

OFFICE OF THE
NASSAU COUNTY COMPTROLLER



Providing Affordable Health Insurance
For County Employees and Retirees
In the Midst of a Fiscal Crisis:

Some Suggested Solutions

Howard S. Weitzman
Comptroller

January 2003

OFFICE OF THE NASSAU COUNTY COMPTROLLER

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Special thanks to Carole Russo of the Nassau County Department of Information Technology, who helped compile some of the data used in this report.

EXECUTIVE SUMMARY

Mounting employee and retiree health insurance costs continue to strain Nassau County's budget and, unless brought under control, could be a prescription for further financial hemorrhaging.

Nassau County provides its employees and retirees health insurance through the New York State Health Insurance Program (NYSHIP). NYSHIP's health insurance plan, "The Empire Plan," provides health-insurance coverage (medical, surgical, and hospitalization) for employees and retirees, and their dependents, of the state and its subdivisions-- such as the county-- that opt to participate. Article XI of the New York State Civil Service Law governs NYSHIP and the related requirements for public employers to provide health-insurance coverage for their employees.

County costs for employee and retiree health insurance have increased steadily over the last twenty years, growing by 494% between 1982 and 2002, and nearly doubling every five years. The cost of providing coverage to employees has risen 362%, while the cost of retiree coverage has increased 864%. These skyrocketing health insurance costs have exerted tremendous pressure on the county's budget. We anticipate that by 2006, these costs will be approximately \$237 million, or 7.8% of the county's projected budget. For comparison purposes, this is the equivalent of 30.3% of the county's total expected property tax revenues in 2006.

In this report, the comptroller's office – which serves as the county's liaison to NYSHIP - examines potential modifications to the county's current health-benefits programs that will reduce the county's liability for these costs, while maintaining the availability of affordable health insurance for the county's employees and retirees. Other municipalities have already implemented many of these initiatives. The county could save as much as \$59 million by 2006, if these suggestions were implemented. The most significant recommendations are:

- 1. Require participant contributions or change the type of benefits offered without contributions, thereby saving the county from \$18 - \$44 million by 2006.** The health insurance costs currently being borne by Nassau County could be reduced by requiring participants to contribute a portion of their health insurance premiums. Most private-sector employers, New York State, and many other municipalities require employees to contribute toward the costs of their health-insurance premiums. Such a change could save the county \$44 million by 2006.

Alternatively, changing the type of benefits guaranteed all participants could save the county \$18 million by 2006. Currently, Nassau County offers the Empire Plan's Core Plus Enhancements coverage as its basic benefits package. However, if the county offered the Empire Plan's Core coverage as its basic benefits package and allowed participants to pay a premium to enroll in the Core Plus coverage, it would realize substantial

savings because the rates for Core coverage are lower than the rates for Core Plus coverage. The difference in benefits between Core coverage and Core Plus is that Core Plus offers out-of-network coverage and greater maximum benefits for the Mental Health and Substance Abuse Program, whereas the Mental Health and Substance Abuse Program under the Core program offers limited network coverage only.

2. Change retiree-eligibility requirements for lifetime health insurance benefits. Savings could be upwards of \$10 million by 2006.

A. Requiring retirees as of a specific date to be drawing on their pensions prior to receiving county health insurance coverage could save the county upwards of \$10 million by 2006.

Employees could be required to draw on their New York State Employee Retirement System (NYSERS)-pension benefits before receiving retiree-health benefits. By 2006, the county could save an additional \$10 million if such changes in eligibility requirements are adopted.

B. Changing the minimum service requirements will slow the rate of increase in the costs of retiree health insurance.

The county could limit the growth in the costs of retiree health insurance coverage by increasing the required minimum number of years of service with the county or another state or local agency from 5 to 10 years, and requiring that a minimum of three years of service have been with Nassau County. If adopted, we would recommend that this change be applied prospectively. As a result, the county would first receive a benefit from this initiative in 2008.

3. Eliminate dual family coverage for married participants. Savings to the county could be \$5 million by 2006.

The practice of allowing two county employees or retirees who are married to each other to each sign up for family coverage should be scrapped. Other governmental entities' health insurance eligibility requirements, including those applicable to New York State and New York City employees/retirees, permit only one family plan for married couples.

4. The county should explore ways to obtain a role in the establishment of NYSHIP policy.

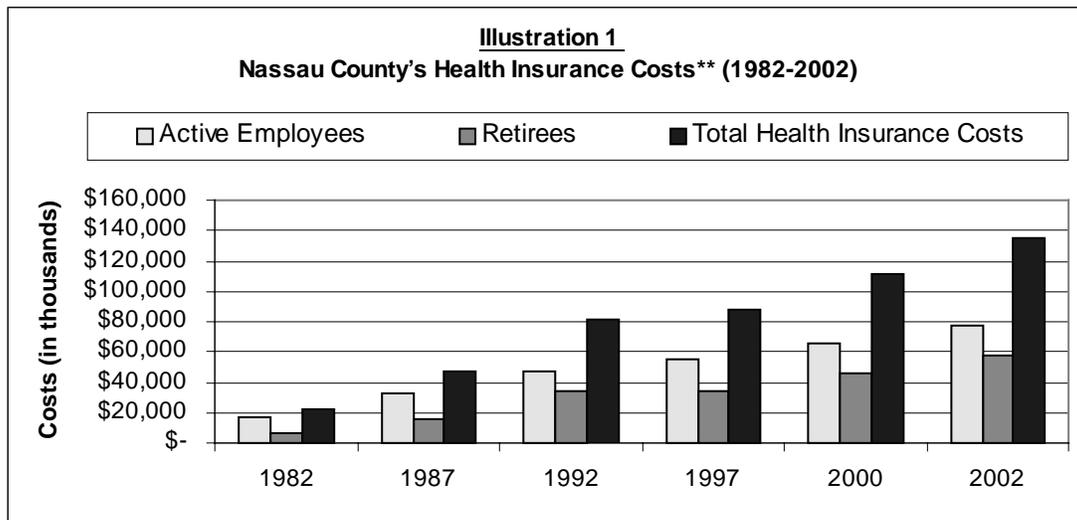
We believe Nassau County is the largest NYSHIP participant, aside from New York State itself. To protect the interests of the 22,904 Nassau County employees and retirees enrolled in NYSHIP, at a minimum, the county should be represented on NYSHIP's Participating Agency Advisory Council, which includes representatives from other participating agencies, such as local school districts.

HEALTH INSURANCE COSTS: PAST, PRESENT & FUTURE

Escalating costs for employee and retiree health insurance are putting a serious strain on Nassau County’s budget. The costs incurred by Nassau County for employee- and retiree-health insurance have increased steadily over the last 20 years, and are expected to rise even faster over the next four years.¹ The projected total costs in 2002 are nearly six times what the actual costs were in 1982. As shown in Illustration 1, costs nearly doubled every five years, except for the 1992-1997 interval.²

Nassau County Health Insurance Costs (in thousands) **

| | 1982 | 1987 | 1992 | 1997 | 2000 | 2002 |
|-------------------------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|
| Active Employees | \$ 16,835 | \$ 32,333 | \$ 46,839 | \$ 54,640 | \$ 65,413 | \$ 77,804 |
| Retirees | \$ 5,977 | \$ 15,211 | \$ 34,461 | \$ 33,634 | \$ 45,654 | \$ 57,638 |
| Total Health Insurance Costs | \$ 22,812 | \$ 47,544 | \$ 81,300 | \$ 88,274 | \$ 111,067 | \$ 135,442 |

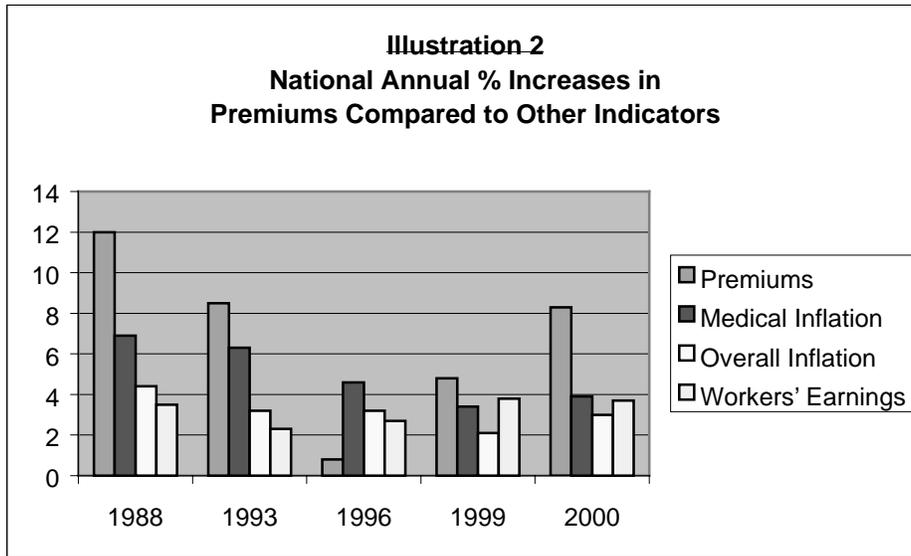


During the past two years, Empire Plan charges borne by the county have increased by nearly \$25 million. These increases in health insurance premiums are attributable to a greater use of medical services by participants, a shakeout in the managed-care industry, and higher pharmaceutical costs, as well as the spiraling costs of providing coverage for an ever-larger pool of retirees. Recent trends in the national health insurance market indicate that rising premium costs have consistently outpaced increases in inflation and workers’ earnings, as shown in Illustration 2:³

¹ All enrollment figures and health insurance costs prior to September 1999 throughout this report include employees of the Nassau County Medical Center. These employees accounted for approximately 25% of the total figures. All graphs and charts are marked with two asterisks (**) to denote the inclusion of Medical Center employees.

² Because the 1997 figure includes Nassau County Medical Center employees, the actual difference in costs is greater than reflected in the chart. Had the county not covered these employees in 1997, the cost would have been approximately \$74 million. Therefore, the increase from 1997 to 2002 would have been approximately \$61 million instead of the \$47 million reflected in the chart.

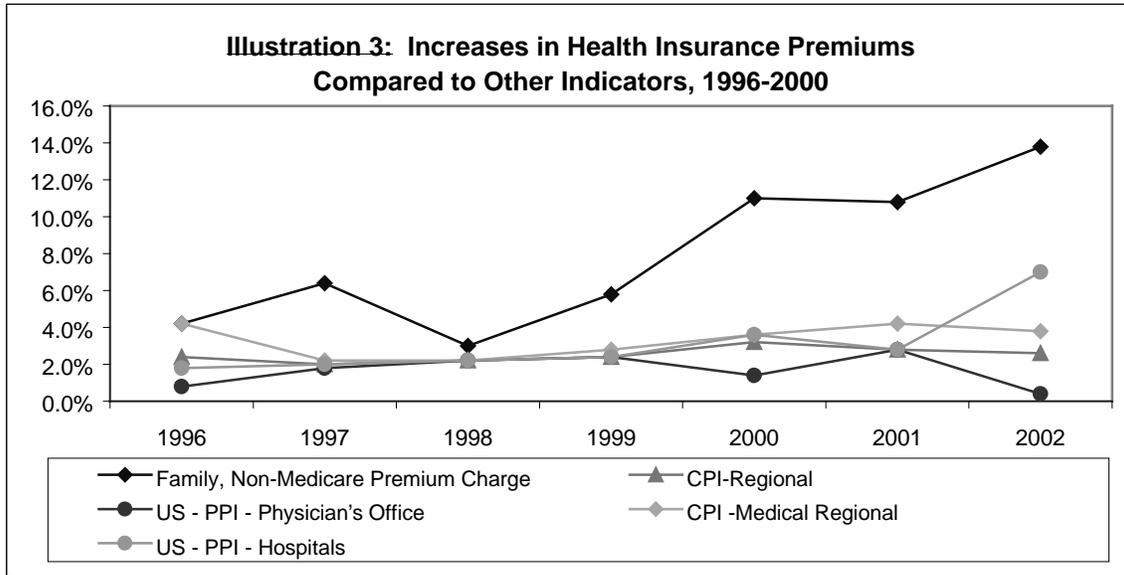
³ Shelly Reese, “A Relapse of Inflation,” *The State of Healthcare in America 2001*, Business & Health, Montvale, N.J., at 13.



An analysis of trends in health care costs as reflected in the medical consumer-price index, the producer-price index for physicians, and the producer-price index for hospitals, also depicts what has been prompting medical cost increases. Most notable is the dramatic shift in growth from physicians' office-visits to more expensive hospital services, and accordingly the corresponding upward pressures on premium rates.

Illustration 3 depicts Empire Plan rate increases paid by Nassau County for family coverage, the regional consumer-price index, the medical regional consumer-price index, the physician's office-producer-price index, and the hospital producer-price index.⁴

⁴ Nassau County, New York, Office of Legislative Budget Review, Review of the FY2003 Budget & Multi-Year Plan, October 16, 2002, at 29-30.



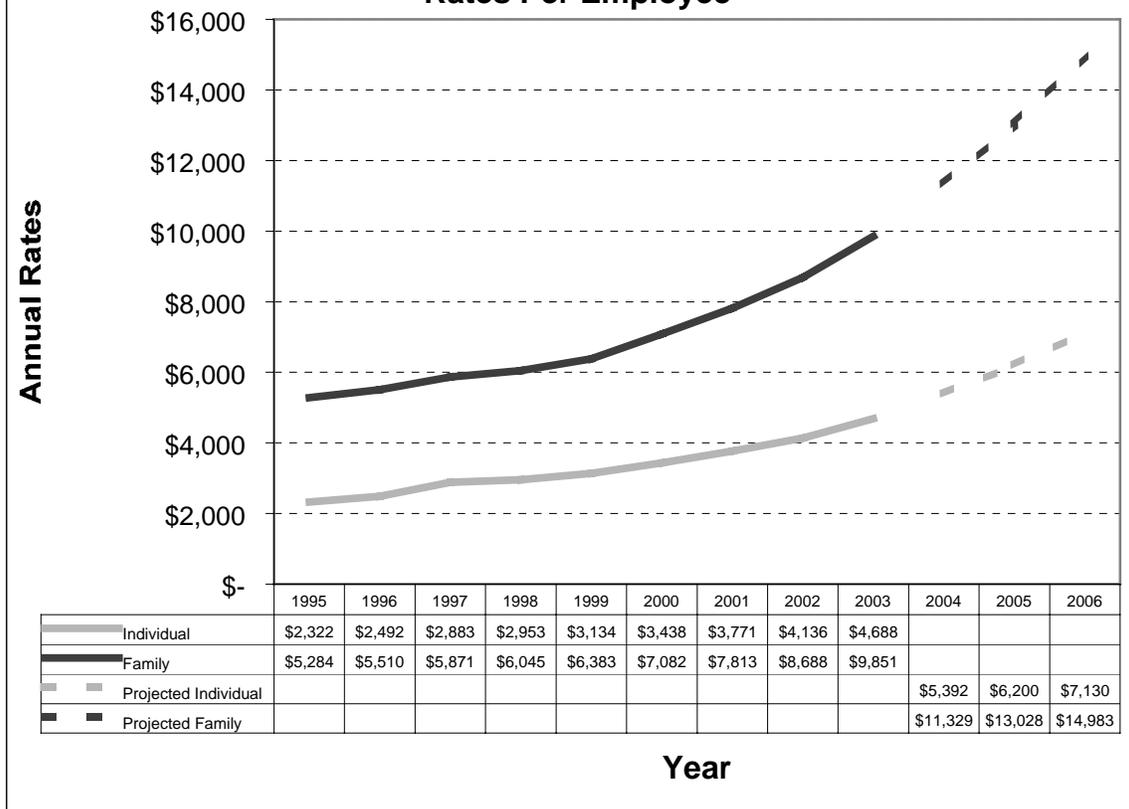
As shown in Illustration 3, in 1996, health insurance premiums started outpacing all other indicators. The regional consumer-price index (CPI), as well as the physicians' office producer-price index (PPI) starts to decline from 2001 to 2002. However, the hospital PPI follows a contrary path and trends upwards. Since hospital spending is such a key factor in the growth of health care costs, the hospital PPI may be a better indicator to follow than the physicians' office PPI. This rate of increase of health insurance costs places a tremendous burden on the county's finances.

It should be noted that the county's health care costs are exacerbated because the number of its retirees is increasing, and the cost associated with an elderly population contribute to higher Empire Plan premium rates. Citing the combination of these economic forces, the New York State Department of Civil Service expects the costs of insurance premiums to increase in 2003.⁵ Health insurance premium-rate hikes also are expected through 2006, as depicted in Illustration 4:⁶

⁵ New York State Department of Civil Service, Empire Plan 2001 Fourth Quarter Experience Report, March 15, 2002, at 1.

⁶ Review of the FY2003 Budget & Multi-Year Plan, *supra*, n. 4, at 28.

**Illustration 4
Health Insurance Premium
Rates Per Employee**



The exponential growth in health insurance premiums is a cause for concern. Through 2006, the premium rates are expected to increase 15 percent annually. In 2006, this number will be 7.8% of the overall projected county budget. For comparison purposes, this is the equivalent of 30.3% of the county’s total expected property tax revenues in 2006.

Nassau County must explore viable alternatives to tax increases to counter the expected rise in its employee and retiree health insurance costs. These alternatives must be developed with an eye toward reducing the county’s liability for these costs, while maintaining the availability of affordable health insurance for the county’s employees and retirees.

HEALTH CARE PROGRAMS OF OTHER GOVERNMENTS

The health insurance practices of other New York governmental entities serve as guides to the types of changes Nassau County should consider. While not all municipalities participate in NYSHIP, their practices are still instructive.⁷ The following chart presents a snapshot-summary of the health-coverage policies of the State and some illustrative New York municipalities (a complete description of each government’s coverage is set forth in Appendix C).

As a participating NYSHIP-employer, Nassau County is obligated to make contributions to the costs of its employees’ health insurance. Participating employers are required to contribute a minimum of 50% of their employees’ or retired employees’ premiums, as well as a minimum of 35% of the premium costs for dependents of employees or retired employees.⁸ In addition, collective bargaining agreements’ provisions relating to health-insurance premiums must be adhered to.⁹ Nassau County currently contributes 100% for all participants with two exceptions: Those who retired prior to January 1, 1976, must contribute between 25% and 50% of the difference between the individual and family rates, and “ordinance” employees (those employees not covered by a collective bargaining agreement) hired after January 1, 2002, must contribute 5% toward their individual coverage and 10% toward their family coverage.

| Government | NYSHIP Participant | Enrollment Numbers (Employees/ Retirees) | Coverage Offered | Required Contribution | Retiring Eligibility (Age/years of Service) | Additional Vesting Requirements | Final Local Serv. Req. |
|-------------------|---------------------------|---|--|--|--|---|-------------------------------|
| Town of Babylon | Yes | 382/252 | Core Plus only | None | 55/10 | Yes, must pay 100% of premium until they draw | 5 years |
| City of Glen Cove | Yes | 217/230 | Core Plus only | None | 55/5 | Yes; must pay 100% until they draw | 5 years |
| Town of Hempstead | Yes | 2,102/1,335 | Core Plus only | None | 55/10, minimum of 5 years with town | No | 5 years |
| New York City | No | Unavailable | Basic plans and various enhanced plans | Difference between Basic Plan and plan in which participant enrolls. | 55/5; 55/10 for new employees | Must receive a pension check from a NYC retirement system | None |

⁷ Suffolk and Westchester are both self-insured. Nassau could also reconsider self-insuring all or part of its employee/retiree health benefits. In view, however, of the county’s previous self-insurance experience with BPA (\$70 million in losses), the negative recommendation of the outside experts hired by the county prior to contracting with BPA, and the current controversy surrounding Suffolk’s self-insurance practices, this option may have serious drawbacks. Any reconsideration of self-insurance, therefore, would require a particularly careful appraisal. Moreover, at least historically, the most cost-effective way for Nassau to offer the level of benefits associated with the Empire Plan is through NYSHIP.

⁸ N.Y. Civ. Serv. Law § 167(2) (McKinney 2002).

⁹ N.Y. Civ. Serv. Law § 161-a(i) (McKinney 2002).

| Government | NYSHIP Participant | Enrollment Numbers (Employees/ Retirees) | Coverage Offered | Required Contribution | Retiring Eligibility (Age/years of Service) | Additional Vesting Requirements | Final Local Serv. Req. |
|-------------------------|---------------------------|---|--|--|--|--|-------------------------------|
| New York State | Yes | Unavailable | Core, Core Plus, or HMO (if approved by NYSHIP) | 10% for participants; 25% for dependents | 55/10 | Must work until w/in 5 years of retirement age to vest | None |
| Town of North Hempstead | Yes | 350/400 | Core Plus only | If hired after 1995, then 9% | 55 or 62/10, all 10 years with town | No, if within 5 years of age 62, otherwise must pay 100% of premium until 62 | 10 years |
| Town of Oyster Bay | Yes | 975/678 | Core Plus only | None | 55/5 | No | None |
| Rockland County | Yes | 2,802/1,585 | Core Plus only | Depends on Start Date: Prior to '94, NO; 1/94-1/00, 5 years; after 1/00, 15 years. Individual is 10%; Family is 12-14% | 55/5; minimum 3 with county | No | 3 mos. |
| Suffolk County | No (self insured) | 11,993/ 6,940 | 2 HMO's & comprehensive plan | None | 55/10; all 10 with the county | No, however must pay full premium if they retire before 55 | 1 year |
| Westchester County | No (self insured) | 6,000/4,300 | 3 HMO's, comprehensive plan & prescription drug plan | Retirees w/ Family coverage only; 20% of difference between family & individual premiums | 55/5; all 5 with the county | No, however must pay full premium if they retire before 55 | None |

Nassau County should consider practices similar to some of those described above:

- Requiring a contribution from participants;
- Changing the level of coverage provided; and
- Modifying retiree-eligibility requirements.

COST-CONTROL OPTIONS

Nassau County should consider adopting several changes to its employee and retiree health-insurance program that could potentially result in \$59 million in cost savings by 2006. Some recommendations will require legislative action, while others will require negotiations with employee organizations. Certain policy recommendations may be enacted administratively.

1. Require Contributions from Participants

Nassau County can achieve millions of dollars in health-insurance cost savings by requiring contributions from participants. The county's collective-bargaining agreements, however, require the county to contribute 100 percent of the health-insurance premiums for union members.

Although Nassau County cannot make unilateral changes to the amount it will contribute towards its employees' health insurance premiums, the county and the labor unions can negotiate changes in these contributions as they negotiate new contracts.¹⁰

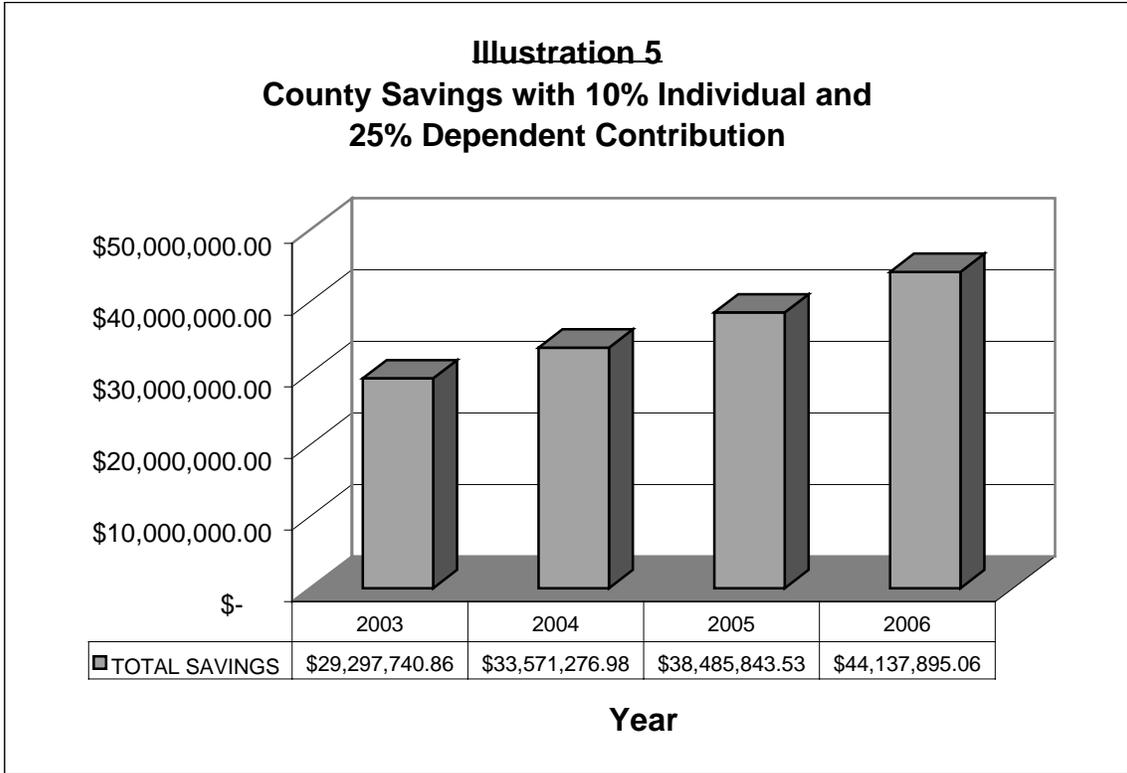
The county currently requires contributions to health-plan premiums only from newly hired "ordinance" employees, who pay five-percent of the costs of individual coverage and 10 percent of the costs of family coverage.¹¹ During labor negotiations, serious consideration must be given to the adoption of various formulations of participant contributions, such as: (1) the "ordinance" policy for all employees; (2) the New York State model (10 percent of individual coverage and 25 percent of dependents' coverage); or (3) an across-the-board 10 percent contribution. Since the contributions would be taken from employees' pre-tax earnings, the county would realize additional savings in an amount equal to the FICA payments on the contributions (which are included in the total savings figures).

In addition, the Buyback Program could be eliminated if the county adopts one of the contribution alternatives. The contribution would discourage employees who receive health benefits under a spouse's health insurance plan from seeking duplicate benefits. Eliminating the Buyback Program would save Nassau County \$807,500, annually.

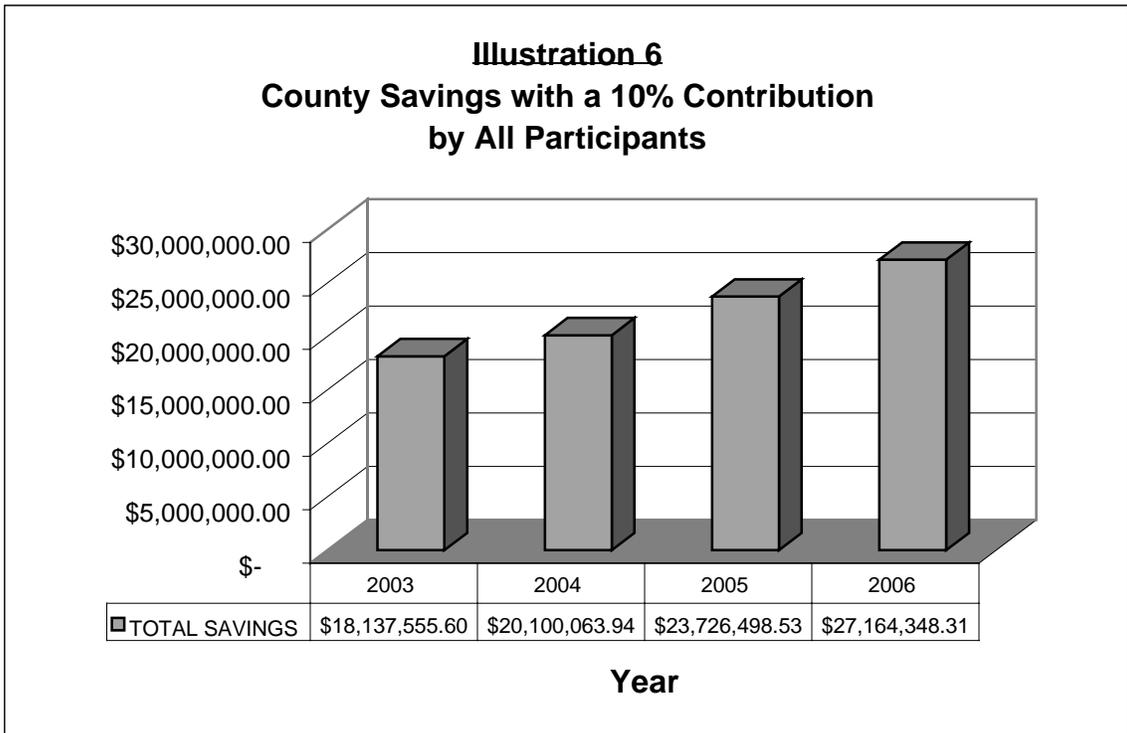
If the county required participants to contribute 10 percent of their individual premium costs, and 25 percent of their dependents' premium costs, as Illustration 5 depicts, the county would save:

¹⁰ Aeneas McDonald Police Benevolent Ass'n, Inc. v. City of Geneva, 92 N.Y.2d 326, 331-32 (1998) (holding that health benefits are a form of compensation and are therefore a mandatory subject of negotiation).

¹¹ Retirees who left county employment prior to January 1, 1976, also contribute between 25% and 50% of the difference between individual and family coverage.

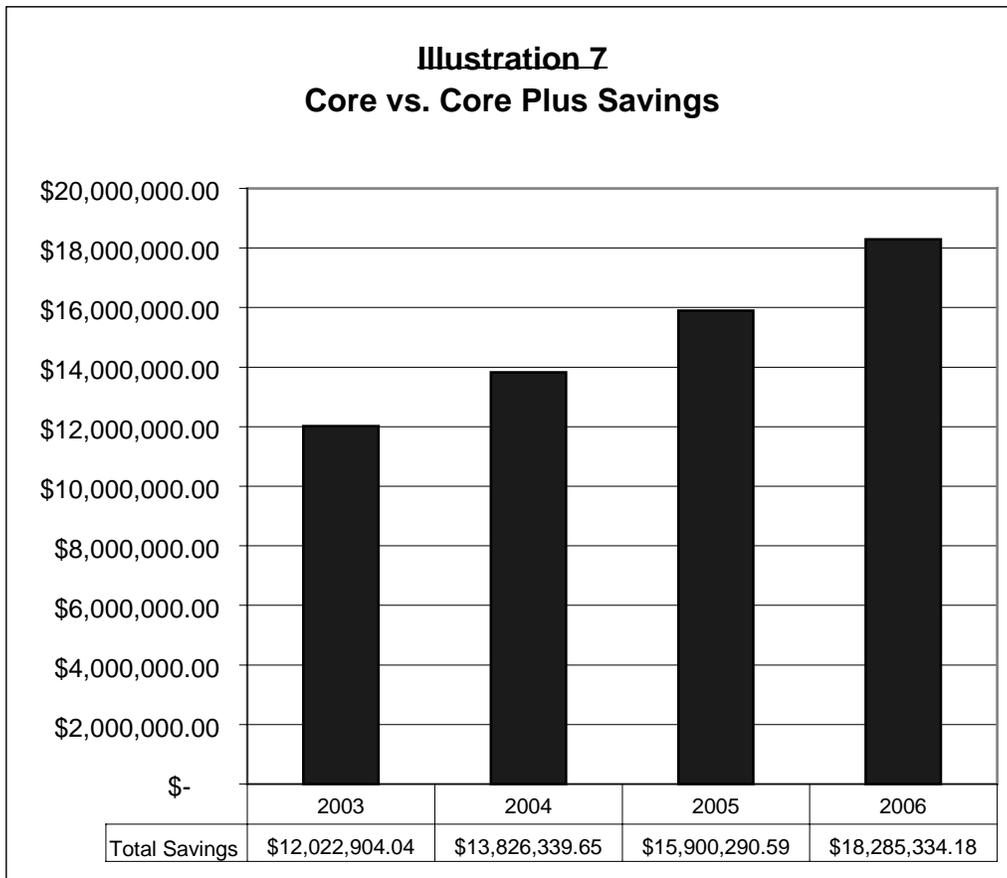


If all participants contribute 10 percent of their coverage-premium, as Illustration 6 shows, Nassau County would save:



2. Coverage Options

New York City offers its employees basic, or “core” health plan coverage at no charge, and its employees pay a premium for enhanced health insurance coverage. As an alternative to requiring a contribution, Nassau County could consider offering a similar plan: the Empire Plan’s Core coverage as basic coverage, and afford its employees and retirees the option of paying a premium to enroll in the Core Plus coverage (a complete description of the differences between the benefits offered by each type of coverage is set forth in Appendix A). Because the rates for Core coverage are lower than the rates for Core Plus, the county should realize substantial savings. NYSHIP’s rules, however, would have to be amended to enable the county to provide different coverage within the Plan to different employees. As Illustration 7 depicts, the savings to Nassau County if this initiative was adopted would be:



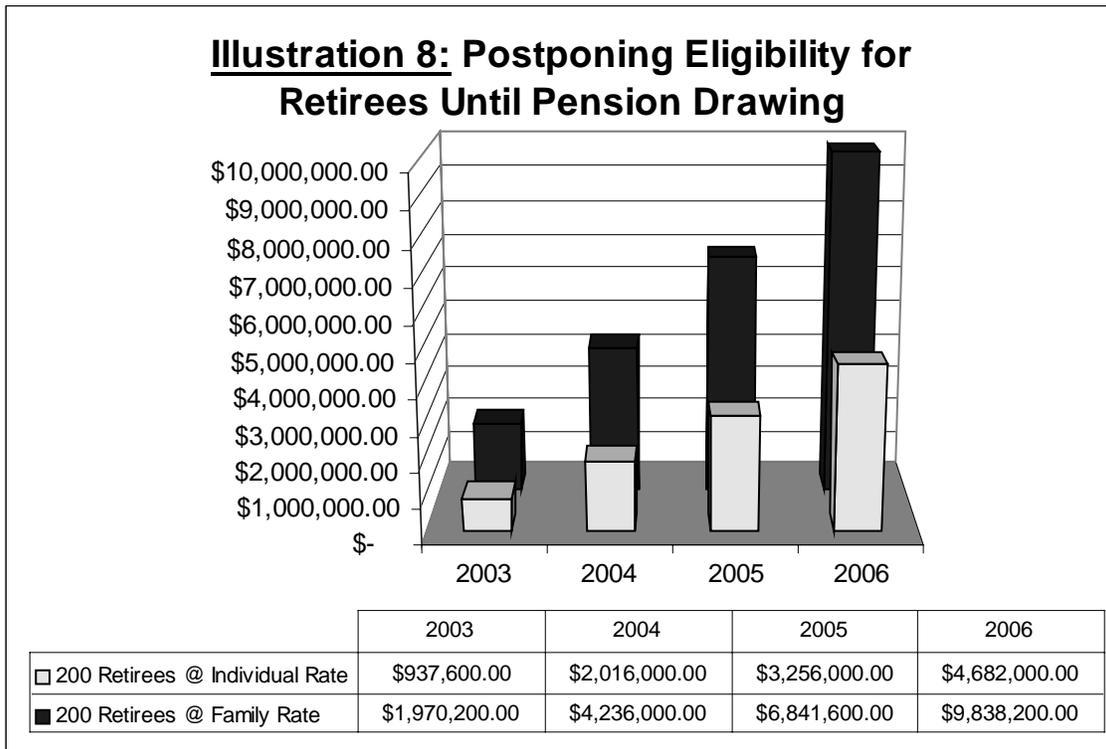
3. Change the Retiree-Eligibility Requirements

A. Postpone Eligibility for Employees Who Are Not Drawing on Their Pension Benefits

The county should consider linking the receipt of health benefits to the receipt of retirement benefits, as is the practice in the Town of North Hempstead, the Town of

Babylon, Glen Cove and New York City. Excluding retired police officers,¹² as of November 1, 2002, 10,406 retirees were receiving health benefits for themselves and their dependents.

If recent trends continue in Nassau County, approximately 200 non-police employees between the ages of 55 and 62 will retire annually. Many of these retirees will be entitled to receive only a reduced pension prior to reaching age 62. Those of this group who choose not to draw reduced pensions presumably will have found other employment, where health insurance benefits may be offered. If the county was not obligated to cover the cost of health insurance for employees who are not yet drawing on their pensions, the savings could be upward of \$10 million by 2006, as depicted in Illustration 8.



B. Increase the Number of Years Required for Eligibility¹³

Other municipalities -- and New York State -- customarily require employees to have at least 10 years of public service, with a minimum of 3 to 5 years locally, before being eligible to retire with fully paid health benefits. As of January 1, 2003, health benefits will be provided to 248 retirees who retired with less than ten years of employment with the county at a cost of approximately \$1.6 million. Nassau County should consider

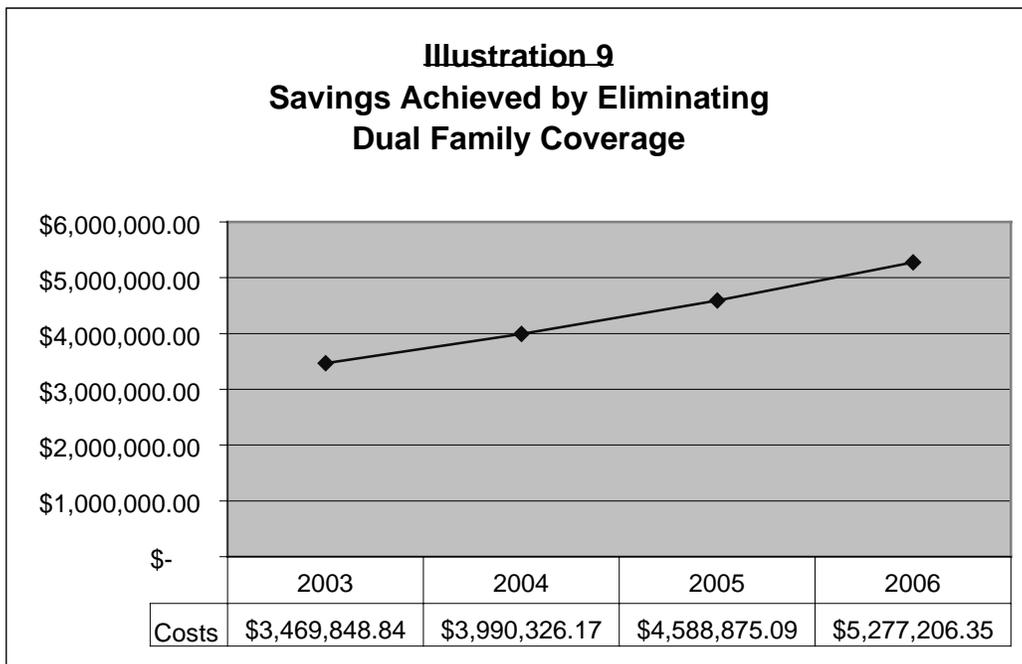
¹² The number of retired police officers is excluded because there is no penalty for drawing on their pension benefits prior to age 62.

¹³ As a result of the transfer of the Nassau County Medical Center to the Nassau Health Care Corporation (the "Corporation"), hospital employees became employees of the Corporation. The Corporation took the responsibility of sharing the cost of the premiums for their retirees who were employees of Nassau County as of the date of the transfer. As a result of the NYSHIP vesting rules, if the Corporation were to change its 5-year requirement to 10 years retroactively, the county's financial exposure would be greater.

increasing its service requirements for new employees from 5 years to 10 years, with a minimum of 3 years locally. State law and regulations permit a municipal employer to offer lifetime health insurance coverage after a minimum of 5 years of service; however, a municipality may increase the service requirement.¹⁴ The Town of Hempstead has negotiated its eligibility requirement to a minimum of 10 years of service.¹⁵ In 2001, New York City administratively increased its minimum service-requirement for new employees from 5 years to 10 years.¹⁶ If this initiative were implemented prospectively, as we recommend, the county would not realize any tangible savings until 2008, at the earliest.

4. Eliminate Duplication of Benefits

Currently, two county employees or retirees who are married to each other are each allowed to obtain family coverage separately. If family coverage were restricted to one family member, as it is for many government-employees, including New York State and New York City employees, the county would save \$3.5 million in 2003, and up to \$5.3 million in 2006, as demonstrated by Illustration 9:



State law requires that if the spouse of a deceased employee elects to continue his or her health insurance coverage, the spouse must contribute a minimum of 25% of the annual premium.¹⁷ If the spouse remarries, he or she is no longer eligible to continue the

¹⁴ New York State Department of Civil Service, New York State Government Employees' Health Insurance Program: Manual for Participating Subdivisions, § 245(1)(a)(1) (April 1, 1991).

¹⁵ Town of Hempstead, New York, Agreement between the Town of Hempstead and the Civil Service Employees' Association, Inc., Local 880 – Town of Hempstead Employees (2001-2004).

¹⁶ New York City, New York, Local Law No. 2001/076, § 1 (2001); Bill Int. No. 948-2001, § 1 (2001) (amending Section 12-126 of the Administrative Code).

¹⁷ N.Y. Civ. Serv. R. & Regs. § 73.2(b)(3) (McKinney 2002).

coverage; however, the deceased employee's other eligible dependents may continue the coverage, subject to the same 25% contribution requirement.¹⁸ Despite state law apparently to the contrary, currently, the county does not collect any contribution from spouses or dependents of former uniformed police employees. In order to protect Nassau County's eligibility as a NYSHIP-participating agency, the county must either seek an amendment to NYSHIP's regulations or correct its current practice.

4. The county should explore ways to obtain a role in the Establishment of NYSHIP policy.

We believe Nassau County is the largest NYSHIP participant, aside from New York State itself. To protect the interests of the 22,904 Nassau County employees and retirees enrolled in NYSHIP, at a minimum, the county should be represented on NYSHIP's Participating Agency Advisory Council, which includes representatives from other participating agencies, such as local school districts.

5. Conclusion

This office intends to actively pursue these recommendations. The cost savings are substantial and can be instrumental in ensuring the future financial stability of Nassau County.

¹⁸ Id.

APPENDIX A - THE BENEFITS AVAILABLE THROUGH THE NEW YORK STATE HEALTH INSURANCE PROGRAM (NYSHIP)

NYSHIP, under the Empire Plan (the “Plan”), provides five types of coverage for Nassau County participants: Individual, Family (covers the employee and his/her dependents), and three types of insurance that supplement Medicare (MediPrime-Individual coverage for the employee or retiree only, MediPrime Family-1 coverage for the employee or retiree in which one family member is eligible for Medicare, and MediPrime Family-2 coverage for the employee or retiree with two family members who are Medicare-eligible).¹⁹ The expected 2003 annual premiums for Nassau County participants are as follows:

| Individual | Family | MP: Individual | MP: Family-1 | MP: Family-2 |
|-------------------|---------------|-----------------------|---------------------|---------------------|
| \$4,688.00 | \$9,851.00 | \$3,570.00 | \$8,689.00 | \$7,640.00 |

Premiums for Empire’s Core Plus Medical and Psychiatric (the “Core Plus Enhancements coverage”) – the coverage provided to Nassau County employees and retirees - provide hospital coverage under Empire Blue Cross & Blue Shield’s Hospital Benefits Program.²⁰ For inpatient services, 365 days of hospitalization in a semi-private room is authorized without any co-payments or deductibles.²¹ Outpatient surgery, radiology, mammography, and diagnostic testing require a \$25 co-payment, unless the insured is admitted as an inpatient as a result of the procedure.²² Outpatient physical therapy requires a \$12 co-payment per-visit.²³ Hospital benefits also include coverage for a semi-private room in a skilled-nursing facility, however Empire Blue Cross & Blue Shield does not provide such benefit if the insured is eligible to receive primary benefits from Medicare.²⁴

United HealthCare (UHC), under contract to Empire, provides the Medical/Surgical Benefits Program.²⁵ Under the Participating Provider Program, a \$12 co-payment is required for office visits, routine examinations, chiropractic examinations and adult immunizations; routine pediatric care is completely covered.²⁶ Other expenses -- including hearing aids and ambulance service -- also are covered.²⁷ If non- participating providers are used, the annual maximum benefit is \$1 million per insured (the lifetime maximum is unlimited), with an annual deductible of \$300 per enrollee, \$300 per spouse,

¹⁹ In addition to the Empire Plan, pursuant to collective bargaining agreements, the county offers employees and retirees the option of a different provider so long as they pay the difference, if any, in cost between their selected plan and the Empire Plan. Approximately 2% of county employees and retirees select providers other than Empire. The county does not provide optical and dental insurance coverage to employees through NYSHIP but, instead, enters into its own contracts with optical and dental providers.

²⁰ New York State Department of Civil Service, The Empire Plan at a Glance: For Active Employees, Retirees, Vestees and Dependent Survivors and their Dependents enrolled through Participating Agencies with CORE Plus Enhancements, January 1, 2003, at 1.

²¹ Id. at 3.

²² Id.

²³ Id.

²⁴ Id.

²⁵ Id. at 4.

²⁶ Id. at 4-5.

²⁷ Id. at 4.

and \$300 for all children combined; the Plan provides 80 percent of the reasonable and customary charges once the annual deductible has been satisfied.²⁸

The difference between the Core Plus Enhancements coverage and the Core Only coverage is in the levels of mental health and substance abuse care available to enrollees. Under both types of coverage, this program is available when treatment is determined medically necessary by ValueOptions.²⁹ Under the Core Plus Enhancements coverage, service providers that are part of the ValueOptions network do not require co-payments for inpatient services, while outpatient mental health services require a \$15 co-payment, and a \$12 co-payment is required for substance-abuse services.³⁰ The inpatient services are unlimited for mental health and cover three stays per lifetime for substance abuse, while the outpatient services cover three visits per-crisis and an unlimited number of visits when medically necessary.³¹ The annual deductible for outpatient services under ValueOption's non-network coverage is \$500 per employee, per spouse and per all children combined; the annual deductible for inpatient services is \$2,000.³² The Plan pays only 50 percent of these services when the deductible has been satisfied.³³ Under the Core Only coverage, only network coverage is available, and limits are placed on the number of visits for both inpatient and outpatient services; inpatient services provide a maximum of 30 days per year for both mental health and substance abuse, while outpatient services provide a maximum of 20 visits per year for mental health, and 60 visits per year for substance abuse (the co-payments are the same as those under the Core Plus Enhancements coverage).³⁴

The Plan's prescription drug-benefit is insured by CIGNA and administered by Express Scripts.³⁵ Prescriptions filled via participating pharmacies and the mail-service pharmacy require a \$5 co-payment for generic drugs and a \$15 co-payment for brand-name drugs with no generic equivalent; brand-name drugs with a generic equivalent require the \$15 co-payment plus the difference between the brand-name drug and its generic equivalent.³⁶ If the insured fills a prescription at a non-participating pharmacy, he or she must submit a claim for reimbursement to the Plan's Prescription Drug Program; the same rules apply for brand-name and generic drugs, however, in most cases, the insured will not be reimbursed for the total amounts paid for the prescription.³⁷

²⁸ Id.

²⁹ New York State Department of Civil Service, The Empire Plan at a Glance: For Active Employees, Retirees, Vestees and Dependent Survivors and their Dependents enrolled through Participating Agencies with CORE Only Empire Plan Benefits, January 1, 2003, at 6; see also, The Empire Plan at a Glance, *supra*, n. 20, at 6.

³⁰ The Empire Plan at a Glance, *supra*, n. 20, at 6.

³¹ Id.

³² Id.

³³ Id.

³⁴ The Empire Plan at a Glance: For Active Employees, Retirees, Vestees and Dependent Survivors and their Dependents enrolled through Participating Agencies with CORE Only Empire Plan Benefits, *supra*, n. 29, at 6.

³⁵ The Empire Plan at a Glance, *supra*, n. 20, at 1.

³⁶ Id. at 7.

³⁷ Id.

APPENDIX B – SCHEDULES

| NASSAU COUNTY TOTAL ENROLLMENT IN EMPIRE NOVEMBER 2002 | | | | | | |
|--|------------|--------|------------------------------|------------------------------|------------------------------|--|
| | Individual | Family | Individual Medicare Prime | Family One Medicare Prime | Family Two Medicare Prime | |
| Active Employees | 2,390 | 7,098 | - | - | - | |
| Retired Employees | 1,119 | 2,533 | 4,616 | 1,312 | 3,836 | |
| Total Enrollment | 3,509 | 9,631 | 4,616 | 1,312 | 3,836 | |

| NASSAU COUNTY ESTIMATED YEARLY EMPIRE INSURANCE RATES 2002 – 2006 | | | | |
|---|------------|----------|--------|-----------|
| | Individual | | Family | |
| 2002 * | \$ | 4,136.00 | \$ | 8,688.00 |
| 2003 * | \$ | 4,688.00 | \$ | 9,851.00 |
| 2004 ** | \$ | 5,392.00 | \$ | 11,329.00 |
| 2005 ** | \$ | 6,200.00 | \$ | 13,028.00 |
| 2006 ** | \$ | 7,130.00 | \$ | 14,938.00 |

* - Actual

** - Estimated

APPENDIX C – BENEFITS OFFERED BY OTHER GOVERNMENTS

Town of Babylon

In Suffolk County, the Town of Babylon has approximately 382 active employees and 252 retirees receiving health benefits; 61 of the retirees are not yet eligible for Medicare. Babylon offers Core Plus Enhancements coverage and does not currently require a contribution from either employees or retirees. Retirees must draw on their pension to receive health benefits. There is no age restriction on becoming a retiree, if, for instance, an employee receives disability insurance or manages to retire at a young age; however, for most employees the minimum age is 55. They also must serve 10 years with a NYSHIP-participating agency, and the last five years of service prior to retirement must be with the Town of Babylon. Retirees over the age of 55 who do not draw on their pension must pay 100 percent of their premiums without a break in coverage until they draw on their pensions. Contributions are no longer required once employees begin drawing on their pension benefits.

City of Glen Cove

The City of Glen Cove has 184 active employees enrolled in health insurance plans (42 in individual plans and 142 in family plans). Of 135 retirees enrolled, 100 receive family coverage and 35 receive individual coverage. Glen Cove offers the Core Plus Enhancements coverage only and does not require contributions from employees or retirees. The minimum service requirement is five years, and the last five years of service prior to retirement must be with the City of Glen Cove. Retirees may only receive free health benefits at 55 if they are also receiving pension benefits. Retirees who opt not to receive their pension benefits immediately upon leaving Glen Cove's employ but who fulfill the other requirements can keep the vested relationship by paying a vestee percentage of their health insurance premiums until they draw on their pension. In order to receive free full health benefits at that time, there can be no breaks in their NYSHIP participation.

Town of Hempstead

The Town of Hempstead has 2,102 active employees and 1,335 retirees enrolled in NYSHIP. Hempstead offers the Core Plus Enhancements coverage and does not require a contribution from employees or retirees. There is a six-month waiting period for new employees to be covered. Retirees receive their health benefits as soon as they retire. The eligibility requirements are: 55 years of age and a minimum of 10 years of service with a participating agency, the last five of which must have been with the Town of Hempstead.

New York City

New York City does not participate in NYSHIP. There is no cost for basic coverage under some of the health plans offered under the City Health Benefits Program, but others require a payroll or pension deduction. Enrollees may purchase additional benefits

through Optional Riders for all plans except one. Employees may receive health benefits at retirement if: they have at least five years of credited service (ten years for new employees) as a member of a retirement or pension system maintained by the city (this requirement does not apply if they retire because of accidental disability), have been employed by the city immediately prior to retirement, and be receiving a pension check from a retirement system maintained by the city.

New York State

The New York State Health Insurance Plan (NYSHIP) was initially created for employees of New York State. The state currently offers The Empire Plan and several HMOs to state employees, while extending The Empire Plan to NYSHIP participating agencies as well. (Participating agencies are counties, cities, towns, villages, school districts and other municipal entities). Two variations of the Plan are offered to participating agencies: Core Only and Core Plus Enhancements. State employees are required to contribute 10 percent of their premium costs, and 25 percent for their dependents' premium costs. Retirees may receive health benefits provided that they are vested in a retirement system administered by New York State, meet that system's retirement age-requirements, are enrolled in NYSHIP at the time of retirement, and have 10 years of benefits-eligible service with the state or 10 years of combined benefits-eligible service with the state and one or more participating agencies.

If an individual leaves the state's employ before reaching retirement age, but has vested in a state-administered retirement system and has satisfied the 10-year service requirement, then s/he may continue in NYSHIP, paying the full monthly premium until retirement age, at which time the state pays the cost.

Town of North Hempstead

The Town of North Hempstead has approximately 350 active employees and 400 retirees enrolled in health insurance plans. Employees hired after 1995 must contribute nine percent of their premium costs. North Hempstead offers Core Plus Enhancements coverage. The age requirement for North Hempstead retirees is based on their tier; individuals in Tiers 1 and 2 may receive retirement health benefits at age 55, while those in Tiers 3 and 4 may receive benefits at age 62. The service requirement is 10 years, and 10 of the employee's last years must be with North Hempstead (except in the case of retirees age 70 and over, who must only serve for five years, and the last five must be with the town). An employee who meets the 10-year requirement and leaves the town's employ within five years of retirement age must pay 100 percent of the health insurance premium until the retirement health benefits kick in at retirement age.

Town of Oyster Bay

The Town of Oyster Bay has 975 active employees and 678 retirees enrolled in NYSHIP. 142 of the retirees are not yet eligible for Medicare. Oyster Bay does not require contributions from its employees or retirees and offers the Core Plus Enhancements coverage. Retirees receive full health benefits as soon as they retire. Although the

eligibility requirements differ according to an employee's retirement tier, the minimums are 55 years of age and five years of service. Employees need not meet any minimum length of employment with the town prior to retirement.

Rockland County

As of September 2002, Rockland County had 2,802 active employees enrolled (865 in individual plans and 1,937 in family plans) and 1,585 retirees enrolled (622 in individual plans and 963 in family plans). Like Nassau County, Rockland only offers The Empire Plan's Core Plus Enhancements coverage. Employees and retirees may be required to contribute to their coverage based on the date on which they began their employment: anyone who began working for Rockland prior to 1994 is not required to contribute; an employee or retiree who began working for the county between January 1994 and January 2000 must contribute for 5, 10, or 12 years, depending on their year of hire; and for employees who began working for Rockland after January 2000, a contribution is required for 15 years in order for the county to pay the full premium. Any employee retiring before his/her contribution period is fulfilled may continue to contribute until the end of that period, at which time Rockland County will assume responsibility for paying the full premium. During the contribution period, the employees contribute 10 percent for individual coverage, or 12-14 percent for family coverage (This applies to CSEA only -- Rockland has several unions that pay different rates).

The retirement-eligibility requirements for Rockland County, in addition to the contribution where applicable, are: a minimum age of 55; a minimum five years of service with an agency that participates in the New York State retirement system-- at least three of which must be with Rockland County, while the last three months prior to the employee's retirement must also be with Rockland County. Retirees who satisfy all of the contribution and eligibility requirements receive their health benefits immediately.

Suffolk County

Suffolk County self-insures its employees' health care coverage. As of November 2002, there were 11,993 active employees and 6,940 retirees (2,200 of whom are not yet eligible for Medicare) enrolled in Suffolk. Under Suffolk's coverage, enrollees may choose from three HMOs or a self-insured comprehensive plan. The self-insured comprehensive plan has proven the most popular since it offers the most coverage and the freedom to choose physicians. Neither employees nor retirees are required to contribute to their coverage.

To receive full health benefits upon retirement, Suffolk's employees must be at least 55 and have a minimum of 10-credited years of service with an appropriate agency in the New York State retirement system, the last of which must be with Suffolk County. Employees who retire before the age of 55 may receive the full health benefit so long as they pay the premium from the time they leave the county service until age 55.

Westchester County

Like Suffolk County, Westchester County is self-insured. As a result of provisions in collective bargaining agreements, the county offers three HMOs, as well as a comprehensive health benefit plan that offers a prescription drug benefit and a PPO network. Approximately 6,000 employees and 4,300 retirees are enrolled in coverage offered by Westchester. Some 1,170 of the enrolled retirees are not yet eligible for Medicare. Employees are not required to make any contributions toward their health insurance coverage, nor are retirees with individual coverage. However, retirees with family coverage must contribute 20 percent of the difference between the individual and family premiums.

To receive health benefits, Westchester retirees must be New York State pension-eligible (generally 55 years of age) and have a minimum of five years of service with Westchester County. If an employee has five years with Westchester but elects to leave the county's employ before retirement age, s/he must maintain the coverage without any breaks by paying the full monthly premium until retirement age. Once all of these requirements are satisfied, the retiree is eligible for full retiree coverage.

APPENDIX D – RETIREE BENEFITS

State law requires the county to pay a minimum of 50 percent of the costs of its retirees' health insurance premiums.³⁸ Although the New York State Constitution provides that the benefits of a pension or retirement system may not be diminished,³⁹ health insurance benefits are not considered such a benefit, and premium contributions may be adjusted within the legal limit.⁴⁰ The provisions of collective bargaining agreements do not apply to retirees.⁴¹ The number of retirees for whom Nassau County is providing lifetime health coverage exceeds the number of employees on the county's payroll and that disparity will grow in coming years. Retirees currently account for nearly half of the county's \$135 million annual bill for health care coverage.

³⁸ See, supra, n. 8.

³⁹ N.Y. Const., art. V, § 7 (2002).

⁴⁰ Lippman v. Bd. of Ed., 66 N.Y.2d 313, 318-19 (1985) (holding that health benefits are not benefits of a retirement system, and that the statutory minimum to be paid by an employer may be increased or decreased at the employer's discretion).

⁴¹ Aeneas McDonald Police Benevolent Ass'n, Inc., supra, n. 10, at 332 (permitting the City of Geneva to unilaterally alter the health benefits offered to retirees).