THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 •EMAIL: iboenews@ibo.nyc.ny.us
http://www.ibo.nyc.ny.us

Testimony of Jonathan Rosenberg
Director of Budget Review, New York City Independent Budget Office
To the New York City Council Committee on Civil Service and Labor
Regarding Changes to Municipal Retirees' Healthcare Plan

October 28, 2021

Good afternoon Chair Miller and members of the Committee on Civil Service and Labor. I am Jonathan Rosenberg, Director of Budget Review at the New York City Independent Budget Office (IBO). Thank you for the opportunity to testify today regarding the recent agreement to alter the city's health plan for retirees. This change has been presented as a source of savings for the city budget with little or no negative effect on retirees' health care. In IBO's assessment, which focuses on the budget effects, shifting the city's retiree health coverage from traditional Medicare and Medigap coverage to Medicare Part C, (referred to as the Medicare Advantage Plus plan) provides the city with no actual budgetary savings.

The planned change would free up nearly $600 million annually, as the retiree health expenses formerly borne by the city are instead covered by the federal government. However, none of this savings will accrue to the city. As a result of agreements made by the city with the Municipal Labor Committee (MLC), an umbrella organization representing the city's unionized workforce, all of the savings resulting from ending the city's financial support for Medigap insurance will be contributed annually to the Joint Health Insurance Premium Stabilization Fund. The assets of this fund, controlled jointly by the administration and the unions, are used for a variety of purposes including the funding of unions' welfare fund benefits, including the PICA Drug Program, Teladoc and mental health subsidies. The structure of the agreement between the city and the unions effectively transfers these city dollars from the general operating budget to a fund administered outside the ordinary budget process. This action eliminates any accountability or direct oversight for the funds by the appropriate budgetary entities.

IBO supports increased transparency and appropriate checks and balances in the budgetary process as a means of safeguarding the city's assets. This transfer will effectively serve to reduce both.

How did we get here?

The city, for many decades, has provided quality affordable health insurance to its employees. It has also long been city policy that upon their retirement, former city employees retain this valuable benefit. Currently, city retirees and their beneficiaries receiving post-employment benefits must enroll in Medicare once they become eligible. Historically, the Medicare population was enrolled in what is known as Traditional Medicare, which provides fee-for-service coverage of hospital and doctor visits—Medicare Parts A and B, respectively. Under this arrangement, Medicare recipients pay premiums for Part B coverage, which can include surcharges for higher-income individuals. Many Medicare recipients elect to purchase additional supplemental coverage that the basic Medicare Part B does not provide; this supplemental coverage is commonly known as Medigap and is administered by private providers.

Until now, the city has reimbursed its retirees for their Part B premiums, and has offered EmblemHealth's SeniorCare Medigap plan at no additional cost.

Medicare Advantage, also known as Medicare Part C, is an alternative to the coverage offered under Medicare Parts A, B and Medigap coverage. Medicare Advantage is administered wholly by private insurers who receive a per-member payment from the federal Medicare Trust Fund to provide coverage through a network of doctors. Medicare Advantage's structure is similar to the arrangement active employees have with their health insurance providers. Members are still required to pay the equivalent of their Part B premiums, which the city would still reimburse under the Medicare Advantage Plus plan.

In Fiscal Year 2021 New York City paid $3.2 billion for the provision of health care to its over 250,000 retirees. New York City's retiree health expense is comprised primarily of five categories of payments:

- Premiums for pre-Medicare retirees and beneficiaries. This is the single largest expense for retiree health (approximately $1.5 billion).
- Reimbursement of Medicare Part B premiums for all Medicare-enrolled retirees, $398 million.
- Reimbursement of additional payments, called IRMAA (Income Related Monthly Adjusted Amount) payments, for Medicare-enrolled retirees with high incomes, $43million.
- Payments to Retiree Welfare Funds for additional benefits, $364 million.
- Premiums for supplemental SeniorCare Medigap coverage, which costs an estimated $587 million.[1]

The shift to Medicare Advantage would move the responsibility to pay these supplemental premiums to the federal government.

What Are We Getting?

The city has selected the Alliance–a joint enterprise of EmblemHealth and Empire Blue Cross Blue Shield to provide the Medicare Advantage Plan to city retirees; the two companies currently provide Medigap plans to 92 percent of city retirees and their beneficiaries.

The Alliance's Medicare Advantage Plus plan is reportedly designed to be as similar to EmblemHealth's GHI SeniorCare plan as possible, including access to a network of medical providers far larger than a traditional Medicare Advantage population would have access to. In focusing on the budgetary impact of this policy change, IBO has not evaluated the validity of this claim.

Because there is variation in the services offered, a Medicare Advantage provider's reimbursement rate might be higher or lower than the Medicare benchmark. Any cost to the provider over what Medicare would pay is charged to the retiree as a premium. As part of the current agreement, the city has promised a premium-free Medicare Advantage plan to its retirees. The contract with the Alliance is expected to last five years with three two-year extension options. If in the future the Alliance determines that its reimbursement rate is insufficient to cover the cost of providing the services, the city would be faced with a decision to either renege on the promise of premium-free health coverage, cover the excess itself, or renegotiate a less generous set of benefits. While this does not appear to pose a current threat, it could prove to be a risk to future city budgets.

[1] Pre-Medicare premiums and Medigap premiums estimated by IBO, remainder of costs are actual expenditures.

Why the Stabilization Fund?

Both the city's unions and the de Blasio Administration have emphasized that a critical reason to move seniors to the Medicare Advantage Plus plan is to preserve the financial stability of the Joint Health Insurance Premium Stabilization Fund. The Stabilization Fund was created in 1984 in order to equalize costs between the city's two health insurance options at the time, GHI and HIP—each of which are offered to city workers at no cost.[2] In addition, the Stabilization Fund ensured that the rates paid by the city were predictable for budgeting purposes. The city's administrative code stipulates that the city must pay the HIP HMO rate for all employee health benefits. The fund's revenues are derived from equalization payments paid by EmblemHealth for years in which GHI's premiums are lower than HIP's. The fund also receives direct contributions from the city negotiated in labor agreements, and earns interest on reserves. Because of this dedicated funding stream, by 2016 the fund had a balance of $1.8 billion. The decisions on how to utilize these hundreds of millions of dollars are made jointly by the city as represented by the Office of Labor Relations, and organized labor as represented by the Municipal Labor Committee (MLC). Over the decades the Stabilization Fund has been increasingly used to fund supplementary health benefits and per-member contributions to union welfare funds, which can be used at the unions' discretion.

Because of increasing withdrawals from the fund, and a decline in the primary revenue stream as GHI's premiums exceeded those of HIP beginning in 2019, a structural deficit has emerged in recent years, as the fund's annual obligations far exceed its revenues. The fund's balance was $1.4 billion at the close of fiscal year 2020. One year later the balance stood at just over $1.0 billion. Over the past three years, the Stabilization Fund's annual revenues averaged $161.4 million while expenses averaged $429.9 million. IBO estimates that at the current draw-down rate, even if annual expenses remain constant, the Stabilization Fund will be depleted in three to four years.

The MLC and the city plan to utilize the savings from the transfer of the retiree health plan to Medicare Advantage Plus to provide the Stabilization Fund with an alternate revenue source. This new revenue source defers any need to deal with the fundamental issue facing the Stabilization Fund—the cost of annual obligations being financed with an unreliable stream of income. The agreement to move to Medicare Advantage continues the use of the Stabilization Fund as an off-budget transfer of city dollars to a special-purpose fund that has little or no budgetary oversight.

What the Move to Medicare Advantage Is Not.

Just to be clear, the transfer to Medicare Advantage being proposed is unrelated to the city's most recent agreement on contracts with its labor unions. In June 2018, the de Blasio Administration and the MLC announced the implementation of a Health Savings Agreement. That agreement committed the administration and organized labor to identify a cumulative $1.1 billion in budgetary health savings from 2019 through 2021, and required $600 million of the savings to be recurring savings in 2021 and beyond. The basis for the health care savings agreement was for labor to provide partial funding of the cost of salary increases included in the 2018 – 2021 round of collective bargaining. At the time of its adoption

[2] In 2006 Group Health Incorporated (GHI) and the Health Insurance Plan of Greater New York (HIP) merged to create EmblemHealth. GHI PPO and HIP HMO still exist as two separate health insurance plans under the umbrella of EmblemHealth.

the two sides agreed to a list of potential cost savings measures to consider, which included switching Medicare retirees to a Medicare Advantage program.

The city's Office of Labor Relations recently indicated that the savings goals of this Health Savings Agreement had been finalized prior to the agreement to move city retirees to a Medicare Advantage plan. As a result, the savings accrued from the switch will not be accounted for as part of the 2018 agreement, and instead will be directed to the Joint Health Insurance Premium Stabilization fund.

Often the Joint Health Insurance Premium Stabilization Fund is confounded with the city's Retiree Health Benefits Trust fund (RHBT), which is—at least nominally—the long-term savings account for retiree health and welfare costs referred to as Other Post Employment Benefits (OPEB). The RHBT was created in an effort to contend with the city's expanding retiree health care costs, treating these costs as long-term liabilities, similar to pensions, rather than as annual expenses. At the end of 2020, the city had funded only 3.4 percent of its future obligations for retiree health benefits. Without a requirement to fund the RHBT, at the current pace of financing, it would likely be decades before the RHBT achieves funding levels similar to the city's pension funds.

Conclusion

Rather than use the savings to supplement existing services or cover other recurring costs, the city plans to use the entirety of this savings to fund benefits provided by the city's unions. Rather than allocating these savings through the typical budget process, the entirety of the savings will be allocated to an off-budget fund. In doing this, the city is forgoing a significant opportunity to strengthen its fiscal position in relation to retiree health costs and relinquishing its fiduciary responsibility for the expenditure of hundreds of millions of dollars.