Executive Summary

Spending by the state of New York chronically exceeds its revenues. That gap has been growing and is expected to widen unless there are serious, ongoing adjustments in budget behavior. Lieutenant Governor Richard Ravitch, in “A Five Year Plan to Address the New York State Budget Deficit” issued in March 2010, estimated this structural imbalance in the state’s budget to be at least $13 billion. The structural imbalance is not merely the result of the recession that began in 2007, and a generally improving economy will not eliminate it.

To assist New York in offering the services and commitment to excellence that its citizens depend upon, structural adjustments are in order. The goal of this proposal is to outline one such adjustment — resolving a blatant inequity between the state and its local governments in the system of paying for health insurance for public employees, a large and growing portion of New York’s public spending. At the same time, the recommendations in this paper would save New York State and/or its local governments more than $1 billion annually, with such savings rising to $1.7 billion within five years.

Importantly, the actions proposed here should not harm local service provision. Localities provide the basic services essential to the well-being of our residents: education, safety, health, and access to commerce, among others. Indeed, much of the aid that the state provides to localities, particularly for education, is intended to compensate for inequalities in local resources and to result in less variation in the quality of local services. However, there is an inconsistency in the treatment of the state’s own employees compared with those of local governments, which burdens public budgets and limits the ability to fund needed improvements in all services.

A Growing Cost

A significant — and growing — portion of New York State’s financial assistance for local governments and school districts pays for local employee and retiree health insurance premiums.
One-third of New York’s state-funded expenditures go to local schools or general municipal aid. They spend more than one-third of their budgets on the more than 1.3 million people they employ. Indeed, about 17 percent of local government spending is for employee benefits, primarily pensions, and health insurance. While New York’s public employers are not required to provide health insurance to their employees, the vast majority of them, except for the smallest, do so. A recent report by the Empire Center for New York State Policy estimates that local governments across the state have accumulated long-term liabilities of more than $128 billion for retiree health coverage, on top of $75 billion in such liabilities for the state and its largest public authorities.

As state and local government policymakers confront both rising health care costs and large budget gaps, they face choosing to cut the level and quality of services or to reduce the unit cost of providing such services. Reducing unit costs means preserving services for New Yorkers. At the same time, the state has a strong interest in helping local governments and school districts restrain the growth in property taxes.

The state must, and can, control the growth of employee and retiree health benefit expenses without compromising the quality of the services that the state and its local governments provide to residents. The state and its local governments must also maintain a competitive level of employee compensation to attract and keep qualified employees; fortunately, there is significant room for cost savings while maintaining excellent benefits for workers and retirees.

This paper offers two alternative approaches to controlling the growth of such costs. (These are a combination of strategies in line with the Government Finance Officers Association recommendations on health care cost containment.) The proposals are intended to produce cost savings to help preserve essential programs and avert further tax increases. Each alternative would initially save the state’s local governments in the neighborhood of $1.2 billion - $1.8 billion annually, savings that will grow over time with the pace of health insurance premiums.

The Issue: Public Employee Health Insurance

The state provides health insurance to its employees and retirees and their dependents through the New York State Health Insurance Program (NYSHIP), which is administered by the...
Department of Civil Service. NYSHIP also covers more than 800 local governments and other participating employers, and more than 1.2 million enrollees and their dependents. The impact of rising health insurance costs on the state budget has been significant. By 2006, total premium costs of family coverage for state employees enrolled in NYSHIP had risen 170 percent compared to 1999. For the same years, the rate of increase for state employees across the nation was only 117 percent. From FY 2009-10 to FY 2010-11, the state is facing an expected rise of 9.6 percent, from $2.8 billion to $3.1 billion, for the cost of employee health insurance.

New York State employees and retirees enrolled in NYSHIP, except for those who retired before 1982, contribute 10 percent of the cost of their individual premiums — slightly less than the national average — and 25 percent of the premiums for their dependents. New York’s overall rate of contribution by state employees — individuals and families — is around 18 percent. However, for retiree health benefits, the burden-sharing between retirees and the taxpayer varies, as the state allows retiring employees to save up sick leave and apply it to offset their share of premium costs. This practice allows some employees to have fully taxpayer-funded coverage for as many as eight to ten years during retirement, when sick leave was intended as a benefit to be used only as needed.

In contrast to the state, the costs for New York’s local governments’ employee/retiree health insurance coverage are paid entirely, or almost entirely, by the local governments. In most municipalities and many school districts, the employee contribution is none to minimal. This represents a huge benefit for the state’s local public employees.

Local Variations

We do not have a precise measure of the size and rate of growth of New York’s local government employee health insurance costs or the levels of contribution by employers and employees. Health insurance is included in virtually all collective-bargaining agreements and is provided by employer choice to most employees who are not covered by such agreements. However, there is no uniformity of contribution rates among local governments, even within the same county. Based upon our research and review of contracts, Greene County, for example, appears to pay 85 percent of its employees’ health insurance premiums, while Catskill Central School District pays 93.5 percent and the town of Catskill pays 100 percent.

Large numbers of local governments do not require their employees to contribute anything at all to their health insurance premiums. As a result, rising health insurance costs are placing a larger proportional burden on their budgets than on the state’s. Health insurance costs at the local level are consuming an increasing share of the aid that the state provides to local governments.

Costs for local governments’ employee and retiree health coverage are paid almost entirely by the local governments.
Most of the noncontributing local government employees are concentrated downstate. (Some upstate jurisdictions, such as Erie County and the city of Buffalo, mirror downstate behavior on this issue.) New York City, employing almost 280,000 people, offers basic coverage under the City Health Benefit Program that does not carry any employee contribution; other options may require a payroll or pension deduction. Retirees can receive benefits at the time of retirement, if they fulfill certain requirements such as years of credited service. Other noncontributing local governments include four of the five largest counties outside New York City — Suffolk, Nassau, Erie, and Westchester — as well as the city of Yonkers, the largest towns on Long Island, and many other towns and villages. Of the villages for which data are available, more than 90 percent pay all of their employees’ premiums. Interestingly, White Plains, which is roughly equivalent to Albany in budget size and number of employees, is now a downstate exception, requiring contributions from nonunionized employees beginning July 1, 2010.

With respect to the special case of roughly 550,000 public school employees across the state, the data are even less precise. We know that the largest district — New York City — picks up 100 percent of the cost for most employees. We estimate, on the basis of our examination of contracts representing half of all school district employees outside New York City, that almost a quarter of these employees pay zero percent of their health insurance premiums. Taking New York City and non-New York City data together, it appears that almost half of the school employees in the state make no contribution toward their health insurance.

In 2008, the state Commission on Local Government Efficiency and Competitiveness, chaired by former Lieutenant Governor Stan Lundine, estimated that if local governments in New York applied the same employee contribution standards as the state does for employees and retirees enrolled in NYSHIP, the cost savings to local governments outside New York City would be $475 million per year. If New York City employees contributed to their health insurance at the same rate as state employees in NYSHIP, the City would save almost $750 million per year. In the years since the Lundine Commission issued its report, the costs and the potential savings have risen significantly.

Cost Control Options and Recommendations

Reporting

As outlined above, there is a serious lack of transparency regarding local employee and retiree pay and benefits in New York. The majority of localities do not participate in NYSHIP; they contract for insurance or they self-insure and thus are not subject to disclosure requirements of the federal Employee Retirement Income and Security Act (ERISA). As noted recently by the Governor’s Task Force on Public Retiree Health Care, chaired by Richard
Berman, “there is little data available on these non-NYSHIP plans. Further, because they are exempted from ERISA, self-insured plans for public employees are subject to virtually no regulatory oversight [emphasis added], and because they are not operated by licensed insurers, need not provide various benefits mandated for insured plans by New York Insurance Law.”

To promote greater transparency and accountability, the state should require all local governments receiving state aid to report regularly and completely, in a standard, usable format, on the nature and costs of their employee health benefits. The number and variety of local governments and their benefit structures will require some flexibility in the reporting requirements, but variety should not present an insurmountable obstacle. The transition to transparent and usable data reporting may impose some costs, but the state should not continue to distribute aid to local governments without an adequate accounting of where the money goes. The Office of the State Comptroller is instituting procedures to improve the quality of local government reporting; this improvement is needed urgently and should be a top priority.

Cost-reduction mandates, Alternative 1: The state requires all public employees to make at least the same contributions as those already required for state employees and retirees enrolled in NYSHIP.

This is a cost-saving mandate on local governments and would change the nature of local governments’ collective bargaining on this issue. However, it would permit local choice and options for coverage. There would now be a mandatory floor for employee contributions, which is a move toward uniformity. Realistically, as this mandate takes effect, employees will need to make adjustments to this new deduction in take-home pay, so the requirement could be phased in over several years. As contracts come up for negotiations, it is expected that local governments would use this mandatory floor to negotiate larger employee contributions over time. A state-mandated employee contribution would not necessarily prohibit such negotiations or set a ceiling for the employee contribution rate.

Cost-reduction mandates, Alternative 2: The state requires all public employers to join NYSHIP and adopt the same contribution rates already required for New York State employees and retirees enrolled in NYSHIP.

This approach has the advantage of addressing both the lack of transparency and the regulatory vacuum highlighted by the Governor’s Task Force directly (making the reporting recommendation described above redundant). It would also enhance NYSHIP’s ability to reduce its costs over time through greater economies of scale and enhanced market power. Turning NYSHIP into a fully statewide insurer for public employees raises issues of regional cost disparities, which can be addressed through means such as regional experience-based rating pools. This alternative proposal could be combined with a requirement that all local governments provide...
their employees and retirees with health insurance, which would represent a further move toward uniformity. If compliance costs for this latter group prove burdensome, they might be shared, in transition, with the state. The downside to this alternative proposal is that it is likely to require more time to implement.

Either alternative accomplishes our goals of helping to mitigate budget pressures while addressing an inequity between state government and local government employees. Overall, Alternative 1 allows for choice of coverage and can be implemented without significant changes; Alternative 2 allows for the combination into a larger system, which would increase the ability to negotiate better pricing on health insurance for all employees and should provide even larger cost savings over time.

New York is not the only state that has to deal with a pressing budget deficit and the increasing costs of employee health insurance. Controlling the costs of employee health premiums on the state level has been done in various ways across the country and may not always include local government employees. California pools nearly 1.3 million active and retired state and local government employees under its CalPERS health program. Participation in CalPERS is voluntary for local government employers; employee coverage varies by local collective bargaining unit. The New Jersey State Health Benefits program covers state and public employees such as county and municipality employees, school districts, and their authorities. Recently, New Jersey enacted legislation that requires all public employees to contribute an amount equal to 1.5 percent of their annual salary.

Challenges

These recommendations are meant to demonstrate, to both local employers and employees, the urgency for change from business as usual. Most local government employees are covered by collectively bargained agreements. Individual and family health coverage may vary depending on longevity and status of the employee in service. For labor and management, health benefit packages — composition and costs — have grown in importance over time. Making meaningful changes may not be easy. No one is going to volunteer to pay for something they currently perceive as “free.” In fact, given the rapidly rising cost of this “free” benefit, local employees are paying plenty for it — through lower wages or other benefits and through a smaller number of colleagues helping alongside them.

Either of the recommendations outlined above moves the issue of cost-sharing of employee/retiree health premiums to the front of the collective bargaining table. The final result will be determined by the bargaining process, but avoidance cannot be an option, given the budget challenges facing both the state and its localities.

To reiterate, both of these alternative recommendations offer taxpayers (including public employees) significant budget savings without degrading services to the public. A warning, too, is in
order that recent history demonstrates that some forces may be tempted to treat the approaches offered here as eligible for inclusion in collective bargaining in return for increased compensation elsewhere. That would defeat the purpose.  

**Estimated Savings**

Table 1 illustrates the dimension of potential savings to local governments if the state were to require all public employees to make at least the same contributions to health insurance premiums as those already required for state employees and retirees enrolled in NYSHIP. Implementing the program would offer annual savings of over $1 billion, which carries on into the future, generating additional savings. Delays in implementation would change these savings; the timing of savings would be different under Alternative 1 or Alternative 2, and Alternative 2 promises larger savings, from consolidation, over time.

**Future Considerations**

Over time, either of the above alternatives may be combined with further cost savings by embedding incentives in state aid formulas. The state can specifically dedicate a portion of its local aid payments to the provision of employee/retiree health insurance. This segregation of funds would allow the state to use its funding of health insurance premiums to create incentives to slow the growth of these costs in the future. The state could reward local governments that provide employees and retirees with incentives to bear a larger portion of premiums when premium costs increase as a result of increased utilization. There is a recognized fairness in having those who use a greater portion of the health benefits bear a greater share of the resulting cost increases. For example, our review of contracts shows that the Great Neck Union Free School District, which participates in NYSHIP, requires its employees to pay a certain amount of their premiums plus 15 percent of any increases in the premiums that the school district pays to NYSHIP. The Commack School District requires employees to pay 16 percent of their premium costs plus 25 percent of any

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**Table 1. Estimated Savings to Local Governments From Instituting a Minimum 10%/25% Employee Contribution**

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Health insurance growth rate</th>
<th>Savings, New York City</th>
<th>Savings, all other local governments</th>
<th>Total savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010-11</td>
<td>9.6%</td>
<td>$600</td>
<td>$545</td>
<td>$1,145</td>
</tr>
<tr>
<td>2011-12</td>
<td>9.0%</td>
<td>$654</td>
<td>$594</td>
<td>$1,248</td>
</tr>
<tr>
<td>2012-13</td>
<td>9.0%</td>
<td>$713</td>
<td>$647</td>
<td>$1,360</td>
</tr>
<tr>
<td>2013-14</td>
<td>9.0%</td>
<td>$777</td>
<td>$705</td>
<td>$1,482</td>
</tr>
<tr>
<td>2014-15</td>
<td>9.0%</td>
<td>$847</td>
<td>$769</td>
<td>$1,616</td>
</tr>
<tr>
<td>2015-16</td>
<td>9.0%</td>
<td>$923</td>
<td>$838</td>
<td>$1,761</td>
</tr>
</tbody>
</table>

Notes: 10% contribution would apply to individual health coverage; 25% contribution to family policies. Growth rates through 2013-14 from New York State Budget Division Financial Plans; calculations by the author.
premium increases during the contract period. These approaches also are aimed at bringing to consumers a greater awareness of the costs — a useful contribution to the broader goal of driving employee understanding of health-care cost inflation and the need to contain it.

Options for savings will expand as a result of the recently enacted federal health care reform acts, which have put employee and retiree health insurance plans, as well as Medicare, under new cost and service mandates. Most of these changes are occurring within a five-year financial planning period for New York; some may reinforce the recommendations here. While it may not yet be clear how the state’s and localities’ benefit plans will adapt, there will be changes. For example, early retirees are a significant portion of public sector retirees; the new law has created an early retiree reinsurance program (focused on lowering costs and introducing pain management programs) to last until the introduction of health insurance exchanges in 2014.28 We assume that the state and its local governments are currently determining whether it is possible that public employers will need to rate retirees separately from active employees, or whether public employers will move to coverage through health insurance exchanges. Perhaps, under the new national health care law, NYSHIP itself might convert into an exchange.

A Note Regarding Current Retirees

While retiree benefits do not have the same constitutional protection as pension benefits, they may be protected by collective bargaining agreements, which would make them subject to the same floor recommended here. State law requires, for example, if retirement benefits at the time of retirements were collectively bargained, then changes to those benefits must also be collectively bargained.

The proposals here will operate differently with respect to existing retirees and future retirees. Current retirees will not be affected by the proposed state mandate, although localities would be free to implement such changes on their own. Instant change directing current retirees to make contributions will be resisted strongly; it may generate real hardship for some people. Many plan their retirement with attention to ongoing income and expected costs over the remainder of their lives. Local governments, on their own, may wish to introduce some new or additional cost-sharing with respect to retirees and/or dependents; this issue is not addressed by the recommendations here. It is fair and realistic, however, to require changes in policy toward future retirees. As recognized in the recommendations here, such changes require notice, which a phase-in would allow, so that employees can plan effectively for their retirement years. The recommendations here would be applied within a reasonably prompt time to retirees and their dependents. It cannot be otherwise if the state is to restrain the growth of these costs. The costs of covering retirees are growing faster than those for current employees.29
Conclusion

This paper has offered an overdue approach to begin to remedy one prevailing disparity between local employee and state employee benefits in New York, while helping to reduce growth in costs. Local government functions are essential, but the lack of documentation about health insurance benefits offered to local employees, retirees, and their dependents, and the costs of those premiums, fails the test of transparency. Further, the disparity between the state’s benefit structure and its premium-sharing compared to those of its local governments, which receive considerable state aid, is inequitable and increasingly strains our public budgets. The two alternative proposals presented here will not require sudden major changes; we should expect a smooth transition to greater equity across public employment. Crucially, with the proposals here, New York can achieve billions of dollars of much-needed budget relief without compromising the quality of public services that taxpayers expect.

Endnotes


3 Office of the State Comptroller, Local Government Management Guide.


7 Office of the State Comptroller, Local Government Management Guide.


This estimate uses state employment as the norm. For an alternative approach, see Citizens Budget Commission, *Out of Balance*, which derived savings using private sector norms.


Employees would bear only a fraction of the cost of the annual premiums. The “annual premium for a family of four averages nearly $11,500 and the annual premium for single coverage averages over $4,200.” See Office of the State Comptroller, *Local Government Management Guide*, p. 3.

Local government data are difficult to come by and extraordinarily varied. General information about state governments’ attempts to control costs for active and retired state employees is readily available and has been compiled by the National Conference of State Legislatures (NCSL). See [www.ncsl.org](http://www.ncsl.org) for a collection of recent issues, programs, and legislation regarding state employee health care benefits.


A PublicMind Poll conducted by Farleigh Dickinson University, released March 3, 2010, reported that “78% of voters agree that all public employees, including teachers, should contribute some of their salary toward their health care benefits, while public employees split with 51% agreeing and 45% disagreeing.” The poll, “Public Backs Governor, Pension Reforms,” March 2010, is available at: [http://publicmind.fdu.edu/governor1003/](http://publicmind.fdu.edu/governor1003/).


This is for a number of reasons, including longer periods of time in retirement and greater utilization rates.
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Note: Asterisks at the end denote that this is a source for one of the tables in this report.


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The Nelson A. Rockefeller Institute of Government, the public policy research arm of the University at Albany, State University of New York, was established in 1982 to bring the resources of the 64-campus SUNY system to bear on public policy issues. The Institute is active nationally in research and special projects on the role of state governments in American federalism, and the management and finances of both state and local governments in major areas of domestic public affairs.

The Rockefeller Institute maintains a particular focus on New York State studies with an ongoing series of forums on major public-policy issues, publication of the New York State Statistical Yearbook, special studies, and other initiatives. This report is part of the Institute’s research support for Lieutenant Governor Richard Ravitch’s project to develop proposals that would lead New York State to structural budgetary balance.

Thomas Gais is director of the Institute. Robert B. Ward is deputy director and oversees the Institute’s New York State studies.