Backgrounder:

Employee Healthcare Costs Putting Pressure on City Budget & Tax Bills

- The cost of providing healthcare to city employees is a major driver of the city budget, ***and in turn, a major factor in property tax increases***.
    - The cost of healthcare for city employees is ***up 22%, or nearly $8 million*** since 2012 ($35,171,429 spent in FY12 to $43,000,000 budgeted in FY18).
    - The cost of healthcare for city employees has gone up ***by more than $1 million each year for the past seven years***.
    - ***This year (2018) the city increased the tax levy by $5.9 million, and the budget's healthcare line item required a $3.5 million increase.***
    - Costs have to be brought under control as their impact on the annual budget and the tax levy is simply not sustainable. ***The situation is fast approaching a breaking point, and action is needed.***
- The City Council has already approved two important healthcare reforms by accepting in 2007 MGL Chapter 32B, Section 19, which established the Public Employee Committee (PEC) consisting of representatives from the City's unions; and accepting in 2016 Section 20, which established the OPEB Trust Fund.
- The State Legislature enacted Sections 21-23 in 2011, to provide municipalities with the ability to more effectively negotiate changes to health insurance plans.
    - Sections 21-23 establish a mandatory process to allow localities to implement benefit design changes after negotiating with the PEC.
    - ***Sections 21-23 provide for a neutral arbitrator to determine the outcome if both sides are unable to come to an agreement.***

  - Sections 21-23 also direct 25% of the total savings from any benefit changes toward employees and retirees so they are assured to benefit from the changes.

- ***The experience of nearby communities indicates that taxpayers could see substantial savings from health plan redesign.*** It begs the question of why New Bedford hasn't also adopted the provision.

- Jurisdictions in the immediate vicinity have reported annual savings of anywhere from $190,000 in Acushnet to ***$3.7 million in Fall River***, with most in the range of $500,000-$900,000.

- The City has repeatedly attempted to engage with the PEC to identify consensus solutions, but with no success, ***because the PEC currently has no incentive to agree to a more efficient health care program. Union representatives can simply refuse to negotiate benefit changes with the City with no immediate consequences.***

  - ***For example, the city proposed reasonable savings measures in 2016, and the PEC rejected these measures.***

  - ***The savings measures would have reduced the FY18 budget by about $1 million and have taken considerable pressure off the tax levy.***

  - ***In fact, the recent reforms that the PEC rejected would have reduced the recent tax increase on residents and businesses by nearly 20%.***

  - The City has made multiple attempts to engage the PEC, but no progress has been made toward adopting any changes.

  - It is incumbent upon the City's elected officials to look out for taxpayers and take the necessary steps to institute commonsense reform.

- The Administration is therefore submitting an order to the City Council to accept Sections 21-23, which would allow the City to implement health plan redesign beginning in 2019. ***This measure will require both sides to negotiate in good faith and develop a program that meets everyone's needs.***

Frequently Asked Questions

#1 Why can't the city just switch health insurance providers to save money?

- Switching providers sounds like an easy fix, but is really no solution at all.
    - Some have suggested switching health insurance providers could be a fix. The City, in fact, switched providers in 2015 and costs have continued to climb steadily. ***This is because the choice of a plan provider does not impact any of the <u>direct</u> costs of benefit plans offered to city employees.***
    - ***In any case, a switch of providers wouldn't happen for at least two years. Meanwhile, costs would continue to rise and pressure on the tax levy would increase.*** The City is in the third year of a provider contract with Blue Cross Blue Shield that will last until Dec. 31, 2019.
    - The City always assesses its provider options at the end of a contract period. ***Therefore, it's not accurate and misleading to suggest that the usual assessment of a city's plan provider somehow represents a new, meaningful solution to the problem.***

#2 Will the adoption of Sections 21-23 change the way that city employees share the cost of their health insurance?

- No. Some have suggested that the adoption of Sections 21-23 might allow the city to change the existing "25%/75%" cost-sharing arrangement that requires city employees to pay 25% of the cost of their health insurance plan and the city (as employer) to pay the other 75***%.***
- There is no basis for this suggestion. It is simply not true. Section 21 does not give any power to the city to unilaterally pursue a change in the existing cost-sharing split. Any change to the "25%/75%" split could only happen as part of a separate agreement between the City and the PEC that is not subject to the provisions of Sections 21-23.
- In fact, bringing overall healthcare costs under control could actually provide relief to employees, since they are responsible for 25% of the cost of their health insurance plan. (If the associated cost of their health insurance premium were to change, then 25% of whatever the change is passed on to them.)