

Health/Medical Benefits: Burning a Hole in The Budget

A PICA Issues Report

October 23, 2006

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Overview

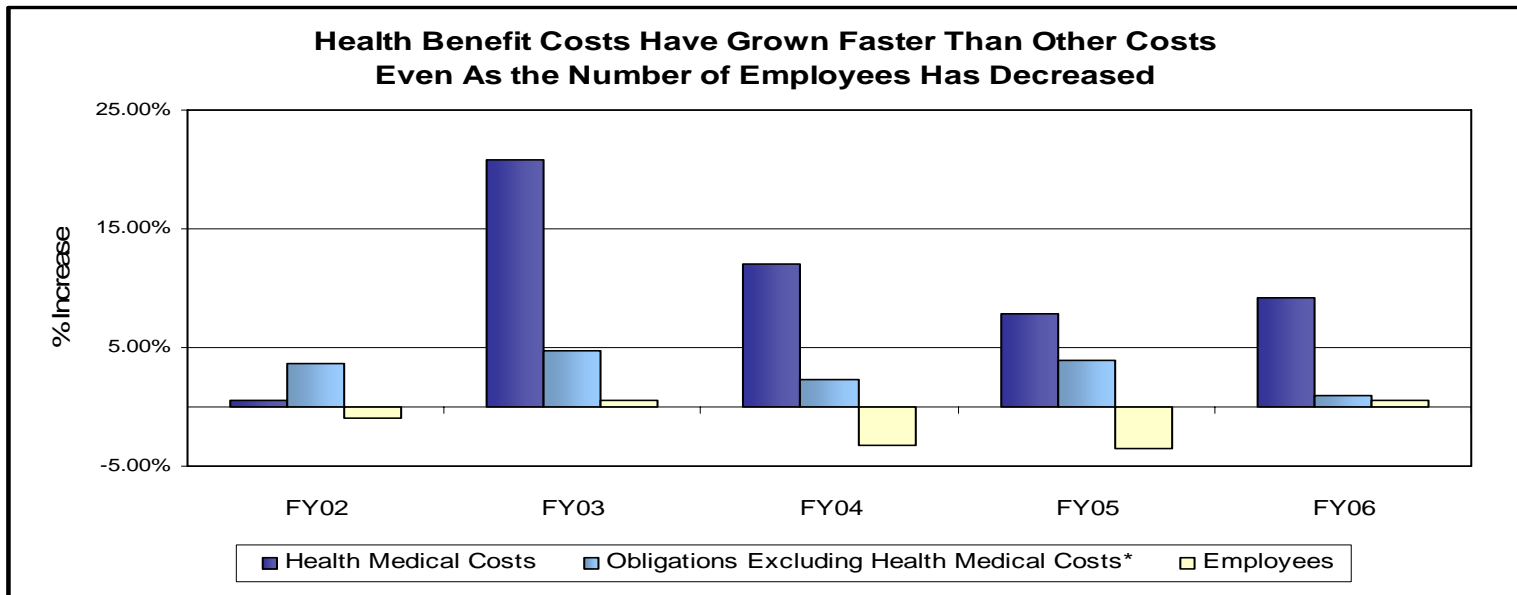
Health benefits have been consuming a larger and larger portion of the City's budget over the last six years. Unless the City can control that growth, more and more of the resources that could be used for essential services or to attack the many long-term issues facing the city will be diverted to health benefits.

The following slides highlight the rapid increase in the City's health benefits costs, examine costs in other cities, describe actions other governments have taken in similar situations, make recommendations for controlling the City's costs and describe how the City's health insurance system works.

Health/Medical Benefits: Burning a Hole in The Budget

Rapidly Increasing Costs

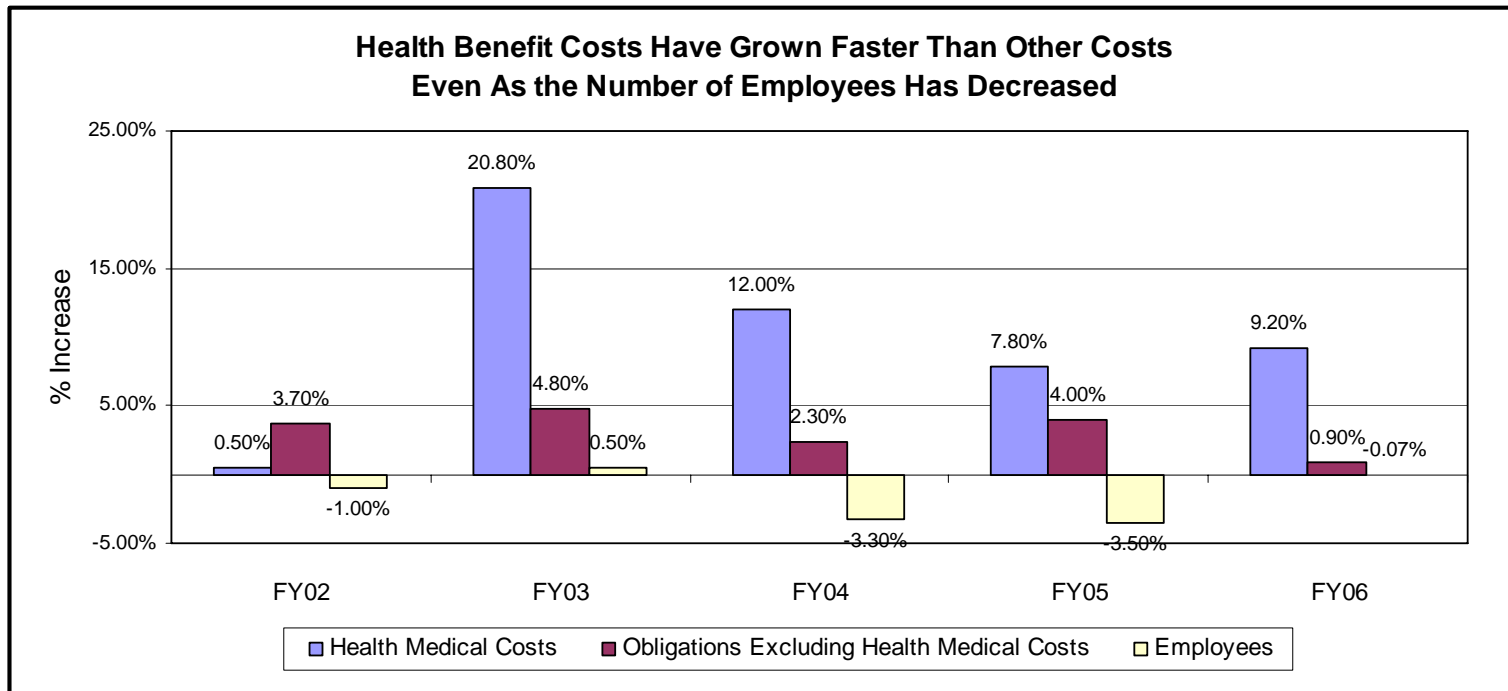
- Health benefits costs grew 60% from FY01 through FY06.
- In FY06, health benefits will cost taxpayers \$112M more than they did in FY01.
- That increase is faster than the growth in other areas of the budget and came at a time when the number of general fund employees decreased.



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Rapidly Increasing Costs

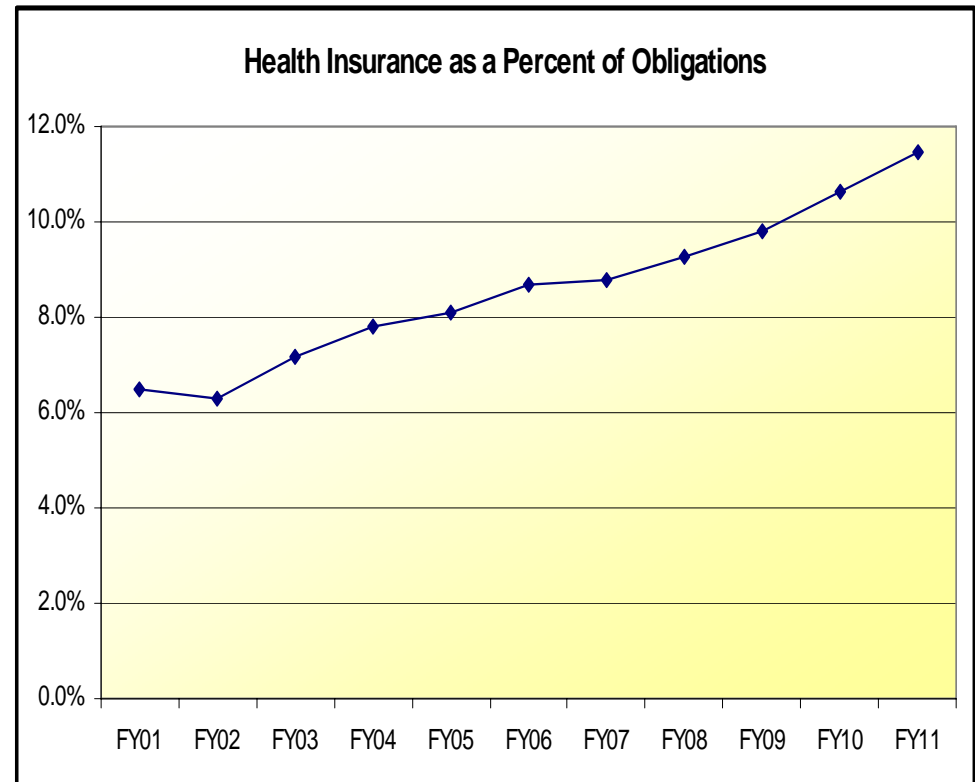
- The rapid increases are projected to continue over the next five years.
- By FY11, according to the projections in the FY07-FY11 Plan, health benefits costs will have increased by another \$147M.
- Unfortunately, the Plan's healthcare insurance projections may be optimistic because they assume that the City will be successful in its appeal of recent arbitration awards for police and fire union members.



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An Increasing % of the Budget

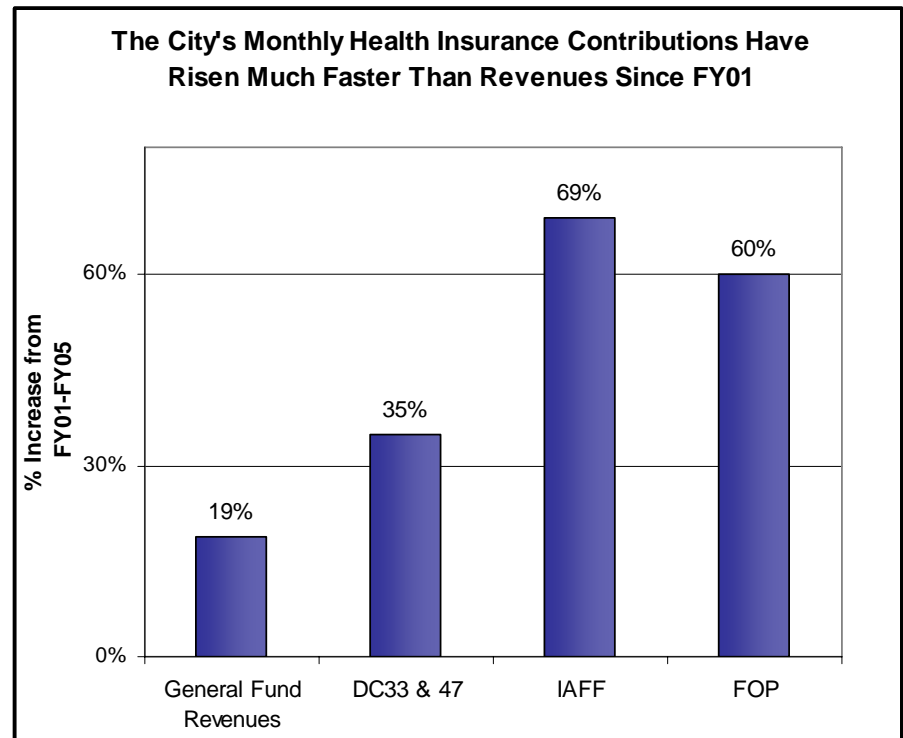
- By increasing rapidly, health benefits costs have consumed an increasing portion of the budget, squeezing out other expenditure areas.
- By FY11, health benefits will consume 11.5% of the budget, up from 6.5% in FY01. That percentage will be even higher if the City's appeals of the police and fire arbitration awards are unsuccessful.
- Annual health benefits costs are projected to be \$259M higher in FY11 than they were in FY01.



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Skyrocketing City Contributions

- The escalation in the City's costs is driven by substantial increases in the monthly contributions it makes to the unions for healthcare plans.
- The contributions are determined either through negotiated collective bargaining agreements for nonuniformed employees or through arbitration for uniform employees.

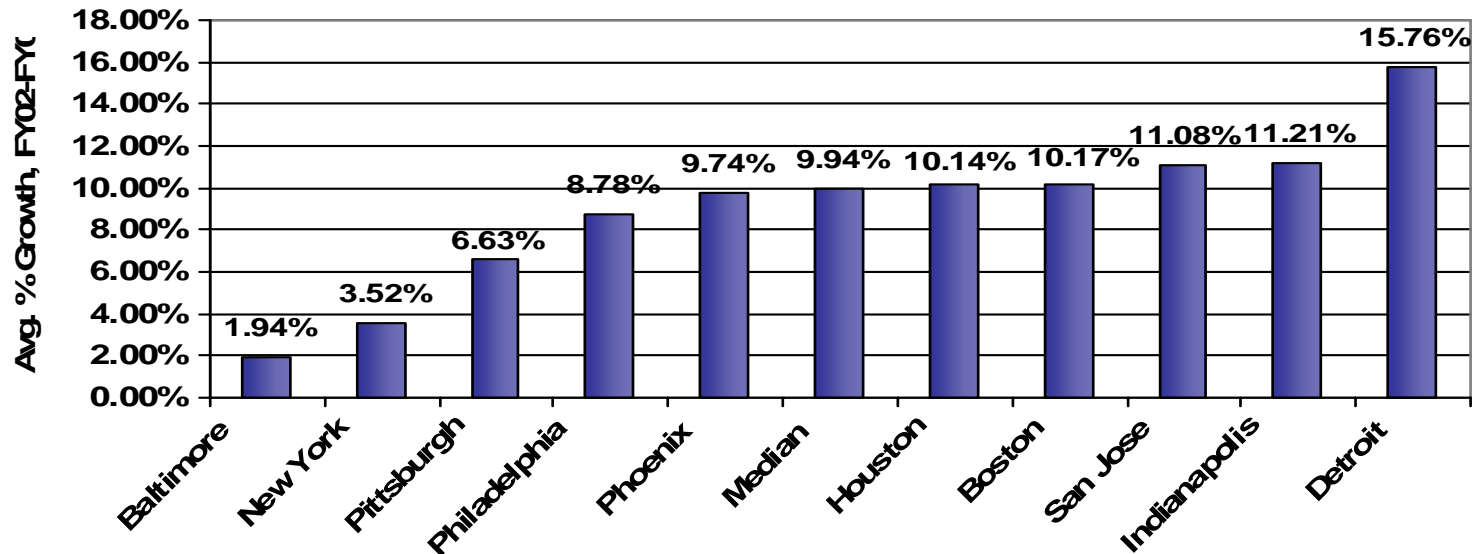


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The City's Increases Are Part of Nationwide Trend

- Philadelphia's increase in costs was slightly below the median increase for the large cities for which information was available.

The Increase in Philadelphia's Health Benefits Costs Was Slightly Below the Median of the City's PICA Examined

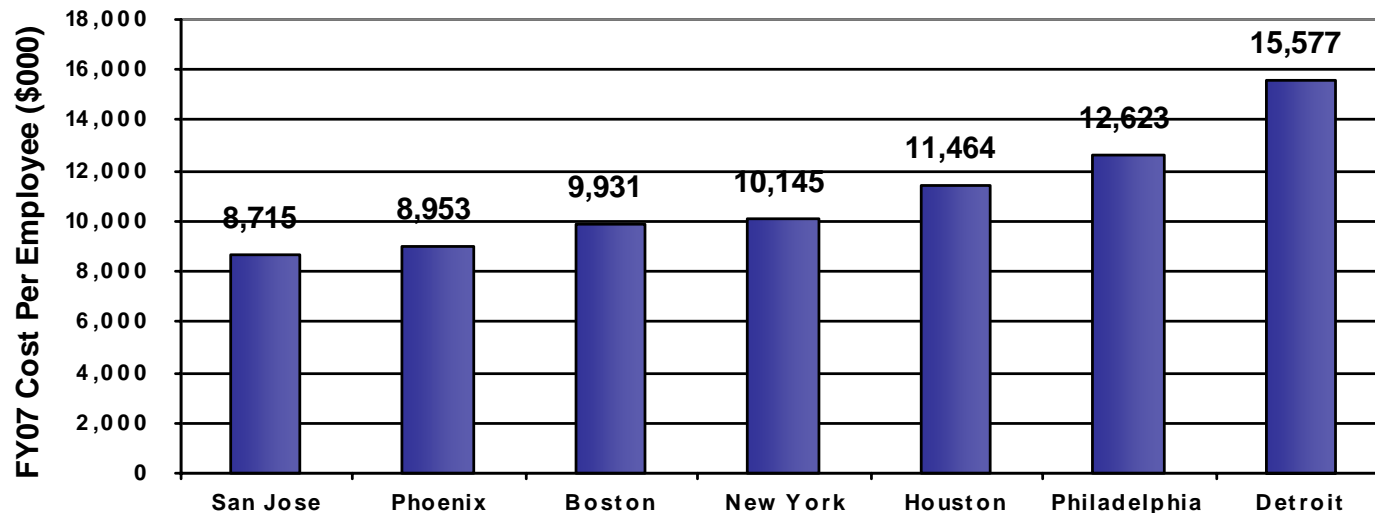


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The City's Increases Are Part of Nationwide Trend

- While the growth in Philadelphia's healthcare insurance costs was faster than the growth in costs in the other larger cities that PICA examined, the City's total cost per employee was higher than the total cost per employee in all but one of those cities.

Philadelphia's Per Employee Health Benefits Costs Were Among the Highest for the Large Cities for Which FY07 Information Was Available



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What Are Other Governments Doing?

Other Cities have been taking steps to control their health insurance costs

Putting Someone in Charge

- A key step for cities is giving an individual or group the responsibility and authority to manage health insurance costs. Groups are particularly effective if they include both management and labor representatives.

Vendor Management

- There are a number of ways health plan managers can manage vendors including using a competitive bidding process and ensuring that providers are properly paying benefits to members.

Changing Plan Design

Modifications could include:

- changing from an indemnity plan to a health maintenance organization, a preferred provider organization; or a consumer driven health care plan;
- changing what kind of procedures are covered in the plan;
- limiting the number of visits that are covered by the plan.
- limiting the kinds of drugs that are covered by a plan.

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Aggregation

- By joining different membership pools under one plan employers can achieve significant savings by increasing their purchasing power and reducing administrative expenses.

Cost Sharing

- Employers can control costs by increasing their employees' share of premiums, co-payments, and co-insurance. Generally, this strategy is effective for overly generous plans whose members are unaware of the true cost of the care they receive. In taking this approach, cities must be careful not to increase employee payments by so much that they dissuade participants from seeking preventive health care that can help avoid far more expensive health problems in the future.

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Individual Health Management

- Costs can be held down by promoting healthier lifestyles among participants, particularly those who are at higher risk of serious disease. Employers can contract with third parties who will target negative behaviors and lifestyles that put members' health at risk.
- In order to ensure that employees participate in individual health management programs such as wellness programs, disease management, and employee health education classes, employers can provide financial incentives.
- By investing in these prevention programs employers can achieve savings by reducing the number of serious health problems that involve costly surgeries, hospitalization, and intensive care. Those types of serious problems typically account for the vast majority of a plan's costs.

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Solving the Problem: *Recommendations for Controlling Health Benefit Costs*

Overall Approach

The City should borrow from the ideas recommended by the GFOA and implemented in other cities and states to reduce its costs. In attempting to reduce those costs, the City should pursue a multi-stage approach. In the first stage, the City should attempt to reduce costs without affecting the benefits that health plan participants receive.

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Solving the Problem: *Recommendations for Controlling Health Benefit Costs*

Specific Steps

- Make Someone Responsible for Managing the City's Healthcare Insurance System and Give the City Equal Representation With the Unions on the Boards That Manage the Health Plans
- Encourage Healthy Behavior to Help Participants Avoid Serious Illnesses
- Manage Vendors
- Share Costs With Employees
- Modify Plan Design

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APPENDIX: How Does the City's Health Benefits Insurance System Work?

- *Most of the City's Employees Get Their Health Insurance Benefits from Plans Managed by Unions.*
- All full-time city employees receive health care insurance unless they specifically waive coverage and give proof that they have coverage from somewhere else (such as being covered by a spouse's plan). In addition, retirees receive coverage for five years.
- Each of the City's four unions control their own health plans and most employees are enrolled in one of those plans. City employees who are not in a union, or who opt not to participate in their union's health plan, enroll in a plan run by the administration.

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APPENDIX: How Does the City's Health Benefits Insurance System Work?

- While the City is represented on the boards that run each of the union's funds, the unions have controlling representation on those boards. As a result, the City is unable to participate meaningfully in the management of any of the funds.