THE CITY OF NEW YORK
INDEPENDENT BUDGET OFFICE
110 WILLIAM STREET, 14TH FLOOR
NEW YORK, NEW YORK 10038
(212) 442-0632 • EMAIL: iboenews@ibo.nyc.ny.us

Testimony of Logan Clark
Assistant Director of Budget Review, New York City Independent Budget Office
To the New York City Council Committee on Civil Service and Labor
Regarding Amending the Administrative Code in Relation to Health Insurance Coverage
January 9, 2022

Good morning, Chair De La Rosa and members of the Committee on Civil Service and Labor. I am Logan Clark, assistant director of budget review at the New York City Independent Budget Office (IBO). Thank you for the opportunity to testify today regarding the proposed local law (Int 0874-2023) to amend the administrative code of the city of New York, which in effect would enable the city to place municipal retirees into a private insurance plan or require them to pay premiums to remain in standard Medicare. In fiscal year 2022 New York City paid $3.4 billion to provide health care to its over 250,000 retirees. This legislation would affect the portion of costs that the city pays for the premiums for supplemental Senior Care Medigap coverage, which annually costs the city approximately $600 million. The change authorized by the legislation would allow the city to implement its proposed new Medicare Advantage program that would effectively shift those costs to the federal government and to retirees.

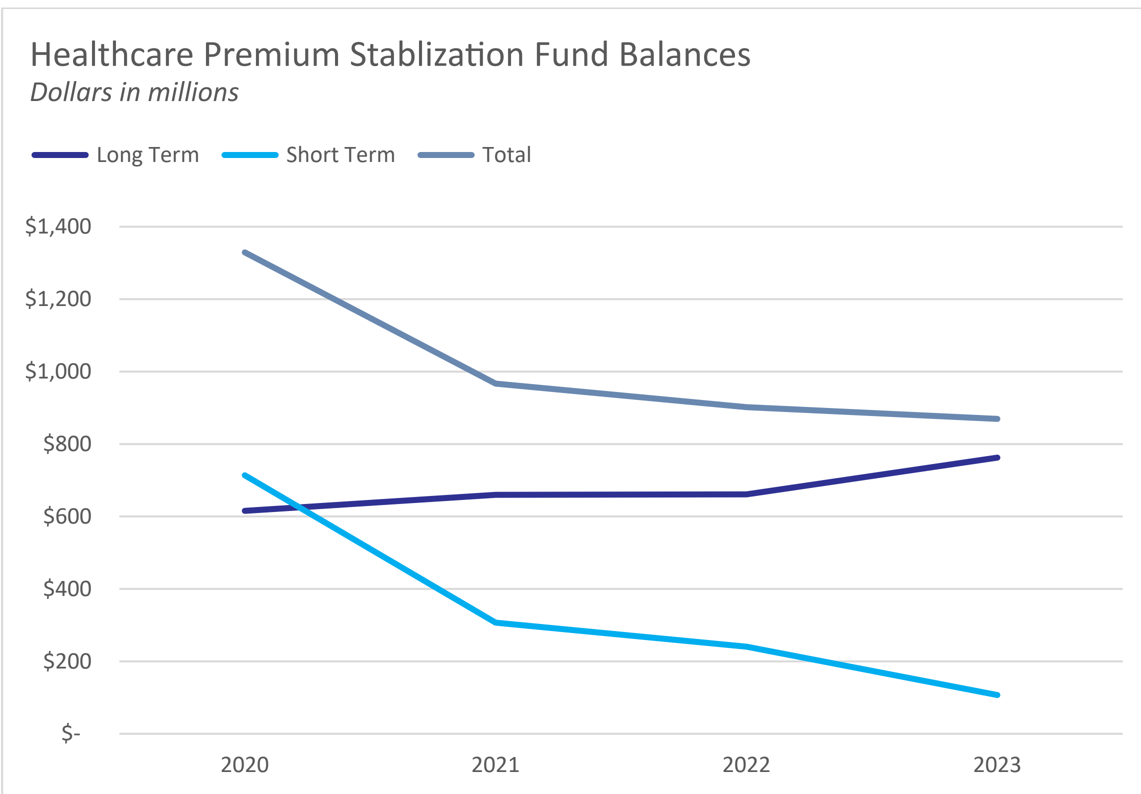
IBO previously testified about this planned change in October 2021. During that testimony, we noted that while this nominally frees up approximately $600 million annually, those savings will not accrue to the city's general fund, a statement that is still true today. As a result of agreements made by the city with the Municipal Labor Committee, all the savings resulting from ending the city's financial support for Medigap insurance will be contributed annually to the Joint Health Insurance Premium Stabilization Fund (hereafter, the Stabilization Fund). The assets of this fund, controlled jointly by the administration and the unions, are used for a variety of purposes including the funding of unions' welfare fund benefits, including the PICA Drug Program, Teladoc and mental health subsidies. The structure of the agreement between the city and the unions effectively transfers these city dollars from the general operating budget to a fund administered outside the ordinary budget process.

Why the Stabilization Fund?

Both the city's unions and the Adams administration have emphasized that a critical reason to move seniors to the Medicare Advantage Plus plan is to preserve the financial stability of the Stabilization Fund. The fund was created in 1984 to equalize costs between the city's two health insurance options at the time, GHI and HIP—each of which are offered to city workers at no cost.[i] In addition, the Stabilization Fund ensured that the rates paid by the city were predictable for budgeting purposes. The city's administrative code stipulates that the city must pay the HIP HMO rate for all employee health benefits. The fund's revenues are derived from equalization payments paid by GHI for years in which GHI's premiums are lower than HIP's. The fund also receives direct contributions from the city negotiated in labor agreements and earns interest on reserves. With this dedicated funding stream, by 2016 the fund had a balance of $1.8 billion. The decisions on how to utilize these hundreds of millions of dollars are made jointly by the city as represented by the Office of Labor Relations, and organized labor as represented by the Municipal Labor Committee (MLC). Over the decades the Stabilization Fund has been increasingly used to fund supplementary health benefits and per-member contributions to union welfare funds, which can be used at the unions' discretion.

Because of increasing withdrawals from the fund, and a decline in the primary revenue stream as GHI's premiums exceeded those of HIP beginning in 2019, a structural deficit has emerged in recent years, as the fund's annual obligations far exceed its revenues. The fund's balance was $1.4 billion at the close of fiscal year 2020. Today, it stands at $869 million, split between $762 million for the long-term stabilization fund and roughly $106 million in the short-term fund. Over the past three years, revenues accruing to the fund have averaged $138 million, while expenditures have averaged $310 million. With the pace of expenditures outstripping incoming revenues the fund does face issues of solvency in the near- to mid-term. As soon as this year, the city may need to tap into the long-term stabilization fund, as the short-term fund nears depletion. The chart below shows the balances of the stabilization fund at the end of each fiscal year.

The MLC and the city plan to utilize the savings from the transfer of the retiree health plan to Medicare Advantage Plus to provide the Stabilization Fund with an alternate revenue source. This new revenue source defers any need to deal with the fundamental issue facing the Stabilization Fund—the cost of annual obligations being financed with an unreliable stream of income. The agreement to move to Medicare Advantage continues the use of the Stabilization Fund as an off-budget transfer of city dollars to a special-purpose fund that has little or no budgetary oversight.



Conclusion

IBO's assessment of the planned switch to Medicare Advantage, which would be enabled by today's legislation, focuses on the city budget effects. IBO has not evaluated the difference between retirees' current coverage and that proposed under Medicare Advantage. If the change takes place as planned, however, rather than use the savings freed up by tapping federal funds to supplement existing services or cover other recurring costs, the city plans to use the entirety of this savings to fund benefits provided by the city's unions. Rather than allocating these savings through the typical budget process, the entirety of the savings will be allocated to an off-budget fund. In doing this, if the change takes place, the city is forgoing a significant opportunity to strengthen its fiscal position in relation to retiree health costs.

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[i] In 2006 Group Health Incorporated (GHI) and the Health Insurance Plan of Greater New York (HIP) merged to create EmblemHealth. GHI PPO and HIP HMO still exist as two separate health insurance plans under the umbrella of EmblemHealth.