

A Vision for Boston: Questions for the 2009 Mayoral Candidates

DAY 7: HEALTH INSURANCE & OPEB

What steps would you take to further control Boston's annual health insurance costs for active employees and retirees?

Boston, like other cities and towns, faces unsustainable increases in employee health insurance costs, which, as they absorb ever larger shares of operational revenue, leave fewer and fewer resources for those city services that provide a foundation for a high quality of life in Boston.

Boston's fiscal 2010 budget is a case in point. The overall budget decreased by 1.1% while the employee health insurance budget grew by \$11.6 million or 4.4%. The increased costs for employee health insurance benefits and pensions in a year in which revenue declined contributed to budget reductions for departmental services of \$53.9 million or 3.3%. These health insurance increases occurred even after Boston successfully negotiated savings in its policies. Over the last ten years, spending for Boston's employee health insurance increased by 146%, while total city spending excluding health insurance grew by 39%.



Boston and other municipalities are required to negotiate practically all aspects of employee health coverage with each of their unions, while the state, through its Group Insurance Commission (GIC), can manage plan selection and design administratively. As it did this year, the Legislature is able to change the premium share paid by the state and its employees through legislation or budget action, but Boston is required to negotiate these changes.

Legislation passed in 2007 allowed cities and towns to join the GIC if local officials could reach agreement with a committee of its union leaders. That process has been difficult and after two years only 17 municipalities have joined the GIC. Requests by municipal officials to be granted the same administrative plan design authority have not been approved by the Legislature.

One step cities and towns can take to manage health insurance costs is to adopt a state law (Chapter 32B, Section 18) requiring eligible retirees to enroll in Medicare, essentially shifting a share of their health insurance costs to the federal government. Boston has not adopted this law and approximately 1,700 Medicare-eligible retirees are currently enrolled in non-Medicare plans. Although under different circumstances, Springfield, the population of which is roughly one-third of Boston's, took this step in 2005 and realized annual savings of more than \$5 million.

Based on new requirements, Boston must now report its liability for other post employment benefits (OPEB) for retirees, such as health and life insurance. The most recent actuarial analysis indicates that, assuming funds are placed in a segregated reserve and invested each year, the City's OPEB liability has grown to \$3.1 billion as of June 30, 2007.

The City, in a step that few other municipalities have yet taken, did appropriate funds for a reserve the past two years - \$20 and \$25 million respectively - but over the next few years the City will need to establish a plan to fund the annual required contribution based on an actuarial analysis, which will not be easy. This year's \$20 million OPEB appropriation is approximately \$124 million less than what it should be based on a recent estimate. If the City continues to underfund its reserve at the current rate, its OPEB liability could eventually approach \$5 billion.

What steps would you take to further control Boston's annual health insurance costs? Explain why you would or would not recommend the City adopt Section 18. How will you address Boston's growing OPEB liability?

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