In January 2014, every union contract with New York City municipal workers had expired. Many city employees had not received wage increases for years. At the same time, the new mayor’s administration faced an intractable impasse over health care costs that had developed between the city and its municipal unions for over two decades.

By a little over a year later, the city had reached agreement with over 80% of the workforce, both civilian and uniformed, including an unprecedented approach to resolving the health care issues for all city workers.

Labor agreements historically required New York City and its 144 unions, represented by the Municipal Labor Committee (MLC), to agree on any changes to health benefit plans. Over the last two decades, as the cost of providing health coverage nearly tripled, the collective bargaining parties could not agree on how to meet the challenge of rising costs. Even as it became standard for public and private employers to ask employees to pay a share of their health care premium costs, the city’s coverage remained free to employees. The city was not able to make any significant plan design changes to modernize its programs. Attempts to do so in the past resulted in arbitration and even litigation.

Changing the approach to health care meant changing the dialogue between the city and its unions from one of confrontation to one of collaboration.

Under the leadership of Mayor Bill de Blasio, Labor Relations Commissioner Robert Linn and Harry Nespoli, president of the sanitation workers’ union and head of the MLC, the city and its unions in May 2014 reached an extraordinary agreement. Rather than agreeing to specific benefit changes, the city and the MLC agreed to work together to generate $3.4 billion in cumulative savings for New York City’s health care programs over the next four fiscal years—at least $400 million for fiscal year 2015, $700 million for fiscal year 2016, $1 billion for fiscal year 2017 and $1.3 billion for fiscal year 2018 (Figure 1).

A unique and innovative gain-sharing aspect of the agreement primed the parties to become partners in managing health care costs instead of adversaries. The agreement specified that if efforts resulted in savings of greater than $3.4 billion, the next $365 million would be used to give each of the 350,000 city workers a one-time bonus. Any further savings would be shared 50/50 between the city and the workers.

By mutual agreement, exactly how the health care savings were to be accomplished was not spelled out. Rather, a joint labor-management committee formally known as the Labor-Management Health Insurance Policy Committee, with representation by labor relations staff and union welfare fund administrators, would do that work.

The savings are guaranteed by an arbitration process if the city and the unions are unable to
meet the goals, but that outcome appears unlikely. Ongoing bargaining over the specifics of the savings approaches has been taking place since the May 2014 agreement aligned the goals of labor and management to a plan that benefits the city, its workers and taxpayers.

The Savings Approaches

On April 1, 2015, 11 months after the agreement, the city announced that the $400 million savings goal for the first fiscal year of the new agreement was being reached. The methods used to achieve these savings are not new; for decades, employers throughout the country have used them to address rising health care costs. What is new is that savings are being achieved through labor-management collaboration and without shifting costs to workers. Coverage remains free to employees, their families and retirees during the four-year agreement, as long as the savings goals are met.

Union cooperation was a major factor in reaching the fiscal year 2015 savings goal. First, it should be noted that as part of the collective bargaining agreement, $1 billion was released from a jointly controlled fund to cover part of the city's cost for the collective bargaining agreements. The $3.4 billion health care savings is on top of that $1 billion.

The unions also agreed to forgo a significant financial win related to a 2013 arbitration decided in late 2014. The money the city would have owed to the unions is to be applied instead toward health cost savings.

The other savings initiatives are aligned with four general approaches: negotiating rates, audits, changes in health care delivery and wellness.

1. Rates

New York City’s approach to health care costs is unique and goes back many decades. The amount the city is obligated to pay for health coverage for active employees and pre-Medicare retirees is pegged to the state-approved HIP health maintenance organization (HMO) rates each year—even though the majority of employees and retirees are no longer in the HIP HMO plan.

The city aggressively challenged the rate increase requested for fiscal year 2016 (July 1, 2015–June 30, 2016), and the final approved increase was only 2.89%. Based on 15 years of historical trends (Figure 2), the budget for fiscal years 2015 through 2018 had assumed a 9% annual increase in the HIP HMO rate. The lower-than-anticipated rate increase is a significant savings against budget projections. Likewise, the Senior Care premium rate increase for fiscal year 2015, originally budgeted at 8%, was finalized at 0.32%.

The city also aggressively negotiated rates from other insurers and vendors, including reductions of administrative fees for hospital coverage and administrative fees for care management programs. Contractual provisions of the city’s specialty drug program were renegotiated to deliver substantial savings.

The funding structure of the medical plan was also changed from a fully insured program to a minimum premium plan arrangement, whereby the city is responsible for paying all claims up to a predetermined aggregate level,
with the insurance carrier responsible for the excess. This resulted in significantly lower risk charges and administrative fees and positive tax implications.

2. Audits

Audits have been planned to review all benefit programs. The first audit—to ensure that all health premiums paid reflected an accurate head count—was a major undertaking. An extensive audit was implemented to verify eligibility of all dependents listed for city employees and retirees. The result was a significant number of contract conversions such as changing from family coverage to individual coverage. The city realized significant savings by paying the far lower individual health premiums.

3. Health Care Delivery Changes

The overall approach to pursuing savings was considered in the context of the Institute for Healthcare Improvement’s ”Triple Aim”—i.e., simultaneously improving the health of the population, enhancing the patient experience and outcomes, and reducing the per capita cost of care.

For the first time in many years, the plans were adapted to improve quality and make them more efficient. For example, the city’s very limited hospital preauthorization and case management program, in place since 1992, had never been updated. That program was enhanced to provide a more timely and comprehensive review of hospital admissions and to provide nurse case managers for all patients with complex acute and chronic conditions. Employees, dependents and retirees with severe medical conditions gained much-needed assistance.

In addition, a readmission management program was implemented. As patients are discharged from the hospital, they are provided services to prevent unnecessary readmissions.

Cost-management provisions such as preauthorization and drug quantity management programs were also added to the prescription drug plan.

Chronic disease management to combat some of the specific diseases that impact New Yorkers is also an important part of the cost-containment and quality-of-care efforts. Many employees and retirees are living with the profound health impact of diabetes. A new case-management program provides support specifically for patients with diabetes.

4. Wellness

Unlike many other major cities, New York has not implemented any workforce-wide wellness initiatives. A number of programs are being piloted to help generate a culture of health among the city’s workforce. These programs are designed to encourage fitness, promote better nutrition, combat obesity, promote smoking cessation and reduce stress. Many of these approaches won’t have quantifiable savings in the next year or two but are a longer term strategy to improve the health of the population and reduce future health care costs. Many employees maintain employment with the city for years and continue their coverage with the city as retirees, so this investment in their health may result in significant cost savings for years to come.

The city’s first wellness effort was providing free flu shots to all city em-
Employees in the fall of 2014. Shots were made available at worksites, pharmacies and physician offices. Plans are already underway to begin the 2015 flu shot program earlier to maximize its impact.

More than a third of the population is thought to have prediabetes and be at risk for developing diabetes. Another new initiative, the National Pre-Diabetic Prevention Program sponsored by the Centers for Disease Control, helps identify at-risk individuals and teach them simple lifestyle strategies that can prevent or delay the onset of the disease. The city is piloting both worksite programs and online programs to reach the widest audience.

To support the wellness efforts, a new employee health section of the Office of Labor Relations website provides information and tools to help educate the workforce about health issues and wellness programs.

Future Plans for Fiscal Years 2016 and 2017

These programs combined are expected to generate the full $400 million savings in fiscal year 2015 and have recurring financial impact year after year. Because many of the changes were implemented late in the fiscal year, these efforts alone likely will result in greater savings in fiscal year 2016 and beyond (Figure 3).

Unions and the city are partnering to develop additional programs intended to bend the health care cost curve by delivering care more efficiently and promoting better health.

This ongoing process is essentially an extension of collective bargaining. Although it's too early to say which of these programs will be adopted or their potential savings, a preliminary list of strategies provides an idea of the breadth and depth of the approach the city and the MLC are considering:

- Reduce unnecessary emergency room visits by increasing access to urgent care centers and primary care physicians. This would include access to telephonic physician appointments, the ability to make online appointments and access to a 24-hour Nurse Line. Changes in copays intended to lead to more appropriate health care choices are also under consideration.
- Explore alternative health care delivery models like accountable care organizations and patient-centered medical homes.
- Self-insure the health plans—a potential next step after moving from a fully insured program to minimum premium funding.
- Expand the preauthorization requirements to include outpatient procedures like surgery and radiology. This would help ensure that the city’s workforce is getting the most medically appropriate care in the most appropriate environment.
• Use “tiered” networks that direct people to more cost-effective and better quality care for both medical and mental health issues.

• Expand the current opt-out program to encourage employees and retirees with access to other coverage to opt out of the city’s programs. Many employees’ spouses and partners have other coverage from their employer but choose the city’s coverage because there is no premium contribution. Likewise, many early retirees may have other employers that provide health coverage but opt for the city’s free coverage.

• Provide Medicare Advantage programs that can help the retirees obtain even better coverage while capping costs for the city.

The ongoing effort to identify the right mix of programs to meet the long-term cost savings goals, while also improving patient care goals and the health of the workforce, remains a focus for the city and unions. Both sides are optimistic that the four-year, $3.4-billion health care cost savings goal can be met and exceeded, potentially triggering the gain-sharing aspects of the agreement.

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