



CITY OF WORCESTER, MASSACHUSETTS

Michael V. O'Brien
City Manager

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Attachment for Item #

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February 24, 2009

TO THE WORCESTER CITY COUNCIL

COUNCILORS:

Per the request of City Council, the following information relative to employee health care costs and anticipated savings from additional reform is forwarded for the information of your Honorable Body.

Employee health care remains our largest, most costly benefit. Collectively, we have spent the last four years reining in these costs through thoughtful reform. These actions have allowed us to continue to provide affordable, high-quality health care benefits for our employees and, concurrently, allowed us to redirect tens of millions of taxpayer dollars, formerly dedicated to health care costs, to preserving core municipal services (approximately \$45 million to date).

Employee health care costs continue to grow annually at unsustainable rates, far in excess of our average, annual revenue growth. The effect is simple: these skyrocketing costs carve deeper and deeper into the budget dollars available to provide basic City services. In FY2010, preliminary indications are that our overall employee health care costs will increase by **10 percent** even as projected revenues and aid continue to decline (by as much as 30 percent). Employee health care costs will increase by \$8 million once this percentage increase is factored. This reality will swell the annual total costs for employee health care to over \$80 million (City/ WPS). For perspective, this will equate to a \$16,000 City expense for the average, annual family plan. This will equate to approximately \$600.00 of the average annual residential tax bill.

We have a goal to transition all employees to a 75/25 contribution rate as well as revised co-payments (\$20.00 specialist visits, \$75.00 emergency visits, \$150.00 inpatient care and \$250.00 outpatient surgery). Approximately 20 percent of employees (both City/WPS) pay 25% of their health insurance costs along with these revised co-payments as of this writing.



There would be a savings of over \$2.35 million to redirect to stabilize City services if all remaining employees on the City-side (exclusive of WPS) were to transition to a 75/25 contribution rate and to these revised co-payments. The net cost difference for the transition to 75/25 is roughly \$600 annually for the family plan and \$200 for an individual plan (pre-tax). This would increase an employee's average weekly cost by \$5 (or \$12 for a family plan). If WPS were to take similar action, the savings would equate to approximately \$3.4 million that would be available to redirect to stabilize services our classrooms.

Today, I met with all non-represented City-side employees and I detailed that I need to transition them to this 75/25 contribution rate for Fiscal Year 2010. This action, coupled with their revised co-payments, equates to approximately \$440,000 in budget savings. Additionally, I detailed that I must factor a 0% wage increase in the FY2010 Budget for all non-represented employees. The total projected FY2010 savings for these actions is approximately \$850,000. I will apply these redirected dollars to reduce the projected number of layoffs of our non-represented community by approximately 15 to 20 employees. The projected FY2010 Budget Deficit is now reduced by the referenced \$850,000 - from \$18.3 million to \$17.45 million.

I am grateful for the respect that was exhibited by the 300 non-represented employees that attended this meeting. I detailed, with complete candor, the need to proceed with these changes. Their follow-up questions and comments were clear indications of their knowledge of the unprecedented challenges we face and the requirements for immediate actions if we are to preserve jobs and services.

Any changes to represented (union) employee health care benefits, such as contribution rates and co-payments, are subject to collective bargaining. I have also met with these represented (union) employee executive board members as a collective and individually. Bottom line, we can preserve jobs and services if these health care changes and wage items can be negotiated in good faith into these agreements.

Respectfully submitted,



Michael V. O'Brien
City Manager