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June 19, 2017

To: Bill de Blasio
Mayor, City of New York

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First Deputy Mayor, City of New York

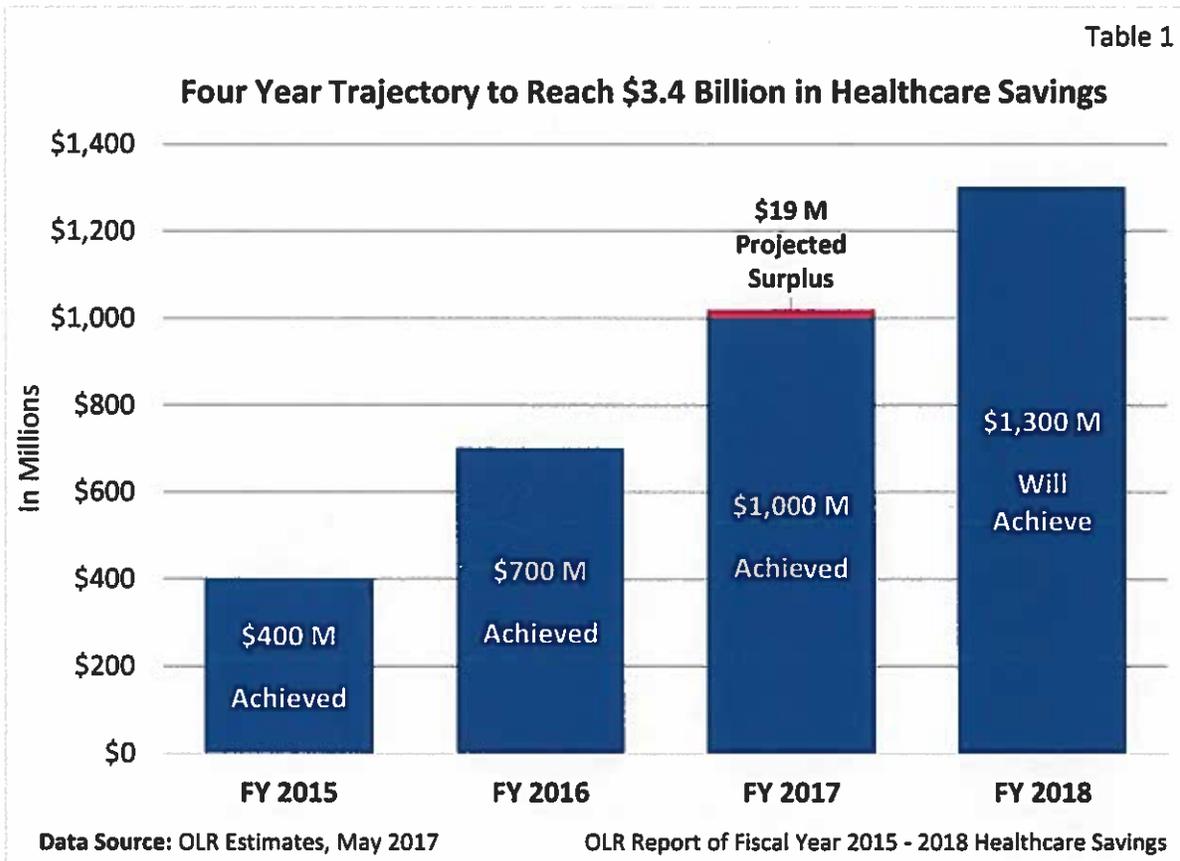
From: Robert Linn
Claire Levitt

Re: Report of Fiscal Year 2015 – 2018 Healthcare Savings
(Q2/Q3 FY 2017 Report)

We are pleased to announce that we have reached an agreement with the Municipal Labor Committee that will complete the commitment to achieving \$3.4 billion in healthcare savings.

This accomplishment is the result of more than three years of intensive effort by the City and the Municipal Labor Committee (MLC). Working collaboratively, the City and the MLC adopted program changes that meet the long-term cost savings goals while also improving health outcomes. Together we modernized the plan design, implemented operational efficiencies, renegotiated pricing with vendors and developed wellness programs, benefiting the City, its workers and taxpayers.

This health savings effort was the direct result of the City's 2014 collective bargaining agreement. The City and the MLC agreed that they would find cumulative healthcare savings of \$3.4 billion over a four-year period. Savings targets of \$400 million for Fiscal Year (FY) 2015, \$700 million for FY 2016, \$1 billion for FY 2017 and \$1.3 billion for FY 2018 were established with an ongoing \$1.3 billion savings to be realized thereafter.



Under the terms of the agreement, these healthcare cost savings would be imposed by arbitration if the City and the MLC were unable to achieve them through negotiation. This never became necessary during three years of bargaining, which speaks to the commitment and collaborative nature of this process.

The 2014 agreement provided that healthcare cost savings would be measured against the City's FY 2015-FY 2018 budget projections for healthcare, which anticipated 9% annual cost increases based on the actual HIP HMO rate trend for the prior 15 years. During that 15-year period, limited changes were made to the City's healthcare plans. However, as a result of the work of the City and the MLC and the lower than anticipated trend in healthcare costs, actual cost increases for the City's HIP HMO rate averaged

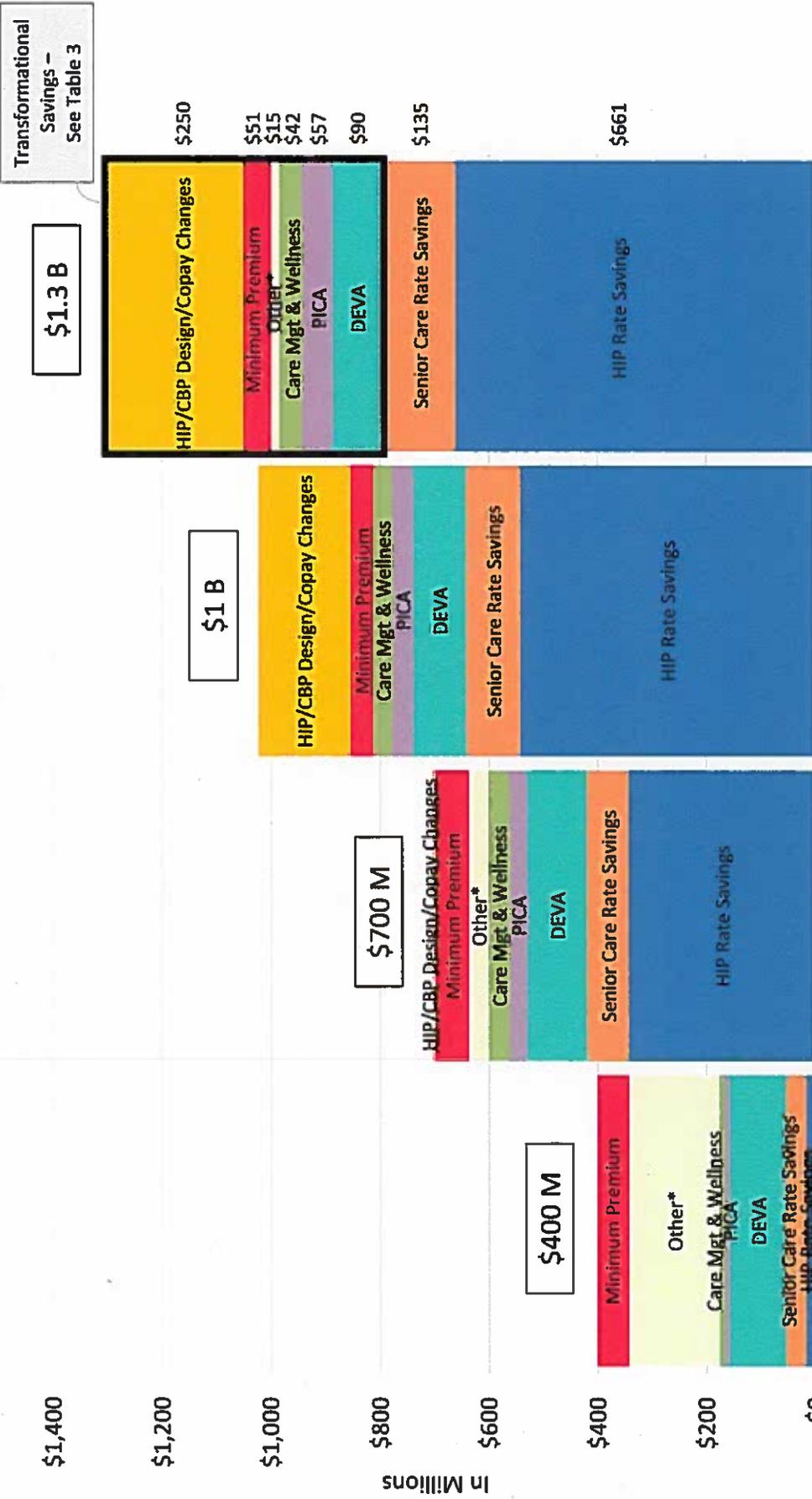
only 4.2% in FY 15- FY 18. In comparison, a nationwide study of health plan cost trends for HMO plans by The Segal Company found average annual increases of 6.6% in FY 15 –FY 17.

The table on the next page depicts the breakdown of savings by program type and year.

A detailed exhibit at the end of this report (Exhibit A) describes the actual programs and the projected year-by-year savings.

Table 2

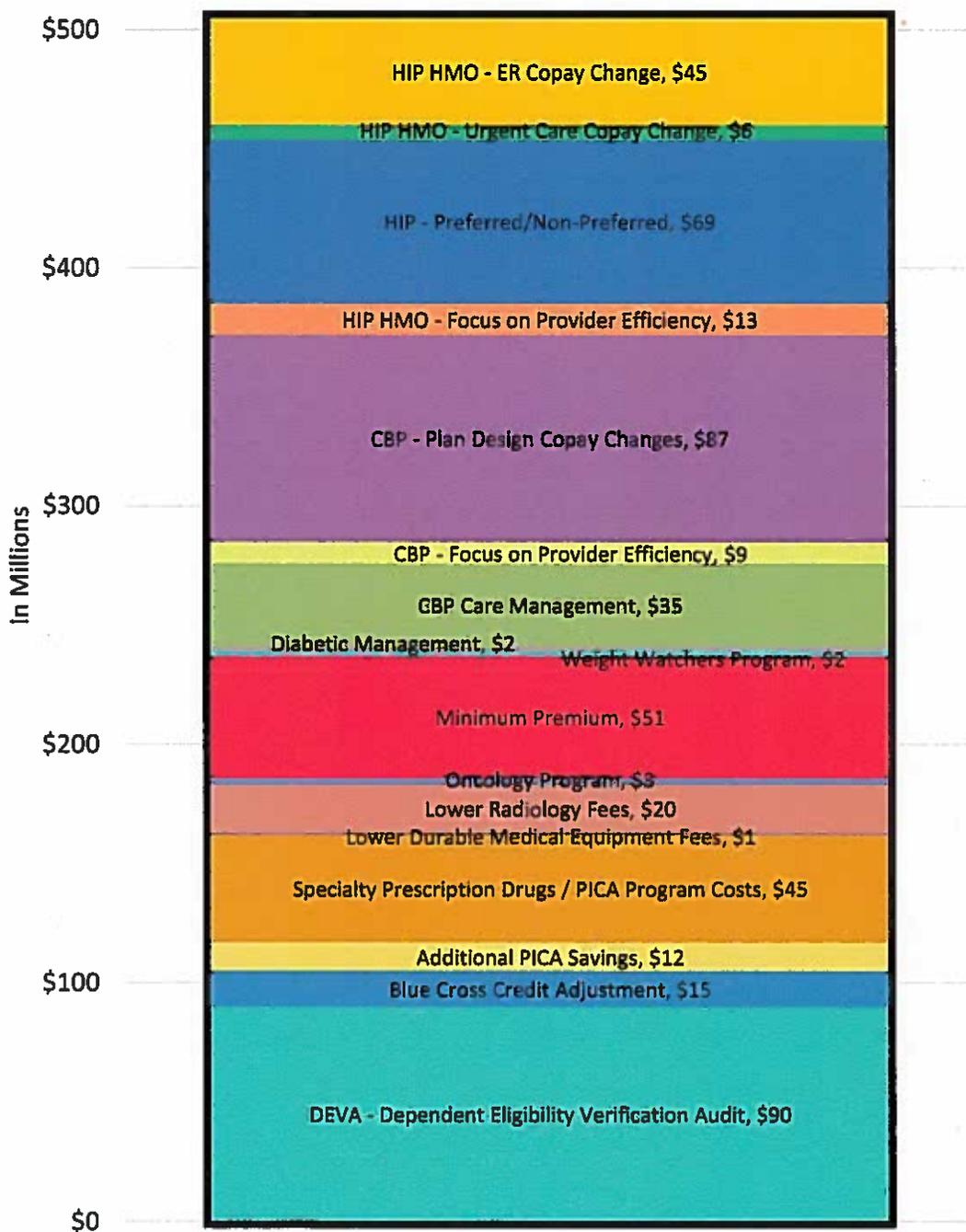
FY 2015 - FY 2018 Healthcare Savings by Cost Saving Measure



Transformational Savings - See Table 3

* Other: Mental Health Parity, Stabilization Fund Adjustment, Blue Cross Credit Adjustment, Blue Cross Admin Fee Reduction
 Data Source: OLR Estimates, May 2017
 OLR Report of Fiscal Year 2015 - 2018 Healthcare Savings

Transformational Savings, Fiscal Year 2018



Data Source: OLR Estimates, May 2017

OLR Report of Fiscal Year 2015 - 2018 Healthcare Savings

Fiscal Year 2015

The City and the MLC began developing and implementing savings programs in FY 2015. An essential aspect of this partnership was a first-time agreement to share aggregated data from the City's health plan insurers, in order to fully understand the utilization of the healthcare programs.

On April 1, 2015, only 11 months into the agreement, the City announced that the program was on target to reach the \$400 million savings goal. Significant changes that became the foundation of the four-year savings program are as follows:

- **The funding structure of the medical plan was changed from a fully insured program to a minimum premium plan.** Under this arrangement the City is responsible for paying all claims up to a predetermined aggregate level, with the insurance carrier responsible for covering the excess. This resulted in significantly lower administrative fees and positive tax implications.
- **The Committee aggressively negotiated rates with our insurers and vendors, obtaining reductions of the administrative fees** for hospital coverage and for care management programs.
- **Contractual provisions of the City's specialty drug program were renegotiated** to deliver substantial savings. Cost-management provisions such as pre-authorization and drug quantity management programs were added to the plan.
- **An extensive Dependent Eligibility Verification Audit (DEVA) ensured that all health premiums paid reflected an accurate headcount of dependents** listed for City employees and retirees.
- **A new Case Management program was offered for people living with diabetes.**
- **The City's hospital pre-authorization and case management program was enhanced** for the first time since 1992, to provide a more timely and comprehensive review of hospital admissions and to provide nurse case managers for all patients with complex acute and chronic conditions.
- **Mental Health Parity "Relief"** provided a one-time economic benefit. The MLC agreed to let the City keep a refund owed to the unions due to an arbitration ruling on mental health parity and instead apply the funds to the health savings.

Fiscal Year 2016

In FY 2016 substantial savings continued to accrue from reforms made in FY 2015 – most notably the funding structure change in the City’s GHI Plan and the implementation of DEVA. In addition, a number of new programs were implemented:

- **Care Management was enhanced** to include Outpatient Review, a Readmission Management program, new chronic disease management programs, and a change of vendors to provide a more effective program.
- **The cost of specialty prescription drugs was lowered** through a renegotiation of the contract.
- **Lower fee schedules were negotiated for the radiology and durable medical equipment programs.**
- **The City and the MLC launched an anti-obesity initiative in June 2016 that subsidized 50% of the cost for active employees to participate in Weight Watchers.** To date, the program has enrolled over 20,000 City employees and their dependents and created almost 100 worksite meetings throughout the five boroughs.

Projected Fiscal Year 2017

On July 1, 2016 the New York City Health Benefits Program, in collaboration with the MLC, implemented the most transformational changes to its health plans in decades. As a result, we can currently project that we will meet and possibly exceed the targeted \$1 billion in savings for FY 2017. Among the changes:

- **Co-payments were reduced for primary and preventive care and increased for emergency room and specialist visits, physical therapy, high cost radiology and urgent care to create economic incentives to encourage appropriate use of healthcare.** Preliminary results through the third quarter of FY 2017 confirm that these changes are producing significant improvements. There were approximately 10% fewer claims for emergency room visits filed in the first three quarters of FY 2017 than in the same time period in FY 2016; this has produced cost savings of about \$22 million. Urgent care and physical therapy utilization both dropped about 15% during that same time

period. Coupled with drops in high tech radiology and specialist visits, this resulted in projected annual savings to the medical plan of about \$50 million.

- **The HIP HMO implemented a change that both lowered its rate and improved the quality of care.** Under the new program, employees can still see preferred physicians for free, but must pay a \$10 co-pay to see a non-preferred physician. The preferred providers are working under what are known as value-based arrangements, which provide incentives to improve quality of care by meeting core measures that improve health.
- **The ZocDoc program was implemented** to offer plan participants online physician scheduling. ZocDoc has been very well-received; to date, NYC employees scheduled over 108,000 physician visits using this online service.

Projected Fiscal Year 2018

Although we have yet to enter FY 2018, the City and the MLC have already agreed upon the changes that will be required to satisfy the four-year \$3.4 billion dollar savings commitment. Savings continue to accrue from the programs implemented in FY 2015, FY 2016 and FY 2017 and several new programs will go into effect during FY 2018.

- **HIP HMO co-pays for urgent care and the emergency room will be raised** on July 1, 2017 to match those for CBP members, at \$50 for urgent care and \$150 for the emergency room.
- **A program that reshapes the Emblem Health HIP HMO and GHI networks to focus on provider efficiency** will generate significant savings for the health plans.
- **A program that provides treatment decision support for oncology patients and for other critical conditions** will be offered starting in 2018.
- **Bidding out the specialty drug program achieved significantly better discounts and rebates.** As a result, we expect to see about \$90 million in additional savings over the contract period through 2020.

Wellness

While achieving near-term healthcare cost savings, the City is also pursuing a long-term strategy of improving employees' overall health. Chronic diseases drive more than 80% of all healthcare costs and can be impacted by lifestyle changes. With this in mind, the Mayor's Office of Labor Relations (OLR) launched a series of worksite-based wellness initiatives, known as WorkWell NYC. WorkWell NYC programs encourage fitness, promote better nutrition, combat obesity, diabetes and hypertension and help prevent the spread of influenza. WorkWell NYC also offers the ESCAPE smoking cessation program in conjunction with the Department of Health and Mental Hygiene. We are also developing programs to address stress and mental health issues in partnership with the Employee Assistance Program and the City's ThriveNYC initiative.

These initiatives are part of a larger City effort to create policies, programs, resources and environments that make the healthy choice the easy choice.

Since many employees work for the City for a decade or more and continue their coverage as retirees, this investment in their physical and mental health could result in significant cost savings for years to come.

EXHIBIT A

FY'15 – FY'18 Projected Savings*

	FY 2015	FY 2016	FY 2017	FY 2018
<p>Funding structure change in the City's GHI Plan 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.</p>	\$58 M	\$61 M	\$41 M	\$51 M
<p>Dependent Eligibility Verification Audit (DEVA) 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.</p>	\$102 M	\$110 M	\$96 M	\$90 M
<p>Reduction in FY 2015 Administrative Charges The City's successful negotiation with one of its carriers on their FY'15 administrative fees resulted in savings for the City.</p>	\$4 M			
<p>Mental Health Parity "Relief" 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.</p>	\$148 M			
<p>Changes to the Care Management Program 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.</p>	\$10 M	\$38 M	\$34 M	\$35 M

* As of May 2017

	FY 2015	FY 2016	FY 2017	FY 2018
Specialty Drugs (PICA) Program Changes 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.	\$10 M	\$32 M	\$39 M	\$57 M
HIP Rate Savings 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.				
<ul style="list-style-type: none"> • Rate increase of 2.89% vs. 9% in FY'16 	\$17 M	\$335 M	\$367 M	\$401 M
<ul style="list-style-type: none"> • Rate increase of 5.98% vs. 9% in FY'17 		\$8 M	\$173 M	\$190 M
<ul style="list-style-type: none"> • Rate increase of 7.84% vs. 9% in FY'18 			\$ 3 M	\$70 M
HIP HMO Preferred Plan <ul style="list-style-type: none"> • Savings from Value Based Network (FY'17 - 4.88% for Preferred Plan vs. 5.98% for Non Preferred Plan) 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 – Urgent Care Copay Change from \$0/\$10 to \$50 (eff. 7/1/17) 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.				\$6 M
HIP HMO – Change ER Copay Change from \$50 to \$150 (eff. 7/1/17) 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.				\$45 M

	FY 2015	FY 2016	FY 2017	FY 2018
Focus on Provider Efficiency in the HIP HMO Plan (eff. 1/1/18) Savings will be generated from a focus on providers that are deemed efficient per the plan's standards.				\$13 M
GHI Senior Care Plan Savings Similar to the HIP rate, the 8% annual increase budgeted for Senior Care premium increases for fiscal years 2015, 2016, 2017 and 2018 were settled at 0.32%, -0.07%, 4.73%, and 2.51%, respectively, resulting in savings for the City.				
<ul style="list-style-type: none"> • Rate increase of 0.32% vs. 8% in FY'15 	\$38 M	\$42 M	\$46 M	\$50 M
<ul style="list-style-type: none"> • Rate increase of -0.07% vs. 8% in FY'16 		\$35 M	\$39 M	\$43 M
<ul style="list-style-type: none"> • Rate increase of 4.73% vs. 8% in FY'17 			\$15 M	\$16 M
<ul style="list-style-type: none"> • Rate increase of 2.51% vs. 8% in FY'18 (based on initial rates) 				\$26 M
Lower Radiology Fees Emblem had renegotiated the contract with their radiology provider for lower fees, resulting in lower costs for the City. The lower rates were phased in across geographical areas and providers during the first half of CY 2016, so savings associated with their full effect are reflected from FY'17 onwards.		\$3 M	\$20 M	\$20 M
Lower Durable Medical Equipment (DME) Fees Emblem selected a single source vendor for DME with lower fees, resulting in lower costs for the City.			\$1 M	\$1 M
GHI CBP Program Changes Effective July 1, 2016, changes were made to the GHI CBP program that address the underutilization of primary care and the overutilization of the hospital emergency room and specialty care. Additional changes address the costs and overutilization of high cost radiology procedures like MRIs and CT scans as well as laboratory testing. All these changes generate significant savings.			\$85 M	\$87 M
Diabetes Management Program Patients with Stage 2 or Stage 3 diabetes or gestational diabetes are offered individual case management services from a registered nurse. This generates savings by helping them find the most effective and efficient care.		\$1 M	\$1 M	\$2 M
Focus on Provider Efficiency in the GHI CBP Plan (eff. 1/1/18) Savings will be generated from a focus on providers that are deemed efficient per the plan's standards.				\$9 M

	FY 2015	FY 2016	FY 2017	FY 2018
Specialty Second Opinions for Oncology Introduction of a program that provides specialty second opinions for treatment of cancer and other high-cost diseases is expected to provide better and more efficient care at a lower cost.				\$ 3 M
Buy-Out Waiver Incentive Pilot Program The City launched a pilot program to determine the impact of an increased incentive for waiving coverage and receiving it elsewhere. The increased enrollment was not sufficiently large to offset the increased costs of the incentive for all enrollees in the program. This program reverted to the previous \$500 (individuals) and \$1,000 (families) incentives in CY 2017.		(\$3 M)	(\$3 M)	
Weight Watchers Program The program is expected to result in meaningful weight loss among participants and generate savings from lower medical costs.				\$2 M
Stabilization Fund Adjustment This is the adjustment to reflect a contribution from the Stabilization Fund as a result of the intentional delay in implementation of health plan changes.	\$13 M	\$36 M		
Blue Cross Credit Adjustment This represents a portion of the refund for the overpayment of Graduate Medical Education (GME) related taxes, which would otherwise have been returned to the Stabilization Fund but is instead being retained by the City.				\$15 M
Total	\$400 M	\$700 M	\$1.019 B	\$1.3 B

Totals may not add due to rounding.