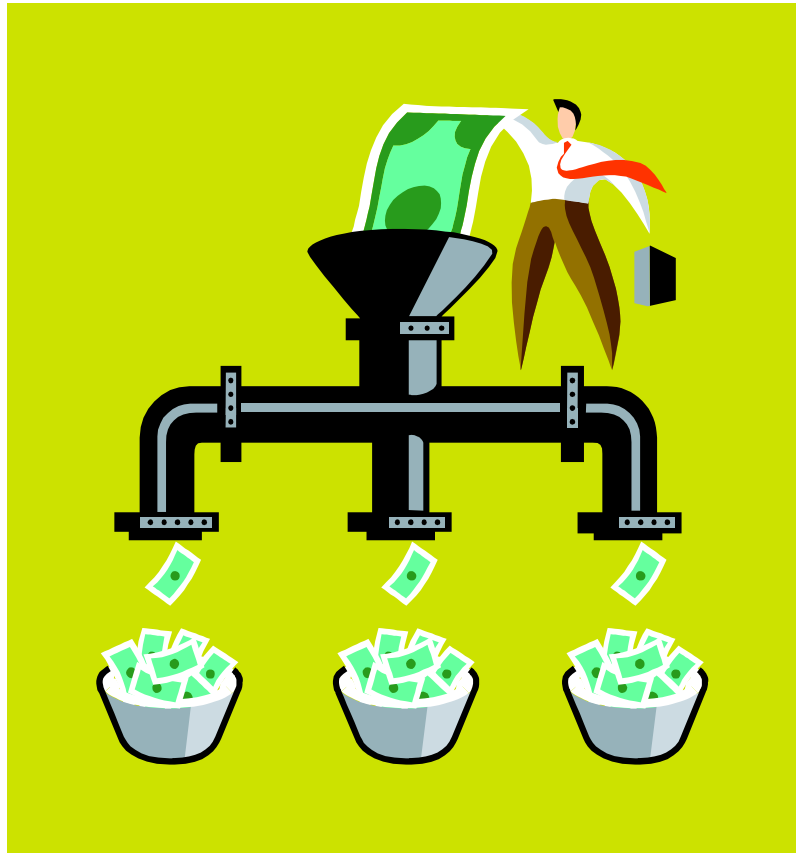


MUNICIPAL FINANCE:

1. B State Policies/Laws that affect how municipalities spend money



- **Part B. Health Insurance**
- *Presented by*
Merle Hyman of FPU

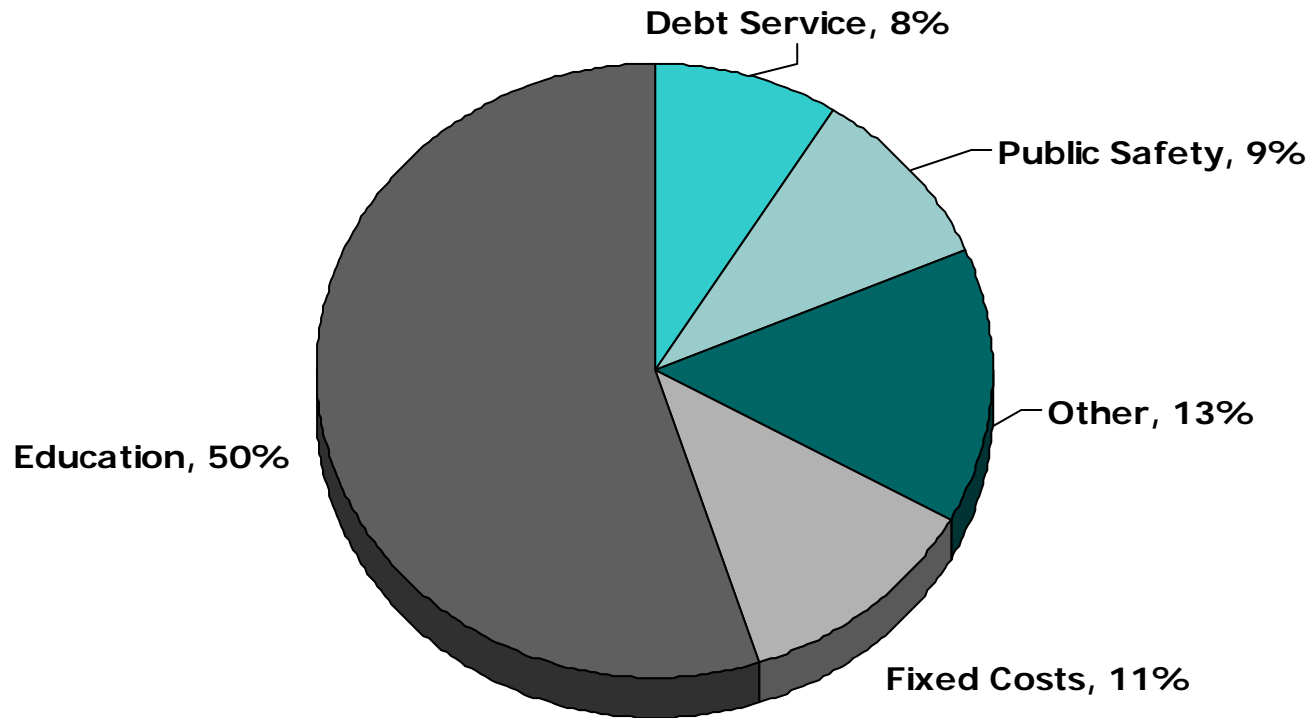


Municipal Health Insurance in Massachusetts

Massachusetts Law requires:

- Municipalities pay at least 50% of the cost of health insurance for employees
- Municipalities not pay more than 90% of the share of costs of HMOs

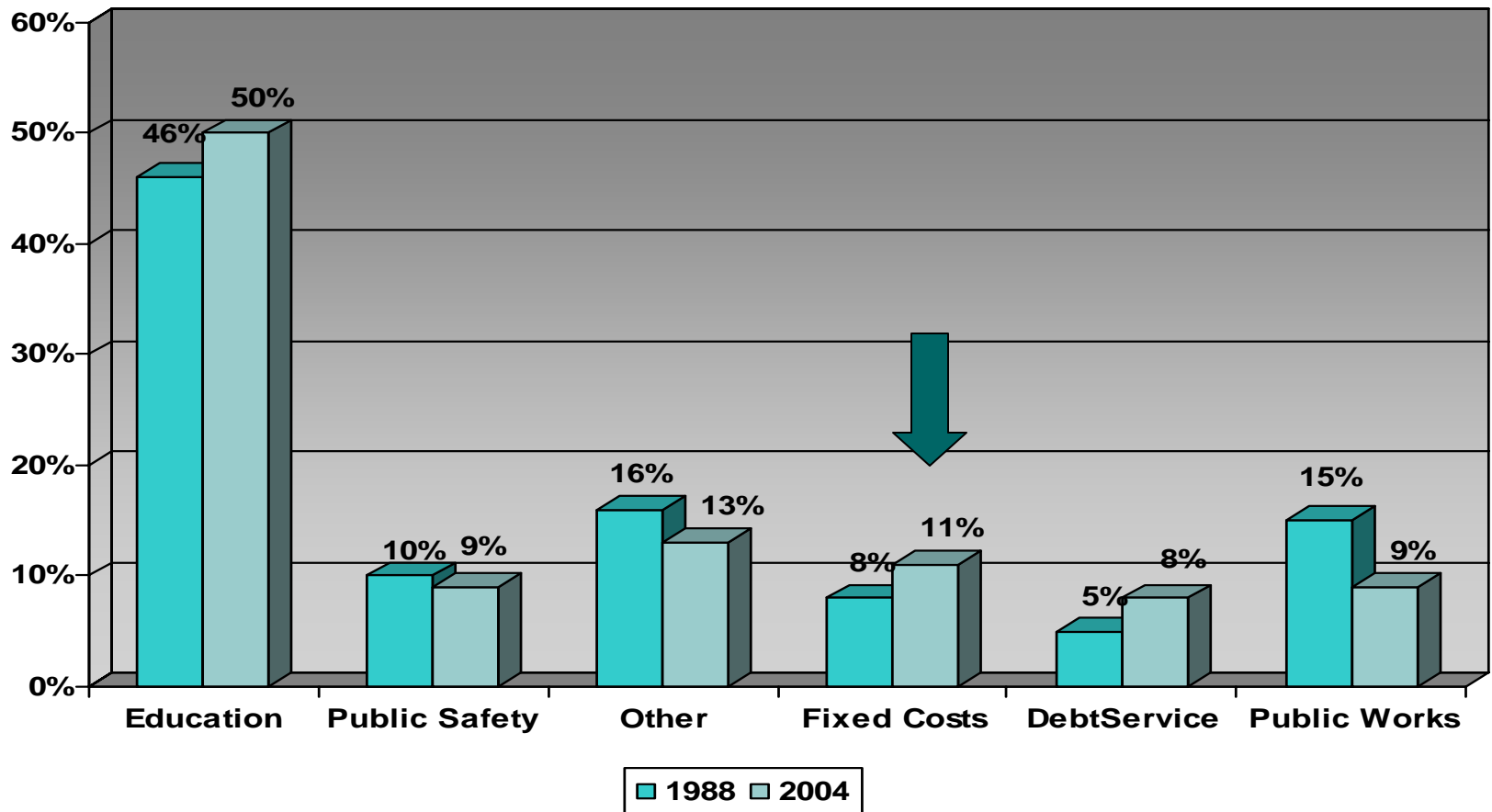
TOTAL Municipal Expenditures 2004



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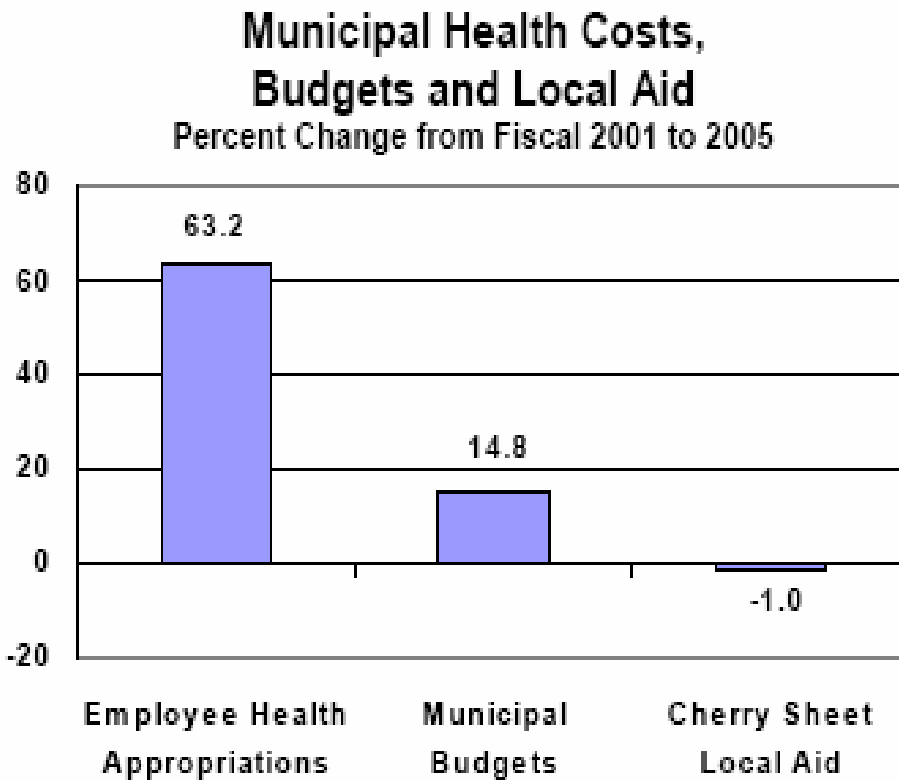
TOTAL Massachusetts Municipal Expenditures 1988 VS 2004



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2001-2005 Taxpayer Costs of Municipal Health Insurance



Source: MMA/MTF 2005 Municipal Health Cost Survey; Cherry Sheet Local Aid for survey communities

- Cost of health insurance increased **63.2%**
- Budgets increased **14.8%**
- Local aid decreased **1%**

Employee Health Insurance as % Local Budget

Employee Health Care Share of Budget
MMA/MTF 2005 Municipal Health Cost Survey

Fiscal Year	Employee Health Appropriation (\$, M)	Municipal Budget (\$, M)	Employee Health Percent of Budget
2001	\$307.1	\$4,123.0	7.4 ←
2002	353.0	4,344.1	8.1
2003	403.6	4,496.7	9.0
2004	455.4	4,587.7	9.9
2005	501.3	4,733.0	10.6 ←
Pct. Chg. 01-05	63.2	14.8 ←	42.2 ←

- 2001 = 7.4%
- 2005 = 10.6%
- 42% increase in 4 years, VS 14.8% budget increase
- Projected annual increase of 15% within four years

From MTF, July 2005-"A mounting crisis for local budgets: the crippling effect of soaring municipal health costs"



Examples:

Marblehead

Between 2001 and 2005:

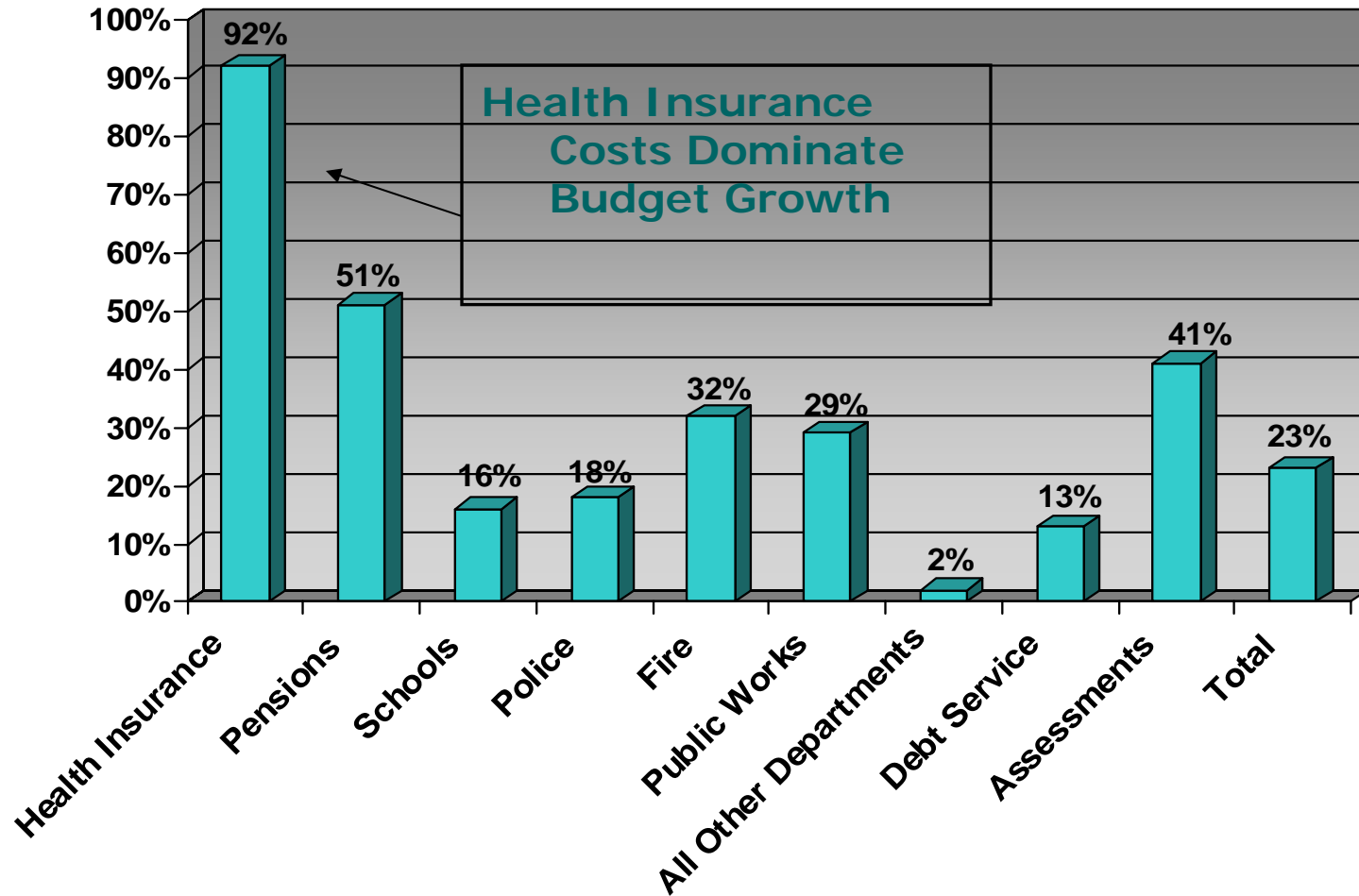
- Marblehead employee health care costs increased **80%** outpacing the state average increase of **63%**
- As a portion of Marblehead's general fund budget, Health insurance: **8.4% in FY2000 VS 15.4% in FY2007**

Worcester

- Health Insurance premiums in 2000 consumed **10%** of city budget vs. **15% in 2005**
- Budget for health insurance more than **doubled** in 5 years

- *-Marblehead Reporter, July 28, 2005 'A hard look at healthcare' editorial*
- *"Condition Serious, Prognosis Uncertain..." WRRB, Report No.05-01 Feb 28, 2006*

Boston, Budget Growth FY01- FY07



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Accounting Change

- Municipalities are required to fund “Incurred But Not Reported” health charges
- Have up to 3 years to pay
- Marblehead, for example, in FY05 had \$800,000 IBNR

State Employee Health Costs

Growth in Employee Health Costs Mass. Local and State Government Fiscal 2001-2005

Fiscal Year	Percent Increase	
	Local Employee Health Appropriation	State Employee Health Spending
2001	--	--
2002	14.9	11.8
2003	14.3	3.1
2004	12.8	6.5
2005	10.1	5.2
Total change	63.2	29.2
Annual average	13.0	6.6

Source: MMA/MTF 2005 Municipal Health Cost Survey;
MTF analysis of DOR municipal financial data

- State employee health costs increased at half the rate of municipalities

Mass Taxpayers Foundation Report "A mounting Crisis for Local Budgets: the crippling effects of soaring municipal health costs" July 2005



Facts about healthcare nationwide

US Healthcare Nationwide:


- Rate of health care costs continue to grow **6.9% in 2005**
- Cost of **prescription drugs** continue to **increased 5.8% in 2005**
- Nationwide, Health Insurance Premiums:
 - Rose 9.2% in 2005 more than 3x growth in worker income
- **Fewer businesses are offering health insurance**

*Projection from Center for Medicaid and Medicare Services "Health Spending Projections Through 2015"
www.cms.hhs.gov*



New Accounting Standards: GASB 45

- Establishes accounting standards for “other post-employment benefits” (OPEBs) excluding pensions
- Health Insurance most significant
- Also includes dental, vision, disability, life insurance, long-term care
- Unfunded liability of OPEBs will be reported in next couple of years



What is driving the costs of municipal health insurance?

1. Healthcare costs

- Costs of prescription drugs, technology
- Changing public demographics
 - Aging population
 - Increased obesity
- More uninsured
- Increased use of tests

2. Structure of Health Insurance

- Insulates consumers from real costs (low co-pay)
- Municipal employees- lower contribution ratio

3. Retiree Benefits and Medicare

- Many towns not adopting local option for retirees to enroll in Medicare
 - Chapter 32B Sec. 18 of Mass General Laws provides a local option that retirees must enroll in Medicare

(1)Employee Benefit Research InstituteVol25 no 12"Tracking Healthcare Costs" (2)"Employee Health Insurance in Mas" City and Town April 2005, Jarett Connor
(3)"Getting A Grip On Healthcare Costs" City and Town Jan 2006, Richard Johnson (4) in Discussion
2)"Employee Health Insurance in Mas" City and Town April 2005, Jarett Connor
(3)"Getting A Grip On Healthcare Costs" City and Town Jan 2006, Richard Johnson
(2)"Employee Health Insurance in Mass" City and Town April 2005, Jarett Connor



Tools to Control Health Care Costs

Suggestions

- Increase local management authority... need authority to manage health insurance costs (MMA, CURP); authority in setting insurance rates as state (MTF)
- Remove requirement or give flexibility to negotiate all health insurance changes with all unions (MTF, MFTF)
 - CURP= Center for Urban and Regional Policy, Northeastern Univ
 - MMA= Mass Municipal Assoc
 - MTF= Mass Taxpayers Foundation
 - MFTF= Municipal Finance Taskforce



Tools to Control Health Care Costs

Suggestions (continued)

- Allow communities authority to **establish Group Insurance Commission equivalent** (BMRB) or join state's plan(MTF, MFTF)
- State make joint purchase of health plans easier (MFTF)
- **Require all employees to enroll in Medicare** (MTF, MFTF, BMRB)
- Establish **reserve** for health benefits (BMRB)
 - BMRB= Boston Municipal Research Bureau
 - MMA= Mass Municipal Assoc
 - MTF= Mass Taxpayers Foundation
 - MFTF= Municipal Finance Taskforce



Tools to Control Health Care Costs

- Pass legislation for single payer health care (Improved Medicare for all) which will give high quality, comprehensive care for everyone and eliminate waste.
- Provide uniform billing
- Mandate 90% of health care expenditures to direct health services
- Negotiate fair pricing of drugs and medical devices



Proposed Legislation

- Join MA Group Insurance Commission as a local option.
- S755 (Tolman/Hynes Bill) a single payer bill-an improved Medicare for all. Goal of high quality, comprehensive care for everyone and elimination of waste.
- S2312 (Tolman/Tarr bill) would provide uniform billing and mandate 90% of health care expenditures to direct health services.
- Montigny bill would establish fair pricing of drugs and medical devices.



Conclusion:

- Short term changes must occur to slow the erosion of municipal funds due to employee health insurance
- These changes are necessary to “buy time” for political leadership to craft a solution to overall problem of cost of healthcare in the United States

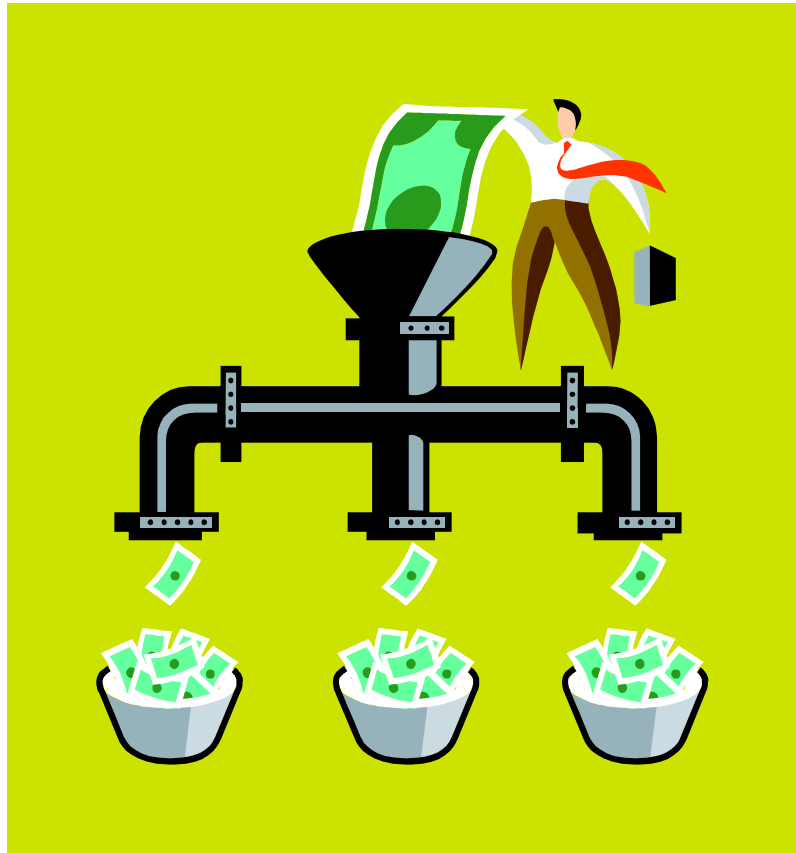


Sources for graphs and data

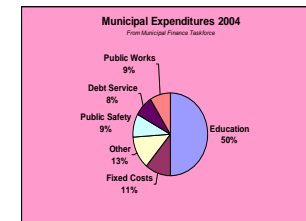
- ***"Revenue Sharing and the Future of the Massachusetts Economy"*** Barry Bluestone, Alan Clayton-Matthews, David Soule MMA and Center for Urban and Regional Policy, Northeastern University, January 2006 ,Available at CURP website
- ***"Soaring Health Insurance Costs Threaten Boston's Competitive Edge: Boston and Other Municipalities Face a Crisis of Unsustainable Cost Increases"*** , Boston Municipal Research Bureau, November 2006
- ***" Local Communities at Risk: Revisiting the fiscal partnership between the Commonwealth and cities and towns"***, From Municipal Finance Taskforce, MAPC, September 2005 Hamill Report
- ***"Municipal Financial Data 35th Edition"*** Mass Taxpayers Foundation, November 2005
- ***"Condition Serious, Prognosis Uncertain: The impact of municipal employee health insurance on Massachusetts cities"*** Worcester Regional Research Bureau, February 2005 <http://www.wrrb.org/reports/05-01health.pdf>
- ***"A Mounting Crisis for Local Budgets: the crippling effects of soaring municipal health costs"***, Mass Taxpayers Foundation, July 2005

MUNICIPAL FINANCE:

1. B State Policies/Laws that affect how municipalities spend money



- Part B.
Pensions





Massachusetts Law Chapter 32

- MGL Chapter 32: Cities and towns must have a Public Employee Retirement System
- “Defined benefit” plan
- Contributions from employee and local government

Note: teachers’ retirement contributions made by the state



Pension

- **“Defined Benefit”**
 - Retiree receives an amount each year that is defined by the plan
- **Amount of Benefit Determined by**
 - Years of service and eligibility
 - Employment group
 - Salary history
 - Age at retirement



Non-Governmental Business Pensions, in contrast

- Moved toward “defined contribution” pension plans (IRA’s 401K, etc)
- Business contributions stop when employee retires or leave employment



PERAC (State Board)

- Public Employment Retirement Administration Commission
- Charged with overseeing the 106 Retirement Boards in the state
 - RB may invest own funds, hire investment manager or participate in state-run plan (PRIM)



Funding Pensions

- Used to be “pay as you go”
- Now use actuarial cost
- Employer and employee contributions have to be invested to cover today's retirees and employees that will retire in the future
- Difference is today's “unfunded liability”



Unfunded liability

- MGL Chapter 32 amended in 1987
- Requires each public retirement system to eliminate unfunded liability
- **Pensions must be fully funded by 2028**
- Half-way to 2028:
 - As municipalities work toward fully funding pension liability, will have a impact on local budgets

Questions?



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