

health insurance to review their plans. Also, be aware that these plans may be subject to negotiation with employee unions.

MUNICIPAL COOPERATIVE HEALTH BENEFIT PLANS

Cooperative health risk-sharing agreements allow local government entities to share the costs of self-funding health benefit plans, stabilize health claims costs, and negotiate with health providers by spreading costs among a larger pool of risks.

The development of these cooperative ventures are permitted under article 47 of the State Insurance Law. These are defined as “any plan established or maintained by two or more municipal corporations pursuant to a municipal cooperation agreement for the purpose of providing medical, surgical or hospital services to employees or retirees” and their dependents.

Generally, at least three municipal corporations must participate in the cooperative, and the total number of covered employees (including retirees but not including dependents) must be at least 2,000. Other requirements include establishing a governing board to oversee the plan and obtaining a certificate of authority from the Superintendent of Insurance to establish the cooperative.

OTHER WAYS TO TRIM COSTS

- Wellness programs – These promote healthy habits and include health assessment and monitoring, insurance incentives, and fitness and nutrition programs. Some examples include discounts for non-smokers, walking programs, and employee health fairs.
- Employee awareness – This includes offering incentives for reporting health care billing errors.
- Evaluation of current plan options – This includes analyzing if cost savings could occur from changes in deductibles, cost caps, or types of coverage.

ADDITIONAL INFORMATION ON THIS TOPIC

Office of the State Comptroller

Cost-Containment Strategies for New York State’s Local Governments Research Brief

Containing the Cost of Employer-Provided Health Insurance Benefits (2008-MR-2)

Employee Health Insurance Cost Reduction Strategies (2010-M-157)

Personal Service Cost Containment Local Government Management Guide

Monitoring Health Insurance Premiums for Retirees

Other Resources

NYS Insurance Department

NGA Center for Best Practices
State Employee Wellness Initiatives

Government Finance Officers Association
Containing Personnel Costs

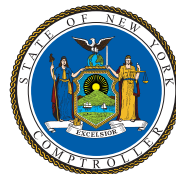
The Nelson A. Rockefeller Institute of Government

Health Insurance Cost Sharing: New York State’s Model for Localities

OFFICE OF THE STATE COMPTROLLER



DIVISION OF
LOCAL GOVERNMENT AND
SCHOOL ACCOUNTABILITY



Thomas P. DiNapoli
State Comptroller
110 State Street
Albany, New York 12236

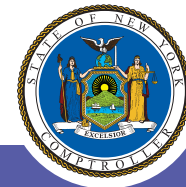
localgov@osc.state.ny.us
www.osc.state.ny.us/localgov



LOCAL GOVERNMENT
FINANCIAL TOOLBOX

Containing Employee Health Insurance Costs

This brochure focuses on practices that may help to contain health insurance coverage costs. While we seek to assist local governments in achieving cost savings, it is important that health insurance plans provide the coverage that current and retired employees need to maintain their health. The practices identified in this booklet provide alternatives that may help to contain costs without necessarily cutting current benefit levels.



Thomas P. DiNapoli
State Comptroller

Employee benefits are a substantial expense for New York's local governments and school districts. On average, health insurance costs represented 11.6% of the total compensation costs for State and local government employers in 2010.

This [toolbox](#) focuses on practices that may help to contain health insurance coverage costs. We encourage local officials to review these practices and determine if they could help them achieve savings for their locality or school district.

While we seek to assist local governments in achieving cost savings, it is important that health insurance plans provide the coverage that current and retired employees need to maintain their health. The practices identified in this booklet provide alternatives that help to contain costs without necessarily cutting current benefit levels.

PAYMENTS IN LIEU OF HEALTH INSURANCE COVERAGE

Because many employees have health insurance coverage available from a second source, such as benefits under a spouse's plan, offering the option of a cash payment in lieu of health insurance coverage can be beneficial to both your local government's budget and to the employee. Employers realize a savings by paying employees an amount less than the cost of health insurance premiums, and employees increase their income. These payments may be authorized by local law or pursuant to a collective bargaining agreement.

To qualify for the payment, employees must demonstrate that coverage is available from another source. Employees will want to compare their current plan with the alternate one to weigh the benefits and risks of switching plans. The local government entity may also wish to contact the IRS concerning the income tax consequences it sees as a result of a payment in lieu of health insurance benefit.

To determine whether this option will result in savings for your local government, determine how many employees have an alternative source of coverage and are interested in this plan. Depending on the number of employees, this may be accomplished through simple inquiry or a written survey distributed with paychecks or paystubs.

Calculate the annual cost of providing insurance to these individuals by identifying the premium rates by coverage category (single, two-person, or family). If you offer insurance from multiple providers, be sure to use the applicable rates for each employee. The following table can be used as a template for calculating savings.

	Type of Coverage		
	Single	2-Person	Family
Annual health insurance cost per employee	\$	\$	\$
Less payment in lieu of health insurance	\$	\$	\$
Annual savings per employee	\$	\$	\$
Multiply by number of eligible employees			
Annual savings (combine the amounts of category savings)	\$	\$	\$

Once current costs for these employees are calculated, you must determine the amount of the payment you will offer employees. You will have to decide if you want to offer a fixed payment regardless of the cost of insurance or make a higher payment to employees with higher costs. You will also have to consider whether the amount offered will be sufficient for employees to forgo the coverage now available from you.

You may also wish to explore the feasibility of offering a one-time payment in lieu of health benefits during retirement. To calculate the cost-effectiveness of this option, multiply the expected annual cost for each retiree by the number of years you anticipate paying health insurance premiums for each retiree. Keep in mind that many retirees transition to Medicare as their primary insurer at age 65, thereby reducing your costs at that age.

SELF-FUNDED HEALTH PLANS

Instead of paying periodic premiums to an insurance company for an established plan, local governments may choose to pay for their employee health care benefits directly under a self-insurance health plan.

Self-funded health plans are generally managed by a third-party administrator hired by the local government entity, in accordance with General Municipal Law section 92-a.

Self-insurance health plans may not be suitable for all local governments, but may be more cost-effective for those whose employees have relatively good claims histories.

Although self-funded health plans appear to have significant benefits, some risks may occur. To minimize year-to-year fluctuations and resulting financial risks, employers considering a self-insurance health plan should have 500 or more employees so that administrators and risk managers can predict claims histories more easily. In addition, officials should consider purchasing a stop-loss policy from an insurer to cover catastrophic health care costs above a certain amount.

A local government should conduct a detailed cost-benefit analysis to determine if it would benefit from such a plan. Officials may want to contact other governments or school districts that self-fund their