The Retiree Health Benefit Trust Fund
A Resource to Sustain Benefits While NYC Health Insurance Is Restructured
December 2022

PSC proposes that a small portion of the funds available to the Retiree Health Benefits Trust be used on a short-term basis to sustain benefits provided by the Health Insurance Stabilization Fund—instead of forcing retirees into a Medicare Advantage program to generate equivalent funding—while long-term solutions to accessible, affordable health coverage for City employees/retirees are negotiated. PSC's proposal will show that, due to the surplus in the Retiree Health Benefits Trust, the City can pay a large portion of the of the cost of retiree health benefits annually into the RHBT and use the difference to sustain the Stabilization Fund through FY2025, and that use of the funds in this manner is fiscally responsible and consistent with City practice.

One function of the RHBT for the past 15+ years has been to carry over revenue accruals for use in future years, not simply to pay for Other Post-Employment Benefits (OPEB). As of 2021, that function had become superfluous because of the creation of the Revenue Stabilization Fund. PSC proposes that the City withhold $0.5 billion a year over 3 years from reimbursement to the RHBT for the actual cost of retiree health benefits in order to sustain the Stabilization Fund benefits for the next three years. Doing so while still providing sufficient funding for post-employment health benefits would give the City and its unions time to develop long-term solutions to escalating healthcare costs.

Health benefits for current and future NYC retirees are roughly a $90 billion obligation. Because the number of employees and retirees has increased and health benefits cost more, the obligation has doubled since the City started reporting OPEB costs in 2006. While funding future pensions is a state constitutional requirement, funding future health benefits is not. The City has an obligation to pay for retiree health benefits, but the City practice is to "pay-as-you-go" each fiscal year.

"It's a matter of using resources from those times when revenues are relatively strong to mitigate the impact of economic downturns," said a spokesperson for Mayor Bloomberg on establishing the Retiree Health Benefit Trust Fund in 2006. And that is precisely how his and succeeding mayoral administrations have used the RHBT ever since, as a de facto rainy-day fund which even the City's fiscal monitors acknowledge as reserves when they assess the city's fiscal cushion, according to the IBO.

The one restriction was that money deposited in the Fund could be withdrawn only to pay for retiree health benefits. Those benefits (for municipal retirees and their dependents) are:

- Pre-Medicare health insurance
- Medicare supplemental health insurance (for those age 65+)
- Medicare Part B & IRMAA reimbursements
- Retiree union welfare fund contributions

Established with two $1 billion infusions in 2006 and 2007, conservatively invested, and replenished each year by at least the amount spent to pay for retiree benefits, the RHBT reached $3.2 billion by FY2010 when the Great Recession led to reduced tax revenues. Bloomberg then used Fund assets to pay for retiree benefits, but did not fully reimburse the Fund, using that money to help balance the City budget instead. The final Bloomberg financial plan anticipated draining the RHBT assets to $0 by FY2014. Instead, the incoming de Blasio administration added money to the RHBT. By 2019 it had grown to $4.7 billion. That ended in FY2020 when the last de Blasio budget did not reimburse the Trust fully and used about $1 billion for other government spending. By the end of 2020, net assets in the RHBT were reduced to $3.8 billion. Any mayor's decision not to fund the

Trust in a given fiscal year is constrained by the fact that the maximum withdrawal is the amount spent for retiree health benefits.

The most recent accounting of the RHBT issued by the City Comptroller shows a net balance of $4.58 billion as of the start of FY2023. During FY2021, the cost of retiree benefits had risen to $3.4 billion. The City is not required to provide funding beyond the pay-as-you-go amounts for benefits to current retirees and their dependents, but often does, sometimes to prepay the following year's expected expenses. During FY2022, the City contributed approximately $4.6 billion to the Trust.

As of 2021, the City can legally carry over revenue accruals into another fiscal year in the Revenue Stabilization Fund, so there is no longer a need for the RHBT to serve that purpose.

Rather than transferring the full amounts required to pay for the retiree benefits liability each year, the City could re-route $400 or $500 million annually to sustain benefits supported by the Health Insurance Stabilization Fund until the City and the MLC resolve the problem of providing and paying for comprehensive health insurance benefits for active and retired city employees with premium-free options.

How could the RHBT have the wherewithal to subsidize the Stabilization Fund and cover the costs of retiree health benefits? The adjacent box illustrates how that $500M per year could be diverted from the City's General Fund to the Stabilization Fund rather than the RHBT through at least FY2024 and possibly through FY2025.

The City has an obligation to pay for retiree health benefits and does so on a pay-as-you-go basis each year. In general, the RHBT pays the monthly bills for retiree health insurance (Medicare supplemental and non-Medicare) and for retiree welfare fund contributions and provides funds to reimburse 65+ retirees for Medicare Part B in April and for IRMAA in October. The City reimburses the RHBT for those expenses at the end of the fiscal year. This proposal assumes the City will reimburse the RHBT for those expenses minus $500M per year for 2-3 FYs.

> Here's How It Could Work
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> At the start of FY2023 (4 months ago), there was a net balance in the RHBT of $4.58B.
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> In FY2021, retiree health benefits cost $3.4B. We assume a $3.6B cost for FY2023 (+5% since FY2021), and maximum increases of 5.5% per year in FY2024, FY2025 and FY2026. If the City allocated $500M per year less to the RHBT than the cost of retiree health benefits and contributed that $500M to the Stabilization Fund for 3 fiscal years (the cost of retiree health benefits less $500M/year), the City and the MLC would have at least 3 years to restructure health benefits, including restructuring the Stabilization Fund. (Health care cost trend is based on the numbers used by the actuary to estimate the liability for OPEB. If health care costs increase more slowly than estimated or investment income grows, more funds will be available.)
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> Start of FY2023, $4.58 B: $3.6B needed to pay for retiree health benefits
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> - City repays $3.1B at end of FY2023; $0.5B to Stab. Fund
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> Start of FY2024, $4.08B: $3.8B for retiree health benefits
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> - City repays $3.3B at end of FY2024; $0.5B to Stab. Fund
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> Start of FY2025, $3.58: $4.0B for retiree health benefits. City makes periodic payments.

While the MLC and the City continue to work to lower hospitalization costs and consider the responses to the RFP for health insurance for active employees, and while the PSC has proposed other approaches to cost reductions, such as self-insurance by the City or cooperative purchasing of prescription drugs, none of these approaches offers the immediate relief and fiscal appropriateness of using excess funds in the RHBT to protect the Stabilization Fund while a long-term solution is found.