

**Testimony to Committee on Municipalities
And Regional Government
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Thank you for giving me the opportunity to testify before you today. I will outline a number of proposals which, if adopted, would dramatically reduce the cost of local government in Massachusetts, and ultimately, the cost of doing business in the Commonwealth. Some of the proposals are more fully explained in recent Research Bureau reports I will leave with you; others will require additional research.

I. Pension costs need to be controlled through changes in State law.

Worcester’s contribution to its pension fund increased by 157% from \$8.3 million to \$21.5 million between FY02 and FY06. These increases are due, in part, to the number of public safety employees retiring on accidental disability pensions, which provide much higher benefits than a superannuation pension. This reflects the questionable presumption in state law that for firefighters, all heart-, cancer-, and lung-related illnesses, and for police all heart-related illnesses are to be attributed to work, making all those suffering from those illnesses (such as prostate cancer) eligible for disability pensions.

The chart below shows that the percentage of public-safety employees retiring with a disability is almost three times as large as those for Department of Public Works workers, and eight times more than other city employees. The first column shows the number of retirees on accidental disability, not ordinary disability. Accidental disability pensions are more costly than regular pensions for the City due to expanded benefits, expanded survivor benefits and the return of the employee’s annuity contributions. Disability pensions can begin earlier in such cases as well. In addition, disability pensions pay 72% of the highest annual salary earned, tax free—the equivalent of full salary.

Department	Accidental Disability Retirees	Superannuation Retirees & Ordinary Disability	Total	% Accidental Disability
Police	137	117	254	53.9%
Fire	182	164	346	52.6%
DPW	49	220	269	18.2%
Other Departments	81	1459	1540	5.3%

As the chart below indicates, the presumption clause is very costly to many cities, not just to Worcester.

Cities	Public Safety Accidental Disability: % of Total	Other Departments Accidental Disability: % of Total
Lowell	47.1%	5.4%
Needham	22.4%	3.1%
Peabody	26.1%	5.8%
Taunton	29.8%	12.1%
Springfield	35.8%	7.6%
Weymouth	36.6%	4.4%
Worcester	53.2%	7.2%

How can pension costs be controlled?

- Establish better pre-employment screening
- Establish fitness requirements which must be met periodically to retain position.
- Require higher pension contribution cost for public safety employees.

Because of the high number of public safety retirees on disability, public safety retiree and health insurance costs to the City are double the amount of other department retiree costs. Other cities, like El Paso, Texas, account for this cost discrepancy between departments by separating public safety pension contributions from the rest of its payroll. Because public safety employees are at a higher risk of retiring on disability, they have a higher pension contribution rate that covers the cost of retirees on disability. This mechanism encourages public safety employees in El Paso to be less tolerant of co-workers deceptively retiring on disability so as to receive a higher compensation package.

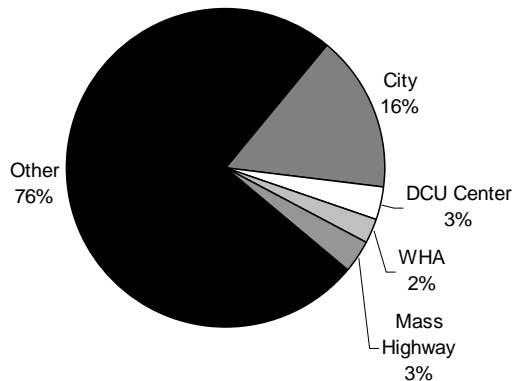
II. Practice of off-duty police officers at construction sites needs to be ended.

Hiring off-duty police officers at construction sites is not required by State law, but the practice has been widely negotiated into local police contracts. Changing that practice would probably require collective action at the state level to enable individual communities to overturn this very expensive procedure. Flagmen are the rule in the other 49 states, including eight that use civilian flaggers exclusively.

Off-duty police officers in Worcester are paid for a four-hour minimum at about \$40.00 per hour for detail work at construction sites. The City Treasurer’s Office collects an additional 10% from City departments and construction and utility companies for

administrative costs. Civilian flaggers are generally employed at less than half the hourly rate paid to police officers. In 2006, Worcester police officers were paid more than \$6.6 million for these off-duty assignments. As indicated in the accompanying pie chart, the City of Worcester (Department of Public Works and Parks and other departments) paid more than \$1 million to Worcester police officers. By using civilian flaggers, the City could have saved about \$500,000. In addition, private businesses such as the utilities and construction companies paid almost \$5 million for required Worcester police details. These costs are ultimately factored into utility rates paid by customers or rental rates paid by businesses or residents, thereby increasing the cost of doing business and living in Worcester.

Figure 1: Calendar Year 2006 Detail Payments, by Source (Total Paid to WPD = \$6.6 Million)



Source: City of Worcester Budget Office

III. State and local governments should contribute 75% of the premium of the least expensive health insurance plan, as is common practice in the private sector. Those who adopt a more expensive plan should pay the difference.

Worcester’s City Manager was successful last year in negotiating changes in employee contributions so that those hired before July 1, 2006 pay 20% of the premium and those hired after that date pay 25% of any plan offered by the City. If the City Manager negotiated an additional change to pay 75% of the cost of the least expensive plan only, and those who opted for a more expensive plan paid the difference, the City could save \$14.3 million in FY08 for all employees on conventional plans. For retirees, we have retained the City’s current contribution of 84% of the least expensive senior plan, which yields a savings of \$4.1 million. In total, the City could save \$18.4 million in FY08 if its contribution formula were based on paying a percentage of the least expensive plan. (This change alone would have almost closed the FY08 projected deficit of \$21 million.)

There is no reason for Worcester taxpayers, most of whom must bear the additional cost of more-expensive health care plans themselves, to subsidize the desire of City employees to opt for higher-cost plans. As *Table 1.1* indicates, 70% of employees opt for

the most expensive plan because current policy gives them little incentive to economize. *Tables 1.2 and 1.3*, show the effect on the City's costs and employee costs if the City's contribution were a percentage of the lowest cost plan.

Table 1.1: City of Worcester Employee Health Insurance Costs (Effective 1/1/2007)

Plan	Employees Enrolled*	Monthly Premium Per Employee	Monthly City Share Per Employee	Monthly Employee Share	Annual Employee Share of Premium	City's Annual Cost Per Employee	Total Annual Cost to City
BCBS Blue Choice							
Individual	1,794	\$524	\$419	\$105	\$1,258	\$5,032	\$9,027,767
Family	2,440	\$1,373	\$1,098	\$275	\$3,295	\$13,182	\$32,163,494
Fallon Health Plan DIRECT							
Individual	298	\$397	\$318	\$79	\$953	\$3,813	\$1,136,417
Family	403	\$1,025	\$820	\$205	\$2,460	\$9,839	\$3,965,085
Family Health Plan SELECT							
Individual	449	\$434	\$347	\$87	\$1,042	\$4,168	\$1,871,360
Family	960	\$1,120	\$896	\$224	\$2,688	\$10,753	\$10,322,842
Total Cost to City for Employees Enrolled in Conventional Plans							\$58,486,965
Medicare Supplement Plans							
Plan	Employees Enrolled*	Monthly Premium Per Employee	Monthly City Share Per Employee	Monthly Employee Share	Annual Employee Share of Premium	City's Annual Cost Per Employee	Total Annual Cost to City
BCBS Medex							
1 Person	1,625	\$391	\$293	\$98	\$1,172	\$3,517	\$5,714,865
Managed Blue for Seniors							
1 Person	498	\$388	\$291	\$97	\$1,165	\$3,496	\$1,740,869
Fallon Senior							
1 Person	620	\$156	\$131	\$25	\$300	\$1,572	\$974,938
Total Cost to City for Employees Enrolled in Medicare Supplement Plans							\$8,430,671
Total Cost to City							\$66,917,636

* Includes City and WPS current employees and retirees

Source: City of Worcester Executive Office of Human Resources

Source: City Retirement Boards, Information dated 12/31/05 Prepared by: The Research Bureau

Table 1.2: Potential Savings If City Pays Percentage of Least Expensive Plan

Conventional Plans				
<i>If the City were to pay only 75 % of the value of lowest cost plan (Fallon Health Direct):</i>				
Plan Type	Benefit Value @ 75%		Current Employee Enrollment	Annual Cost to the City
	Monthly	Annual		
Individual	\$297.93	\$3,575.16	2,541	\$9,084,482
Family	\$768.67	\$9,224.01	3,803	\$35,078,910
Total Cost:				\$44,163,392
Annual Savings Generated:				\$14,323,573
Medicare Supplement Plans				
<i>If the City were to pay only 84% of the value of the lowest cost plan (Fallon Senior):</i>				
Plan Type	Benefit Value @ 84%		Current Employee Enrollment	Annual Cost to the City
	Monthly	Annual		
Individual	\$131.04	\$1,572.48	2,743	\$4,313,313
Total Cost:				\$4,313,313
Annual Savings Generated:				\$4,117,359
Potential Total Annual Savings:				\$18,440,932

Prepared by: The Research Bureau

Table 1.3: Impact on City Employee Health Insurance Contributions				
Conventional Plans: Impact of City Contributing 75% of the Value of the Least Costly Plan				
Plan	Monthly Premium	Monthly City Share*	Monthly Employee Share	Monthly Increase in Employee Contribution
<i>BCBS Blue Choice</i>				
Individual	\$524	\$298	\$226	\$121
Family	\$1,373	\$769	\$604	\$330
<i>Fallon Health Plan DIRECT</i>				
Individual	\$397	\$298	\$99	\$20
Family	\$1,025	\$769	\$256	\$51
<i>Family Health Plan SELECT</i>				
Individual	\$434	\$298	\$136	\$49
Family	\$1,120	\$769	\$351	\$127
Medicare Supplement Plans: Impact of City Contributing 84% of the Value of the Least Costly Plan				
Plan	Monthly Premium	Monthly City Share**	Monthly Employee Share	Monthly Increase in Employee Contribution
<i>BCBS Medex</i>				
1 Person	\$391	\$131	\$260	\$162
<i>Managed Blue for Seniors</i>				
1 Person	\$388	\$131	\$257	\$160
<i>Fallon Senior</i>				
1 Person	\$156	\$131	\$25	\$0

* At 75% of the lowest cost conventional plan

** At 84 % of the lowest cost supplemental plan

Prepared by: The Research Bureau

IV. The legislature should not approve local option taxes, and, in fact, should rescind some.

Local option taxes shift responsibility for important decisions from the state legislature to local government which, from my observations, puts those communities that adopt these options at a competitive disadvantage. The dual tax rate is a primary case in point. The Quinn Bill and pension increases for retirees are other examples. If the Department of Revenue were to track changes in the tax base and the overall financial health of those communities that have adopted these local option taxes, I suspect we would find that they are having greater financial difficulties than those communities that did not adopt them and that they are having difficulty competing for businesses with nearby communities. (See *Benchmarking Economic Development in Worcester: 2006.*) And for that matter, why should Chapter 32B, Section 18 be a local option? All retirees should be required to enroll in Medicare upon reaching age 65, rather than being allowed to remain in conventional, much more costly health insurance plans. Again, we cannot expect taxpayers to support benefits for public employees that they themselves cannot afford.

V. The local aid formula should be based, in part, on cities and towns achieving certain benchmarks. This would provide some incentive for communities to keep their fiscal houses in order.

In order to strengthen the fiscal health of local communities, the Department of Revenue should monitor key indicators and reward communities through the local aid formula for meeting benchmarks. For example, two factors affecting a city's bond rating over which it has control are the General Fund Balance and ratio of debt service to total expenditures. According to the bond rating agencies, an acceptable ratio for the General Fund Balance and for debt service is 5-10%. This incentive system could apply to other areas of municipal operations as well. (See *Benchmarking Municipal Finance in Worcester: Factors Affecting the City's Bond Rating.*)