The City of New York

Office of Labor Relations

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To: **Bill de Blasio**
Mayor, City of New York

Dean Fuleihan
First Deputy Mayor, City of New York

From: **Renee Campion**
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Re: **Final Report on FY 19 – FY 21 Health Care Savings**

Since 2014, this Administration and the Office of Labor Relations have worked in cooperation with the Municipal Labor Committee (MLC) to address the serious issue of escalating health care costs for City employees while also enhancing their access to premium free, top quality healthcare. The Administration was also committed to a respectful and collaborative labor management process while pledging to reform a healthcare benefit structure which had remained virtually unchanged over decades. During this administration's tenure, we entered into two uniquely successful health care agreements spanning seven years which have produced a total of $4.5 billion in total savings. These agreements implemented the most transformational changes to the City's health plans in decades. Aligning the achievement of health costs savings with the goal of improving health outcomes for our employees, dependents and retirees led to the adoption of many new and innovative programs over the course of these two agreements.

Ensuring that employees, dependents and retirees have access to the highest quality and effective health programs has been the cornerstone of our efforts. Some of the most impactful chnages involved using economic incentives to encourage more appropriate use use of healthcare. As a result, we saw significant decreases in emergency care while seeing increases in preventive and primary care, indicating that our workforce is taking better care of themselves. At the end of the first Health Savings Agreement for Fiscal Year (FY) 15-18, we were able to report that the City had met the goal of saving upwards of $3.4 billion savings with $1.3 billion of recurring annual savings going into the next Agreement.

In 2018, we reported on the successful conclusion of negotiations for a second Health Savings Agreement for Fiscal Years 2019 – 2021 which was modeled after the FY 2015-2018 Agreement.

We last reported on the status of the City and the Municipal Labor Committee's FY 2019-FY 2021 Health Savings Agreement in January of 2020. Since that time, although our focus shifted to COVID by necessity, we were also continuously engaged in achieving the second Agreement's health care savings target of $1.1 billion over three years.

To accomplish the savings, and to ensure the long-term sustainability of the health care program, the second Agreement also established a "Tripartite Health Insurance Policy Committee." This committee, chaired by Martin Scheinman, Esq., and representatives of the MLC and the City, was created to study and make recommendations to the way health care is funded and provided. We have been meeting regularly since November 2018.

With the cooperation of all of the MLC unions and their leadership, including Harry Nespoli, President of the Sanitation Workers Union and Chairman of the Municipal Labor Committee, Michael Mulgrew, President of the UFT, and Henry Garrido, Executive Director of DC 37, as well as the members of the Labor Management Health Insurance Policy Committee, we have met our goals and made significant inroads in reducing our health care costs into the future.

At this time, we can report on the successful conclusion of the FY 19 - 21 Agreement, which met the goals of adding another $1.1 billion in health care savings over three years, meeting the Administration's total goal of $4.5 billion in health care savings.

Some of the key programs added in the latest Agreement include:

- New employees of the City were enrolled in the HIP HMO for their first year of coverage which resulted in HIP offering a reduced HMO rate for FY 20 and FY 21.
- The WIN Fertility Program was added to assist families with infertility issues.
- The City and the MLC went out to bid for the PICA specialty drug program, and we are projecting significant savings to be generated under the new contract which went into effect January 1, 2021 with the incumbent provider. Changes were also made to the coverage for prescription drugs provided under the CBP, including an expansion from 60 to 90-day maintenance drug refills.
- A Short Length of Stay Program was added to the Care Management program to encourage use of observation stays in lieu of hospital inpatient admissions.
- New programs for encouraging wellness and promoting the use of Centers of Excellence for oncology and orthopedics at Memorial Sloan Kettering Medical Center and Hospital for Special Surgery.

Some of the major components of the overall savings include:

- Lower than budgeted increases in insurance premiums costs.
- Changes to the copays to encourage preventive and primary care, while discouraging unnecessary emergency room and urgent care utilization.
- Ongoing Dependent Eligibility Audits
- Telemedicine
- Care Management program additions to help direct patients to the appropriate site-of-service for outpatient procedures; for example, having routine colonoscopies performed in an ambulatory surgery center rather than in a hospital facility.
- Converting the CBP plan to minimum premium funding.

Most recently, the Tripartite Committee was tasked with looking at the status of the Stabilization Fund. An Agreement to set up this Fund was executed in 1983 to help the City and the MLC equalize the costs of the premium-free CBP-PPO and HIP HMO plans offered to active employees and pre-Medicare retirees. Under the equalization formula, when the HIP rate exceeds that of the CBP, the Stabilization Fund receives a contribution from the City, and when the CBP is higher, the Stabilization Fund has to cover the increased CBP cost over that of HIP. Over the years, by agreement between the City and the MLC, excess money in the Fund has also been used to cover many of the escalating costs of health care, including the City's PICA program (which covers injectable and chemotherapy drugs), additional contributions to union welfare funds, and the costs of preventive care mandated by the Affordable Care Act. In FY 21 and FY 22, the CBP rate was higher than that of the HIP rate so the Fund will have to cover increased costs, accelerating the decline of the Stabilization Fund which we had anticipated would occur in the next few years. This could affect the City's ability to recover recurring savings from the CBP plan in the future, as they are derived from offsets to the Stabilization Fund assets. For this reason, the FY 21 withdrawal from the Fund, and therefore the savings, were limited to $600 million so that any further CBP-derived savings will remain in the Fund.

To address the Stabilization Fund, the City and the MLC agreed to implement a new retiree Medicare Advantage program which is expected to save about $600 million a year due to Federal subsidization of Medicare Advantage programs. The Medicare Advantage program will provide NYC retirees with a continuation of premium free coverage while providing important enhancements including free telehealth visits, transportation benefits to and from doctor appointments, fitness benefits, meal delivery after a hospitalization, wellness rewards and coverage while traveling. The City and the MLC agreed to use the savings from that program to help support the Stabilization Fund. Because this $600 million savings is earmarked for the Stabilization Fund, it does not count as budget savings towards the FY 19 – FY 21 savings target but was not necessary to meet the target.

The City and the MLC continue to build on the success of the first two Health Savings Agreements by exploring other cost savings approaches for the future to ensure that we can continue the high quality, premium free programs we have historically provided.

A detailed chart of the FY 19 -FY 21 savings is attached to this report.

FY'19 – FY'21 Health Care Savings

	FY'19	FY'20	FY'21	FY'19-21
Rollover Savings from FY15-FY18 Round of Bargaining FY'19 amount represents the surplus savings over the savings target in FY'17 and FY'18, plus an additional amount representing annual recurring savings. FY'20 and FY'21 amounts represent the annual recurring savings. Per an agreement with the City in June 2018, the Municipal Labor Committee (MLC) decided to use these savings towards the FY'19- FY'21 savings target.	$127 M	$39 M	$39 M	$205 M
HIP HMO Rate Savings Based on actuarial assumptions, the City had budgeted an annual increase in the HIP rate for FY'19, FY'20, and FY'21 of 7%, 6.5% and 6%, respectively. However, the rates were finalized at a lower than budgeted increase (see below). The HIP rate reduction generates savings as the amount representing the differential between the budgeted and actual increase that would have otherwise been paid by the City into the Stabilization Fund.				
Rate increase of 6.84% vs 7.00% in FY'19	$10 M	$11 M	$12 M	$33 M
Rate increase of 3.49% vs 6.50% in FY'20	$10 M	$208 M	$221 M	$440 M
Rate increase of 3.00% vs 6.00% in FY'21		$11 M	$217 M	$228 M
Senior Care Plan Rate Savings The City had budgeted an annual increase in the Sr. Care plan rate of 5% for FY'19 and FY'20, and 4.9% in FY'21. The actual rate increases were 5.57%, 3.39% and 3.16%, respectively.				
Rate increase of 5.57% vs 5.00% in FY'19	($3 M)	($3 M)	($3 M)	($9 M)
Rate increase of 3.39% vs 5.00% in FY'20		$9 M	$9 M	$18 M
Rate increase of 3.16% vs 4.90% in FY'21			$10 M	$10 M
Empire WIN Fertility Program eff. 10/1/18 This program generates savings from comprehensive care and case management for fertility treatment services. It reduces medical cost related to fertility treatment by guiding members to the fastest route to a successful singleton birth.	$7 M	$10 M	$11 M	$28 M
Site-of-Service /Infusion Rx Site of Care/Surgical Site of Care The Site of Service Redirection program encourages a shift of care to a more cost-effective setting. Infusions were included in the program eff. 11/1/20. Eff. 1/1/21, cataract surgery, knee arthroscopy, colonoscopy, and endoscopy were mandatorily redirected (unless exempted) from the hospital setting to an Ambulatory Surgery Center (ASC) or office setting. In addition, 700 additional service codes were added eff. 1/1/21.	$0 M	$1 M	$14 M	$15 M
Empire Length-of-Stay (LOS) Management eff. 1/1/19 This program involves intensive utilization review for hospital inpatient cases and, when clinically appropriate, determines when hospital care for short length of stay cases can still be safely	$23 M	$41 M	$70 M	$134 M

	FY'19	FY'20	FY'21	FY'19-21
provided at an Observation Level of Care instead of the more expensive Inpatient Level of Care.				
Centers of Excellence in the CBP plan eff. 1/1/20 Memorial Sloan Kettering (MSK) and the Hospital for Special Surgery (HSS) were established as Centers for Excellence (COE) for oncology and orthopedics, respectively. They offer the plan a discount for attainment of certain utilization thresholds. To support greater utilization, the inpatient $300 copay and the outpatient 20% coinsurance up to $200 copay were waived effective Jan 1, 2020. As a result of the COVID environment, the program did not generate net savings.		($0.5 M)	($0.7 M)	($1.2 M)
Emblem Drug Changes eff. 10/1/18 (Smart 90 & Change to ESI National Formulary) The Smart 90 program allows for 90-day supplies of long-term medications (e.g., diabetic drugs, ACA preventive care drugs, etc.) through the (i) Express Scripts Inc. pharmacy or (ii) Walgreens/Duane Reade retail pharmacy. Previously, the CBP mail order program was only for a 60-day supply. Drug discounts are higher than otherwise for longer duration supplies. Net pricing (after factoring rebates) is more favorable under the *ESI National Formulary* when compared to that of the plan's existing formulary.	$18 M	$39 M	$59 M	$117 M
Total	$193 M	$365 M	$659 M	$1,217
Less savings above $600 M FY'21 Savings Goal			($ 59 M)	($59 M)
Adjusted Total Towards FY'19 – FY'21 Savings Goal	$193 M	$365 M	$600 M	$1,158 M

Total may not add due to rounding