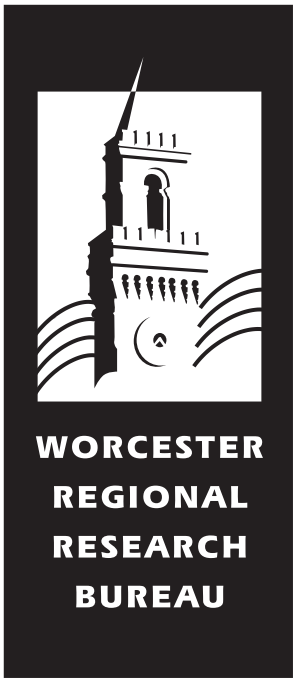

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CONDITION SERIOUS, PROGNOSIS UNCERTAIN: THE IMPACT OF MUNICIPAL EMPLOYEE HEALTH INSURANCE ON MASSACHUSETTS CITIES

Report No. 05-01
February 28, 2005

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Executive Summary

The City of Worcester has faced severe budget pressure in the last three years. While part of that pressure arises from changes in state aid and increased salary costs, the fastest-growing area of municipal costs is employee and retiree health benefits. The Research Bureau has examined national trends and health benefits data from 28 Massachusetts cities, including 18 with populations over 40,000 and municipalities in the Worcester region. The survey found that Worcester's benefits structure is more costly when compared with national averages, neighboring communities, and larger communities in Massachusetts. Among its conclusions are the following:

- Worcester's health insurance benefits are more generous to municipal employees and more costly to the City than most other cities surveyed by the Research Bureau.

- Health insurance premiums for Worcester employees and retirees consume 15% of the City's budget. By contrast, major local private sector employers surveyed dedicate 5% or less of their budgets to employee health insurance benefits. In other words, Worcester taxpayers are paying to provide more generous health insurance to municipal employees than they themselves receive.

- Worcester pays the highest percentage of premiums allowed by state law for HMO plans—90%. This is a higher percentage than the average paid by the 28 municipalities surveyed (76%) or the average among cities in Massachusetts with a population over 50,000 (82%).

- Worcester, Boston and Cambridge are the only cities surveyed that pay more than 80% toward Point Of Service (POS) health plan premiums—Worcester pays 87% for individual and family POS premiums. (Only 33% of Massachusetts cities surveyed offer a POS plan.)

- Worcester's high premium and contribution rates result in the City paying more than $1,200 more per employee each year than the average city surveyed—at least $6.6 million each year.

- 40% of City of Worcester retirees remain on the City's HMO or POS plans. The city pays the same contribution rate for these retirees and active employees (90% and 87%).

- By altering the co-payment structure, the City of Worcester could alter the way health care is consumed, lowering demand and reducing premium amounts (or slowing their increase) for the City and its employees.

- If the City contributed 75% of the lowest cost health plan premiums, the savings of over $15 million could be used to hire 250 employees and the services they provide, or else return $260 to the average homeowner *and* $1300 to the average commercial property owner.

I. Introduction

This report presents the results of a survey of employee health insurance benefits for 28 cities and towns in Massachusetts, an analysis of national and statewide data on private employers, as well as data from other state and local governments. The report includes data on premium amounts, employee contribution rates, and elements of plan design including office visit and prescription drug co-payments.

Rapidly escalating health insurance costs are not simply a local phenomenon. Indeed, medical costs and health insurance premiums nationwide have been climbing at double-digit rates. Average premiums for a family of four have increased from $5,700 in 1999 to $10,000 in 2004.[1] A primary reason for the increasing cost of health insurance nationwide is the increase in the cost of health care. Advanced technology, medications, and procedures have all extended life expectancy and improved the quality of life for many. These advances are expensive and those costs are built into health insurance premiums. In addition, many health plans are structured so that health care consumers are not aware of the costs of their care. Indeed, this has been cited as another primary reason for the rate of growth in health care costs since 1960.[2] For instance, surgical procedures are generally more expensive if performed in a teaching hospital. Most patients in need of surgery are not aware of the cost differences among providers and have no incentive to choose a lower-cost provider. The additional costs are borne initially by the insurance company, which then must build the costs into future premiums. Longer life expectancy also contributes to higher costs of providing insurance to retirees, who live longer and use more procedures and medications. Reforming health care and health insurance costs may require reforms that make more of the costs of health care tangible to health care consumers.[3]

A number of variables affect the overall cost of health insurance plans. Some plans have larger provider networks than others, which may be more expensive to maintain (HMO's pay doctors or health care clinics or other HMOs to keep in-network doctors in-network; hence, larger networks are more expensive to maintain). Also, some networks include more higher-cost providers (prominent teaching hospitals, for instance) than others. Insurance for large organizations (including municipalities) is often "experience rated:" the insurance rates are based on the actual risk history of the people in the plan. The claims from the organization are used to determine the risk involved, and the rates are adjusted accordingly. As a result of these differences, the same plan may be priced differently in different communities. (For example, the total annual family premiums for Blue Cross Blue Choice POS for municipal employees are $16,000 in Framingham, $14,000 in Worcester, and $12,000 in Brockton.)

[1] Kaiser Family Foundation and Health Education Research Trust. Employer Health Benefits 2004 Survey, 1999 Survey.
[2] Stuart H. Altman, et. al. "Escalating Health Care Spending: Is it Desirable or Inevitable?" *Health Affairs*: *The Policy Journal of the Health Sphere*. Web exclusive. January 8, 2003. http://www.healthaffairs.org.
[3] Stuart H. Altman, et. al. ibid.

In Worcester, employees who work over 20 hours per week are eligible for benefits, including health insurance (this includes elected officials--city councilors and school committee members). Health insurance costs are consuming more and more of the municipal budget. In FY91, when the Research Bureau began expressing concern about escalating health insurance costs, the City's health insurance costs (approximately $23.4 million) accounted for approximately 8.5% percent of the budget. By FY00, they had climbed to $30 million, or 10% of the City budget. In FY05, health insurance consumes 15% percent of the city budget—$65 million and will grow in FY06.[4] In other words, for every $100 that the City spends, $15 goes to pay for health insurance for the City's approximately 9,000 employees and retirees—making the provision of health insurance to employees a major "function" of City government. In the private sector, by contrast, percentages are much lower; Verizon estimates that it spends 5-6% of its total budget on health benefits. Morgan Construction dedicates 4% of its budget to health benefits, and Holy Cross dedicates 4% of its operating budget for health insurance. According to the Employer Benefits and Research Institute, private employers spent 6.5% of their total *compensation*[5] costs on health insurance in 2002.[6] The same Institute found that in 2003, health insurance benefits account for 9% of total compensation costs for state and local governments which means that health benefits are less than 9% of the total budget for states and local governments nationally.[7] Based on this data, Worcester's municipal health insurance costs (15% of the total budget) are disproportionate.

While the City has seen dramatic increases in property values in recent years which resulted in increased tax revenues, all new tax revenues have been absorbed by escalating health insurance costs. Thus, these increased costs reduce the revenues available to support other municipal functions and prevent tax reductions.

Much of the data contained in this report deals with the three primary types of health insurance. Below are definitions of each type.

Health Maintenance Organization (HMO)

Health Maintenance Organizations (HMOs) provide health care from a network of health care providers. HMOs either do not cover, or cover only on a limited basis, visits to providers outside the network. They require enrollees to see a primary care physician (PCP) who manages the enrollee's health care, referring patients to specialists when appropriate. Because of such management, HMO costs, and therefore premiums, are typically lower than those for other types of plans.

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[4] Worcester Regional Research Bureau. *Cutting Worcester's Health Insurance Costs*, March 5, 1991; *Municipal Employee Health Benefits: A Comparison with Other Communities*, April 28, 2001, *Worcester FY05 Budget: More Tough Questions*, June 22, 2004.

[5] Emphasis added: this is a higher percentage than the heath insurance costs as a percentage of the total budget. Health insurance costs as a percentage of total budgets nationally would have to be less than 6.5% based on these figures

[6] Employer Benefits Research Institute. "Employer Spending on Benefits, 2002," *Facts from EBRI*. May, 2004. www.ebri.org.

[7] Employer Benefit Research Institute. "Compensation Costs in State and Local Governments: March 1991 to March 2003. *Facts from EBRI*. September, 2003. www.ebri.org.

Preferred Provider Organization (PPO)

The major difference between the Preferred Provider Organizations (PPO) and the HMO is that PPO enrollees can see specialists without first consulting a primary care physician. PPOs still operate with a network of providers, and care from in-network providers requires lower co-payments than out-of-network providers.

Point Of Service (POS)

Point of Service Plans allow greater flexibility than an HMO, but still require a primary care physician (PCP) to manage care. The PCP can refer patients to out-of-network providers without any greater resultant co-payment.

II. National Averages and Worcester

The charts below indicate the extent of the health insurance cost problem nationwide.[8] All of the charts below are based on the premiums for a family of four. As figure 1 shows, average family premiums have increased from under $7,000 to nearly $10,000 per year between 2000 and 2004. In Worcester, family premiums have increased from $6,000 in 2000 to a projected $16,000 for Blue Cross ($13,000 for Fallon Select) in 2006.

Figure 1

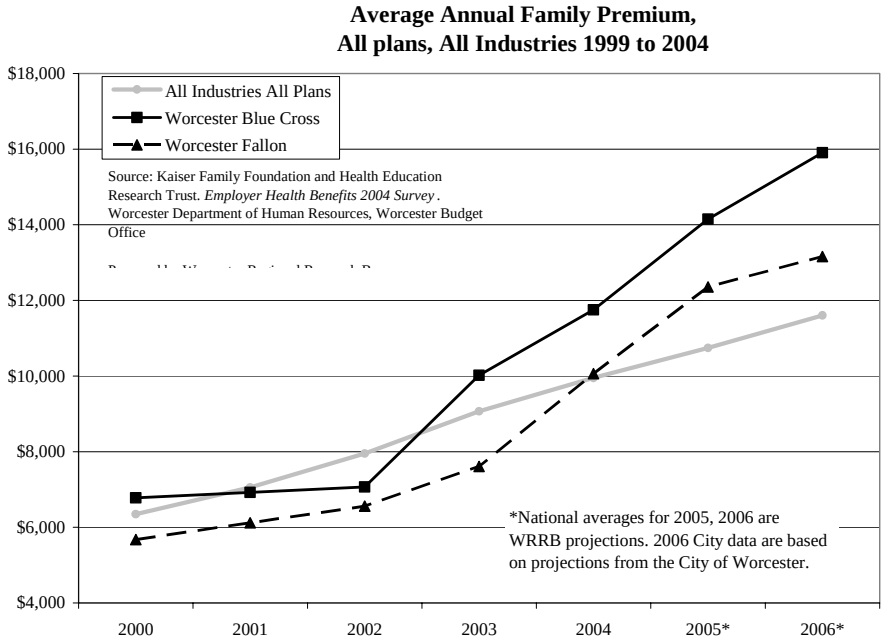
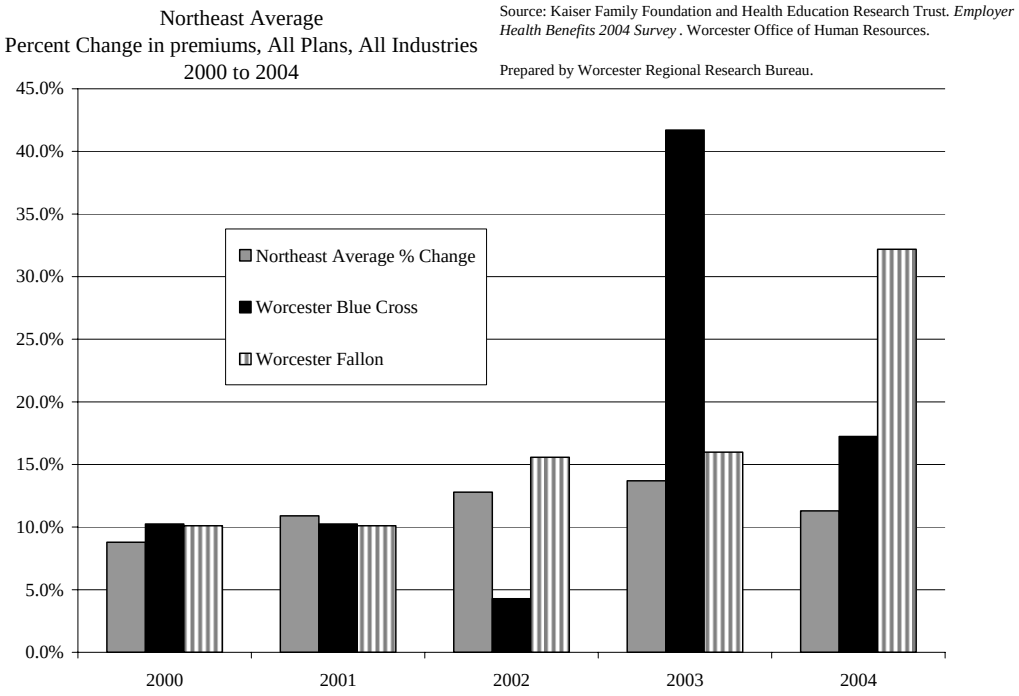


Figure 2 shows the percent change in total premiums over the last four years as well as the percentage increases for the City of Worcester employee benefits. With the exception of Blue Cross in 2002, Worcester shows double-digit percentage increases in each year.

[8] Kaiser Family Foundation and Health Education Research Trust. Employer Health Benefits 2004 Survey. 2004.

In 2003, Blue Cross premiums increased by more than 40% for the City of Worcester, more than triple the northeast average.

Figure 2



III. Contribution Rates Comparison

A. Regional and National Averages

Figure 3 shows the 2004 northeast averages for employer contributions to HMO and POS plans as well as the City of Worcester. Contribution rates from the northeast average show a substantial drop-off for family plans suggesting that many employers have lower contribution rates for family plans than for individual plans. The City of Worcester pays nearly 10% more than the average for single and 12% more than the average for family plans.[9]

[9] The data from the Kaiser Family Foundation Employer Health Benefits 2004 survey includes responses from both private employers and state and local governments. State and local governments are 1.5% of the weighted total for the survey.

Figure 3

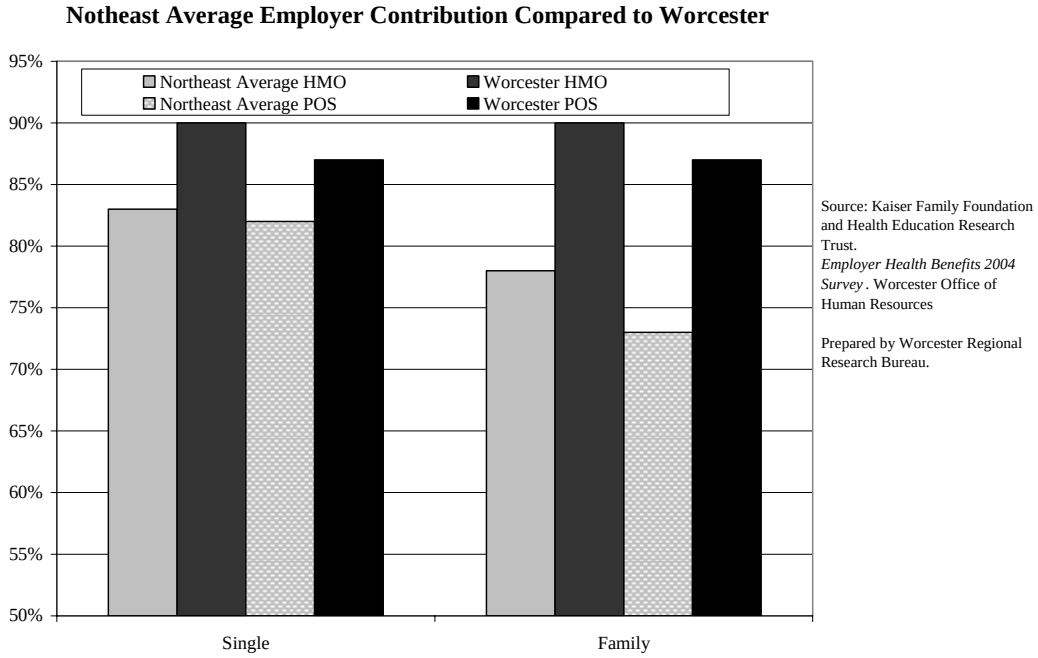


Figure 4 shows that employers in most industries nationwide contribute less than 80% of the cost of HMO premiums. State and local governments contribute at an average rate of 80% towards family premiums for HMOs. For POS plans, all industries averaged 71% contribution toward family premiums, 16% lower than Worcester's contribution rate. Worcester contributes 90% toward HMO premiums and 87% toward POS premiums. Another survey by the International City Management Association reports that cities and towns nationwide contribute 75% to HMO plans and POS plans.[10]

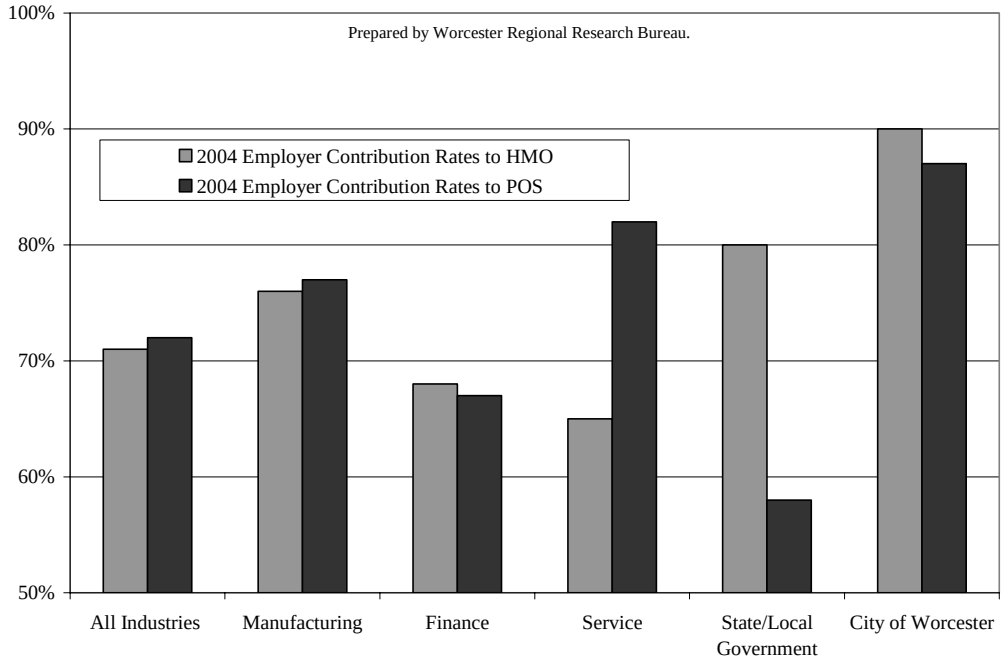
[10] International City Management Association. "Health Plans for Local Government Employees, 2002." http://www.icma.org.

Figure 4

Contribution to Family Plans in Worcester and by Industry Nationwide

Source: Kaiser Family Foundation and Health Education Research Trust.
Employer Health Benefits 2004 Survey . Worcester Office of Human Resources

Prepared by Worcester Regional Research Bureau.



B. Local Employers

A sampling of major employers in the Worcester area reveals that the City contributes more toward employee health benefits than many area businesses do. The College of the Holy Cross, for instance, pays 90% of the lowest cost health insurance option, and offers that same dollar amount toward other plans (which amounts to 83% for Fallon Select, and 66% for Tufts or Harvard Pilgrim HMOs). If employees want a more expensive plan, they are obligated to pay the difference. Holy Cross does not offer a POS plan. Similarly, Rotman's Furniture pays 85% of the lowest cost insurance plan or an equal dollar amount toward more expensive plans. As a result, Rotmans pays 85% of Fallon Direct HMO and 62% for the more expensive Tufts Premium HMO. One major unionized employer in the region, Verizon, pays 100% of unionized employee health insurance premiums, although it increased co-payments and deductibles in a recent contract with the Communications Workers of America.[11] Another major unionized employer in the region pays 100% of the lowest cost provider; hence the employer contribution for the more expensive PPO is under 80%.[12]

[11] Communications Workers of America. Press Release. September 4, 2003.
[12] Health insurance data for private companies is not public information; hence not all firm names are included in this report.

Table 1 shows average contribution rates of 22 plans provided by 10 employers in the Worcester region followed by national and regional averages for the various plan types. Of the relatively large private employers in different industries contacted for this survey, only three offer a POS plan. Many employers have eliminated POS plans in order to reduce costs. Nationally, 70% of employers do not offer POS plans at all.[13] As the following table shows, Worcester's contribution rates are substantially higher than those offered by private employers locally, in the Northeast, and across the country.

Table 1

Local, regional, and national contribution rates for private firms

	Family Coverage	
	Employer Contribution	Employee Contribution
Average of 22 plans from employers in Worcester region*	79%	21%
HMO Plans		
City of Worcester HMO	**90%**	**10%**
Northeast average all firms HMO**	78%	22%
National average large firms HMO**	76%	24%
National average all firms HMO**	71%	29%
POS Plans		
City of Worcester POS	**87%**	**13%**
Northeast average all firms POS**	73%	27%
National average large firm POS**	77%	23%
National average all firms POS**	72%	28%
PPO Plans		
National average all firms PPO**	73%	27%
National average large firms PPO**	76%	24%

* Includes plans from ten different employers. Each plan offered at a different rate is included in the average. The average includes 18 HMO plans and 4 PPO plans.

** Kaiser Family Foundation Employer Health Benefits 2004. In the survey, large firms are defined as firms with more than 200 employees. Kaiser employer data includes state and local employers, but their responses are weighted to account for only 1.5% of the

.

C. Massachusetts Cities and Towns: Data

In the following pages we offer findings on how Worcester's health benefits and costs compare with those offered by other Massachusetts municipalities. The cities chosen for comparison have populations over 35,000 or are near Worcester. (For complete data, visit the Research Bureau website, www.wrrb.org.)[14] The data submitted by each municipality regarding its health insurance plans for employees are based on rates for 2005 unless otherwise noted. Because of the differences in costs and benefits among the kinds of health plans, we present each type of plan separately. In most tables below we present Worcester in the context of larger communities in Massachusetts and the average of the municipalities surveyed.

[13] Kaiser Family Foundation. Employer Health Benefits Survey 2004.
[14] The Research Bureau contacted 54 cities and towns from across the state.

1. Health Maintenance Organizations (HMO):

Table 2 below shows ten cities including Worcester with populations over 60,000 and an average for all of the cities surveyed; the cities are listed from the highest contribution rate to the lowest.[15]

Table 2

10 Most Populous Cities Surveyed		Monthly Family Contribution Rates			
HMO Plans	**Population**	**City Pays**		**Employee Pays**	
Boston	589,141	**90%**	NA	**10%**	NA
Worcester	172,648	**90%**	$927	**10%**	$103
Quincy	88,025	**90%**	$1,014	**10%**	$113
Framingham	66,910	**90%**	$931	**10%**	$103
Cambridge	101,355	**88%**	NA	**12%**	NA
Newton	83,829	**80%**	$729	**20%**	$182
Springfield	152,082	**75%**	NA	**25%**	NA
Lowell	105,167	**75%**	$691	**25%**	$230
Brockton	94,304	**75%**	$744	**25%**	$248
Fall River	91,938	**75%**	$681	**25%**	$227
Lynn	89,050	**75%**	$514	**25%**	$171
28 Municipality Average	47,715	**76%**	**$747**	**24%**	**$238**

Average includes 20 cities with a popluation over 35,000, the Commonwealth of Massachusetts and 8 towns near Worcester. For complete data from all cities surveyed, visit www.wrrb.org.

The City of Worcester pays the highest percentage of HMO premiums allowed by state law, 90%. Due to its high contribution rate Worcester pays $100 or $200 more per employee enrolled in the HMO family plan each month than the average of the cities surveyed (and the state), a difference that totals $3 million based on current enrollment levels in Worcester. Similarly, by paying 10% of the total premium, Worcester employees contribute less than half of what the average employee in the 27 cities surveyed pays for an HMO plan ($103 compared to $238).

2. Preferred Provider Organizations (PPO)

No community surveyed pays more than 75% of the cost of PPO plans. Worcester does not offer a PPO plan; for details on Massachusetts cities and towns surveyed with PPO plans, visit www.wrrb.org.

3. Point of Service Plans (POS):

Table 3 shows Worcester and 13 cities listed from the highest contribution rate to the lowest. With the exceptions of Boston, Cambridge, and Worcester, no city surveyed, out

[15] Data on premium amounts was not available from cities designated with an NA.

of 13 municipalities plus the Commonwealth of Massachusetts that offer POS plans, pays more than 80% of monthly premiums for such plans. Worcester's POS product, Blue Cross Blue Choice, is not only the most expensive plan the City offers, it is also has the highest enrollment. As a result of Worcester's high premium and contribution rate, the City pays over $100 more per month ($1200 annually) per employee than the average city pays for a family POS plan. Worcester employees pay less than half the average employee contribution for a POS plan ($153 compared to $329).[16] Among municipalities surveyed, contribution rates ranged from a high of 88% (Cambridge) to a low of 50% (Shrewsbury and Northborough). Approximately two thirds of the cities surveyed do not offer a POS plan.

Table 3

Cities Surveyed with POS plans		**Monthly Family Contribution Rates**			
POS Plans	**Population**	**City Pays**		**Employee Pays**	
Cambridge	101,355	**88%**	NA	**12%**	NA
Worcester	172,648	**87%**	$1,026	**13%**	$153
Boston	589,141	**85%**	NA	**15%**	NA
Newton	83,829	**80%**	$1,167	**20%**	$292
Framingham	66,910	**80%**	$1,083	**20%**	$271
Boston	589,141	**75%**	NA	**25%**	NA
Brockton	94,304	**75%**	$754	**25%**	$251
Fall River	91,938	**75%**	$759	**25%**	$253
Medford	55,765	**75%**	$1,011	**25%**	$337
Westfield	40,072	**75%**	$792	**25%**	$264
Chelsea	35,080	**75%**	$984	**25%**	$328
West Boylston	7,481	**75%**	$854	**25%**	$285
State of MA*		**75%**	$687	**25%**	$229
Salem	40,407	**65%**	$861	**35%**	$464
Shrewsbury	31,640	**50%**	$812	**50%**	$812
Northborough	14,013	**50%**	$546	**50%**	$546

*Employees hired after June 30, 2003

4. Medicare Supplemental Plans

Once employees turn 65, most are eligible for Medicare, which covers many of the basic health care expenses; some employers also offer supplemental plans to retirees that cover Medicare deductibles, co-insurance, co-payments, and other expenses that Medicare does not cover (such as overseas hospital visits). Most employers, however, do not offer such plans. Whereas in 1986, 66% or large employers offered Medicare supplemental health plans, in 2004, only 36% did.[17] All of the Massachusetts municipalities surveyed offer Medicare supplemental plans, whereas none of the local employers surveyed do. (Worcester's elected officials—City Councilors and School Committee members—are eligible for these and other city retirement benefits.) Table 4 (facing page) lists plans by the municipal contribution rate.

[16] All data for cities with POS plans is available at www.wrrb.org.
[17] Kaiser Family Foundation. Employer Health Benefits Survey 2004.

Table 4

Medicare Supplemental Plans		Monthly Individual Contribution Rates			
	Population	City Pays		Retiree Individual	
Brockton	94,304	**90%**	$376	**10%**	$42
Quincy	88,025	**90%**	$289	**10%**	$32
Framingham	66,910	**90%**	$242	**10%**	$27
Waltham	59,226	**90%**	$189	**10%**	$21
Brockton	94,304	**85%**	$294	**15%**	$52
Worcester (Fallon)	172,648	**84%**	$166	**16%**	$32
Newton	83,829	**80%**	$213	**20%**	$53
Newton	83,829	**80%**	$168	**20%**	$42
Lowell	105,167	**75%**	$313	**25%**	$104
Framingham	66,910	**75%**	$305	**25%**	$102
Fall River	91,938	**75%**	$289	**25%**	$96
Quincy	88,025	**75%**	$272	**25%**	$91
Lynn	89,050	**75%**	$263	**25%**	$88
Haverhill	58,969	**75%**	$253	**25%**	$84
Worcester (Blue Cross)	172,648	**75%**	$240	**25%**	$80
Medford	55,765	**75%**	$236	**25%**	$79
Lowell	105,167	**75%**	$230	**25%**	$77
Medford	55,765	**75%**	$158	**25%**	$53
Lynn	89,050	**75%**	$95	**25%**	$32
26 Community Average		**76%**	**$231**	**24%**	**$75**

Average includes 19 cities with population over 35,000, 6 towns in the Worcester region, and the Commonwealth of Massachusetts.

5. Medicare savings for municipalities

When an employee retires and elects to enroll in Medicare and elects a Medicare supplemental plan (or is required to enroll in Medicare by Section 18 mentioned below), municipalities benefit in three ways:

- Municipalities are no longer obligated for the high premium costs of the conventional plan and pay a much lower premium for the Medicare supplemental plan.
- Most municipalities pay a lower percentage of the premium for retiree plans; as a result, they pay a lower percentage of a lower amount for Medicare supplemental plans.
- When retirees are removed from the risk pool of insured employees, premiums for conventional plans may decline.

Worcester and half of the communities surveyed have not adopted Section 18 of Massachusetts General Laws Chapter 32B, which allows municipalities to require employees to enroll in Medicare as soon as they are eligible. Section 18 also requires the

municipality to pay for Medicare penalties associated with late enrollment in Medicare that employees incur as a result of being required to enroll.[18]

Approximately 40% of Worcester retirees remain on the more expensive conventional plans. The City pays the same rates for these retirees as it does for active employees (90% for HMO and 87% for POS), resulting in high retiree health insurance costs for the City.[19] The City's costs for retirees who remain on conventional plans are more than double the cost of retirees who elect a Medicare supplemental plan. Without adopting section 18 (and incurring the Medicare penalty costs) the City may be able change the contribution rate for retirees without collective bargaining (as retirees are no longer part of a collective bargaining unit) and create an incentive for retirees to enroll in the Medicare supplemental plans, which are less expensive.[20] At 75%, Worcester is at the average contribution rate of the municipalities surveyed for Blue Cross Medicare supplemental plans. Worcester pays 84% of the Fallon Medicare supplemental plans.

IV. Plan Designs

A. Co-payments for Office Visits

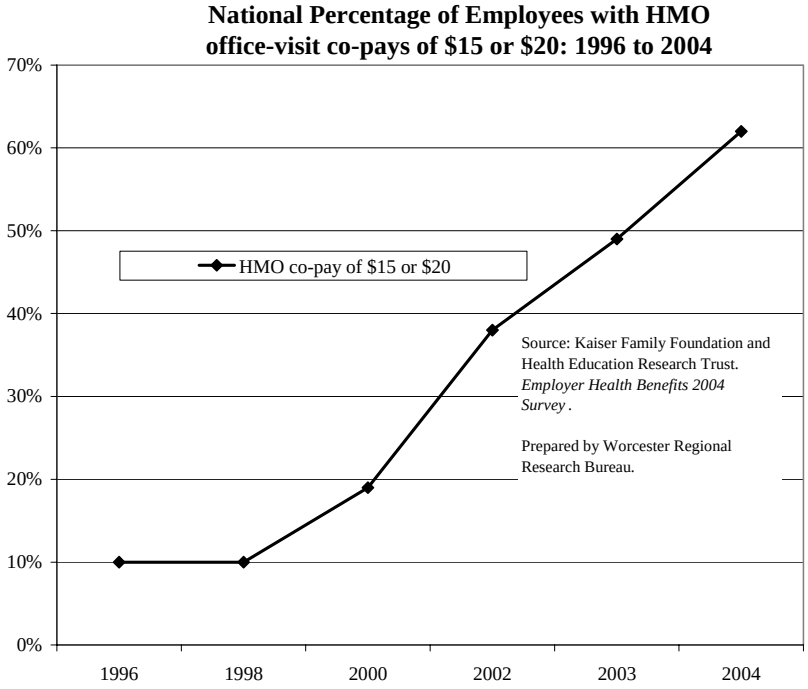
In response to escalating costs, employers (both public and private) have typically changed how they structure employee health benefits, increasing employee contribution rates for premiums and/or changing plan designs to include higher co-payments (which can lower total premium amounts or slow the rate of increase). The 2004 Kaiser Family Foundation report observed a trend of increasing co-payments for office visits and prescription drugs. In contrast with national trends and local practices in the private sector, Worcester employees incur only $5 office visit co-payments for the HMO or POS plans, and the plan design has not changed in recent years or been adjusted for inflation.[21] This low co-payment would seem to be an insignificant deterrent to the use of doctors for trivial reasons. According to the Kaiser study, only 3% of employers have co-payments as low as $5, and 62% of firms surveyed nationally have $15 or $20 office visit co-pays (see Figure 5).[22]

Co-payments are a critical element in controlling health care costs because they give consumers a stake in controlling their use of medical facilities thus putting some check on

[18] Medicare charges a penalty for enrolling after the first year of eligibility. The penalty increases for each year that an eligible person is not enrolled. As a result, the longer a retiree has been eligible for but not enrolled in Medicare, the more expensive Medicare will be for that retiree. Section 18 requires cities and towns to pay the penalty for retirees who have been eligible but are not enrolled. Section 18 savings to a municipality are therefore diminished by the amount that it must pay in penalties. If a community has not adopted section 18, municipalities pay no penalties when retirees elect to enroll in Medicare on their own.
[19] Some retirees are not 65 and therefore not eligible for Medicare, others choose to remain on conventional plans for other reasons.
[20] Bargaining units may attempt to bargain on behalf of their members as they are future retirees.
[21] Worcester's plans include a $50 co-pay for Emergency Room visits which is waived if the enrollee is admitted.
[22] Kaiser Family Foundation and Health Education Research Trust. Employer Health Benefits 2004 Survey.

premium cost for employers and employees. As consumers perceive the costs from their health care decisions, they may choose to alter their behavior, lowering their costs and potentially lowering premium costs or reducing their rate of growth. For instance with a $10 co-pay, an individual may reconsider visiting a physician in the early stages of a cold or for other minor concerns when a phone call to the physician's office or a nurse's help line may suffice. Individuals may also choose to live healthier lifestyles when they are more aware of the costs of treatment for preventable health problems.

Figure 5



B. Co-payments for Prescription Drugs

Table 5 lists the plans and the associated co-payments in each Massachusetts municipality we surveyed with a population over 50,000. Each plan type is listed, so cities may appear more than once on the table. Most plans offer tiered benefits for prescription drugs. Tier 1 is the co-payment charged for generic drugs, tier 2 is for brand-name drugs, and tier 3 is for non-preferred brand-name drugs (when two or more medications are available for treating the same problem, the lower cost medication may be designated as "preferred" and the other "non-preferred").[23] Through this tier system, insurers create an incentive for enrollees to select lower cost drugs. The average prescription drug co-payment structure based on a national survey is $10, $21, and $33.[24] But Worcester has only two tiers for its plans, $5 and $10. If an employee wants a third tier drug, he still pays only $10. As a result, for instance, Worcester public employees, both current and retired, would pay only $10 for four Viagra pills, a third-tier "non-

[23] Drugs that fall into the category of lifestyle enhancement may also be designated "non-preferred".
[24] Kaiser Family Foundation and Health Education Research Trust. Employer Health Benefits 2004 Survey.

preferred" drug, whereas employees of most other communities and businesses surveyed would pay $35 or more for the same supply. For the City of Worcester, insurance companies must build the extra cost of those third-tier prescriptions into premiums. Therefore, the premiums Worcester pays are higher as a consequence.

It is apparent from Table 5 that Worcester has one of the lowest co-payment structures found among the plans surveyed. It is also worth noting that while no cities reported a hospital co-payment, they are found in 50% of HMO plans nationally and are a part of HMO plan design for the Commonwealth of Massachusetts.[25]

Table 5 **Plan Design:**
Cities surveyed with population of more than 50,000. Cities are listed from highest to lowest office visit and ER co-payments. Those with the same co-payments are listed from largest to smallest population

All Plans			Plan Design: Employee Co-payments					
Community	**Population**	**Type**	**Office**	**ER**	**Hospital**	**Prescriptions**		
State of MA*	-	HMO	$15	$75	$250	$5	$20	$60
State of MA**	-	POS	$15	$50	$0	$10	$20	$40
Lowell	105,167	PPO	$15	$50	$0	$10	$20	$35
Newton	83,829	POS	$15	$50	$0	$5	$20	$30
Newton	83,829	HMO	$15	$50	$0	$5	$20	$30
Framingham	66,910	PPO	$15	$50	$0	$10	$25	$45
Cambridge	101,355	POS	$10	$50	$0	$10	$25	$45
Cambridge	101,355	HMO	$10	$50	$0	$10	$25	$45
Westfield	40,072	PPO	$15	$50	$0	$10	$15	$30
Medford	55,765	PPO	$10	$50	$0	$5	$10	$10
Medford	55,765	HMO	$10	$50	$0	$5	$10	$25
Boston	589,141	POS	$10	$30	$0	$5	$10	$25
Boston	589,141	HMO	$10	$30	$0	$5	$10	$25
Haverhill	58,969	PPO	$10	$25	$0	$10	$20	$35
Worcester	172,648	POS	$5	$50	$0	$5	$10	$10
Lynn	89,050	HMO	$5	$30	$0	$5	$10	$25
Quincy	88,025	HMO	$5	$30	$0	$5	$10	$25
Worcester	172,648	HMO	$5	$25	$0	$5	$10	$10
Lowell	105,167	HMO	$5	$25	$0	$5	$10	$10
Brockton	94,304	HMO	$5	$25	$0	$5	$10	$10
Fall River	91,938	POS	$5	$25	$0	$3	$4	$4
Fall River	91,938	HMO	$5	$25	$0	$3	$4	$4
Framingham	66,910	HMO	$5	$25	$0	$5	$10	$10
Waltham	59,226	HMO	$5	$25	$0	$5	$10	$10
Haverhill	58,969	HMO	$5	$25	$0	$10	$20	$35

*Employees hired after June 30, 2003

**Employees hired before June 30, 2003

[25] Kaiser Family Foundation. 2004 Employee Health Benefits Survey.

C. Comparison with Worcester's Neighbors

Comparing HMO plans in cities and towns surrounding Worcester (Table 6, below), we find that Worcester, Shrewsbury, and West Boylston pay 90% of family premiums, while all other communities pay less. The average of the local communities is the same as the statewide average, with 76% of premium costs paid by municipalities. On average, employees in neighboring communities pay 24%, and the average amount that they pay ($234) is more than twice what Worcester employees pay ($103) for an HMO. More than half of the nearby municipalities have $10 or higher office visit co-pays, while Worcester has $5. (According to one local health plan surveyed, only 1.5% of non-municipal members have a $5 office visit co-payment.) Worcester is one of only two area towns surveyed that has no additional cost for third-tier prescription drugs (Worcester employees pay $10 for 2nd and 3rd tier drugs).

Table 6

Neighboring Cities and Towns	Monthly Contribution Rates				Plan Design: Employee Co-payments					
HMO Plans	**City Pays**		**Employee Pays**		**Office**	**ER**	**Hospital**	**Prescriptions**		
West Boylston	**90%**	$831	**10%**	$92	$5	$25	$0	$5	$15	$35
Worcester	**90%**	$927	**10%**	$103	$5	$25	$0	$5	$10	$10
West Boylston	**90%**	$852	**10%**	$95	$10	$50	$0	$5	$15	$35
Shrewsbury	**81%**	$809	**19%**	$190	$5	$25	$0	$5	$10	$10
Millbury	**80%**	$762	**20%**	$190	$10	$50	$0	$5	$15	$35
Westborough	**78%**	$736	**22%**	$208	$5	$25	$0	$5	$15	$35
State of MA*	**75%**	$602	**25%**	$201	$15	$75	$250	$5	$20	$60
Northborough	**71%**	$744	**29%**	$304	$10	$50	$0	$5	$15	$35
Sutton	**70%**	$634	**30%**	$272	$10	$50	$0	$5	$15	$35
Clinton	**65%**	$666	**35%**	$359	$10	$50	$0	$5	$15	$35
Average	**76%**	$735	**24%**	$234	$9	$39	$23	$5	$15	$33

Average includes plans from 7 neighboring towns and the Commonwealth of Massachusetts.

*Employees hired after June 30, 2003. Employees hired before that date and make less than 35,000 pay 15% of premiums and those making more than 35,000 pay 20%.

V. Conclusions and Recommendations:

Worcester's employee benefits are costly when compared with some of the larger communities in the Worcester region, in the Commonwealth as a whole, and when compared with state and national averages. Worcester and other communities struggle each year to meet their financial obligations for health insurance. This report has showed that Worcester's contribution rates for its HMO and POS plans (90% and 87%) are higher than those of other Massachusetts municipalities surveyed (which average 76% and 74% contributions) and out of the mainstream when compared with national averages of private employers (71% and 72%). Worcester needs to reform the structure of its employee health benefits in order to achieve the fiscal stability required to better provide services to residents.

The following changes in premium contribution and plan design should be given serious consideration:

- The City should contribute 75% of the premium of the lowest cost health plan (and an equal dollar amount toward more expensive plans).
- The City should eliminate the POS plan, or require that employees opting for it pay the difference between the City's contribution of 75% of the lowest cost provider and the cost of the POS.
- The City should increase co-payments for office visits.
- The City should add a third tier for prescription drugs.
- The City should increase retiree contributions for health benefits for those on conventional plans.
- The City should require that eligible retirees enroll in Medicare.

The savings to the City of Worcester from paying 75% for all plans or 75% of the lowest-cost provider are detailed below. Tables 7 and 8 are based on the FY05 premiums and current enrollment data, and include retirees enrolled in conventional plans, but not Medicare supplemental plans (Medicare supplemental plans cost the city $8.7 million in FY05).[26]

Table 7

How to Save $15.8 Million on Municipal Employee Health Benefits

	Current Structure		75% for all plans		**Recommended Structure 75% of low cost plan**		
	%	**City Costs**	**%**	**City Costs**	**%**	**City Costs**	**Savings**
Fallon Direct	90%	$6,161,063	75%	$5,134,219	75%	$5,134,219	$1,026,844
Fallon Select	90%	$11,324,287	75%	$9,436,906	69%	$8,634,771	$2,689,516
Blue Cross POS	87%	$39,109,018	75%	$33,714,671	60%	$26,927,040	$12,181,978
Total Savings				**$8,308,572**			**$15,898,337**

Changing to a 75% contribution rate for all plans would generate over $8 million in savings, enough to add 151 city employees (at an average of $55,000 in salary and benefits) and their services or return approximately $142 to the average single-family homeowner *and* $690 to the average commercial property owner. If the city were to pay 75% of the lowest cost provider's premium (or an equal-dollar amount toward the more expensive plans), the City would have over $15.8 million in savings, enough to hire 289 city workers and the services they provide, or to return $264 to the average homeowner *and* $1,325 to the average commercial property owner in tax reductions (see Table 8).[27]

[26] It is likely that changing the contribution rate would alter some employees' decisions about health plan enrollment. As more employees choose the lower cost plans, city savings from a 75% contribution rate would be greater. If Medicare supplemental plans were included in this change, savings would increase for both options.

[27] $55,000 is an estimate based on the following total compensation (salary and all benefits) costs: first year Police Officers, approximately $67,000; Firefighters, $65,000; and other municipal employees, approximately $47,000.

Table 8

What could Worcester do with $15.8 million?

Hire New Employees (average cost of $55,000 per employee for salary and benefits)	258
OR	
Reduce annual taxes for the average single-family homeowner by this amount	$264
AND	
Reduce annual taxes for the average commercial property owner by this amount	$1,325

Increased Cost for Employees?

Table 9 details the impact of a change to a 75% city contribution on monthly employee contributions. Increases in monthly contributions range from a $54 to $141 for the lower-cost HMO plans and from $123 to $318 for the more expensive POS plans. It should be noted that an employee currently enrolled in the most expensive health plan, with a monthly contribution of $153 for a family, would have the option of selecting a less expensive plan and paying an $82 increase rather than $141 or $318 increases for the most expensive plan. While the percentage contribution for all employees would increase, all employees would have the option of selecting the lowest-cost plans.

Table 9

Impact on Employees

	Current Monthly			at 75%		At 75% of lowest cost provider	
	Total Premium	%	Employee $	Employee $	$ Increase	Employee $	$ Increase
Fallon Direct Single	$365	10%	$36.52	$91.30	$54.78	$91.30	$54.78
Fallon Select Single	$399	10%	$39.91	$99.78	$59.87	$123.73	$83.82
BCBS Blue Choice Single	$458	13%	$59.52	$114.46	$54.94	$183.14	$123.62
Fallon Direct Family	$942	10%	$94.22	$235.55	$141.33	$235.55	$141.33
Fallon Select Family	$1,030	10%	$102.97	$257.44	$154.46	$319.22	$216.25
BCBS Blue Choice Family	$1,179	13%	$153.31	$294.83	$141.52	$471.72	$318.41

While these changes may require adjustments by municipal employees, they must be weighed against the loss of services and of increased taxes to the City's residents that will inevitably occur otherwise—along with potential layoffs (as is likely to occur in the Worcester Public Schools this year, despite increases in state and City funding to the schools).

The City should also negotiate a change in insurance plan design, increasing most co-payments in an effort to bring premium costs down for the City and employees. As more of the cost of health care is connected to the use of that care, employees who do not use as many services will not have to pay for those unused services through premiums. As consumers become more aware of the costs of their health care decisions, their decisions will influence the cost of health care and health insurance.

If negotiations cannot produce the needed changes, the City should lobby for state legislation to address the problem statewide. Last year, the Commonwealth of Massachusetts changed the benefit structure for its public employees, requiring new employees to pay 25% of premiums and employees hired before June 30, 2003 to pay 20% of premiums. The state HMO plans include $15 office visit co-payments and prescription co-payment tiers of $10, $20, and $40.[28] This change may be required to reform municipal health plans in order to maintain the fiscal solvency of cities like Worcester. Furthermore, it is not evident that municipal employees should be required to pay less of their health insurance costs than state employees do.

There are approximately 5,000 employees working for the City of Worcester and close to 175,000 residents. In addition to living with reduced services and increased taxes, most residents and the businesses that employ them cannot afford the kind of health benefits that the City annually struggles to provide for its employees. City leaders and public employees themselves need to acknowledge these facts and work together for reform. While citizens expect their government to treat its employees fairly, it must not be forgotten that the aim of government in a democracy is to serve the interests of the citizenry at large—not just a favored minority. Redesigning the City's outmoded health insurance policies is essential to providing an adequate level of municipal services and a favorable economic climate, on which the well-being of all residents—municipal employees included—ultimately depends.

[28] Other state plans have prescription co-payment tiers of $5, $20, $60, and $10, $20, $35.

Upcoming Forum: March 3, 2005

Making Sense of Public Spending: Do We Owe Our Citizens Change?

Speakers: **Eric Kriss**
Secretary of Administration & Finance
Commonwealth of Massachusetts

Michael O'Brien, Manager
City of Worcester

Daniel Morgado, Manager
Town of Shrewsbury

Moderator: **Eric Schultz, President**
Fallon Community Health Plan

Thursday, March 3, 2005
7:45 a.m. to 9:15 a.m.
Mass College of Pharmacy & Health Sciences
19 Foster Street, Worcester
This event is part of the Research Bureau's Francis A. Harrington Forums, generously supported by Bank of America, and is co-sponsored by:

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Kindly reply by calling 508-799-7169 or via email to info@wrrb.org

Upcoming Forum: March 23, 2005

Getting Around Central Massachusetts: A Transportation Update

Speakers: **Daniel Grabauskas**
Secretary of Transportation
Commonwealth of Massachusetts

Mary MacInnes, Administrator
Worcester Regional Transit Authority

Joseph Petty, Chair Transportation Committee
Worcester City Council

Moderator: **Brian Buckley, Partner**
Fletcher, Tilton and Whipple

Tuesday or Wednesday, March 23, 2005
7:45 a.m. to 9:15 a.m.
College of the Holy Cross
Hogan Campus Center Ballroom
1 College Street, Worcester

This event is part of the Research Bureau's Francis A. Harrington Forums, generously supported by Bank of America, and is co-sponsored by:

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Mission Statement: The Worcester Regional Research Bureau is a private, non-profit organization dedicated to conducting independent, non-partisan research on financial, administrative, management and community issues facing Worcester's municipal government and the surrounding region.

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