The Utility of Trouble

Municipal Health Care and the GIC: Success and Limitations

The Fourth in a Series of Occasional Reports About Bringing Systemic Change to Scale in an Era of Limited Resources

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Municipal Health Care and the GIC:
Success and Limitations

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Introduction

In 2007, the Governor and Legislature created a new law allowing cities and towns to negotiate with their unions and retirees to join the Group Insurance Commission (GIC). Since then, 15 municipalities in metropolitan Boston have joined the GIC, and those communities reported savings of more than $35,500,000 in the first year: that figure does not include either savings from communities outside of metropolitan Boston or lower cost trends after the first year in the GIC.

Health insurance reform at the municipal level can provide significant relief to municipalities: that is documented in this policy brief. However, progress in moving municipalities to the GIC is now stalled because of the high threshold to negotiate into the state system, which requires coalition bargaining among all municipal labor unions. The 70% union approval requirement, and the associated tradeoffs that cities and towns might be expected to make in order to win that approval, is often an insurmountable barrier. Efforts to provide flexibility to municipalities to manage health insurance costs have gone nowhere. The crisis continues.

Background

In 2005, The Municipal Finance Task Force, a group of private sector, public sector, union, and academic experts and leaders led by John P. Hamill, then Chairman of Sovereign Bank New England, released a comprehensive report on the state of municipal finances in Massachusetts. The group was convened by the Metro Mayors Coalition, and facilitated by the Metropolitan Area Planning Council.

The report, *Local Communities At Risk: Revisiting the Fiscal Partnership Between the Commonwealth and Cities and Towns,* provides a comprehensive analysis of municipal revenues, municipal expenditures, and state local aid over a 25-year period and makes a series of recommendations to stabilize municipal finances.[1]

Not surprisingly, the report found that current health insurance cost trends were not sustainable: a Massachusetts Taxpayers Foundation/Massachusetts Municipal Association survey found that municipal health insurance premiums grew 63% in four years, while municipal budgets had only grown 14% during the same period.[2] Eighty percent of all revenue growth allowed under Proposition 2 ½ must be used just to cover health insurance increases. In short, **health insurance costs are crowding out public services – contributing significantly to layoffs and service cutbacks in our schools, public safety departments, and other municipal obligations.**

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[1] *Local Communities At Risk: Revisiting the Fiscal Partnership Between the Commonwealth and Cities and Towns*, a report by the Municipal Finance Task Force; http://mapc.placematters.org/sites/default/files/LocalCommunitiesAtRisk.pdf.

[2] *A Mounting Crisis For Local Budgets: The Crippling Effects of Soaring Municipal Health Costs*, by the Massachusetts Taxpayers Foundation; http://www.masstaxpayers.org/files/municipal%20health%20care.pdf

As a result of the report, John Hamill convened a subsequent Municipal Health Insurance Working Group that included municipal officials, union leaders, and top staff members from the Group Insurance Commission (GIC). After almost a year of research, negotiations, and legislative drafting, the Working Group crafted a compromise measure that would allow cities and towns to negotiate with their unions to enter the GIC, which provides health insurance to more than 300,000 public employees and their dependents at a generally lower cost than most municipalities can offer.

The Legislature and Governor Patrick embraced the compromise proposal and swiftly passed it into law (Chapter 67 of the Acts of 2007). The hurdles to enter the GIC are still high because the law required communities to use Coalition Bargaining to bring all unionized employees and also retirees to the table to negotiate entrance into the GIC, and requires that 70% of unionized employees agree to transfer their health insurance to the GIC – a bar that most communities in the Commonwealth have found too high to scale.

Results and Savings

In 2008, the Metropolitan Area Planning Council (MAPC) began an effort to assist communities in understanding the then-new option of joining the GIC. This effort involved more than 75 presentations across the state to municipal and union audiences, work with dozens of municipalities as they attempted to negotiate with their unions to enter the GIC, and the creation of an online Health Insurance Action Center and a GIC negotiation toolbox that has been valuable to municipal leaders. This effort was funded by the Boston Foundation.

The MAPC's efforts assisted fifteen municipalities in the Greater Boston area join the GIC and generated more than $35,500,000 in *first-year* savings alone for those municipalities.

The figures below outline the self-reported savings from each of those municipalities.[3]

Municipality	**1st Year Self-Reported Savings**
Swampscott	$1 million +
Melrose	$2 million +
Stoneham	$900,000 - $1 million
Weston	$1.9 million
Norwood	$1.5 million
Saugus	$1.75 million
Wenham	$100,000
Quincy	$10 million
Weymouth	$6 million
Randolph	$1.2 million
Holbrook	$300,000
Millis	$426,000
Brookline	$4.5 million
Watertown	$2.4 million
Winthrop	$1.7 million

These figures do not include savings from non-Metro Boston communities, which include large cities like Springfield and Pittsfield, or savings from the GIC's historically lower cost trends after the first year. In May 2009, the Collins Center at UMASS-Boston and the Rappaport Institute at Harvard's Kennedy School published an analysis that documented $14 -$18 million in savings in Springfield during the first two years of their membership in the GIC, and pegged future savings over the next three years at up to $64 million more.[4]

Although our primary intent was to explain the law and help communities negotiate the process to join the GIC, MAPC has also been one of the primary proponents of moving eligible retirees into Medicare. We have discussed the Medicare option at every presentation, created an online resource of cost analyses and presentations, and also organized special trainings focused on the Medicare issue. We have helped dozens of

[3]The figures on the table are the result of interviews with officials in all 15 communities listed. The self-reported savings figures typically include both actual lower costs as well as cost-avoidance estimates, i.e., lower cost trends in the GIC than the municipality *would have paid* to its previous insurance provider. In addition, the savings numbers only include first-year savings, although the savings multiply over time because the GIC historically has significantly lower trends in health insurance premium increases.

[4]*Controlling the Cost of Municipal Health Insurance: Lessons from Springfield*, by Robert Carey, May, 2009; http://www.mccormack.umb.edu/centers/cpm/documents/SpringfieldCostStudy_001.pdf.

communities in Massachusetts to make that reform, and the savings are real. In Natick, for example, we worked with municipal leaders and met with their employees and retirees to explain the option, and the town saved substantially after the change. An upcoming report from the UMASS-Boston Collins Center will document the rapid transition toward Medicare for municipal retirees over the past four years.

In the last year, the momentum to join the GIC has slowed for two reasons: there is ongoing confusion about whether there will be further reform in the near future, and more recently, the fiscal crisis forced the GIC to make significant mid-year changes to its plan design, including the addition of a deductible. The mid-year changes created a backlash among union members because it underlined that the GIC can change plan design without collective bargaining, and most negotiations stopped as a result. Last December, only Brookline and Hopedale met the deadline to join the GIC by July 2010.

The Boston Foundation commissioned and published an *Understanding Boston* report in February of 2010 to explore the missed savings opportunity.[5] *Leveling the Playing Field: Giving Municipal Officials the Tools to Moderate Health Insurance Costs* documented the significant amount of cost avoidance that could be realized by communities if they were provided the same authority that the GIC possesses to modify plan design outside of the collective bargaining process. According research and data analysis for four communities, Boston could have reduced its 2010 health premiums by between 15.6 and 17.1 percent, for a savings of between $41.4 and $45.4 million, Cambridge would have saved between $3.7 and $4.4 million, and Marshfield would have saved between $450,000 and $530,000. The fourth municipality studied, Melrose, actually did join the GIC in July of 2009, and as a result, is in line to save $1.6 to $1.8 million on its health insurance premiums this year, a reduction of between 15.8 and 17.4 percent.

Next Steps

During the FY2011 budget debate at the State House, the Massachusetts Senate proposed further reforms to municipal health insurance that would have increased the leverage of municipalities to force plan design changes or transfers to the GIC, but stopped well short of satisfying municipal leaders' request for plan design authority outside of collective bargaining. This plan was not taken up by the House or in the Conference Committee budget. Unfortunately, prospects for any reform during the current legislative session are dim.

Going forward, some municipal leaders are considering advocating for a ballot question to grant municipalities the same ability to change plan design that the state uses through the GIC. In addition, municipal leaders will continue advocating for the Legislature to adopt stronger reforms that will give cities and towns to ability to manage their health insurance costs.

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[5] *The Utility of Trouble - Leveling the Playing Field: Giving Municipal Officials the Tools to Moderate Health Insurance Costs,* by Robert Carey, February, 2010; http://www.bostonfoundation.org/uploadedFiles/tbforg/Utility_Navigation/Multimedia_Library/Reports/UtilityOfTrouble_2010.pdf

The conclusion that the Hamill Commission drew back in 2005 is still accurate: health insurance cost trends are not sustainable and those costs are crowding out spending on core public services. That conclusion has only been magnified by the fiscal crisis and further moderate cuts to local aid.

The fact that 15 communities in Metro Boston negotiated into the GIC and report first-year savings of more than $35 million dollars underlines that we know we can save money on municipal health insurance. We also know that the state has managed its own costs through plan design changes, and that granting greater authority to municipalities to change co-pays and deductibles can provide immediate, substantial savings.