

An effort to cut health costs

Rochester, school district are looking to become self-insured

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Seeking to contain ever-increasing health insurance costs, the city of Rochester and its school district are looking to become self-insured — with both awaiting approval this week.

Bringing those expenses in-house can be risky. Both the city and district plans would have built-in safeguards. And both promise that, with greater control, they can rein in what has become an annual contributor to multimillion-dollar budget shortfalls.

"It's a big step for us," Deputy Mayor Leonard Redon said of the switch, "... something we've been considering for the last year and a half."

City Council meets to consider the matter on Tuesday. The school board meets Thursday.

The two plans are separate. The city is considering a \$3.25 million, one-year agreement with MVP Health Care to administer its plan, meaning it would investigate and process claims for active and retired employees. The district — which is not as far along, and deciding only whether to pursue an agreement — is looking to go with Excellus Health

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Plan Inc. Both proposals already have union support. Changes would take effect Jan. 1, or shortly thereafter. An official city announcement and accounting is anticipated in a couple of weeks. The city anticipates immediate, "significant" savings that will reduce the budgeted \$3.5 million increase in expenses.

Going self-insured is nothing new. Large and mid-sized employers have been changing over for some time now, as have many governments. Monroe County, as yet, has not made such a move. Doing so allows employers and employees to pay only for services provided. By acting now, the city and district can avoid an anticipated 2 percent increase in premiums come 2014 when added regulatory fees kick in for health insurance providers.

But the potential savings come with potential risks. The Schenectady school district posted a \$371,000 deficit in the 2011 budget year, *The Daily Gazette* reported in July, necessitating higher premiums. Elsewhere, the same thing happened in Houston, Texas. And, in Nebraska, a recent audit reportedly found the Cornhusker state's self-insured plan had the highest per capita cost in the nation — attributable to a lack of oversight, poor design and high administrative costs.

The city of Philadelphia, meanwhile, made the switch in 2009, and in March of this year reported that total health care benefit costs had declined each of the last two years. In Rochester, the outlook is not that optimistic. "You are still going

to see an increase" in costs, said city schools Superintendent Bolgen Vargas, adding that the key is to slow that down. "And whatever reductions you achieve, you have to be very careful not to spend it ... We have learned the lesson from other districts."

Both the city and school district will take out stop-loss insurance to protect against catastrophic claims. Both promise no immediate changes in employee benefits. Such revisions would have to be negotiated.

For unionized city employees, that means at least one more year without having to contribute to their health care if they choose one of the basic plans. Mayor Thomas Richards had called the benefit "unsustainable" when presenting his 2012-13 budget this spring. In a memo to City Council last week, he wrote that the city would maintain an escrow account, funded by employee contributions to premiums, from which claims would be paid once self-insured. The district will do the same. "What the mayor needed, what he really needed was somehow to get control of runaway costs," said Jim McTiernan, president of the firefighters union. "Through the course of this contract, he has a known, fixed amount. He is not going to be at the mercy of an insurer."

Back in 2009, the city switched to an experience-rated, single-provider health insurance model, saving an estimated \$10 million per year. The city and unions split the savings, and unions applied its portion to premiums. McTiernan said more savings can be found, which could continue to keep employee contributions at or near zero. Wellness programs should help, along with other measures, such as possibly steering people to urgent care centers rather than emergency room visits by imposing higher co-pays if they are not admitted, McTiernan said. And the city could begin requiring that hospitals and physicians provide more information, options and meet certain performance measures.

"What you are wrestling with is the medical inflation factors," said Michael Mazzeo, president of the police union. "And how do you deal with that, I think, is by making employees part of the process. ... It makes it a living, breathing process that puts everybody accountable."