



333 Washington Street, Suite 854, Boston, MA 02108

T(617-227-1900 F(617)227-2815 www.bmr.org

Testimony of the Boston Municipal Research Bureau

Before the

Boston City Council's Committee on Ways and Means

Monday, March 22, 2010

Regarding: Docket # 0108 Message and Order adopting Chapter 374 of the Acts of 2008; an Act Relative to Certain Health Insurance Options for Municipal Retirees

Mr. Chairman and Councilors, for the record, my name is Sam Tyler and I am the President of the Boston Municipal Research Bureau. I am here today to testify in strong opposition to the City Council's adoption of Chapter 374 of the Acts of 2008. At a time when the City of Boston continues to face tight financial conditions, every effort should be made to control spending, especially in areas that grow at a faster pace than revenue growth such as health insurance. The City's acceptance of Chapter 374 (Section 18A) will do nothing to generate any real savings this year or next. Any savings that will be realized by the City from accepting this section initially will be small and will take several years before it will make a material difference in controlling escalating health insurance costs.

Instead, we believe that the facts are compelling that the City's acceptance of Section 18 of Chapter 32B will realize significant health insurance cost reductions in excess of \$5.0 million for the City of Boston. Adoption of Section 18 would also produce premium savings for the City and for active employees and most retirees enrolled in city health insurance plans in the range of 5%. Adoption of this section will also cause a reduction of the City's retiree health insurance liability (OPEB). In addition, we do not believe that the City Council has sufficient facts before it to make an informed decision on the acceptance of Chapter 374 (Section 18A). We recommend that further analysis be requested and that final action on Docket #0108 be postponed until a later time.

Legislative History - Section 18

Section 18, added to Chapter 32B in 1991, provides that in cities or towns that adopt this section Medicare eligible retirees must enroll in a Medicare supplemental plan offered by the municipality. Savings are achieved by shifting costs to Medicare. The law requires that Medicare and the city-sponsored plan must together "be of comparable actuarial value to those under the retiree's existing coverage." The City of Boston has not adopted this section of law. The Commonwealth has required all state retirees to enroll in Medicare since 1992. The cities of Springfield (2004) and Worcester (2007) have adopted Section 18 as have 129 other cities and towns and a few regional school districts.

Recommending that the City of Boston should adopt Section 18 is not a new position for the Research Bureau. In 2005, the Bureau issued a major report on Boston's mounting personnel costs in which it recommended the City adopt Section 18. In a second report in 2006 about Boston's soaring health insurance costs, the Research Bureau again recommended that the City adopt Section 18. Since then, the

Research Bureau has continually urged the City to adopt Section 18 to help control its growing health insurance costs.

Section 18A - The City of Boston submitted legislation that provided a new Section 18A which was enacted as Chapter 374 of the Acts of 2008 in November 2008. Chapter 374 authorizes a municipality to adopt Section 18A which makes the Medicare enrollment requirement prospective. The definition of retiree in this section is “a person who retires after the acceptance of this section by a governmental unit.” Thus, adoption of Section 18A would not apply to current retirees who are already eligible to enroll in Medicare or to current retirees who are not yet eligible to enroll in Medicare. Exempting all current retirees from the requirement to enroll in a Medicare supplemental plan prevents the municipality from realizing any significant savings from shifting costs to Medicare for several years.

Municipal Relief Act of 2010 – The recent Municipal Relief Act now before the Legislature contains a section that would require all municipalities to adopt Section 18 slightly modified. The prospective provisions of Section 18A are not included in the legislation.

Boston’s Health Insurance Cost Trends

The decision of a municipality to adopt Section 18 or Section 18A should be made in consideration of its fiscal situation. From spending trends shown in the attached tables, it is clear that Boston should take steps now to control its spending for employee health insurance. By whatever measure health insurance spending is evaluated, it is increasing at a faster pace than overall operational revenue growth, forcing cuts in other basic services. Facing a third consecutive year of local aid cuts in fiscal 2011 and a more difficult year in fiscal 2012, the City cannot afford to delay steps to achieve health insurance savings.

With a fiscal 2010 appropriation of \$275.9 million, employee health insurance is Boston’s second largest budget account. In just the five years from fiscal 2004 to fiscal 2009, Boston’s health insurance costs have increased by an average annual increase of \$18.7 million or 9.7%. During this same time period, Boston’s total operational spending has increased by an annual average increase of 5.1%. Thus, Boston’s spending for employee health insurance has increased at twice the rate of its total operational spending. With limited revenue growth, that means that the increased health insurance costs have required cuts in other basic services. In the six years from fiscal 2004 to fiscal 2010, spending for health insurance increased by 60.6% while all other operational spending for departmental and other services increased by 19.8% excluding pension and health insurance costs. Boston’s health insurance costs have increased from 7.0% of total city operational spending in fiscal 2001 to 11.5% in fiscal 2010.

Other Financial Advantages of Section 18

That Boston will achieve financial savings and cost control by shifting health insurance costs of eligible retirees to Medicare is understood. Other benefits of adopting Section 18 and related issues less understood include the following:

- Active employees and non-Medicare retirees will realize a reduction in their health premium costs by the City’s adoption of Section 18. The inclusion of retirees in active health care plans contributes to the escalating cost of these plans because the higher claims costs associated with the more senior members are reflected in the premiums paid by all members of the plans. A 2007 analysis prepared by a benefits and human resources consulting company for the City of Worcester indicated that the premiums paid by over-65 retirees in non-Medicare plans do not reflect the true cost of providing benefits to this group since they are subsidized by the younger population in these plans. This report indicated that Worcester’s adoption of Section 18 would eventually lead to approximately a 5% reduction in the cost of active employee plans which would apply to all active employees and retirees using city plans. The total annual cost for a Harvard Pilgrim HMO family plan is \$18,461 and a 5% cut would produce a savings of \$923.00 that would be divided between the City and employee based on the 85%-15% premium split.

There are approximately 12,400 Boston retirees, beneficiaries and spouses that are enrolled in city health plans this year of which approximately 5,900 are enrolled in Medicare. A recent report by the Collins Center at UMass Boston and The Boston Foundation pegged the current number of Boston retirees eligible to enroll in Medicare at 1,740. Therefore, approximately 4,800 retirees or spouses could experience a reduction in their monthly premiums by the City's adoption of Section 18.

- For eligible retirees who have not enrolled in Medicare plans, the City is required to pay a 10% penalty which reduces the full savings. However, the savings will increase as current retirees become eligible and enroll in Medicare at age 65 with no penalty to be paid. The greater savings from approximately 4,800 retirees in this situation would be lost by the adoption of Section 18A.
- By adopting Section 18 and reducing its health insurance costs and ensuring more cost control in the future, the City would also reduce its Other Post Employment Benefits (OPEB) liability that must be reported in the City's annual financial statements.
- The March 2010 actuarial comparability analysis prepared for the City of Boston by the health care consulting firm of Bailit Health Purchasing showed that the supplemental plans offered by the City with Medicare benefits are actuarially comparable to some regular plans provided by the City. This comparability indicates that retirees can shift to Medicare without undue hardship in out-of-pocket expenses. The City can mitigate any unreasonable cost increases for certain retiree categories if necessary. Whether Section 18 or Section 18A is adopted, the City will be required to impact bargain the impact which is where any significant hardship category can be addressed.
- The experience of the state Group Insurance Commission (GIC) with average per-capita costs for a non-Medicare retiree and a Medicare retiree is useful in explaining the cost benefits of enrolling eligible retirees in Medicare plans. The CIC's Age-Sex Report issued in 2008 shows that the average cost per capita in 2007 for a non-Medicare retiree of \$7,366 is over two times as much as for a Medicare retiree of \$3,461.

Further Analysis

In light of the conflicting recommendations presented to the City Council on the decision to adopt Section 18 or Section 18A, the Menino Administration should request its actuary to conduct an analysis of adopting M.G.L. Chapter 32B, Section 18 and Section 18A. Requesting such a report was taken by the City of Worcester in 2007 before it adopted Section 18. The Research Bureau would prefer the City to adopt Section 18 now but if the City Council is inclined to support the adoption of Section 18A, it should first understand the extent of savings that would be lost by that action and its impact on active employees and non-Medicare retirees. The Worcester report confirmed that significant savings would be achieved by the adoption of Section 18, indicated the approximate percentage savings in reduced premiums for active employee plans, and the extent of any out of pocket costs for retirees. The report also confirmed that adoption of Section 18 would reduce the City's OPEB liability.

Conclusion

In conclusion, the Research Bureau recommends that the Boston City Council not approve Section 18A and that it request the Mayor to submit a new order to adopt Section 18 to achieve needed savings in health insurance costs now and control future spending.

**City of Boston Health Insurance Trends (a)
FY00 - FY10**

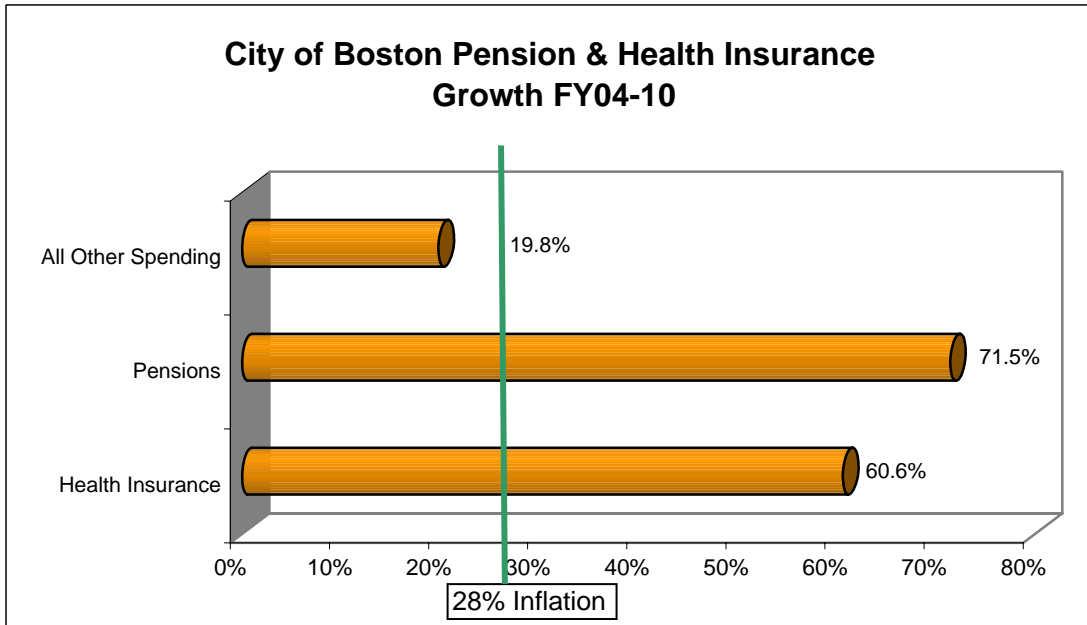
	City Health Insurance	Boston Public Schools Health Insurance	Total	Change	% Change	Total City Spending	Change	% Change	Health Insurance as a % of Total City Spending	City spending less Health Insurance	Change	% Change
FY00	\$79,326,103	\$32,841,861	\$112,167,964	-	-	\$1,632,816,597	-	-	-	\$1,520,648,633	-	-
FY01	87,232,847	34,932,014	122,164,861	\$9,996,896	8.9%	1,743,048,845	\$110,232,248	6.8%	7.0%	1,620,883,985	\$100,235,352	6.6%
FY02	99,260,487	39,743,438	139,003,925	16,839,065	13.8%	1,809,676,516	66,627,671	3.8%	7.7%	1,670,672,591	49,788,606	3.1%
FY03	108,927,233	43,806,050	152,733,283	13,729,358	9.9%	1,861,124,566	51,448,050	2.8%	8.2%	1,708,391,283	37,718,692	2.3%
FY04	124,956,847	46,824,261	171,781,108	19,047,825	12.5%	1,888,401,682	27,277,116	1.5%	9.1%	1,716,620,574	8,229,291	0.5%
FY05	139,104,893	51,114,926	190,219,819	18,438,711	10.7%	1,972,092,198	83,690,516	4.4%	9.6%	1,781,872,380	65,251,805	3.8%
FY06	151,575,199	58,127,975	209,703,174	19,483,355	10.2%	2,090,391,193	118,298,995	6.0%	10.0%	1,880,688,019	98,815,640	5.5%
FY07	168,525,433	64,813,980	233,339,413	23,636,239	11.3%	2,186,985,982	96,594,788	4.6%	10.7%	1,953,646,568	72,958,549	3.9%
FY08	183,101,302	72,958,649	256,059,951	22,720,538	9.7%	2,327,261,281	140,275,299	6.4%	11.0%	2,071,201,330	117,554,761	6.0%
FY09 (b)	187,018,947	78,251,263	265,270,210	9,210,259	3.6%	2,421,746,274	94,484,993	4.1%	11.0%	2,156,476,064	85,274,734	4.1%
FY10 (c)	196,076,530	79,837,900	275,914,430	10,644,220	4.0%	2,403,058,903	-18,687,371	-0.8%	11.5%	2,127,144,473	-29,331,591	-1.4%
Change FY04-09	\$62,062,100	\$31,427,002	\$93,489,102	Average Annual Increase		\$533,344,592	Average Annual Increase			\$439,855,489	Average Annual Increase	
% Change	49.7%	67.1%	54.4%	\$18,756,155	9.7%	28.2%	\$93,436,951	5.1%		25.6%	\$74,680,797	4.0%

(a) Includes dental, life and some administrative costs. Does not include the Public Health Commission

(b) FY09 includes \$23.3M in ARRA funds used for general fund operations. \$13.093,550 of this was used for BPS Health Insurance

(c) Tax Rate Budget

Source: City of Boston Financial Reports and Budgets



Boston's Health Insurance Growth vs. Prop 2 1/2 Growth and Gross Levy Growth

	Health Insurance Growth	2.5% Property Tax Growth	Health Insurance Growth as a % of 2.5% Property Tax Growth	Growth in Gross Property Tax	Health Insurance Growth as a % of Gross Property Tax Growth
FY01	\$9,996,896	\$21,666,034	46.1%	\$51,713,640	19.3%
FY02	16,839,065	22,963,619	73.3%	54,733,111	30.8%
FY03	13,729,358	24,331,596	56.4%	63,218,349	21.7%
FY04	19,047,825	25,898,622	73.5%	58,278,625	32.7%
FY05	18,438,711	27,360,303	67.4%	56,440,107	32.7%
FY06	19,483,355	28,738,308	67.8%	61,005,346	31.9%
FY07	23,636,239	30,201,766	78.3%	59,180,101	39.9%
FY08	22,720,538	31,784,310	71.5%	63,810,642	35.6%
FY09	9,210,259	33,366,417	27.6%	69,811,924	13.2%

Source: City of Boston Financial Reports
 Prepared by: Boston Municipal Research Bureau