line appointments, and access to the 24 hour Nurse Line. We are also considering potential changes in copays to help lead to more appropriate health care choices -- so for example, we might consider raising the emergency room copay but lower the primary care copay to incentivize people to avoid unnecessary emergency room visits.

- We are looking to work with alternative health care delivery models like accountable care organizations and patient centered medical homes that emphasize a primary care focus. These models can provide access to the highest quality care and the best services for our workforce, especially those most at risk. With these models, the providers of care may assume some or all of the financial risk for patient outcomes.
- Having taken the step from a fully insured program to minimum premium funding, we plan to explore whether self-insuring the plans to further reduce risk charges and taxes is a viable option. Typically even plans much smaller than the City's will utilize self-funding as the least expensive option.
- We are looking at the possibility of expanding the pre-authorization requirements to include outpatient procedures like surgery and radiology to ensure that the city's workforce is getting the most medically appropriate care in the most appropriate environment. Most employers in the country adopted similar measures long ago.
- We are looking into the City's behavioral health program and exploring alternatives to improve access and quality of care. In keeping with First Lady Chirlane McCray's emphasis on improving access to mental health care, we want to be certain that our employees have the best quality mental health care, along with the best quality medical care.
- We are looking at potential changes in our opt-out program including the possibility of enhancing the existing incentives for employees and retirees with

other coverage to opt out of the City's programs. Since the Affordable Care Act mandated that most employers have to provide health coverage, many of our employees' spouses and partners have other coverage from their employer, but opt for the City's coverage because there is no premium contribution. Likewise, many of our early age retirees take positions with other employers that provide health coverage but opt for the City's coverage because there is no premium contribution. We want to look at ways to encourage selection of other coverage when it is available and appropriate.

- For our retiree population, we are also looking at expanding Medicare Advantage program options, which can potentially provide even better coverage to retirees while capping costs for the City.

Conclusion

Looking towards the FY 2017 and 2018 goals, we are committed to continuing the work with the MLC to identify the right programs to improve the patient care outcomes, improve the health of the workforce, and meet our cost savings goals. We know that meeting the savings goals will require even more cooperation on everyone's part. However, building on the great success of the first year's efforts, we believe we are on track to meet and hopefully exceed the \$3.4 billion healthcare cost savings goal. We are enthusiastic about potentially sharing savings with the workforce, along with our work to improve the quality of care and the health of our workforce. The collaborative environment in which we are doing our work with the MLC helps to support our optimism about meeting our goals without having to resort to arbitration.

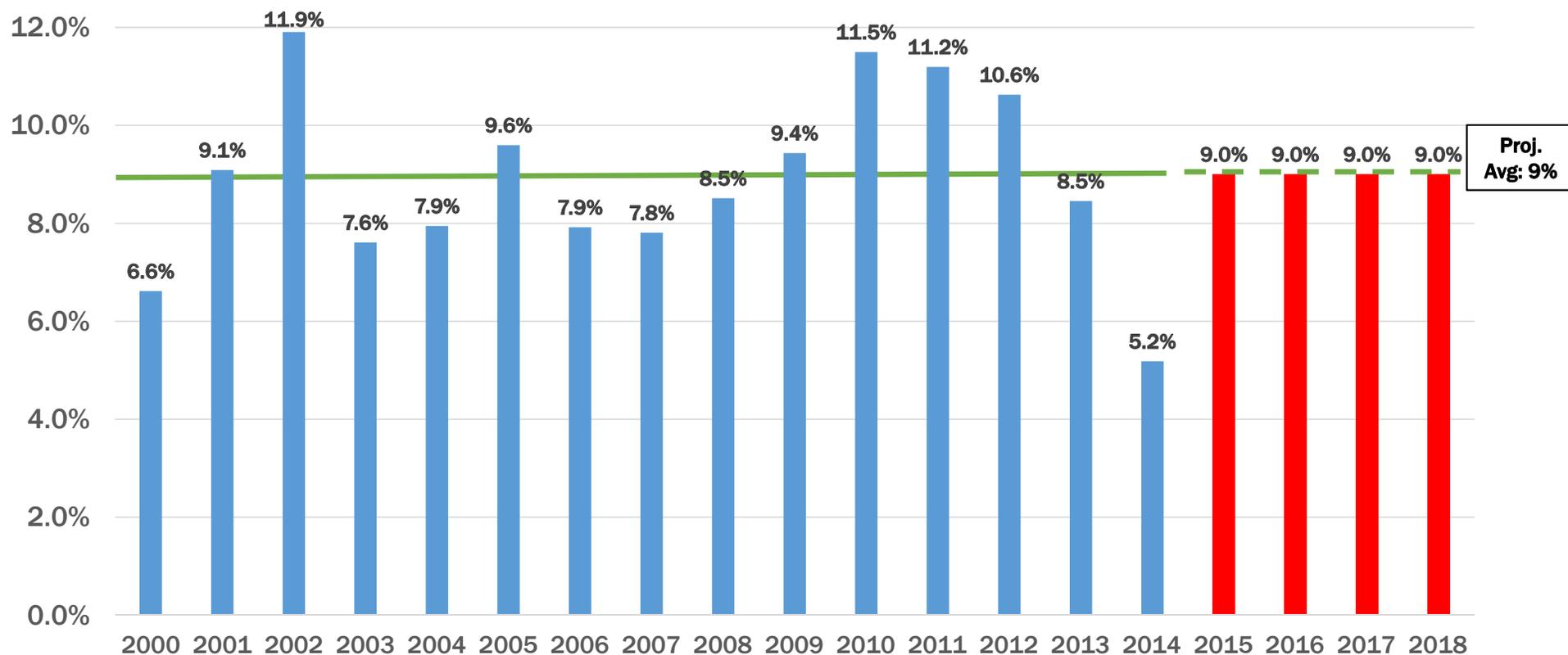
To keep all the stakeholders informed, we intend to continue to issue quarterly updates as we move forward and we would be happy to come back to this Committee whenever

requested. We will continue to be transparent with the Municipal Labor Committee, the City Council and the public in our approach to meeting our healthcare cost savings goals.

Thank you again for the opportunity to testify on our progress. At this time, we will take any questions from Committee members.

Table 1

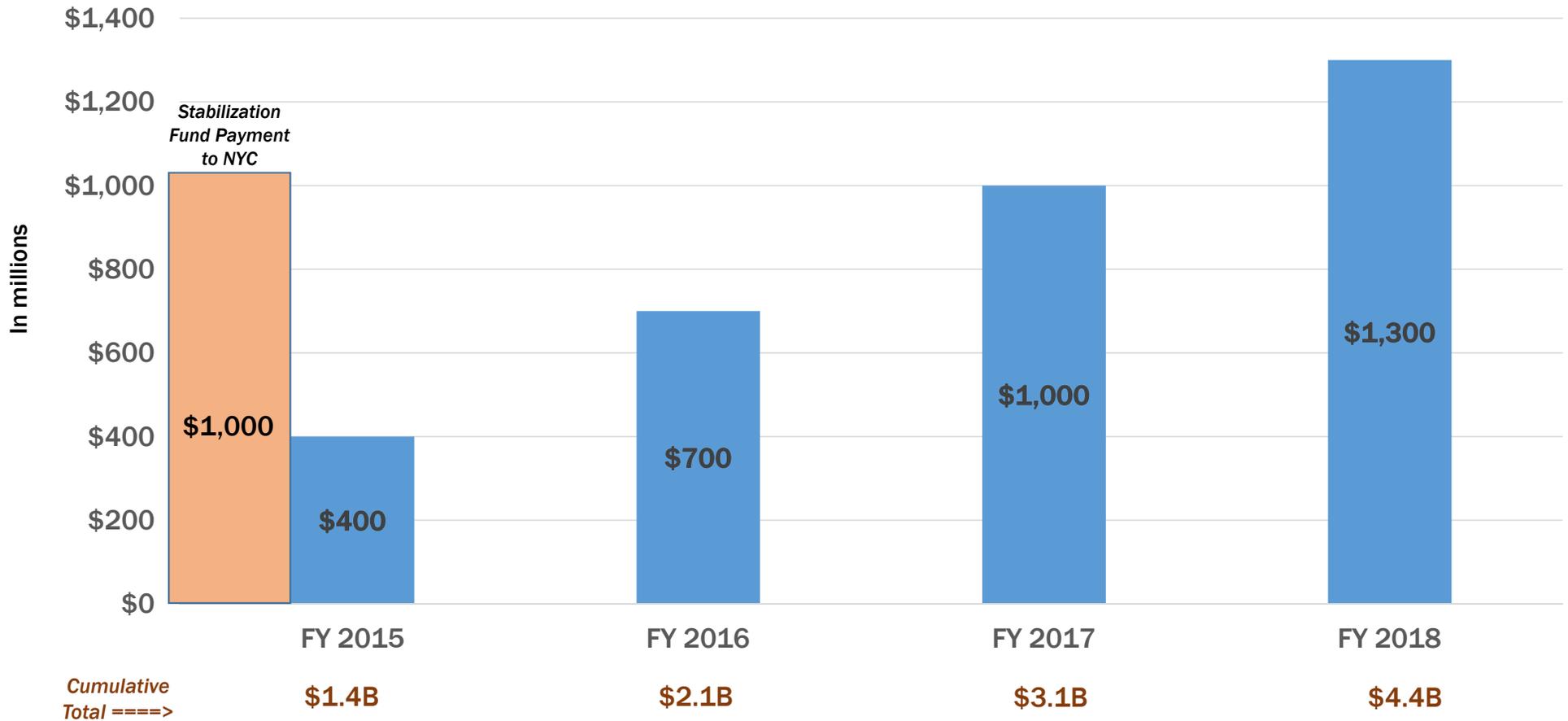
The projected fiscal 9% growth for the HIP HMO rate was a prudent growth factor.
The average fiscal year growth rates were 9.4%, 9.0% and 8.9% for the most recent 5, 10 and 15 years respectively



Data Source: OMB

OLR Testimony to New York City Council, April 1, 2015

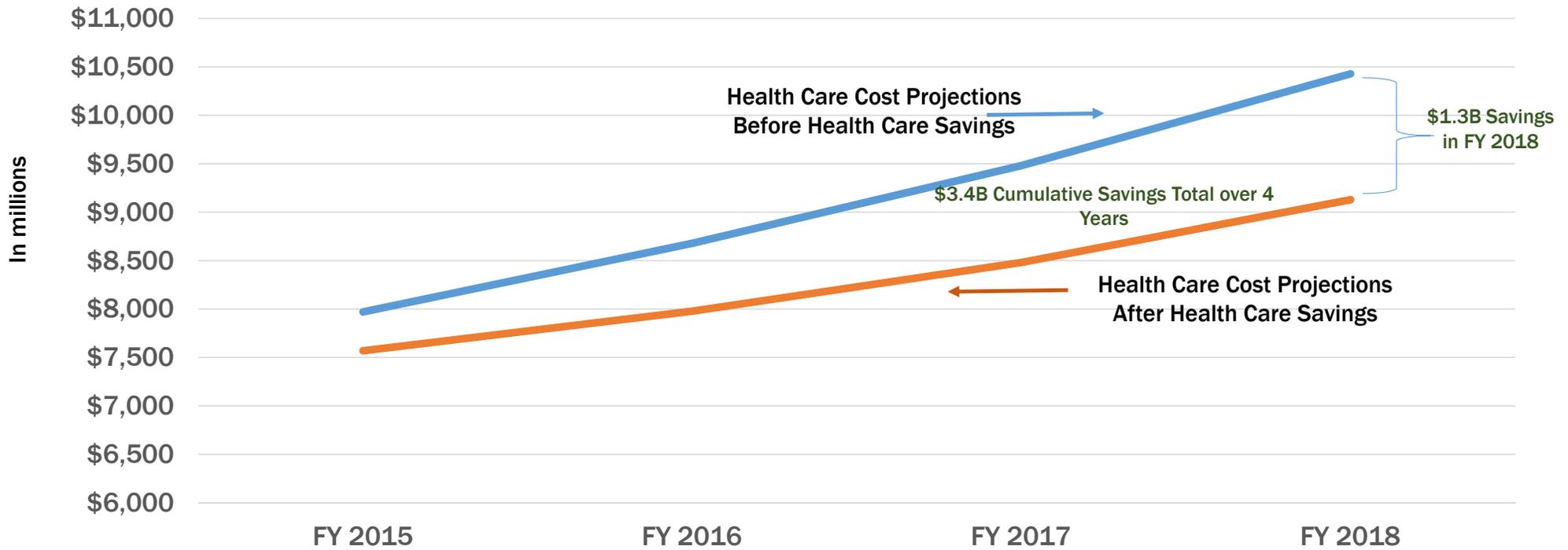
The MLC Health Agreement of May 5th, 2014 saves \$4.4 billion:
 \$3.4 billion in healthcare spending reduction from FY 2015 through FY 2018
 \$1 billion from the Health Stabilization Fund in FY 2015



Data Source: MLC Health Agreement, May 5, 2014

OLR Testimony to New York City Council, April 1, 2015

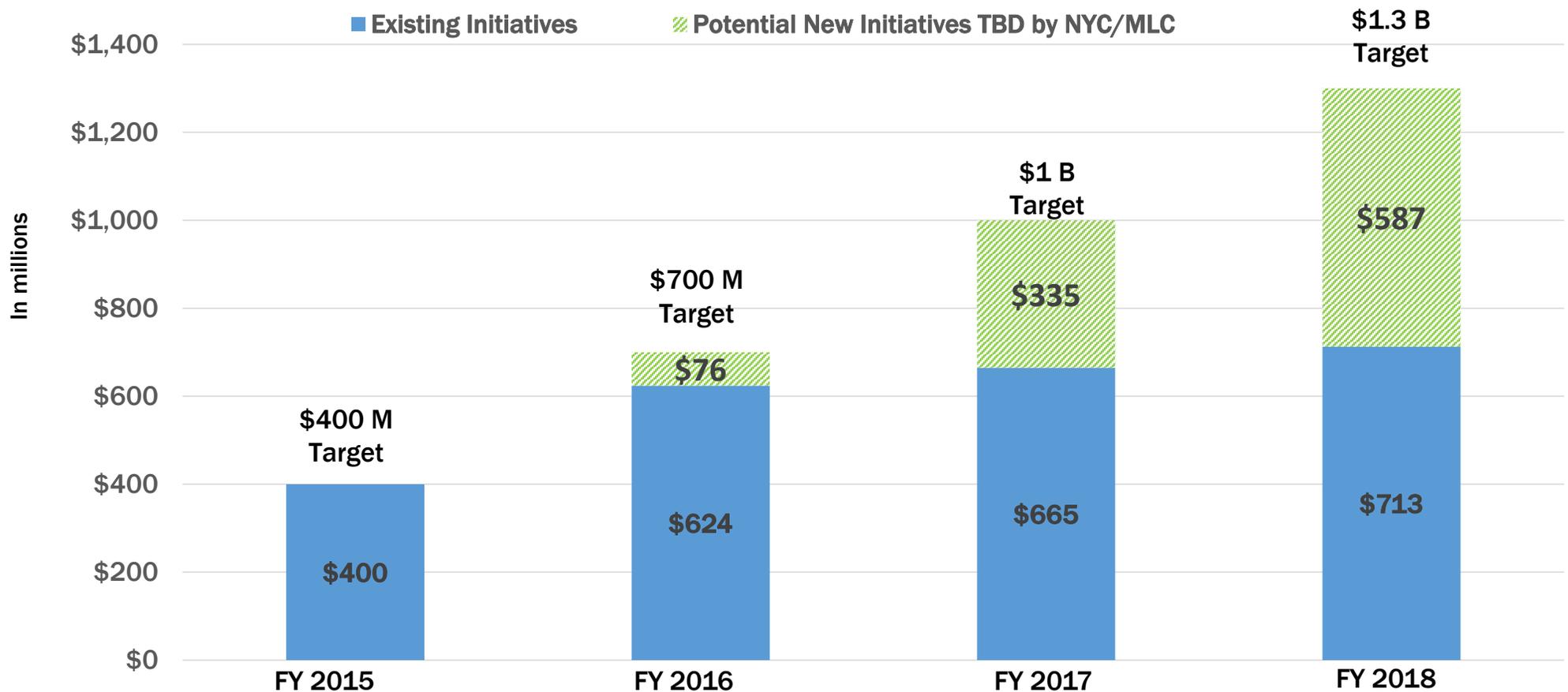
Working collaboratively with the Unions, the City will save \$3.4 billion in healthcare costs from FY 2015 to FY 2018



Data Source: Jan 2014 Financial Plan projections supplemented with estimates for independent City agencies; savings per MLC Health Agreement of May 5, 2014

OLR Testimony to New York City Council, April 1, 2015

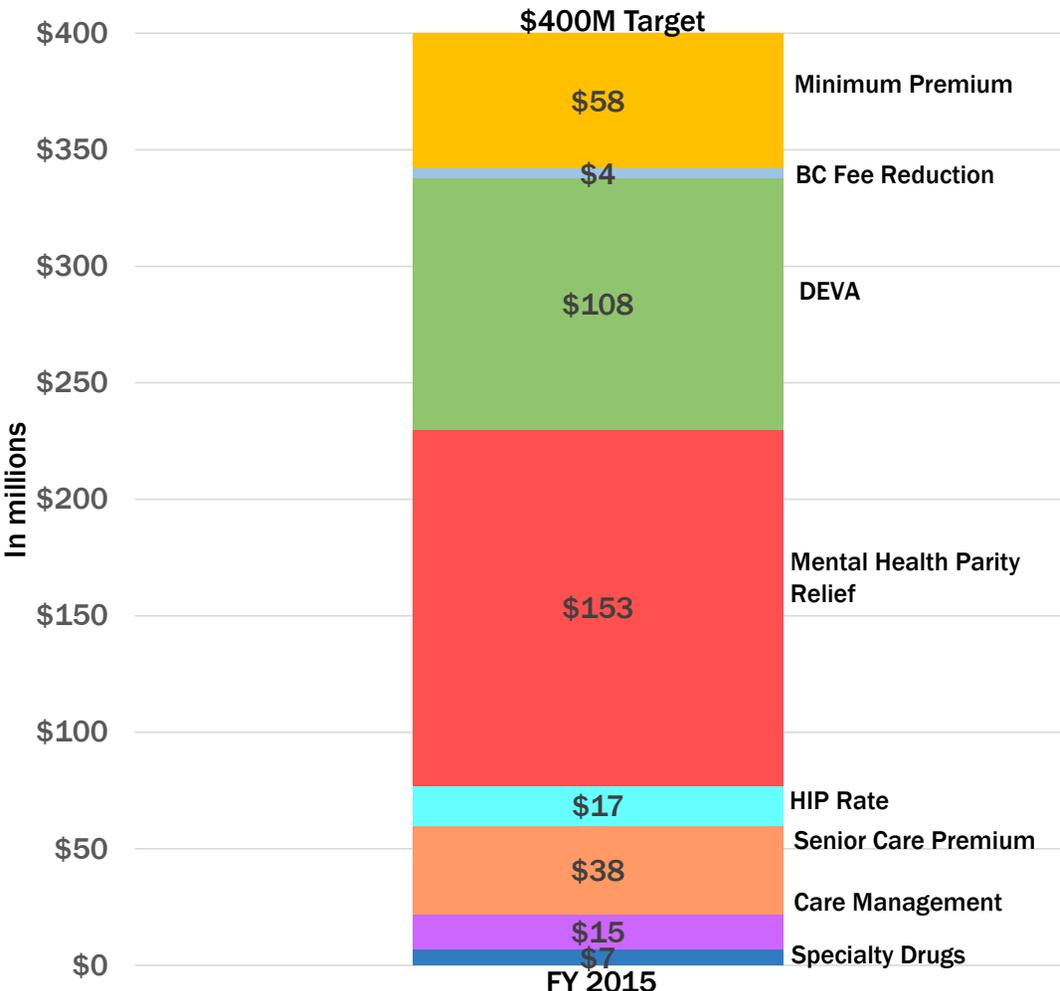
Achieving the \$3.4 billion savings:
 The City and the MLC have already identified initiatives to meet the \$400 million savings goal in FY 2015 and have identified close to \$2 billion in healthcare savings in FY 2016 through FY 2018



Data Source: OLR Estimates, March 2014

OLR Testimony to New York City Council, April 1, 2015

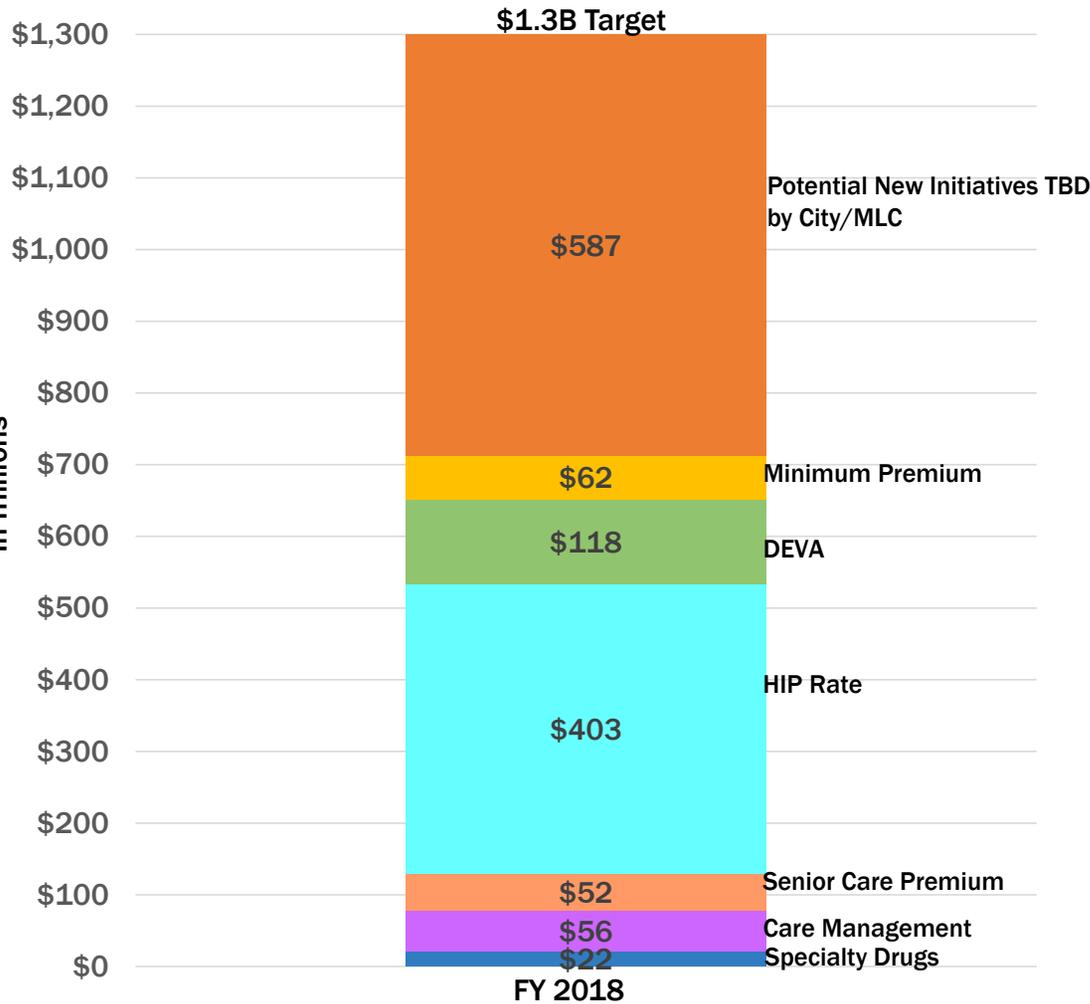
**FY 2015 Savings Comprised of Eight Healthcare Savings Initiatives in Four Categories:
Audits, Fee Reductions, More Efficient Health Care Delivery and Population Health**



- **GHI Minimum Premium Plan:** Conversion from a fully-insured plan to a minimum premium arrangement with lower risk charges, lower administration fees and positive tax implications
- **Blue Cross (BC) Administration Fee:** Reduction in carrier's administration fee for hospital coverage
- **DEVA:** Audit of dependent eligibility for coverage and associated savings from conversion of family to individual health contracts
- **Mental Health Parity Relief:** Union agreement to lower payment to stabilization fund resulting from mental health parity arbitration decisions
- **HIP Rate:** Lower rate increase of 2.89% (vs. 9% budgeted)
- **Senior Care Premium:** Lower rate increase of 0.32% (vs. 8% budgeted)
- **Care Management:** Lower health costs from enhanced care coordination – more timely and comprehensive review of hospital admissions, advanced case management, and readmission management
- **Specialty Drugs:** Renegotiated savings and cost containment provisions such as utilization management and drug quantity management

Data Source: OLR Estimates, March 2014

The existing savings from FY 2015 is expected to grow to a larger amount in FY 2018. However, a large part of the FY 2018 savings would be from *new initiatives* to be jointly decided by the City and the MLC



Potential New Initiatives to be Decided by the City/MLC

- Reduce emergency room utilization
- Wellness programs
- Opt outs
- Medicare Advantage programs
- Self-funding
- New pre-authorization programs for outpatient procedures
- Promotion of primary care initiatives
- New health care delivery models such as ACOs
- Other

GHI Minimum Premium Plan: Conversion from a fully-insured plan to a minimum premium arrangement with lower risk charges, lower administration fees and positive tax implications

DEVA: Audit of dependent eligibility for coverage and associated savings from conversion of family to individual health contracts

HIP Rate: Lower rate increase

Senior Care Premium: Lower rate increase

Care Management: Lower health costs from enhanced care coordination – more timely and comprehensive review of hospital admissions, advanced case management, and readmission management

Specialty Drugs: Renegotiated savings and cost containment provisions such as utilization management and drug quantity management

Data Source: OLR Estimates, March 2014