

## ADVISORY COMMITTEE'S RECOMMENDATION

### BACKGROUND:

This warrant articles relates to the November 2009 agreement between the Town and its employees' unions regarding employee and retiree health benefits for the next three fiscal years.

Rationale: For the past several years, the Town's fiscal management, with the support of the Board of Selectmen, Town Meeting, the Advisory Committee and others, has urged through various means that Brookline's unionized employees agree to obtain their health insurance through the Commonwealth's Group's Insurance Commission<sup>1</sup> (commonly referred to as the "GIC"). Because of economies of scale, greater purchasing power, and a more geographically-diverse subscriber base, the GIC can provide insurance coverage at rates lower than those the Town, purchasing insurance on its own, can obtain. By scuttling the Town's existing plans and instead using the GIC's plans, both the Town and the subscribers (active employees and retirees) will save millions of dollars annually.

For the Town, moving to the GIC saves several million dollars annually and helps somewhat in reducing the so-called OPEB gap. For our employees and retirees, the GIC offers a broad array of plans all of which generally cost less than the plans Brookline offered on its own.

Concerns: However, the unions' reticence to opt into the GIC had been linked to concerns about the loss of control of plan design and negotiations as to how much of the Town's savings would be shared with employees.

The November 2009 Agreement(s): Following fits and starts in the negotiations, the Town and its unions agreed that, for three years starting on July 1, 2010 (Fiscal Years 2011 through 2013, inclusive), the GIC, rather than Town-specific plans, will provide health insurance to the Town's employees.<sup>2</sup> The Memorandum of Agreement set forth various negotiated ratios of Town-Employee "managed care" premium payment cost allocations.<sup>3</sup> The costs for indemnity plan coverage are paid 65% by the Town and 35% by the participant.

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<sup>1</sup> The GIC is a statutory body created to offer a broad array of health insurance to state employees under Mass. General Laws ch. 32A and to employees of cities and towns, counties other than Worcester County, and certain districts under Mass. General Laws ch. 32B.

<sup>2</sup> The three-year term of the agreement means that the Town's participation in the GIC could end effective for Fiscal Year 2014.

<sup>3</sup> The Town and its employees will pay the following percentages of the premium costs (other than Medicare Part B premium costs) over the next three fiscal years:

	Town's %age of premium costs	Employees' %age of premium costs
FY 2011	78%	22%
FY 2012	80%	20%
FY 2013	83%	17%

Proposed Warrant Article – Retiree Indemnity Proposal: This warrant article relates to a side agreement signed as part of the overall settlement between the Town and its unions/retirees. Specifically, the Town agreed to submit for Town Meeting’s approval proposed special legislation allowing the Town to pay the premium costs of non-Medicare indemnity plan coverage for out-of-area retirees. The GIC statute itself mandates contribution rates that are uniform across the particular collective bargaining agreement<sup>4</sup> – hence the need for the special legislation to make an exception for a few retirees for a three-year period.

Like most insurance programs, the Town’s current plans and those offered by the GIC provide lesser coverage for services offered outside the so-called coverage area. Under the existing Town plans, services offered outside of Massachusetts are deemed outside of the coverage area while the GIC’s plans generally include parts of Southern New Hampshire and will soon include parts of Rhode Island as part of the coverage area. This proposal realizes the practical reality that out-of-state retirees can take one of the so-called indemnity plans, but is offered as a way to treat these retirees equitably since they cannot effectively use cheaper “managed care” plans; however, the lower reimbursement rate (65%) for indemnity plans is a way to balance the costs to the Town. Special legislation will allow us to extend the higher reimbursement rates available for “managed care” eligible retirees to these few out-of -area retirees as well.

Warrant Article 1 proposes special legislation the Town’s management agreed to file with the Massachusetts legislature to authorize the coverage. In a letter agreement signed contemporaneously with the main agreement, the Town committed to seek Town Meeting’s approval of the special legislation.

DISCUSSION:

The Advisory Committee lauded the efforts of the unions’ representatives, the unions’ members, the retired town employees, and the Town’s fiscal and Human Resources management to reach an amicable settlement to the GIC opt-in. As reported in prior Town Meetings and in study reports on the crises facing the Town’s finances, benefit costs are a key

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The November 2009 agreement also provides that the Town will pay 65% of the cost of Medicare Part B premiums. In addition, the agreement states that employees who are currently covered by one of the Town’s plans who opt not to obtain coverage under the GIC’s plans (presumably because s/he would receive coverage under a spouse’s or a partner’s plan) would receive annual “opt-out payments” of either \$1,000 or \$2,500 as an incentive to shift the insurance costs to that other plan.

<sup>4</sup> Massachusetts General Laws ch. 32B, §19(g) states: “[A]ny agreement reached between the governmental unit and the public employee committee shall provide that within the same health coverage plan the percentage contributed by the governmental unit to the premium or cost of health coverage shall be the same for all subscribers covered under this section...; provided, however, that the percentage contributed by the governmental unit may vary among the different health coverage plans offered under the agreement reached between the governmental unit and the public employee committee.”

driver to the so-called “structural deficit” which threatens shortfalls in the Town’s budget for many years to come.

While the move to the GIC provides the Town with fiscal benefits, it does not represent a panacea to all future problems. Various Town constituencies – the Board of Selectmen, Town Meeting, and the Advisory Committee will be called on to continue to make unpleasant decisions to address difficult times. The Town, even after the recent set of tax increases, will have to make due with fewer resources even as state aid will continue to dwindle, interest income stays at negligible amounts, and local receipts stay challenged. However, adoption of the GIC is one of several very critical steps toward maintaining the Town’s financial sustainability.

This Warrant Article is being offered as part of good faith promises made to the union negotiating committee (of which approximately 1,300 retirees have a 10% voting power voice) that the Town will address the coverage needs of those who reside out of the coverage area. Although the exact number of how many retirees reside out of the coverage area cannot be known until the Town’s annual updating of its HR records<sup>5</sup>, the best current estimate is that forty to fifty people may be affected and provided cost estimates for the Town’s providing such coverage assistance. The estimated cost to the Town will equal approximately \$150,000 annually.

In response to a question posed by the Advisory Committee, Mr. Kelliher opined that the proposed legislation, if enacted, would not provide any meaningful incentive for current employees to retire early because of the June 2013 end date for grandfathering of benefits.

In the event Town Meeting fails to approve the filing, the November 2009 deal with the unions will remain in place.

To summarize:

1. The Town has upped its payment contribution to 83% -- a rate that is highly favorable to Town employees.
2. The unions, not surprisingly, want a piece of the savings and hedge themselves a bit against co-pay changes.
3. In order for this to work well and provide savings that can make a difference, we need to have all of our employees participate in the GIC program – not opt into a far more expensive indemnity product.
4. However, there are some out-of-area retirees who will not be eligible to participate in the non-indemnity plans offered by the GIC and must enroll in an indemnity program. Recognizing that some employees would get caught in the lurch as we transitioned to the GIC, the Town and unions worked out the 65%-35% split on indemnity plans for the 3-year

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<sup>5</sup> Where someone is legally domiciled is not always easy clear, especially if the individual has a second home outside of Massachusetts.

term with an agreement the Town would seek special legislation to afford out-of-area retirees the same effective rates as other “managed care” eligible employees – a “hold harmless” approach.

5. In order to accomplish what both parties view to be reasonable, the Town must be granted home rule legislation. Brookline is simply asking the Commonwealth to allow us a way to enter into this negotiated arrangement.

RECOMMENDATION:

By a vote of 19 in favor, none opposed and one abstention, the Advisory Committee unanimously recommends FAVORABLE ACTION on Article 1.