



Michael V. O'Brien
City Manager

CITY OF WORCESTER

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Attachment for Item #

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January 18, 2011

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

Employee health care costs are projected to balloon to \$83M for the Fiscal Year 2012 or 16% of the overall total budget, remaining our largest, most expensive line item. Employee health care costs continue to grow annually at unsustainable rates, far in excess of our average, annual revenue growth even though we have made huge strides to rein in these costs over the last six years by implementing thoughtful reforms. The formula is simple: without additional reforms, these costs will continue to carve deeper and deeper into the dollars available to provide basic City services.

Preliminary indications are that our overall employee health care costs will increase by 13% for the next fiscal year, or about \$9.5M. This includes a 3% increase due to the Federal law changes that require us to cover dependents to 26, as well as other modifications. At this rate, this increase will be the equivalent to the City's projected revenue growth from property taxes (Proposition 2.5 and projected new growth) for Fiscal Year 2012. In other words, 95% of the anticipated increased revenue for next fiscal year would be applied to fund the health insurance benefits for City employees. To further place this burgeoning cost into perspective, this means that about \$500 of the average single family property tax bill of \$3,307 funds City employee health care benefits. For the average commercial property taxpayer, nearly \$3,200 of their \$21,087 average tax bill funds City employee health care benefits.

In Fiscal Year 2000, employee health insurance costs accounted for 8% of the City's budget. This line item has doubled in ten years time. At this rate, it is projected that employee health insurance costs could consume more than 25% of the City's budget by 2020. The rigid structure to make reforms to our provision of employee health care benefits does not allow us to make timely modification to adapt to economic realities. It takes years and years to make even minor changes. This compounds these economic realities and results in cuts in staff and services.

Thoughtful reforms have helped to slow the rate of growth – contribution rate changes; plan design changes; plan administration changes; restructuring of our senior plans; adoption of Section 18; and more. These reforms have re-directed \$100 million to services and have helped to keep our health care premium increases stable over the last four years. It should be noted that our first steps of reforms remain incomplete. The Police Officials and EAW and other school unions have yet to transition to 75/25 contribution rates and revised co-payments, which are projected to save \$3.5M.



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Clearly, we must continue to identify reforms to address this cost center and to slow its rate of growth, including, but not limited to, pursuing legislation to grant cities and towns the same authority over plan designs/ co-payment structures that the State currently enjoys. This option would give the City the ability to make business decisions in line with current economic conditions. For example, the State made a mid-year plan design change in FY10 in reaction to its budget crisis by adding a deductible to its conventional plans. If the City were able to make that same unilateral change, it would have the effect of re-directing \$4M in employee health insurance cost savings to other critical service needs.

I intend to bring forth detailed analyses of these options and more for review in the coming weeks. I must be candid that employee health care costs will continue to create enormous challenges for both the City and Worcester Public Schools, as we move into the next budget cycle and for the foreseeable future. Deep staffing cut are looming for FY12 and we must focus on our greatest cost centers—wages and benefits—for further reforms will prevent these losses.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael V. O'Brien", with a long horizontal flourish extending to the right.

Michael V. O'Brien
City Manager