PSC/CUNY Proposal for NYC Employee Health Benefits Program
December 30, 2022

The recommendations offered by Martin Scheinman on the future of healthcare for New York City retirees and employees present a false choice: either the City must force NYC retirees into private, for-profit Medicare Advantage or it must impose monthly healthcare premiums.

These are not the only options. Worse, neither option addresses the fundamental issues that are driving up the City's healthcare costs. Even if a Medicare Advantage program were put in place today and the savings were $600 million annually, the underlying problems would remain. Within a few years, the City would find itself back in the same crisis it is facing now.

A better solution is within reach. There is an alternative to stripping retirees of the free Medicare-based healthcare they were promised or changing the Administrative Code to eliminate a historic right to basic healthcare. The current crisis reveals the need for fundamental change in the cost structure of the City's healthcare coverage. The Professional Staff Congress/CUNY, a union that represents health policy professors among its 30,000 members, proposes an approach that responds to both the urgent need for immediate relief and the longer-term need for structural change. We believe that a solution can be developed that protects premium-free health coverage and at the same time addresses the root causes of escalating healthcare costs.

The solution requires recognizing the structural and political forces that have created the current healthcare situation and developing a political consensus to address them. It requires implementing a temporary fix, for the next three years, to replenish the Stabilization Fund while long-term solutions are negotiated. It also requires replacing the Stabilization Fund with a sustainable plan to fund the benefits it provides and current healthcare costs for active employees, retirees and their dependents.

The City Council can offer leadership in developing the solution by advancing new legislation. The goals of the legislation would be to:

- Formalize the City's commitment to premium-free high-quality healthcare for active employees, retirees and their dependents.
- Articulate the City's historic commitment to maintaining the same health insurance coverage for all workers and retirees, refusing to divide or tier access to healthcare by income, job title, gender or race.
- Affirm that the City will keep its promise to retirees of premium-free health insurance through traditional Medicare and a Medicare supplemental plan.
- Recognize that City workers have historically made sacrifices in wages to ensure that all City workers–active and retired–have the means to sustain their health and the health of their families and communities.

- Address the immediate crisis for the Stabilization Fund; relieve the pressure on collective bargaining funds; and buy time to develop a long-term solution by allocating some of the budget funding over the next three years that would otherwise go to the Retiree Health Benefits Trust. See "A Resource to Sustain Benefits While NYC Health Benefits are Restructured."
- Create a stakeholders' commission charged with finding a path to control health insurance spending, with a focus on hospital pricing, before the end of the three-year period.
- Develop a sustainable City health insurance funding mechanism, replacing the Stabilization Fund.
- Affirm the Municipal Labor Committee's right to bargain with the City over health insurance on behalf of public employees.

Such City Council legislation would be both visionary and pragmatic, in the best traditions of the Council and New York City.

Background

The existing mechanisms for New York City financing of health insurance for its employees, retirees and their families are no longer viable. The City pays for employee health insurance based on the mandated HIP/HMO rate. In 1984, when the HIP/HMO rate was insufficient to pay for a GHI PPO alternative plan (now called the Comprehensive Benefit Plan or CBP), the City and the Municipal Labor Committee (MLC, a coalition of unions that negotiate with the City over health care) created the Health Insurance Premium Stabilization Fund (Stabilization Fund) to bridge the gap. In the years when the HIP rate was more than enough to cover the CBP costs, the City paid into the Fund and the Fund grew. In years when the GHI plan cost more, the difference has been paid out of the Stabilization Fund. However, in recent years the cost of CBP has consistently been greater than the HIP/HMO rate, and the difference keeps expanding, with no signs of reversal.

In 2014, the City and the MLC agreed on the first of two Health Savings Agreements. Both agreements achieved savings by limiting increases in the HIP/HMO rate without effectively addressing the rising costs of care. *The result is that starting in fiscal 2016 the New York City budget has reflected an artificially suppressed health insurance obligation, while costs have continued to rise.* There is no foreseeable time when the City's payments into the Stabilization Fund will be adequate to equalize the difference between CBP costs and the HIP/HMO rate. The Stabilization Fund is guaranteed to run out of money. The savings the City is seeking from transferring retirees to Medicare Advantage will not resolve this issue: health care costs will continue to outpace the suppressed HIP/HMO rate unless action is taken to address rising costs themselves.

The largest driver of the rising costs for City workers' health insurance is hospital pricing. Compare the rates of reimbursement for doctors with those for hospitals in New York City. Commercial insurance reimburses doctors about the same amount as Medicare does. But the commercial insurance reimbursement rate for hospitals (both inpatient and hospital-based outpatient and ancillary service costs) averages 2.5 times what Medicare pays. New York City could use its regulatory powers and unique market share to lower hospital prices without damaging the capacity to deliver quality care.

Our Proposal

1.Buy enough time to develop a sustainable solution.

The City can buy time and sustain the Stabilization Fund over three years by allocating to it budget funding that would otherwise go to the reserves of the Retiree Health Benefits Trust and thereby not have to force NYC retirees onto a Medicare Advantage plan. See “A Resource to Sustain Benefits While NYC Health Benefits are Restructured.”

2.Create a stakeholder’s commission charged with finding a path to control spending.

The problem of rising hospital prices is political, not economic or technical. The City Council should authorize creation of a stakeholder commission to consider alternative approaches to hospital pricing. Members would include NYC elected officials, MLC leadership, union, hospital, physician, and insurance company representatives as well as elected retiree representatives. The Commission should have a sufficient budget to hire experts from academic and consulting groups. Its charge will be simple: develop a consensus plan to equitably limit hospital prices to ensure the city can achieve needed savings in health care spending while continuing to provide high-quality premium-free health insurance options to all City workers, retirees and their families.

3.Develop a sustainable City health insurance funding mechanism.

The commission should also develop recommendations to synchronize and rationalize funding mechanisms for active and retiree employee health insurance while maintaining the municipal unions’ rights to bargain about health insurance.