Massachusetts Taxpayers Foundation

MTF Recommendations: Saving $1 Billion in Unaffordable Health Care Costs at the MBTA

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MTF

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MTF RECOMMENDATIONS: SAVING $1 BILLION IN UNAFFORDABLE HEALTH CARE COSTS AT THE MBTA

On the brink of insolvency, the MBTA faces a staggering $160 million budget deficit in fiscal 2010. There are several causes for the T's extreme financial difficulties, certainly including its large debt load, but among the key factors are the extraordinarily generous pension and health care benefits provided to T employees and retirees, benefits that are way out of line with the norm in the public and private sectors.

The Transportation Finance Commission estimated the MBTA could save $1.1 billion over the next 20 years by reining in the rate of growth in health care and pension benefits.[1] In this report the Foundation makes a series of recommendations to achieve at least a billion dollars in savings over that time span simply through modest adjustments to the T's health plans which would still provide generous benefits to employees and retirees.

Overview of the Problem

In fiscal 2009, the MBTA will spend an estimated $109[2] million for employees' and retirees' health benefits,[3] more than double the $52.1 million spent in fiscal 2000. As shown in Table 1, at the 12.2 percent average annual rate that the MBTA's health costs have grown over the last nine years, by 2016 health benefits would reach a quarter of a billion dollars.

Both the Governor's and Senate's transportation reform bills seek to reduce health care costs at the MBTA but both fall short of the recommendations in this report, especially the Senate proposal.

Two recommendations, tying the T's premium contribution to the HMO plans' rates and eliminating the T's reimbursement of retirees' share of Medicare Part B, would save nearly $25 million annually on top of any savings that would accrue from transferring MBTA members into the GIC as proposed by the Governor. The Senate legislation would achieve even less savings, if any.

In addition, the recommendations in this report could be implemented as early as July 1, 2009. The earliest there would be any savings in the Senate legislation is 2012. The T is on the brink of financial insolvency and needs large and immediate savings in fiscal 2010.

[1] Transportation Finance in Massachusetts: *Volume 2, Building a Sustainable Transportation Financing System*, p. 3.
[2] The MBTA projected a 9.5% rate of growth in health care expenses for fiscal 2009 before achieving $5.6 million in savings from plan design changes authorized by a recent arbitration decision.
[3] Including dental benefits which are a small fraction of total benefit costs.

Table 1 – MBTA Health Care Spending[4] ($ millions)

Fiscal Year	MBTA's Health Spending	% Change
2000	52.1	
2001	60.5	16.1%
2002	60.3	-0.3%
2003	67.7	12.3%
2004	77.0	13.7%
2005	85.8	11.4%
2006	93.7	9.2%
2007	95.9	2.3%
2008	104.9	9.4%
2009 (projected)	109.3	4.2%
Total Increase	**109.8%**	
Average Annual Increase	**12.2%**	
2016 (projected)	**$244.7**	

Although MBTA employees contribute 15 percent toward the monthly premiums – the same percentage paid by most state employees covered by the Group Insurance Commission (GIC) – the richness of the MBTA's benefits package and the lack of even modest member cost sharing result in dramatically higher costs per employee. In 2008, the MBTA paid an average of $14,000 in health care costs for each of its 5,600 employees and $18,000 for 2,000 pre-65 retirees. This $15,000 average for all members under the age of 65 is an astounding two-thirds more than the GIC's average cost of $9,000 and almost double the $8,000 per worker national average.[5]

Compared to the MBTA's 15 percent share of the premiums for an extremely generous benefits package, most workers covered by private employer-sponsored insurance (ESI) in Massachusetts pay 25 percent of the monthly premium for a benefits package that includes higher point-of-service cost sharing across a broader range of services. In addition, government employees covered by the Federal Employees Health Benefits Program (FEHBP) contribute at least 25 percent of the monthly premiums for a less generous benefits plan.

While the GIC, the federal government and private sector employers adjust plan designs and use member cost sharing to control costs and influence the utilization of services, the MBTA's plans have no member cost sharing for most services, including hospitalizations, high-tech imaging and outpatient surgery, and include only modest member cost sharing for physician office visits and prescription drugs.

More remarkable than the benefits provided current employees are those received by thousands of MBTA retirees. For the 4,000-plus former employees who retired from the Authority prior to July

[4] Includes all health and dental costs after employee contributions and fringe credits have been applied; does not include MBTA's reimbursement to retirees for Medicare Part B premiums, which are estimated to be $3.1 million in 2009.

[5] Source for MBTA and national average is January 2008 report by Deloitte & Touche LLP, "Commonwealth of Massachusetts Transportation Governance and Cost Reduction Project – Phase I." GIC data obtained from GIC's annual report for fiscal 2008.

2008, the MBTA pays 100 percent of their health insurance premiums. Workers who retired on or after July 7, 2008 and are under age 65 pay 10 percent of the premium; those under 65 who retire after December 31, 2008 contribute 15 percent. However, after turning 65, all MBTA retirees receive free health insurance paid for by the MBTA.

Most benefit plans allow employees to retire at an earlier age with reduced benefits, but T employees may retire after 23 years of service and immediately collect full benefits including free health care for as much as three or four decades, far longer than their service time. It is striking that the health care costs of the 2,000 pre-65 retirees are nearly half that of the 5,600 active employees and over 70 percent of the costs of all 4,700 retirees. While the costs to the pension system of the '23 and out' benefit have received wide attention, the accompanying health care costs create a large additional drain on the T's finances. Eliminating the '23 and out' pension benefit for current employees would produce significant health care savings beyond the $1 billion enumerated in the recommendations below.

For retirees age 65 and older who are eligible for Medicare, the Authority not only pays 100 percent of the cost for supplemental insurance for services not covered by Medicare, but also pays the retirees' Medicare Part B premiums, which cover doctors' services, outpatient care and other ancillary services. This benefit, which will cost the Authority $3.1 million in 2009, is virtually unheard of in the private sector and rare even among public employers. Even when compared to the state-subsidized health insurance program for low-income adults (Commonwealth Care), MBTA employees, retirees and their spouses/dependents enjoy unrivaled health coverage at rock-bottom prices.

MBTA's Health Benefits

The MBTA offers employees and pre-65 retirees five health plans – three health maintenance organization (HMO) plans, one point of service (POS) plan, and one preferred provider organization (PPO) plan. Harvard Pilgrim Health Care (HPHC) and Tufts Health Plan (THP) each administer an HMO plan, while Blue Cross Blue Shield of Massachusetts (BCBS-MA) administers an HMO plan, as well as the POS and PPO plans.

In general, the schedule of benefits – i.e., what's covered and the member cost sharing, if applicable – is identical across the plans. The main difference among the plans is that the HMO plans generally require members to coordinate their care with a primary care physician (PCP) and do not include an out-of-network benefit for non-emergency care; the POS plan allows members to self-refer within the BCBS-MA provider network and to seek care without a PCP referral, though the member faces higher cost sharing for self-referrals; the PPO plan does not require care coordination with a PCP and includes an out-of-network benefit that allows members to receive care from providers outside the BCBS-MA provider network, subject to greater member cost sharing. Table 2 summarizes the cost sharing features of the three plan types.[6]

[6] The benefits for the three HMO plans are identical.

Table 2 – MBTA's Health Care Plans

Service	HMO	POS	PPO
Physician Office Visit	$20	$20 20% co-insurance for self-referral	$20 20% co-insurance for out-of-network
Mental Health Office Visit	$15	$15 20% co-insurance for self-referral	$15 20% co-insurance for out-of-network
Outpatient Surgery	None	None 20% co-insurance for self-referral	None 20% co-insurance for out-of-network
Lab Tests, X-Rays and Imaging	None	None 20% co-insurance for self-referral	None 20% co-insurance for out-of-network
Emergency Room (waived if admitted)	$50	$50	$50
Inpatient Acute; Inpatient Mental Health and Substance Abuse; and Inpatient Rehab	None	None 20% co-insurance for self-referral	None 20% co-insurance for out-of-network
Prescription Drugs	Cost sharing is the same across all three plan types		
Tier 1 (generic)	$5 Retail -- $10 Mail Order		
Tier 2 (preferred brand)	$15 Retail -- $30 Mail Order		
Tier 3 (non-preferred brand)	$20 Retail -- $40 Mail Order		

Employees pay 15 percent of the premiums based on the cost of each plan. Table 3 shows the 2009 premiums along with the monthly share paid by employees and the MBTA.

Table 3 – MBTA Health Care Premiums

Plan	Individual Policy – Monthly Premium			Family Policy – Monthly Premium		
	Total	MBTA Share (85%)	Employee Share (15%)	Total	MBTA Share (85%)	Employee Share (15%)
BCBS-MA Network Blue (HMO)	$481	$409	$72	$1,187	$1,009	$178
Tufts Health Plan (HMO)	$493	$419	$74	$1,306	$1,110	$196
Harvard Pilgrim Health Care (HMO)	$553	$470	$83	$1,501	$1,276	$225
BCBS-MA Blue Choice (POS)	$523	$445	$78	$1,218	$1,035	$183
Blue Care Elect Preferred (PPO)	$801	$681	$120	$1,910	$1,623	$287

Based on February 2009 enrollment information, the 5,615 active employees covered by the MBTA's health insurance benefit are distributed relatively evenly across the three plan types, with 36 percent in the PPO plan, 35 percent in the POS plan, and 29 percent enrolled in one of three HMO plans. However, among the 2,066 pre-65 retirees, over 80 percent are enrolled in the most expensive PPO plan, while 11 percent select one of the HMOs and six percent opt for the POS plan. Table 4 shows the breakdown of participation in the MBTA's five health plans for employees and pre-65 retirees.

Table 4 – MBTA Health Plan Enrollment (Active Employees and Pre-65 Retirees)

Carrier and Plan Type	Active Employees		Pre-65 Retirees	
	Enrollment	Percentage of Total	Enrollment	Percentage of Total
BCBS-MA Network Blue (HMO)	375	7%	42	2%
Tufts Health Plan (HMO)	547	10%	54	3%
Harvard Pilgrim Health Care	731	13%	133	6%
BCBS-MA Blue Choice (POS)	1,940	35%	128	6%
Blue Care Elect Preferred (PPO)	2,022	36%	1,709	83%
Total	5,615		2,066	

Most retirees make no contribution to the cost of the premium. Former employees who are under 65 and retired between July 7, 2008 and December 31, 2008 pay 10 percent of the monthly premiums until they turn 65 at which time they receive free health insurance paid by the MBTA. Employees under 65 who retire after December 31, 2008 will contribute the same amount that state workers pay for their health insurance, which is currently 15 percent for most state employees. However, once an MBTA retiree turns 65, his or her health insurance is completely paid for by the MBTA. In contrast, state retirees, regardless of their age, continue to contribute toward the cost of their health coverage.

Retirees who are 65 or older are required to enroll in Medicare Part A (hospital coverage) and Part B (physicians' services, outpatient care and other services). However, the MBTA pays the full cost of their retirees' Medicare Part B premiums, which is $96.40 per member per month in 2009.

In addition, although Medicare provides generous and comprehensive coverage, enrollees are responsible for cost sharing at the point of service, which for most services means the enrollee must pay 20 percent of the cost or an upfront deductible. To cover the members' share of these costs, the MBTA provides retirees with a Medicare supplement plan, again paid entirely by the MBTA. These Medicare supplement plans cover the vast majority of the members' potential out-of-pocket expenses for services that are not covered completely by Medicare. With the exception of $15 co-payments for doctors' office visits and prescription drug co-pays – $10 for tier 1, $20 for tier 2, and $35 for tier 3 – all other services are covered in full by Medicare or the MBTA's Medicare supplement plans.

In 2009, Medicare-eligible MBTA retirees were offered three Medicare supplement plans from which to choose – Harvard Pilgrim's First Seniority, Tufts Medicare Preferred, and BCBS-MA's Medex Plan. The MBTA pays for both the cost of the retiree's Part B premiums and the Medicare supplement plan as show in Table 5.

Table 5 – Costs of Medicare Supplement Plans and 2009 Enrollment by Plan

Medicare Plan	Monthly Premium	Medicare Part B Premium	Enrollment	MBTA's Annual Cost
BCBS-MA Medex	$429.62	$96.40	2,592	$16,361,326
Tufts Medicare Preferred	$164.00	$96.40	92	$287,481
HPHC First Seniority	$223.00	$96.40	19	$72,823
Total			2,703	$16,721,630

Recommendations

Summary of Recommendations and Potential Cost Savings

- Total savings in 2009 of $40.6 million to $61.2 million

The Foundation's recommendations would enable the MBTA to realize as much as $1.25 billion in savings over the next 20 years. Whereas private-sector employers, faced with the same circumstances, would likely be forced to scale back dramatically – or even eliminate – their employee and retiree health benefits, the Foundation's recommendations simply serve to bring the MBTA's benefits into line with the relatively generous benefits provided to other public sector employees. Table 6 summarizes the six proposed recommendations and potential cost savings to the MBTA.

Table 6 – Potential Cost Savings to the MBTA

Recommendations		**Estimated Annual Savings**	**Savings Over 20 Years**
1	Base premium contribution on HMO plans' rates	$20 million	$400 million
2	Adjust schedule of benefits so that it is comparable to other public sector coverage or for federal employees	$15 million - $20 million (federal) $3.4 million - $5 million (state)	$300 - $400 million (federal) $68 million - $100 million (state)
3	Require retirees to pay 15 percent of premiums	$5.6 - $7.6 million	$112 - $152 million
4	Introduce select or tiered network health plan	$5.5 million	$110 million
5	Improve benefits management, consolidate health carriers, and carve out Rx benefit management	$3 million - $5 million	$60 million to $100 million
6	Eliminate reimbursement for retirees' Medicare Part B premium	$3.1 million	$62 million
Total Estimated Annual Savings in 2009		**$40.6 million - $61.2 million**	**$812 million - $1.22 billion**

1. Base the MBTA's premium contribution on the HMO plans' rates with employees and retirees responsible for paying the difference for the higher-priced PPO plan

- Active Employees Savings – $9.95 million based on 2009 rates
- Retirees under Age 65 Savings – $10.24 million based on 2009 rates

The MBTA pays 85 percent of the cost of each plan's premium and members pay 15 percent without regard to the difference in price among plans. Monthly premiums vary by as much as 60 percent across plans, from a high of $1,910 per month ($22,920 annually) for the BCBS-MA PPO plan to a low of $1,187 monthly ($14,244 annually) for the BCBS-MA HMO plan. Table 7 shows the 2009 premiums for the five (non-Medicare) plans offered by the MBTA.

Table 7 – MBTA Health Plan Rates for 2009

Plan	Individual Policy		Family Policy	
	Monthly	Annual	Monthly	Annual
BCBS-MA Network Blue (HMO)	$481	$5,772	$1,187	$14,244
Tufts Health Plan (HMO)	$493	$5,916	$1,306	$15,672
Harvard Pilgrim Health Care (HMO)	$553	$6,636	$1,501	$18,012
Average HMO Cost	**$509**	**$6,108**	**$1,331**	**$15,976**
BCBS-MA Blue Choice (POS)	$523	$6,276	$1,218	$14,616
Blue Care Elect Preferred (PPO)	$801	$9,612	$1,910	$22,920

While the employee who selects a PPO family policy instead of the lowest cost HMO will pay $108 more each month, the MBTA's additional cost per policy is $615 a month or almost $7,400 in 2009.

This premium contribution policy is particularly costly to the MBTA when it comes to retirees' health benefits. Because only those former employees who retired after July 7, 2008 pay anything toward the monthly premium – either 10 percent or 15 percent depending on the date of retirement – cost is largely a non-factor when a retiree selects a health plan. As a result, it is not surprising that over 80 percent of pre-65 retirees are enrolled in the very expensive PPO plan, compared to 36 percent of active employees.

A contribution strategy that encourages employees and retirees to consider the cost of health insurance would cap the MBTA's share of the premium at the amount that the MBTA contributes toward the HMO plans, with employees and retirees who opt for the higher-cost PPO plan required to pay the full difference in the monthly premium.

If employees and pre-65 retirees were responsible for paying the difference in plan costs between the MBTA's HMO plans and its PPO plan, savings could reach $20 million annually. Table 8 shows the breakdown in savings for employees and pre-65 retirees, approximately $10 million for each group.

Table 8 – Savings by Tying MBTA's Premium Contribution to Average Priced HMO

	Annual Difference per Member		Members		MBTA Savings	
	Individual	Family	Individual	Family	Individual	Family
Difference Between Cost of PPO and Average HMO	$3,504	$6,944				
MBTA's 85% Share of Cost Difference - Employees	$2,978	$5,902	679	1,343	$2,022,334	$7,926,923
MBTA's Share of Cost Difference - Pre-65 Retirees	$3,504	$6,944	474	1,235	$1,660,896	$8,575,840
Total Savings						**$20,185,993**

One important caveat regarding the estimated cost savings – each plan's rates are based, in part, on the relative health of the enrollees in that particular plan. Moving to a premium contribution

benchmarked off of a lower-cost plan may require risk adjusting the premiums or otherwise accounting for the disparate health risk of enrollees in each plan. For example, with most retirees in the PPO plan, it is reasonable to assume that the PPO's aggregate health risk is worse (i.e., enrollees are older and sicker) than the aggregate health risk of those enrolled in the HMO plans. The health status of these older enrollees is partially reflected in the higher premiums. However, even when taking this into account, the MBTA can achieve major savings by basing its premium contribution on the HMO plans.

2. Adjust benefits so that plan design is comparable with plans for state or federal employees

- Savings – $15 - $20 million in 2009 when compared to federal employees
- Savings – $3.4 - $5.0 million in 2009 when compared to state employees

With virtually no member cost sharing, the MBTA's health benefits are among the most generous offered by any employer, public or private, in the Commonwealth. Unlike almost every other health plan, MBTA members pay nothing for inpatient care, high-tech imaging and outpatient surgery. Even for the few services that include point-of-service cost sharing, the share of the cost paid by MBTA members is, in most instances, lower than other public employer plans.

This anomaly in benefits design runs counter to the trend toward more point-of-service cost sharing, which is used not only to reduce premiums but also to engage members so that they moderate their use of more expensive services, supplies and pharmaceuticals.

Modest changes in cost sharing can save the MBTA millions of dollars a year. Even Commonwealth Care – a publicly subsidized health insurance program for lower-income adults without access to ESI – has higher member cost sharing than do the MBTA's plans. Table 9 compares the MBTA plans' cost sharing to Commonwealth Care and the Harvard Pilgrim Health Care "Independence Plan," which is available to GIC enrollees.

Table 9 – Comparison of Cost Sharing Provisions and Estimated Savings (MBTA versus State Plans)[7]

Benefit/Service	MBTA Plans	GIC – HPHC PPO Plan	CommCare (Plan Type 3)
PCP Visit	$20	$15	$15
Specialist Visit	$20	$25	$22
MH/SA Visit	$15	$15	$15
Outpatient Day Surgery	None	$100	$125
Emergency Care (waived if admitted)	$50	$50	$100
Inpatient Acute Care	None	$300	$250
Inpatient Rehab	None	None	$250
Inpatient MH/SA	None	$200	$250
PT/OT	None	$15	$20
Rx – Tier 1 (generic)	$5	$10	$12.50
Rx – Tier 2 (preferred brand)	$15	$20	$25
Rx – Tier 3 (non-preferred brand)	$20	$40	$50
Estimated Savings	--	2.80%	4.10%
		($3.4M)	($5.0M)

Even greater savings can be achieved if the MBTA's health benefits are brought into line with benefits offered private sector workers or those provided to over 120,000 Massachusetts workers covered by the federal government's employee health benefits plan (FEHBP).

Table 10 summarizes the benefits of a commonly purchased PPO product sold by BCBS-MA, as well as the benefits provided federal employees through the FEHBP's PPO plan, the health plan that covers postal workers, IRS employees, Veterans Administration staff, members of Congress, and employees across dozens of federal agencies. For almost every service, the MBTA's member cost sharing pales in comparison to the costs incurred by private sector workers and federal employees.

[7] Commonwealth Care Plan Type 3 is the health coverage offered by the Commonwealth Health Insurance Connector Authority to adult residents with annual income between $44,100 and $66,150 (200-300% FPL).

Table 10 – Comparison of Cost Sharing Provisions (MBTA versus Private and Federal Plans)[8]

Benefit/Service	MBTA Plans	Preferred Blue PPO 80 with Copay	FEHBP Standard PPO Plan	
			Preferred Providers	Participating Providers
Deductible	None	$500/$1,000	$300/$600	
PCP Visit	$20	$20	$20	30%
Specialist Visit	$20	$20	$20	30%
MH/SA Visit	$15	$20	$20	30%
Outpatient Day Surgery	None	20%	15%	30%
Emergency Care (waived if admitted)	$50	$100	15%	30%
Inpatient Acute Care	None	20%	$200 + 15%	$300 + 30%
Inpatient Rehab	None	20%	$200 + 15%	$300 + 30%
Inpatient MH/SA	None	20%	$200 + 15%	$300 + 30%
PT/OT	None	$20	$20	$20
Rx – Tier 1 (generic)	$5	$15	$20	20%
Rx – Tier 2 (preferred brand)	$15	$30	30%	30%
Rx – Tier 3 (non-preferred brand)	$20	$50	30%	30%
Out-of-Pocket Max	None	$5,000/$10,000	$5,000	

If the MBTA provided its employees and pre-65 retirees with the same health benefit plan offered to federal workers, FEHBP's standard PPO plan or a comparable PPO offered by BCBS-MA, the Authority could cuts its health insurance costs by $15 million to $20 million annually.

In addition to greater member cost sharing – which lowers premiums and can be used to help moderate the use of discretionary services – Massachusetts private sector employers and the federal government require employees to contribute a greater share of the monthly premium. The state's Division of Health Care Finance and Policy's 2007 survey of private employers reported that private employees contribute 25 percent of the monthly premium, the same percentage contribution required of federal employees. Requiring MBTA employees and retirees under the age of 65 to contribute 25 percent of the monthly premium would generate close to $18 million in savings in 2009.

3. Require retirees to pay 15 percent of premiums

- Savings – $5.6 million to $7.6 million in 2009

As described above, almost all T retirees make no contribution to their health insurance premiums. If pre-65 retirees paid 15 percent of the premium contribution, consistent with state retirees, the MBTA would save $5.6 million annually. If post-65 retirees were assessed a 15 percent premium contribution for the Medicare supplement plans, also consistent with state retirees, the MBTA would save an additional $2 million annually (see Table 11).

[8] Out-of-pocket maximum applies to impatient admission, outpatient surgery and emergency room visits.

Table 11

	2009 Enrollment		Annual Premiums	
	Individual	Family	Individual	Family
Pre-65				
Network Blue	9	33	$5,767.20	$14,242.80
Tufts	16	38	$5,920.80	$15,667.20
Harvard Pilgrim	48	85	$6,637.20	$18,009.60
Blue Care Elect Preferred	474	1,235	$9,616.80	$22,915.20
Blue Choice	35	93	$6,279.60	$14,618.40
Total		2,066		$37,499,338
15% Savings				**$5,624,901**
Post-65				
HPHC First Seniority	19			$2,676.00
MedEx	2,592			$5,155.44
Tufts Medicare Preferred	92			$1,968.00
Total	2,703			$13,594,800
15% Savings				**$2,039,220**

4. Introduce select or tiered network health plans

- Savings – $5.5 million in 2009

In recent years, almost all Massachusetts carriers have developed select or tiered network products that are designed to engage members by offering lower premiums and/or lower point-of-service costs when members use a subset of providers. All of the MBTA's current health carriers – Tufts Health Plan, Harvard Pilgrim Health Care, and BCBS-MA – offer select and/or tiered network products. BCBS-MA estimates that its tiered network reduces costs by 3.5 percent and Tufts' select network plan can reduce premiums by as much as 7 percent. Fallon Community Health Plan, a regional managed care plan, offers a select network plan that cuts monthly premiums by 13 percent with no difference in benefits (i.e., covered services and member cost sharing are identical to a plan that includes a broader network of providers). A 5 percent reduction in costs, the mid-point between BCBS-MA and Tufts tiered network products, would save $5.5 million in 2009.

5. Improve benefits management

- Savings – $3 - $5 million in 2009

The MBTA must become a more active manager of its health benefits program and use market competition among carriers and vendors to lower costs.

The Authority self-funds its health benefits plans and pays the carriers a monthly "administrative services only" (ASO) fee that allows the MBTA to access the carriers' provider networks while the carriers administer the benefits, adjudicate claims and provide member support and customer

service. The MBTA pays on average $58 per subscriber per month in ASO fees,[9] or approximately $5.3 million annually. By comparison, the GIC's ASO fees are roughly $42 per subscriber per month, and the Health Insurance Connector Authority pays the four Medicaid managed care organizations $35 per subscriber per month. If the MBTA paid its carriers the same ASO rate as the GIC, the Authority could save $1.3 million annually.

To further reduce administrative costs, the MBTA should consider streamlining its slate of offerings and contract with only one or two carriers. Since the benefits are identical, and the three carriers' provider networks include over 90 percent of the same Massachusetts physicians and virtually all of the state's hospitals, there are administrative savings to be achieved by contracting with only one or two carriers. And these savings can be realized without impacting patient-doctor or patient-hospital relationships.

On the flip side of the consolidation coin, the MBTA should explore contracting with a pharmacy benefits manager (PBM) – a common cost-savings practice used by large employers – to administer and manage the plan's pharmacy benefits. Not only would there be cost savings, but a PBM, which focuses solely on the prescription drug benefit and purchases pharmaceuticals on behalf of tens of millions of people, can offer innovative, cutting-edge strategies. Potential savings range from $0.5 to $1.2 million annually.[10]

In addition to the savings that may be achieved by more aggressive vendor management, the MBTA should consider adopting benefits management strategies to drive utilization to more cost effective therapies. For example, implementing a "generics preferred" program – which requires enrollees to pay for the full difference in costs between a brand-name drug and its generic equivalent – has proven to reduce costs without adversely affecting members' treatment. Also, a mandatory mail order program that requires members filling prescriptions for chronic conditions (e.g., pharmaceuticals used to treat diabetes, hypertension, COPD, asthma) to order by mail instead of retail can produce savings for members and the Authority.

6. Eliminate reimbursement for retirees' share of Medicare Part B premiums

- Savings – $3.1 million in 2009

Retirees eligible for Medicare are required to enroll in Medicare Part B in order to receive supplemental health coverage from the MBTA (e.g., Blue Cross Blue Shield's MedEx, Harvard Pilgrim's First Seniority, and Tufts' Medicare Preferred). The Medicare Part B premiums – $96.40 per month in 2008 and 2009 – are paid by the MBTA through an increase in the retirees' monthly pension check. Changing this policy would save the MBTA $3.1 million in 2009.

By comparison, retirees of the Commonwealth of Massachusetts are also required to enroll in Medicare Part B in order to receive coverage through the GIC. However, unlike the MBTA, the Commonwealth does not reimburse its retirees for the cost of the Part B premium. The Commonwealth ended the practice of paying the Part B premium in 2002, saving $29 million in fiscal 2003 and over $200 million since.

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[9] Deloitte & Touche, LLP, "Commonwealth of Massachusetts Transportation Governance and Cost Reduction Project – Phase I," January 2008.

[10] Deloitte & Touche LLP report, January 2008.