
LEXINGTON AND THE GROUP INSURANCE COMMISSION

Mike Kennealy

Presentation to TMMA Executive Committee

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THE GIC AND MUNICIPALITIES – RECENT STATEMENTS

- **From the Massachusetts Municipal Association’s legislative package for 2009-2010**

“Cities and towns do not have the same authority as the state to determine plan design for employee health insurance. Giving cities and towns this authority would result in substantial savings in municipal health insurance costs. The MMA bill would amend Chapter 32B to give health insurance plan design authority to cities and towns by removing collective bargaining for plan design changes.”

- **From Mayor Menino’s legislative agenda, announced 1/8/09**

“Legislation would allow municipalities to seek the same authority as the state, which allows the Group Insurance Commission (GIC) to purchase health plans and undertake plan design. Currently cities and towns must individually negotiate and approve any health benefit plan change with unions.”

- **From the Governor’s Readiness Finance Commission report, 12/31/08**

“The Commission recommends reducing health insurance costs by moving municipalities into the Group Insurance Commission (GIC) or programs with equivalent or better rates . . . The Commission found that health care is the number one driver of increased costs in municipal budgets and that significant savings can be achieved in the area of procuring health insurance. . . Moving municipal employees into the Group Insurance Commission (GIC) is one method of containing costs because the GIC’s rates, as a result of its significant purchasing power, have increased at substantially lower rates than municipal health plan rates. . . Commission members also noted that municipal managers have a difficult time finding significant cost savings because health insurance plan design (i.e., determining benefits, co-pays and deductibles) is part of the collective bargaining process. As a result, the Commission recommends removing plan design decisions from this process.”

- **Boston Globe, 12/9/08**

Speaker DiMasi “said he will propose legislation next month that would allow municipalities to join the state’s health insurance program without union approval.”

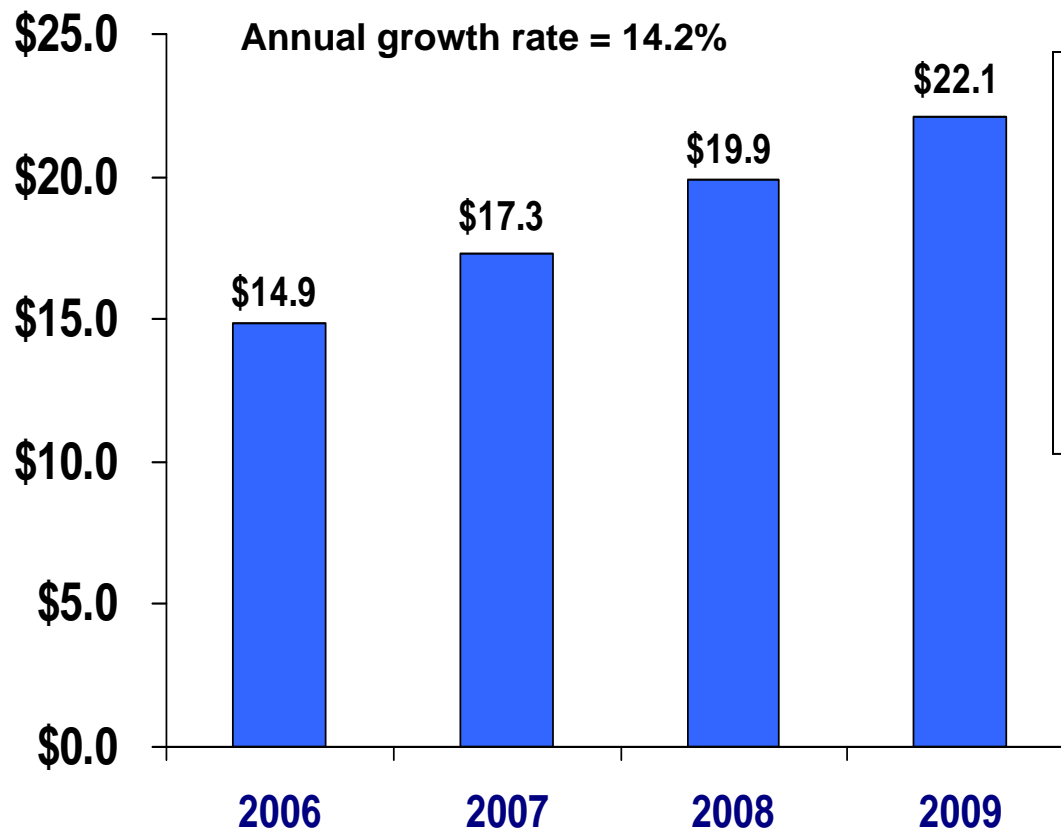
- **Boston Globe editorial, 10/20/08**

“With local budgets hurting, the state can no longer afford baby steps. It’s time to require that all cities and towns enroll as soon as the GIC can accommodate them.”

LEXINGTON HEALTH BENEFITS EXPENSE

Lexington's health benefits expense has recently experienced 14% annual growth

Lexington health benefits expense (\$ MM)



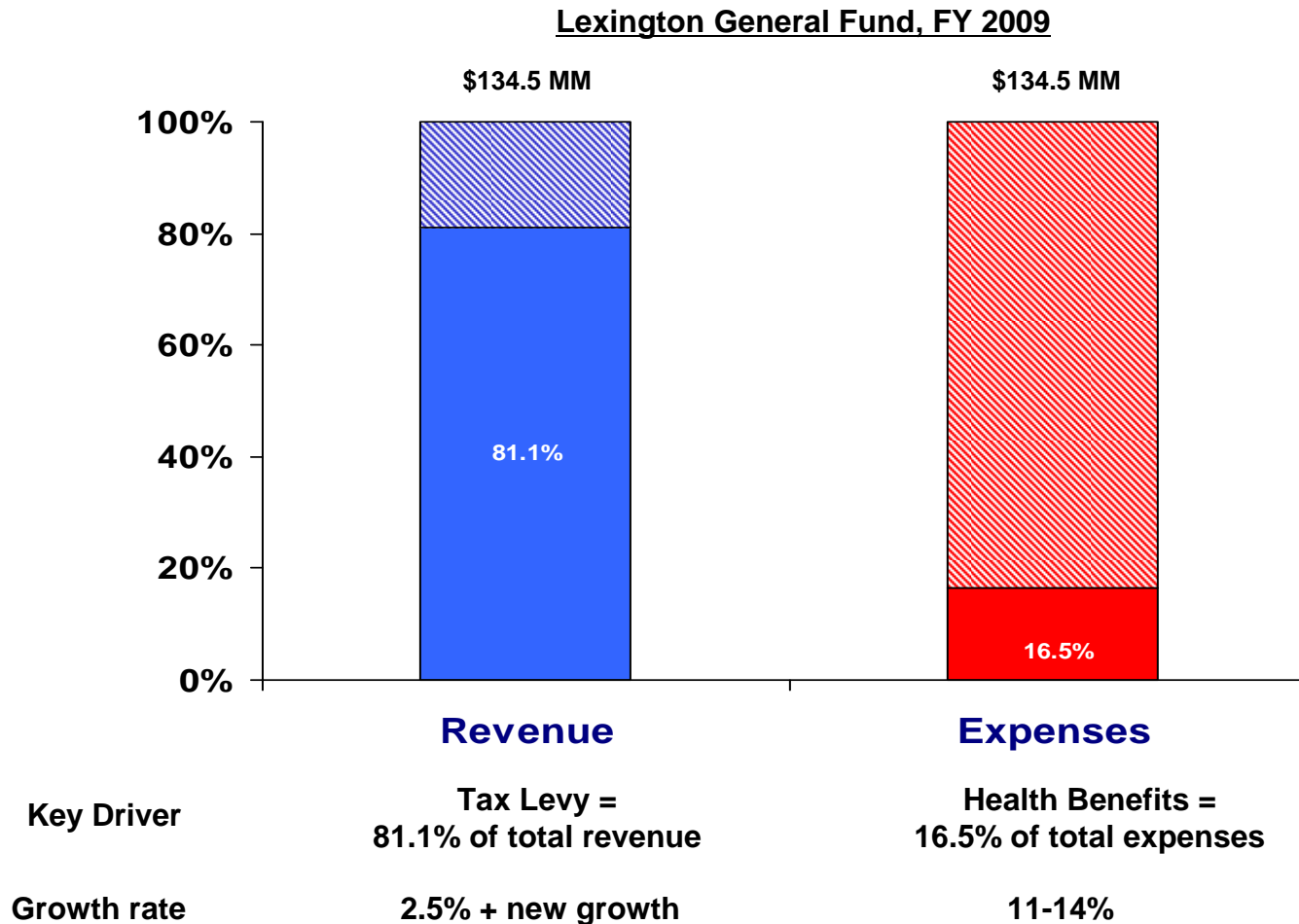
Average annual health benefits expense growth, 2001-2006

Lexington	14.1%
Average Mass. city/town	14.1%
Massachusetts GIC	8.1%

Source: Town of Lexington Recommended Budget & Financing Plan FY08 and FY07, dated 2/22/08 and 4/23/07 respectively, line 2130; Boston Globe study.

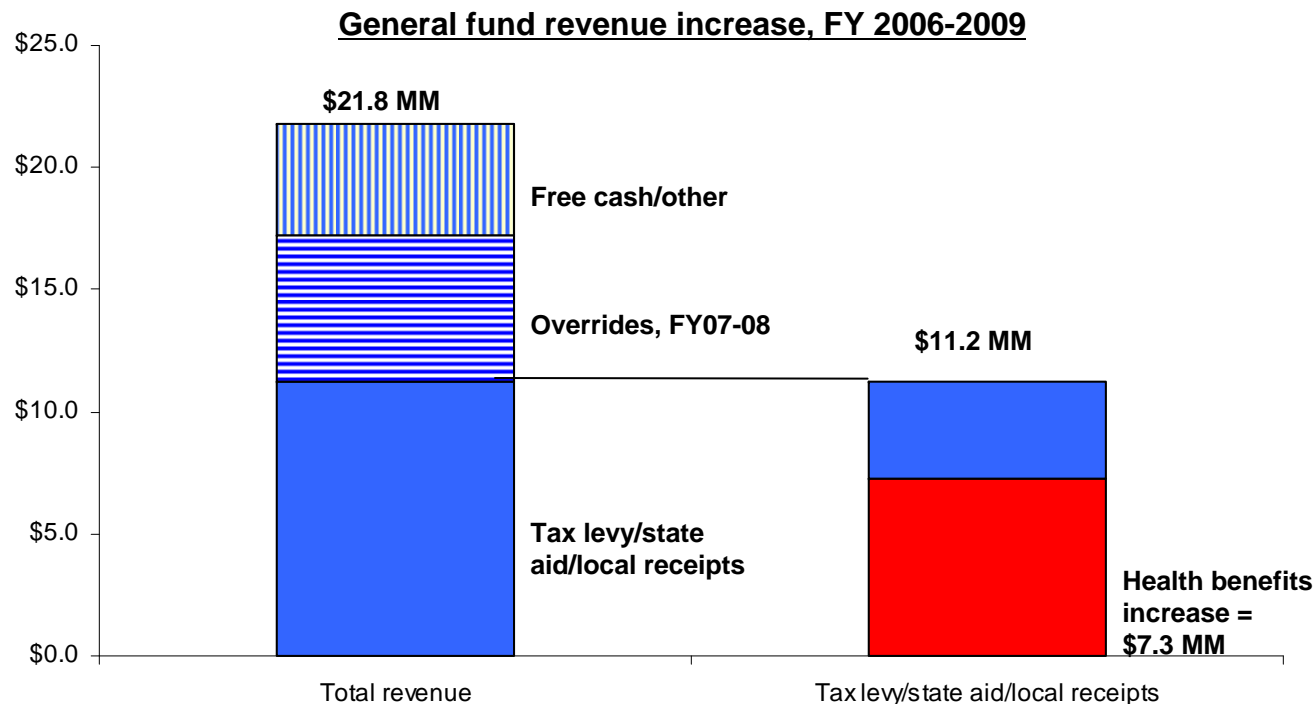
LEXINGTON HEALTH BENEFITS EXPENSE

High growth rates in major expenses are not sustainable given limited tax levy growth



LEXINGTON HEALTH BENEFITS EXPENSE

Health benefits growth leaves limited resources to fund growth in other areas



Growth in health benefits will consume 65% of recurring revenue increases FY 2006-2009

GIC – PROFILE

- The Group Insurance Commission (GIC) was established by the Legislature in 1955 to provide and administer health insurance and other benefits to the Commonwealth's employees and retirees and their dependents and survivors, and now municipalities - currently over 300,000 subscribers.
- Options include an Indemnity plan (Unicare), Preferred Provider Organizations (Harvard Pilgrim, Tufts Navigator), and multiple HMO plans (Fallon, Health New England).
 - Harvard, Tufts, and Health New England recently awarded top ten rankings in “America’s Best Health Plans” by US News & World Report.
 - More options available than a typical city or town offers
- Ranks providers by cost/quality and charges higher co-pays for less efficient providers
 - Private-sector plans have mostly failed to accomplish this due to resistance from providers.
 - “The challenges involved in statewide tiering of providers are formidable, but stakeholders view the GIC as the only body in the state that could successfully push for such a quality improvement measure and succeed.” (Health Management Associates report, August 2007).
- Consistently lower premiums and lower growth rates than municipalities.



A large, experienced, sophisticated and economical provider of high quality plans

THE GIC – WHY IS IT SUCCESSFUL

- **GIC has consistently achieved lower costs and slower expense growth rate due to the following factors:**
 - Scale – ability to negotiate favorable insurer rates due to the size of its insured pool.
 - Lexington – 2,103 subscribers in FY09
 - GIC – over 300,000 subscribers
 - More co-pays, and in some cases, higher co-pays; this has contributed to lower base rates for plans but has remained stable – that is, GIC has not increased co-pays as a method of controlling expense growth.
 - Freedom to change plan design and plan offerings.
 - Wellness programs.
 - Tight controls over eligibility.
- **The GIC's advantages appear sustainable due to:**
 - Continued attention to plan design and offerings (and the ability/freedom to alter both).
 - Increasing investment in wellness programs.
 - Heavy emphasis on data collection and analysis as well as tight eligibility controls.
 - Aggressive pursuit of tiering strategies to influence consumer – i.e. employee - choice (charging higher co-pays for services provided at higher-cost health care facilities vs. lower co-pays for lower-cost providers of similar quality/outcome history).
 - Advantages of scale only increase as additional municipalities join GIC.

LEXINGTON AND THE GIC – WHY NOW

- Significant potential for cost savings – both for Lexington and its employees.
- 8% growth vs. 13-14% historically for cities and towns – benefits both the town and employees.
- Reduces/eliminates the annual town expense associated with our health benefits consultant; eliminates the administrative burden of managing health benefits in-house.
- Simplifies future bargaining over health benefits, since only the town/employee contribution split is negotiable for communities in the GIC.
- We can now draw on the experiences of towns similar to ours which have joined (Weston) or are pursuing (Brookline) the GIC.
- Despite limited history with municipalities, GIC has long, successful history of providing a rich selection of health benefit choices to 300,000+ employees, with a high level of subscriber satisfaction.
- GIC is a sophisticated system (tiering, analytics, etc.); when combined with scale, should ensure a cost advantage in the future.
- MTA is supportive and will provide consulting services (through Boston Benefit Partners) to local unions, upon their request, analyzing plan choices and cost savings to assist in negotiations.
- Process has an established roadmap already (though few communities/school districts have gone all the way down the road).
- The state's current budget deficit and gloomy revenue forecasts call for bold steps to address major cost centers. The current crisis may help break down the usual barriers.
- Though the state may remove the union veto, starting now is low risk for us (we already have coalition bargaining) and the potential for state action could be a catalyst for the unions to be cooperative (chance to join on their terms).

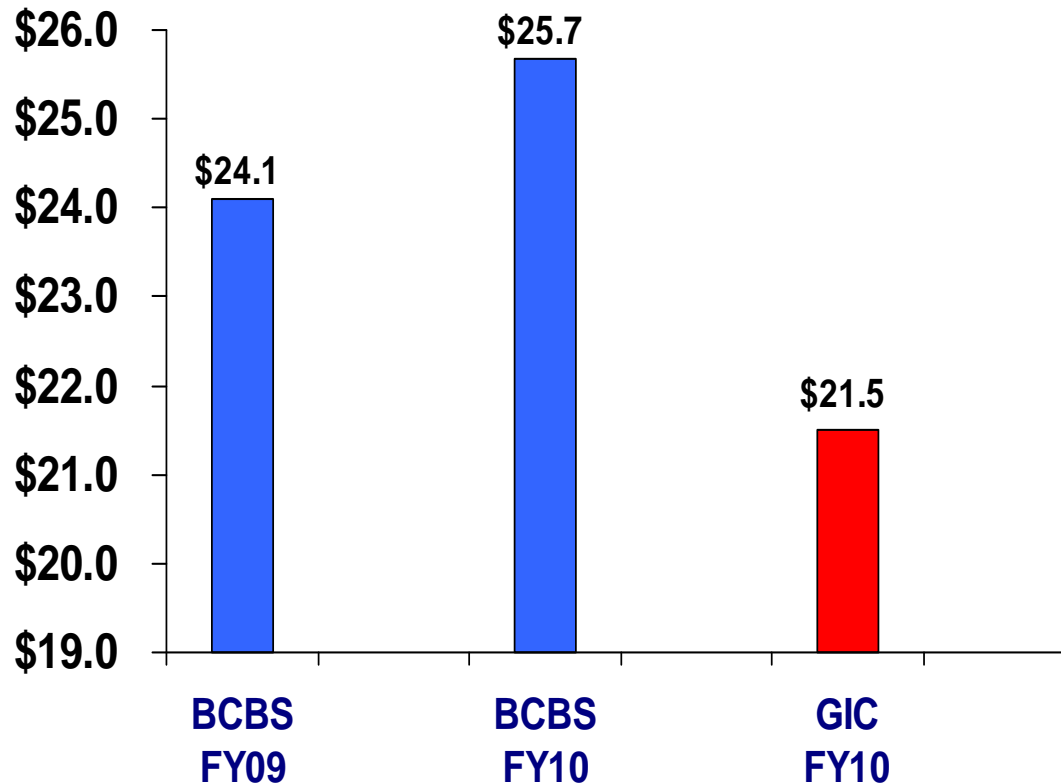
GIC & MUNICIPALITIES

- Chapter 67 of the Acts of 2007 was signed into law on July 25, 2007, creating a new local option for municipalities to join the GIC.
- The enacting legislation requires interested communities to adopt Section 19 of MGL Chapter 32B (coalition bargaining) for purposes of negotiating entry into GIC.
 - Retirees must be represented as part of the coalition with a 10% vote.
 - A 70% weighted vote of the members of the coalition is required to adopt GIC and the accompanying agreement specifying employer contribution rates per plan.
- Communities and employees typically engage consultants to determine savings under the GIC, and then negotiate town/employee contribution split of premiums.
- Going forward, only the town/employee contribution split is bargained; GIC has exclusive authority on all other matters of plan design
 - Determined by GIC board – 15 members including municipal and union representatives.
- Communities must notify GIC by 10/1 for 7/1 start following year; 3 year commitment.
- To date, only 17 out of 351 cities and towns and 10 out of 129 regional school districts and planning agencies have joined.

TOWN OF BROOKLINE

Through a recent request for proposal process, Brookline concluded that it would save substantially under the GIC vs. current provider Blue Cross/Blue Shield

Brookline health benefits expense (\$ MM)



Quoted increase FY10 vs. FY09

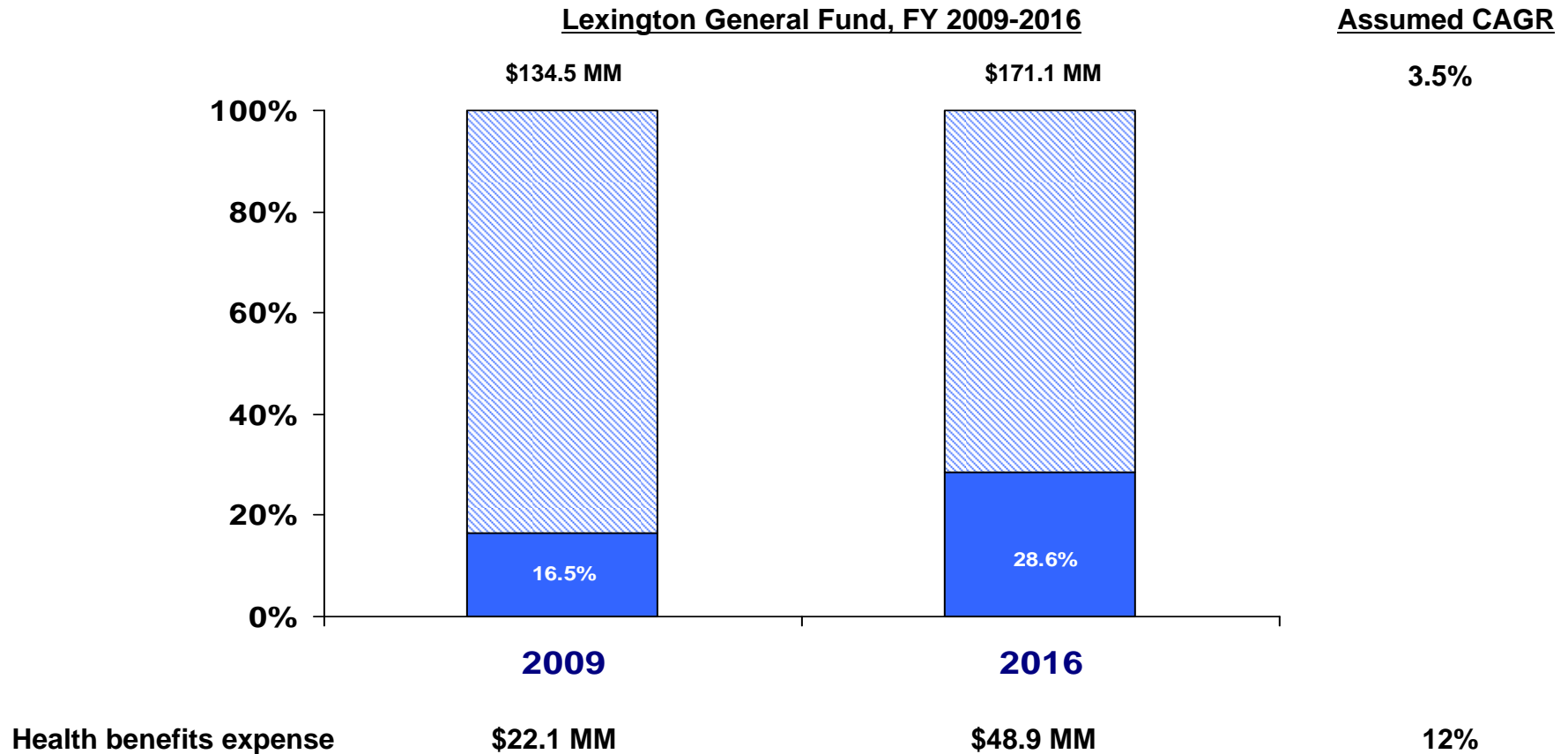
BCBS	6.5%
GIC	-10.7%



\$4.2 MM in savings in Year 1

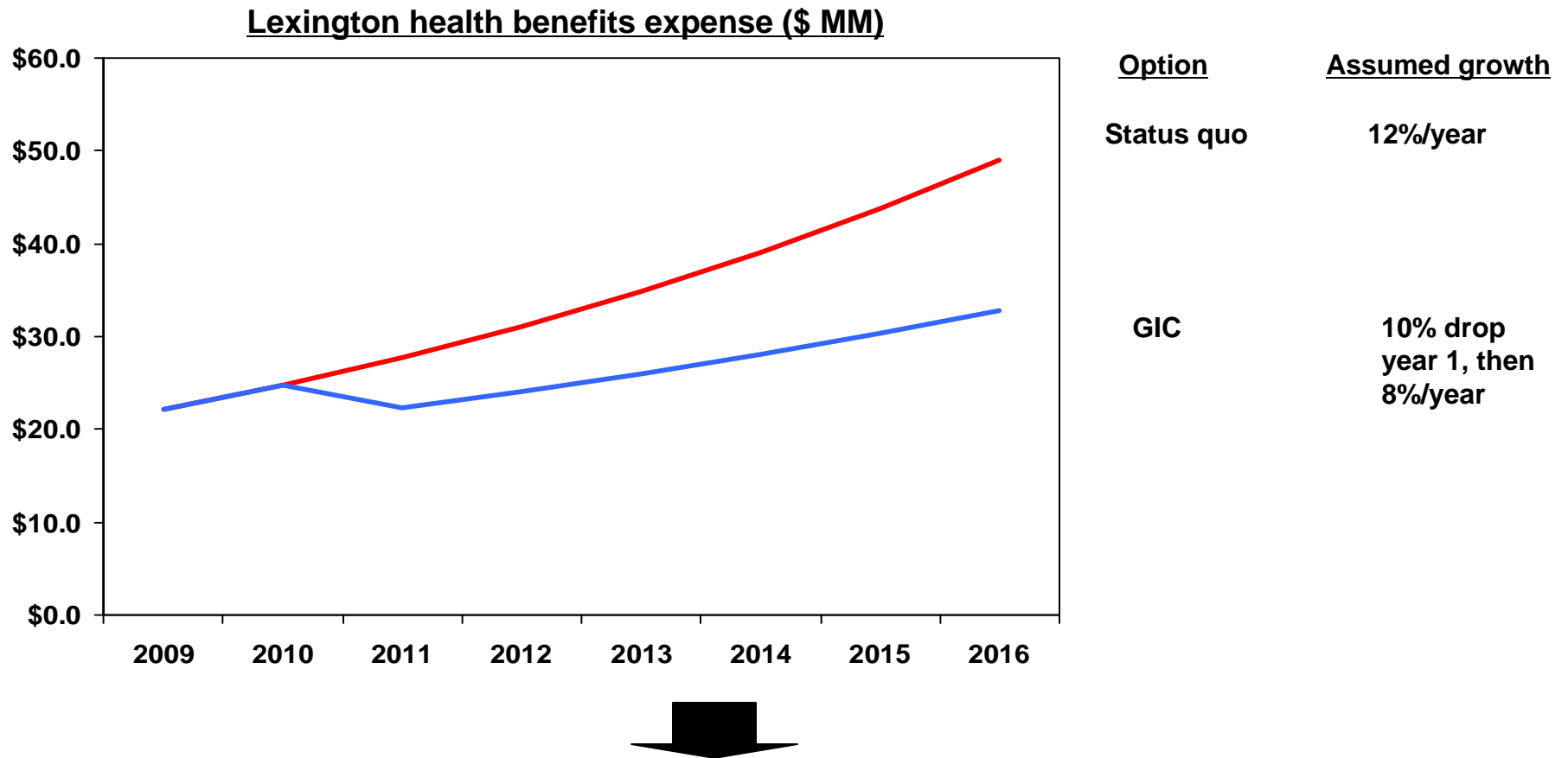
LEXINGTON HEALTH BENEFITS EXPENSE

Health benefits could approach 30% of total expenses if current trends continue



LEXINGTON HEALTH BENEFITS EXPENSE

Assuming current growth rates, Lexington could see substantial savings under the GIC



These assumptions yield \$61.7 MM in gross savings over the period measured

CONCLUSION

- **Lexington is currently facing exceptional challenges**
 - **Usual structural deficit, where expenses routinely grow faster than revenues**
 - **Prospect of deep cuts in local aid**
- **The GIC appears to offer a strong alternative for Lexington**
 - **GIC is a large, experienced and sophisticated provider of high quality plans**
 - **Consistent lower cost and lower growth rate**
 - **High quality health plans for employees**