The City of New York

# OFFICE OF LABOR RELATIONS

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March 29, 2018

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

**Dean Fuleihan**
First Deputy Mayor, City of New York

**From:** **Robert Linn**
**Claire Levitt**

**Re:** **Fiscal Year End 2017 Healthcare Savings Report and Q1/Q2 Fiscal Year 2018 Healthcare Savings Update**

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As you'll recall, we announced previously that we expected to meet and possibly exceed the targeted $1 billion in healthcare savings for Fiscal Year 2017. In fact, the final results for Fiscal Year 2017 demonstrate that we achieved savings of $1.051 billion, generating a surplus of $51 million over the savings target. The higher than anticipated savings came primarily from plan design changes, care management and the expansion of the dependent eligibility verification audit program to include new employees and random re-certifications.

In Fiscal Year 2017, the New York City Health Benefits Program, in collaboration with the Municipal Labor Committee, implemented the most transformational changes to its health plans in decades. Among other changes, copays were adjusted to create economic incentives to encourage the appropriate use of healthcare. These changes produced significant and positive changes in utilization, resulting in savings that exceeded initial projections. Notably, emergency room utilization decreased by about 8%, urgent care visits decreased by 22%, specialist visits decreased by 9.5% and physical therapy visits decreased by 11.7%. At the same time we have seen significant increases in the number of preventive care visits and procedures, indicating that our workforce is taking better care of their health and the health of their families.

In addition to the Fiscal Year 2017 projections, we also previously indicated that we anticipated meeting the Fiscal Year 2018 target of $1.3 billion, thereby completing the commitment to realize a total of $3.4 billion in healthcare savings during Fiscal Years 2015 – 2018. As of now, we are confident that we will meet or exceed the Fiscal Year 2018 target and likely exceed the $3.4 billion target. In Q1 and Q2 of FY 2018, we continue to see the ongoing generation of savings from the programs implemented over the course of the Agreement, including the benefit design changes, care management changes, and dependent eligibility audits.

These accomplishments stem from nearly four years of ongoing collaborative efforts by the City and the Municipal Labor Committee (MLC) to meet the cost savings goals while also improving health outcomes. This joint work continues with new programs that are being offered in 2018 and an ongoing commitment to developing efficiencies that will ensure employees, dependents and retirees have access to high quality and effective health programs in the future.

In that spirit, in February 2018, the City and the Municipal Labor Committee added a new program for its employees and family members who have been diagnosed with cancer and are covered by the City's GHI-CBP plan. The *Best Doctors* program provides a review of medical records, tests and samples by carefully selected oncology experts along with input from *Oncology Insight with Watson*. This is a unique offering from IBM and Best Doctors that harnesses the power of one of the most advanced artificial intelligence technologies available. Watson provides an extensive cognitive technological platform, a clinical trial matching tool and a genomics tool that can recommend targeted therapies, ensuring that NYC employees get the best recommendations for the treatment of their disease. The program promises to generate cost savings by avoiding medical errors and getting patients to the most appropriate treatment.

The attached exhibit identifies the finalized savings for Fiscal Years 2015- 2017 and the projected savings we anticipate, at this time, for Fiscal Year 2018.

## EXHIBIT
## FY'15 – FY'18 Projected Savings

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| **Funding structure change in the City's GHI Plan**<br>The funding structure change in FY'15 from a fully insured plan to a minimum premium plan arrangement (resulting in lower administrative expenses and positive tax implications) provides continued savings to the City. Savings in FY'17 and FY'18 are lower than in FY'16, reflecting the smaller spread in costs between a fully insured plan and a minimum premium arrangement that resulted from a moratorium of the ACA health insurer fee in calendar year 2017. | $58 M | $61 M | $41 M | $51 M |
| **Dependent Eligibility Verification Audit (DEVA)**<br>The DEVA program – an audit of dependent eligibility for coverage – resulted in conversions of family to individual health contracts. This provides continued savings from lower health premiums. FY'17 and FY'18 also factor savings from an "on-going" DEVA audit to ensure continued and appropriate dependent eligibility for coverage. | $102 M | $110 M | $117 M | $123 M |
| **Reduction in FY 2015 Administrative Charges**<br>The City's successful negotiation with one of its carriers on their FY'15 administrative fees resulted in savings for the City. | $4 M | | | |
| **Mental Health Parity "Relief"**<br>Federal mental health parity regulations required that mental health benefits be equal to medical benefits. The last administration contended that the cost of health plan compliance with this be borne by the Health Insurance Stabilization Reserve Fund, which is jointly controlled by the City and the MLC. The issue was arbitrated and in late 2014 it was ruled that the City had to reimburse the Stabilization Fund for mental health benefit costs covered by the fund during 2011 – 2015. However, the MLC agreed that the City could forgo the refund in favor of using that money to meet part of the FY 2015 healthcare savings obligation. | $148 M | | | |
| **Changes to the Care Management Program**<br>In March/April 2015, the existing pre-authorization program was expanded. The previously limited case management program was amplified to include case management for all complex and high cost acute and chronic conditions as well as maternity management and readmission management programs. In January 2016, a new vendor was selected to administer the programs and to implement new pre-authorization requirements for outpatient procedures. | $10 M | $38 M | $38 M | $44 M |
| **Specialty Drugs (PICA) Program Changes**<br>The contract for the specialty drug program was renegotiated several times during the past few years and is generating savings from improved pricing and certain cost management provisions such as pre-authorization and drug quantity management programs. Projected savings for FY'18 include improved pricing as of October 1, 2017, and stems from a competitive proposal from the existing vendor in response to the City's Request for Proposal (RFP). Also, see note 3 below. | $10 M | $32 M | $37 M | $41 M |

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| **HIP Rate Savings**<br>Based on historical trends, the City's budget estimated a 9% increase in the HIP rate for fiscals 2015 through 2018. 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 would have otherwise been paid into the Stabilization Fund. | | | | |
| • Rate increase of 2.89% vs. 9% in FY'16 | $17 M | $335 M | $367 M | $401 M |
| • Rate increase of 5.98% vs. 9% in FY'17 | | $8 M | $173 M | $190 M |
| • Rate increase of 7.84% vs. 9% in FY'18 | | | $ 3 M | $70 M |
| • Rate increase of 6.84% vs. 7% in FY'19 | | | | $1 M |
| **HIP HMO Preferred Plan**<br>• **Savings from Value Based Network (FY'17 - 4.88% for Preferred Plan vs. 5.98% for Non Preferred Plan)**<br>The transition from the HIP HMO plan to the HIP HMO Preferred Plan effective July 1, 2016 reduces the overall cost to the City for employees and pre-Medicare retirees enrolled in the program and lowers the benchmark HIP rate that drives the payment for their coverage. The City is obligated to make an equalization payment into the Stabilization Fund that makes up the difference between the HIP HMO rate and the GHI PPO rate. The HIP HMO Preferred Plan lowers the benchmark HIP rate, and thereby lowers the City's obligation to the Stabilization Fund. | | $3 M | $63 M | $69 M |
| **HIP HMO Plan Design Changes**<br>• **Savings from Combined Plan Design Changes (Reduction in rate in FY'18 from 7.84% {Without Plan Changes} to 6.76% {With Plan Changes} See below.**<br><br>o **HIP HMO – Urgent Care Copay Change from $0/$10 to $50 (eff. 7/1/17)**<br>This change will render the HIP HMO plan urgent care copay identical to that of the GHI CBP plan. It is intended to prevent unnecessary overutilization of care in more expensive settings.<br>o **HIP HMO – Change ER Copay Change from $50 to $150 (eff. 7/1/17)**<br>The change will make the HIP HMO plan ER copay identical to that on the GHI CBP plan. It is designed to prevent unnecessary overutilization of care in more expensive settings.<br>o **Focus on Provider Efficiency in the HIP HMO Plan (eff. 1/1/18)**<br>Savings will be generated from a focus on providers that are deemed efficient per the plan's standards. | | | $3 M | $66 M |
| **GHI Senior Care Plan Savings**<br>Similar to the HIP rate, the 8% annual increase budgeted for Senior Care premium increases for fiscal years 2015-2018 were settled at 0.32%, -0.07%, 4.73%, and 2.42%, respectively. | | | | |
| • Rate increase of 0.32% vs. 8% in FY'15 | $38 M | $42 M | $46 M | $50 M |
| • Rate increase of -0.07% vs. 8% in FY'16 | | $35 M | $39 M | $43 M |
| • Rate increase of 4.73% vs. 8% in FY'17 | | | $15 M | $16 M |
| • Rate increase of 2.42% vs. 8% in FY'18 | | | | $26 M |

| | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|---|---|---|---|---|
| **Lower Radiology Fees**<br>Emblem renegotiated the contract with their radiology provider resulting in lower costs that were phased in during the first half of CY 2016. Savings with their full effect are reflected from FY'17 onwards. | | $3 M | $20 M | $20 M |
| **Lower Durable Medical Equipment (DME) Fees**<br>Emblem selected a single source vendor for DME with lower fees. | | | $1 M | $ 1 M |
| **GHI CBP Program Changes**<br>Effective July 1, 2016, changes were made to the GHI CBP program that address the underutilization of primary and preventive care and the overutilization of emergency room, specialty and other care. All these changes generated significant savings. | | | $89 M | $ 89 M |
| **Diabetes Management Program**<br>Patients with Stage 2 or 3 diabetes or gestational diabetes are offered individual case management services from a registered nurse to help them find the most effective and efficient care. | | $1 M | $2 M | $2 M |
| **Focus on Provider Efficiency in the GHI CBP Plan (eff. 1/1/18)**<br>Savings will be generated from a focus on providers that are deemed efficient per the plan's standards. | | | | $9 M |
| **Specialty Second Opinions for Oncology**<br>Introduction of a program that provides specialty second opinions for treatment of cancer and other high-cost diseases. | | | | $ 3 M |
| **Telemedicine Program**<br>A program that is expected to lower the cost of care by reducing the overutilization of emergency room, urgent care, and unnecessary ancillary procedures/services. | | | | $ 1 M |
| **Buy-Out Waiver Incentive Pilot Program**<br>Pilot program to determine the impact of an increased incentive for waiving coverage. The increased enrollment was not sufficiently large to offset the increased costs of the incentive so the program reverted to the previous $500 and $1,000 incentives in CY 2017. | | ($3 M) | ($3 M) | |
| **Weight Watchers Program**<br>The program is expected to result in meaningful weight loss among participants and generate savings from lower medical costs. | | | | $2 M |
| **Stabilization Fund Adjustment**<br>This adjustment reflects a Stabilization Fund contribution to offset the intentional delay in the implementation of health plan changes. | $13 M | $36 M | | |
| **Total** | **$400 M** | **$700 M** | **$1.051 B** | **$1.316 B** |

Notes:

1. Totals may not add due to rounding.

2. The City received a refund from Empire Blue Cross for the overpayment of Graduate Medical Education (GME) related taxes, which normally would have been returned to the Stabilization Fund. By agreement with the Municipal Labor Committee, this refund was allocated to the City to offset any potential shortfall in the health savings agreement. A portion of this amount (i.e., $15 M), was identified in the June 2017 report, as potentially contributing towards the savings against the FY 2018 $1.3 B target. We now anticipate exceeding the $1.3 B savings goal, and the Blue Cross Credit Adjustment is no longer specifically allocated towards the FY'18 goal.

3. The value of rebates will be reconciled 240 days after the end of each contract year and should 100% of rebates exceed the minimum guarantees, the differential will be credited as savings towards the program.

4. In accordance with the Agreement, the parties will calculate the cumulative realized savings for FY 2015 – 2018 at the end of Fiscal Year 2018 and determine the distribution of any additional savings over the $3.4 billion target.