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Testimony of the Boston Municipal Research Bureau

Before the

Joint Committee on Public Service

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Regarding: Promoting quality and affordable municipal health insurance

My name is Samuel R. Tyler, President of the Boston Municipal Research Bureau, a business sponsored organization that provides objective analysis and data on policy issues in order to promote a more efficient, economical and responsible government for Boston. I am here to testify in support of legislative change that will provide Massachusetts cities and towns with greater flexibility in managing the escalating cost of employee health insurance. Municipal officials should have comparable authority as the state to manage employee health insurance to achieve savings that should be applied to support basic local services.

The Research Bureau has been alarmed about the growing cost of health insurance and has advocated for local reform since 2005. We have seen the consequences of the steady increases in healthcare spending with fewer resources available for basic city services, especially in a period of limited revenue growth as we are experiencing now. We are disappointed that past efforts at the state level to address this problem have had limited benefit for the 351 cities and towns in Massachusetts.

As we head towards a fourth consecutive year of local aid cuts in fiscal 2012, we believe that it is critically important that in this year, 2011, cities and towns be on a level playing field with the state in either being able to exercise control over healthcare plan design including co-pays and deductibles outside of collective bargaining or being able to join the state Group Insurance Commission without hurdles if that option is determined to be more beneficial. Municipalities should be on par with the Commonwealth so that the full savings achieved from exercising local health insurance reform is able to be utilized to support basic services or mandatory expenses. No form of binding arbitration should be authorized to reach any agreement between municipal officials and union leaders.

Cities and towns in Massachusetts are facing a crisis of escalating increases in employee health insurance with annual increases absorbing a larger share of limited revenue growth, leaving fewer resources for other services. 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. In today's environment, this situation is unsustainable. Further, the requirement from

the Governmental Accounting Standards Board (GASB) that mandates each municipality to identify the extent of its unfunded retiree health insurance liability will soon put even greater pressure on employee health funding, increasing the necessity that real control over premium increases be achieved now.

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 2005 to fiscal 2011, Boston's health insurance costs have increased by 54% to $293.6 million. During this time, total city spending increased by 23%. Health insurance has risen from 10% to 13% of the total operating budget in just six years.

In this fiscal year, Boston's health insurance costs increased by $18 million which:

- Represents 44% of the total increase in the City's originally approved fiscal 2011 $2.3 billion operating budget
- Absorbs 48% of the 2.5% annual growth on existing property under Proposition 2½

Departmental Service Impact - A review of the City of Boston's spending of the operating budget over the six years from 2005 to 2011 demonstrates how the disproportionate growth of health insurance costs has affected the budgets for other city services. As health insurance increased by 54% since fiscal 2005:

- Spending for the three major departments of School, Police and Fire increased by 17%
- Spending for all 45 other city departments, in aggregate, increased by 12%

Over the past two years, the City of Boston reduced its city-funded workforce by 1,052 positions or 7%.

Boston and GIC Premium Comparison - Cities and towns are at a distinct disadvantage in managing the cost of healthcare plans through negotiations compared with the state's administrative and legislative management as shown by an analysis of comparable health insurance plans. The premium growth from fiscal 2006 through fiscal 2010 for the state's Harvard Pilgrim Independence plan compared with the City of Boston's Harvard Pilgrim HMO plan shows:

- The Commonwealth's plan grew by 14% while Boston's plan grew by 39% over four years

Medicare Enrollment – The Research Bureau believes that all municipal retirees should be required to enroll in Medicare when they are eligible. Currently, cities and towns can require eligible retirees to join Medicare if the municipality has adopted Chapter 32, section 18, but not all municipalities have adopted this section. This requirement would provide substantial premium savings by shifting much of the cost of retiree health insurance onto the federal government.

Retiree Health Insurance Liability (OPEB) - Enacting reform of local health insurance to enable local leaders to more efficiently manage its health programs and better control costs will also help reduce the growing liability for retiree healthcare costs that for Boston and other municipalities are greater than their pension liability today. Boston's retiree health insurance liability, based on a June 2010 update, ranges from $3.1 billion (fully-funded) to $4.7 billion (partially-funded)

Conclusion - The annual escalation of local employee health insurance spending is unsustainable and its consequences of fewer resources for basic services demands fundamental reform this year. Municipal officials should have administrative authority over plan design outside of collective bargaining or the ability to join the Group Insurance Commission without hurdles if that is preferable. Savings from these changes should be reinvested in supporting the delivery of services.