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Testimony of the Boston Municipal Research Bureau

Before the

Joint Committee on Public Service

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Regarding: H2601 – promoting quality and affordable municipal health insurance

My name is Samuel R. Tyler, President of the Boston Municipal Research Bureau, a member sponsored organization that provides objective analysis and data on policy issues important to Boston in order to promote a healthy business and residential climate. I am here to testify in support of the intent of H2601 to promote quality and affordable municipal health insurance by allowing cities and towns in Massachusetts to join the Group Insurance Commission. Last November, the Research Bureau issued a comprehensive report on how soaring health insurance costs threatened Boston's competitive edge and while the focus of the report was on Boston, the findings and recommendations apply to all cities and towns in the Commonwealth.

Cities and towns in Massachusetts are facing a crisis of escalating increases in employee health insurance with annual double digit growth that is unsustainable. At the same time, Boston and other municipalities are severely limited in their ability to control health insurance costs because all aspects of employee health coverage are subject to negotiations with each union. A new requirement from the Governmental Accounting Standards Board (GASB) that requires each municipality to identify the extent of its unfunded retiree health insurance liability will soon put even greater pressure on health findings, increasing the importance that real control over premium increases be achieved now.

The Governor and the members of the Legislature have expressed interest in taking pressure off the property tax. Today, nothing puts more pressure on the property tax than the annual local health insurance increases which absorb a larger share of revenue growth leaving fewer resources for other services. Services affected are those of importance to residents as well as those required by businesses located in communities.

By any measure, the increasing cost of health insurance is affecting Boston's ability to allocate resources to other basic city services. In six years from fiscal 2001 to fiscal 2007, Boston's health insurance costs have increased by 92% to \$235 million. Health insurance has risen from 7% to 11% of the total operating budget.

This year, Boston's health insurance costs increased by \$25 million which:

- Represents half of the total increase in the City's operating budget
- Absorbs 83% of the 2.5% annual growth on existing property under Proposition 2½

- Exceeds the growth of Boston's General Fund state aid

In stark contrast, the Group Insurance Commission (GIC), which manages the Commonwealth's employee health insurance program, has the authority to negotiate and purchase insurance coverage for the state and adjust plan design outside of collective bargaining. The ability to change plan design gives the state an advantage in controlling costs. Consequently, over the past six years, the state's spending for health insurance has risen only two-thirds as rapidly as Boston's, increasing by 61% versus the City's 92%.

This difference could reduce the pressure on the property tax. Had Boston's health insurance costs increased by the same rate of increase as the state since 2001, the City would have saved nearly \$38 million for needed services. This year, the difference of \$6 million could have been used to help fund collective bargaining contracts or hire 85 new police officers or 92 new teachers.

The GIC offers excellent plan options and has worked aggressively to control costs, at times implementing original and creative solutions, such as its Clinical Performance Improvement initiative and programs that promote the purchase of mail order and generic drugs. The GIC has also assembled a health claims database that allows it to track spending and analyze health trends in order to identify opportunities to further control costs. Finally, the GIC has a track record of first-rate customer service.

House 2601 attempts to mitigate the rising cost of municipal health insurance by allowing cities and towns to join the GIC through local option. The bill requires that municipal officials employ "coalition bargaining" to negotiate the conditions for entering the GIC with an employee committee of union and retiree representatives with 70% of a weighted vote required to join. Joining the GIC would not change the local premium share which would continue to be negotiated between the municipality and employee unions.

While this bill does represent an incremental improvement, the reality is that enactment of this bill would give few communities the ability to join the GIC in the beginning. In this tight fiscal environment, reaching a mutual agreement over contract language changes or other benefits besides health insurance to achieve a 70% approval would be difficult for municipal leaders to achieve.

Cities and towns are facing a health insurance crisis now and bold reform is required to afford all municipalities the opportunity to control spending and relieve pressure on the property tax. Rather than allow a municipality to join the GIC through negotiations, this legislation should be modified to accept all municipalities into the GIC on a staggered basis with the option to leave through a designated process.

At a speech yesterday before the Greater Boston Chamber of Commerce, Speaker DiMasi talked about the need for the state and municipalities to control spending and he endorsed legislation allowing cities and towns to join the GIC which he estimated would save local government \$200 million. I suggest that savings near that figure are only possible if all cities and towns participate in the GIC.

Entering the GIC to help control local premium increases is just the first step. The more difficult problem facing the state and cities and towns is the funding of the growing retiree health insurance liability. In time, this problem will require a total restructuring of the state and local health insurance system in Massachusetts with far tougher policy choices than today's issue of entering the GIC. If Massachusetts can be bold with expanding health care coverage for the uninsured, why cannot it also be equally bold for its own cities and towns with this legislation?