

The Chief

Civil Service **LEADER**

THE CIVIL EMPLOYEES' WEEKLY

NEW YORK, FRIDAY, SEPTEMBER 24, 2004

Citywide Fund For Drugs May Go Bust in '05

By **MARK DALY**

A \$300 million fund that subsidizes the cost of drugs for city employees with cancer, asthma and mental illness will be insolvent by early next year, according to new projections by the city.

Based on the continued upward trend of the cost of prescription drugs and current usage patterns by ill city workers, the fund known as the health insurance stabilization reserve fund will run out of money as early as March 31, said Labor Relations Commissioner James F. Hanley.

New Task for MLC

The Office of Labor Relations shared its projections earlier this month with a technical subcommittee of the Municipal Labor Committee. The MLC, headed by United Federation of Teachers President Randi Weingarten, negotiates changes in health benefits on behalf of city unions.

The news comes less than a year after the MLC and the city reached an agreement meant to avert the bankruptcy of the fund, and less than six months after higher co-payments and new controls went into effect for its popular PICA program,

(Continued on Page 7)

City Drug Fund Needs Oxygen

(Continued from Page 1)

which pays for psychotropic, injectable, cancer and asthma drugs.

The city's early warning may signal a renewed push by Mayor Bloomberg for far-reaching concessions on health benefits, or at the least, a desire for early talks on benefits for the city's 300,000 employees.

"The time has come to talk about changing or possibly rethinking" how the current benefits are provided, Mr. Hanley said last week. The city has been seeking a restructuring of health benefits coverage for at least the past two bargaining rounds.

Union: No Crisis Yet

Union leaders on the MLC's steering committee Sept. 13 were briefed on the city's projections. Mr. Hanley declined to release the projections or discuss any details of them, saying he wanted to meet with the MLC's leadership first.

A union president who serves on the health benefits subcommittee downplayed the significance of the projections, saying they represented a worst-case scenario.

Robert J. Croghan, president of the Organization of Staff Analysts, said the shortfall had been anticipated for some time and would likely be resolved in the new round of negotiations.

"It's clear that something has to be done pretty quickly," he said, "but pretty quickly doesn't mean tomorrow."

Surplus Siphoned

Mr. Hanley was reluctant even to discuss the size of the stabilization fund, which was created nearly 20 years ago to cover the difference in the insurance costs between the city's largest health plans, HIP and GHI.

The fund accumulated a surplus in the 1990s, but that began to shrink in the 2000-01 bargaining round after the MLC agreed to let



JAMES F. HANLEY: 'Time to rethink program.'



ROBERT J. CROGHAN: Wolf not yet at door.

Mayor Rudy Giuliani use a portion of the surplus to balance the city budget. Another portion went to create the PICA program, which expanded the availability of the covered drugs while easing the financial pressure on the union benefit funds that previously paid for such prescriptions.

"From the day we started the PICA program, we knew it wasn't going to last forever," Mr. Croghan said. "No one has been able to keep the cost of drugs from soaring."

The PICA plan cost \$140 million a year when it was created, but the city was required to contribute just \$35

million a year to maintain it. As a result, a \$300 million surplus in the stabilization fund has apparently begun to dissipate. The fund had \$301 million in cash and investments on Sept. 16, according to the City Comptroller's Office.

Mayor's Demands

In last year's round of health benefits bargaining, Mr. Bloomberg demanded \$600 million in concessions from the MLC as he sought to narrow a structural gap in the city's budget. The cutbacks he proposed included the elimination of the PICA program and requirements that city employees pay a share of basic health benefits coverage.

The agreement both parties reached at the end of last December avoided such wide structural changes while costing the city nothing in additional funds. It provided the city \$100 million in savings, but required that \$31 million of the money be reallocated to shore up the PICA program. The rest went to provide a \$100-per-member payment to union welfare funds, which cover drugs not covered by other plans in addition to dental and optical benefits.

On April 1, a new three-tier co-pay system began for the PICA program, which previously had a \$6 co-pay. Brand-name drugs now require a \$35 co-pay, and brand-name drugs on the plan's preferred list have a \$15 co-pay. The plan lowered the co-pay for generics to \$5 to encourage greater use of cheaper no-name drugs.

In addition, the PICA program now requires patients beginning new drug regimens to start with the cheapest drugs available, unless a compelling medical reason exists for choosing a more expensive drug.

Mr. Croghan said those changes "bought an additional year" in the life of the fund, an estimate apparently borne out by the city's projections.

PICA Woes Typical

To the Editor:

In Mark Daly's excellent article last week, "City Drug Fund May Go Bust in '05," I apparently gave Mark reason to misunderstand my view of the potential long-term survival of the PICA drug program.

From the start of the PICA program, all of those involved in its establishment were aware that the ever-increasing cost of drugs would endanger the program. The plan design was in fact modified very quickly, since the original cost of about \$98 million a year increased to \$140 million before two years had passed.

The "fix" put in place at the start of this year, thanks to the careful negotiating of the Municipal Labor Committee, was both helpful and actually quite fair, all things considered. The PICA problems are not unique. All prescription drug programs are facing tough choices and there is no end in sight.

Congress will probably address the problem before the cost of prescription drugs overtakes our country's gross national product, but in the meantime, there is a problem. The PICA drug program was one partial response to that problem. Conceivably it could potentially be even the forerunner to some sort of broad coverage prescription plan, since the larger the

group, the greater the potential bargaining power.

I would not underestimate the possibility of the long-term survival of the PICA prescription drug benefit program.

ROBERT J. CROGHAN
Chairperson,
Organization of Staff
Analysts