

Press Release

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Dramatic Savings Achievable if Cities and Towns Join GIC

Massachusetts cities and towns stand to save as much as \$100 million in fiscal 2009, \$750 million in fiscal 2013 and \$2.5 billion in fiscal 2018 if they all join the Commonwealth's Group Insurance Commission (GIC) starting in fiscal 2009, according to a new report, *Municipal Health Reform: Seizing the Moment*, jointly released today by the Boston Municipal Research Bureau and the Massachusetts Taxpayers Foundation.

With cities and towns facing budgetary strains, in large part resulting from skyrocketing increases in health insurance costs coupled with limited revenue growth, the report stresses the urgency of municipalities taking advantage of the new legislation to join the GIC and realize the greatest savings. The report recommends that Massachusetts policymakers monitor the results of this legislation (Chapter 67 of the Acts of 2007, signed by the Governor on July 25) and be prepared to take stronger action to ensure that more municipalities enter the GIC and achieve the potential savings.

“What is striking is how quickly and dramatically the savings grow if all municipalities were to join the GIC,” said Michael J. Widmer, President of the Massachusetts Taxpayers Foundation.

The estimated savings are based on an analysis of the comparative rates of growth of actual municipal and GIC health insurance costs between fiscal 2001 and fiscal 2006 projected through fiscal 2018. The study also calculates savings through a second, more conservative scenario. Key findings show that:

- Savings of between \$61 million and \$102 million could be achieved in fiscal 2009, between \$436 million and \$764 million in fiscal 2013, and between \$1.4 billion and \$2.5 billion in fiscal 2018.
- Health care costs would make up an estimated 19 to 23 percent of municipal budgets in fiscal 2018 if municipalities do not join the GIC, compared to 15 percent in 2018 if all municipalities join the GIC and 10 percent of municipal budgets today.
- Health care costs would consume an estimated 30 to 36 percent of property tax revenues in fiscal 2018 if municipalities do not join the GIC, compared to 23 percent in 2018 if all municipalities join the GIC and 19 percent of property tax revenues today.

The savings point to the urgency of cities and towns joining the GIC now. However, the new law requires that municipal officials employ a process known as coalition bargaining to negotiate with union and retiree representatives to determine the conditions for entering the GIC. Approval requires that 70 percent of the employee committee agree to join. Also, the GIC requires municipalities to inform them by October 1, 2007 of their intent to join the GIC starting in fiscal 2009. Communities that fail to meet this deadline will be unable to join until fiscal 2010 or later.

“Most municipalities will benefit from joining the GIC, but we are concerned that the entry process may pose a significant obstacle for many cities and towns to achieve timely relief,” said Samuel R. Tyler, President of the Boston Municipal Research Bureau.

The potential savings for municipalities joining the GIC dwarf the estimated impact of the other components of the Governor’s Municipal Partnership Act, according to the report. Cost savings from joining the GIC could be three to five times greater than revenues from the telecommunication and meals excise options in 2018, underscoring GIC participation as the top priority.

The report urges policymakers to determine whether the legislation needs to be modified to allow more municipalities to benefit from participation in the GIC. If too few communities are able to negotiate entry while health insurance costs continue their rapid growth, the report recommends that bolder steps be taken such as removing the coalition bargaining process as a requirement to join the GIC.

The report concludes by noting that entry into the GIC is just the first step to help control local health insurance cost increases. The more difficult problem of funding the growing retiree health insurance liability (OPEB) must be addressed statewide. For that reason, municipal health insurance relief is all the more important for communities to achieve now.

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