

Municipal Employee Health Benefits: A Comparison with Other Communities
April 28, 2000

Executive summary

Based on a survey requested by the City Manager of contributions paid by a broad cross section of municipalities across the Commonwealth toward municipal employee health benefits, the Research Bureau found the following:

- Of 19 communities surveyed in Central Massachusetts, Worcester is contributing the highest percentage (87%) toward the Preferred Provider Plan (PPO). The City is paying the second highest percentage (75%) toward the indemnity plan.
- Worcester is one of eight communities of those surveyed in Central Massachusetts to contribute 90% (the highest percentage allowed by law) toward the Health Maintenance Organization (HMO). The other eleven contribute between 65% and 82%.
- Worcester contributes the highest percentage toward both the PPO and the HMO in a review of 36 cities and towns in the Commonwealth of varying sizes and wealth outside of Central Massachusetts. The City contributes the second highest percentage toward the indemnity plan.
- 36% of all 55 communities surveyed offer no indemnity plan; almost 30% contribute the 50% minimum required by law toward the indemnity plan. Worcester contributes 75%.
- Almost 53% of all the municipalities surveyed offer no PPO which is the second most expensive kind of plan.
- Of the 27 communities that offer a PPO, almost one-third contribute only 50% toward the costs. Worcester contributes 87%.
- Of the 55 communities surveyed in Central Massachusetts and across the Commonwealth, only one-fifth contribute 90% toward the HMO. All others pay between 50% and 85% of the cost.
- If the City had negotiated a change in the employee contribution to 25% for all plans, the City would have saved about \$5.4 million in FY00.
- Given various budgetary constraints, including a commitment by the City Manager and the City Council not to spend tax revenues generated from new construction so as to avoid increasing the tax rate, the City administration and municipal employees face difficult choices. Increasing

the contribution of municipal employees toward their health insurance premiums represents one such choice that merits serious consideration.

I. Introduction

At the request of the City Manager, the Research Bureau undertook a review of contributions paid by other municipalities across the Commonwealth toward municipal employee health benefits. In addition, we reviewed the contributions made by several businesses in the area toward their employees' health insurance plans. Since health insurance expenditures constitute almost 10% of the City's budget, and the City's Budget Director is projecting a revenue shortfall for FY01 even without the impact of new collective bargaining agreements, it is important to scrutinize expenditures, especially substantial ones, to determine if they can be reduced.

II. Worcester's health insurance benefits: A status report

Worcester's total health insurance budget for about 9,400 municipal employees, school personnel, and retirees for FY00 is about \$30 million. Blue Cross, one of the City's two carriers, insures 69% of all City employees and retirees. The FY00 enrollment and cost for each plan in Worcester are summarized in Table A. This table indicates that the City's share of the two most common plans is \$5,899 per year or 87% of the total charge per employee for Blue Cross/Blue Choice (a preferred provider plan which allows participants to go out of the network and constitutes the second most expensive kind of plan) family membership, and \$5,110 or 90% for Fallon Community Health Plan family membership. (The City pays 75% of "traditional" Master Medical, the Blue Cross indemnity plan.)

According to state statute (MGL 32B Sections 7 and 16), the City is required to pay at least a fraction above 50% of cost of an indemnity or managed care plan, and the employee is required to pay at least 10% of a managed-care plan. As a result of contract negotiations, the City currently pays between 75%-90% depending on the plan.

Although the current rates for Master Medical and Blue Choice have been locked in for two years as of FY00 with caps on Medex (Master Medical plan for retirees) and Fallon for the third year, health insurance costs have been increasing dramatically nationwide. This trend is likely to be reflected in the next round of rates for Worcester. Health insurance issues are subject to collective bargaining, and new collective bargaining agreements must be negotiated this spring.

There are two contribution methods commonly used by businesses and governments. The first is for the contribution system to be based on a 90% contribution by the employer toward the least expensive health plan offered, with equal dollar amounts applied toward each of the other plans. This method has been adopted by many corporations, including

Morgan Construction Company and First Massachusetts Bank in Worcester. If the contribution method based on equal dollar amounts had been in place for the last decade, the City would have saved at least \$45 million, including about \$3 million during the current fiscal year. (See Research Bureau Report #99-4.)

The other approach adopted by many municipalities is to require employees to contribute significantly to the cost of their health insurance. As Table B indicates, if Worcester were paying between 50% and 75% of all plans, it could have saved somewhere between \$5.4 and \$13.6 million in FY00.

III. Health insurance contributions: Comparison with Worcester area communities

As table C indicates (see following page), Worcester is contributing the highest percentage of all communities in Central Massachusetts toward the PPO, and the second highest percentage toward the indemnity plan (after Leominster). Worcester and seven other communities pay the highest percentage (90%) toward the HMO. Eleven or 57% contribute less-between 65% and 82%. Nine of the 19 (47%) communities surveyed do not offer an indemnity plan. Eleven of the 19 (57%) do not offer a Preferred Provider Plan (PPO).

IV. Health Insurance Contributions: Comparison with other Municipalities in the Commonwealth

A survey of municipalities across the Commonwealth including the larger cities, some wealthy suburban towns and several rural communities indicates that Worcester pays the highest share toward the PPO and the HMO, and the second highest toward the indemnity plan. Table D shows Worcester is one of only four communities that contributes 75% toward an indemnity plan. Ten or 28% of the communities surveyed offer no indemnity plan. Another 12 of these 36 municipalities contribute only the 50% minimum required by law toward the indemnity plan.

Worcester contributes 87%, the greatest percentage of all 36 municipalities, toward the PPO. Seventeen, or almost half of the municipalities surveyed, offer no PPO (see Table E). Almost 20% of the municipalities contribute only 50% toward the PPO.

Worcester is one of only four communities in our survey that contributes 90% (the highest percentage allowed by law) toward the HMO (see Table F). The

other 32 municipalities surveyed contribute between 50% and 85% toward their HMO plans.

V. Health Insurance Contributions: Comparison with Selected Corporations

Several of the City's larger employers were contacted to determine their contributions toward employee health benefits. BankBoston contributes 75% to all plans offered, which consist only of HMO's. AMI Leasing contributes 85% to all plans for its union members (who constitute 35% of the workforce) and 70% toward all non-union employees. Allmerica Financial contributes 66.6% toward all plans. As mentioned earlier, First Massachusetts Bank contributes 90% toward the least expensive plan with equal dollar amounts applied toward each of the other plans.

VI. Impact of Proposed Changes on Worcester's Municipal Employees

Any reduction in the City's contribution toward health insurance would result in an increase in the share paid by municipal employees and retirees. The Charts below indicate the impact of changing the employee contribution to 25% for all plans and an arrangement whereby the City pays 90% of the lowest cost provider (which is currently FCHP), and provides an equal dollar amount toward the other plans. For those employees who have opted for Blue Cross/Blue Choice, a family would have to pay \$814 more per year under the 25% scenario and \$789 more per year under the 90% arrangement. The City would have saved about \$5.4 million in FY00 under the 25% option.

VII. Conclusions

Because of various budgetary constraints, including a commitment by the City Manager and the City Council not to spend tax revenues generated from new construction so as to avoid increasing the tax rate, the City Administration and municipal employees will face some difficult choices. Increasing the contribution of municipal employees toward their health insurance premiums represents one such choice that merits serious consideration.