Bureau Update

BOSTON MUNICIPAL RESEARCH BUREAU

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Double Standard Exists for Managing Health Insurance

House budget shows wide gap between state and municipal control

A double standard exists between the state and its municipalities in the management of employee health insurance. The most recent example of this situation is the House's recommended FY10 budget that will generate savings in the cost of state employee health insurance which would be impossible for municipalities to achieve in scope or speed. Changes to the premium share paid by the Commonwealth and by the employees that can be accomplished through the state budget process must be negotiated with each individual employee union at the local level. The state does not negotiate any factor of health insurance with employees and the municipalities need to negotiate every factor.

This example is only one reason since 1955 why the Commonwealth is in a far more advantageous position to manage health insurance expenses than cities and towns. This management inequity has become more pronounced as the cost of health insurance continues to grow at a faster pace than revenues. That is why the primary recommendations to help municipalities manage their expenses start with health insurance. So far, the state's response to this problem has been very disappointing.

The House's FY10 budget recommends increasing the premium share for new state employees from 20% to 25%. The House Ways and Means Committee had recommended that all employees increase their premium share to 30%. The Governor's budget also had proposed a change in premium share for employees based on salary level.

The state also enjoys a distinct advantage over municipalities in its ability to manage plan design decisions administratively. With the creation of the Group Insurance Commission (GIC) in 1955, changes to plan design, including deductibles and co-pays, are made administratively by the GIC for all state employees. Cities and towns must negotiate these decisions with each union. For FY10, the GIC's premium rate will increase by 3.2%, while Boston's rate will grow by 4.5% after aggressive negotiations with plan providers.

State Response

State and local governments clearly are not on the same level playing field in managing health insurance. In 2007, the Governor and Legislature approved legislation enabling municipalities to join the GIC but under conditions that resulted in less than 5% (17/351) of cities and towns joining. The Governor has proposed that the 70% union committee approval needed to join the GIC be reduced to 50% but has added a penalty that will discourage municipal leaders from participating. Equally discouraging is the plan recommended by the Legislature's Municipal Relief Commission that would introduce a form of binding arbitration into the approval process.