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Short Report

Working with Employee Unions to Balance Public Budgets

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This process involves a city's elected officials, its management staff, and its various employee union representatives. These major public sector organizational stakeholders are elected officials, their management staff, and the various bargaining units, or labor unions that an organization's employees belong to, must all work together to help balance their organization's annual budget with the goal of not having to lay-off any employees.

Various budget-reduction, revenue-enhancement, and cost-avoidance options, are examined below to help achieve this mutual goal – balancing a public organization's budget without having to lay-off any of its employees.

The Process

Elected Officials brief them on the plan to work with the employee unions to reduce next year's budget expenses, with the goal of balancing the city's budget without having to lay-off any employees. Prepare a resolution for the city's elected officials to approve the formation of a Union-Management Budget Reduction Committee. The goal of this Committee is to come up with ways to balance next year's budget without having to lay-off any employees. After working with this Committee to develop this plan I would go back to the city's elected officials with the plan for them to approve it to reduce expenses and increase revenues for the coming fiscal year without having to lay off any city employees to accomplish this financial goal. Each employee union would approve this budget-balancing plan before it is submitted to the city's elected officials for their consideration and approval.

Management Staff

The City Manager would recommend to the city's elected officials not to request any new public services for the remainder of the current fiscal year unless such services generate enough revenues to pay for them. Implement a hiring freeze – no new positions, and leave positions that became vacant empty for the remainder of the fiscal year.

Work with department managers to update departmental user fees and charges to make sure that the revenues generated from them are sufficient to pay for these public services. Check existing Enterprise Funds to make sure that the user fees and charges for such services generate enough revenues to pay for them. Adjust user fees as required to accomplish this financial goal. Review public services and make recommendations back to the elected officials on any public services that should be treated as an Enterprise Fund (e.g., golf courses. arenas, stadiums, zoos, and museums, and related services), that the citizens that use them should pay for. The City Manager should also work with department managers to review their respective budgets with the goal of acquiring accrued savings to lower the projected budget deficit for the coming fiscal year.

Employee Unions

Brief the union presidents on the city's plan to work with them to balance the city's budget for the coming year with the goal of not having to lay-off any of their employees. Meet with the Union-Management Budget Reduction Committee to consider and discuss possible cost-saving items, such as

Consider cost-saving options from general employee fringe benefits (e.g., step increases, vacation time earnings, pension plans, health benefit plans, extra pay for longevity, etc.)

Consider possible use of employee work furloughs. Taking time-off during the coming fiscal year without receiving any pay (e.g., a number of days, a week, or even possibly longer).

Consider early-retirement programs, where employees are given points (years) added on to their service if they retire early (e.g., must be 65 years old to retire, let employees retire at 62 years old be giving 3 years of pension credit).

Here are some of the pension plan modifications that can be changed for current employees, retired employees, as well as for future employees that have not started work yet.

Increase the pension-eligible retirement age (e.g., from age 62 to 65 for example).

Decrease the annual percentage of retirement salary pension entitlement (e.g., 2.5% per year to 2.0% per year).

Exclude annual overtime earnings from pension plan entitlement calculations.

Institute an early-retirement incentive program (e.g., if the age to retire is 65, let existing employees have from 3 to 5 years of credit for an early retirement program). Savings from senior employees retiring, with a hiring freeze, should more than offset the cost of such an early retirement incentive program.

Have a uniform and standard pension entitlement plan for all employees (for both sworn and civilian employees). Not different entitlements for sworn and non-sworn employees.

Reduce or exclude vacation buy-back time at the time of retirement from the employee pension plan calculation for employees in all bargaining units.

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Limit or eliminate sick leave buy-back at the time of retirement from an employee's pension entitlement calculation for employees in all bargaining units.

Reduce or substantially limit pension credit time for other public service jobs outside of your state for employees in all bargaining units, unless such employees pay the actuary-recommended amount to make this pension benefit cost-covering.

Change the pension entitlements (annual rate, buy-backs, other entitlements, and related benefits, that increase an employee's pension amount) only for all new employees after a certain date for all bargaining units.

Part-time employees should not be entitled to pension benefits. An employee, to qualify for pension benefits, must be a full-time employee. All other employees are not entitled to this benefit.

Increase the amount of employee contributions to the municipal pension programs for employees in all bargaining units. This will lower the amount that must be paid annually by a city's taxpayers.

Change from a defined-benefit pension plan to a defined-contribution pension plan. This requires employees to pay more of their own pension plan and reduces the level of taxpayer funding for employee pension programs.

Employee pension benefit plans are usually part of approved labor agreements with an employers bargaining units. In such cases, elected officials and unions must first vote to open-up negotiations to discuss pension plan coverages and possible saving options. Before the employee pension benefit structure can be changed, the change must also be voted and approved by each union's members, and then by the elected officials to approve revised labor agreements that contain these changes.

Here are some of the health care plan modifications that can be requested for current employees, retired employees, as well as for future employees that have not yet started work yet.

Cost savings result from decreasing the levels of health benefits provided to new, current, and retired employees, as well as adjustments to premium-sharing costs and to employee co-payment arrangements.

Increase the employee co-payments for approved prescription plans (e.g., they frequently are increased in $5 and $10 increments over time). Sometimes existing employees pay a lower co-payment than new employees do.

Increase the employee co-payments for doctor and dental office visits (e.g., they also frequently go up in $5 and $10 increments over time). Sometime existing employees pay a lower co-payment than new employees do.

Increase health care insurance premium contributions for employees, including existing employees, new employees, and retired employees. Sometime existing employees pay a lower health care policy premium rate than new employees do.

Lower the entitlement for health insurance benefits for all retired employees for each bargaining unit. Retired employees should pay more for their health benefit entitlement during their retirement years.

Implement wellness programs and disease prevention/management programs, which include educational programs that are typically made available during working hours for employees.

Implement physical fitness programs, which include programs held during regular working hours, to help employees get in, or stay in, physical shape to stay healthy and to avoid common illnesses that result from not being in shape. Such programs help avoid health problems and lower health care costs for employees in future years.

Some health care policies have changed to require employees to go through a primary care physician to get a referral to a medical specialist. Such policies preclude employees from going directly to medical specialists when one might not be required. This helps hold down the cost of some medical specialty services.

Many health insurance contracts have been altered to require employees to use generic drug alternatives, as opposed to popular brand name drugs, which are typically more expensive. This has lowered the cost of many prescription drug expenses paid for employees.

Many organizations have implemented early-retirement programs. Under these programs, the senior employees retire and the new employees are typically much younger, requiring less medical expenses. Health benefits for retired employees have also been lowered, while their co-pays for hospital visits and stays have been increased.

Local governments can always "go to bid" to seek more cost-effective premiums for their health benefit programs. Labor agreements may contain restrictions and guidelines for this process, and labor agreements must be reviewed before going to bid to ensure that restrictions and guidelines are properly followed.

Labor agreements typically define which employees are eligible to receive health insurance benefits. Many labor agreements limit health benefits to those employees working "one-half time" or more. Recent changes to health care benefits limit them to full-time employees only.

Risk management practices are increasing. Many cities have an Employee Safety Committee consisting of local government workers. They meet periodically to review work-related accidents and injuries, to find out what caused them and to make sure that they do not happen again. Such committees help to reduce health benefit costs, decrease workers' compensation expenses, and increase employee productivity.

There are increasingly more high deductible plans (for instance a $4,000 deductible for an employee hospital stay). This is a safety approach that protects employer's from large health benefit claims. Such plans typically provide 100% coverage for preventive care health services.

The use of health care informational and educational programs are on the increase. The goal is to make relevant information available to employees about their health and how to improve it in such a way that it will reduce the costs. Such programs also reduce workers' compensation expenses, decrease employee absenteeism, and increases employee productivity.

There is a national trend for local governments to ban together to purchase health care coverage as a group, thereby receiving lower rates that reduce an employee's individual annual health care costs. The more organizations that get involved in these joint programs the lower the individual employee's health care expenses.

Some states are offering their local government's voluntary participation in their health care insurance programs, thereby lowering their costs of going out-to-bid for this service individually, city-by-city. Generally speaking, the more organizations and employees covered, the lower the unit costs of health care benefits for all employees, as well as their respective organizations.

Most employee health benefit claims are received and approved for payment by a health insurance company or a third-party claims administrator. Fewer and fewer local governments are involved in claims administration directly. Such third-party claims administrators follow the claim payment guidelines and criteria that are included in the approved labor agreement for each bargaining unit.

Local governments now provide their employees with health benefits resource guidelines, or a healthcare batabase, which is frequently provided online. Such health benefit resources help employees make more informed decisions about the health benefit coverage they decide upon for themselves and their families.

Multi-tiered medical prescription plans are increasingly common. Under such programs, employees pay an increased co-payment for the types of drugs that they use. These categories include generic versus brand name drugs, formulary versus non-formulary drugs, and what is referred to as lifestyle drugs.

Because it saves money, local governments would like to require mail-order prescription drug programs for their employees. Such programs, because of the volume of drugs that they deal with, can fill employee prescriptions at a lower price than the local drug store or the prescription center at the local market can.

In the past few years, it is common for local government employers to pay the cost for their employees to participate in health club programs, weight loss programs, and other off-site physical fitness programs. Health programs like these reduce the likelihood of employee illnesses and lowers the employer's health care costs for their employees.

It is not unusual for local government employers to contract with local walk-in medical clinics because of the lower costs involved. Under these programs, employees are required to go to the local walk-in clinic before they visit another medical treatment source (e.g., a doctor, a hospital, a medical center, an emergency room, etc.).

It is common nowadays for local government employers to have a buy-out for a spouse's health benefit plan if they have coverage through another employer. If one employee works for a city, and his or her spouse is a teacher, for example, they have their own health care plan. Two family health care plans are not needed for one employee.

It is now the law that Medicare is the primary health care provider for all employees and retirees over the age of 65. Since employees of this age are entitled to this coverage by federal law, this federal program becomes their primary health care coverage and the employer's plan becomes their secondary health care coverage.

Since health care plans are technical and complicated, it is a common practice for employers to hire a professional health benefits consultant to review existing health care plans as well as to negotiate with employee bargaining units and existing providers to achieve cost-saving revisions to existing health care programs, as appropriate.

Many states now have health care programs for children in low-income families. It is not uncommon for public employers to require their low-income workers to have their children receive health care coverage from such programs. The state program becomes the primary health care coverage for the employee's children, and the employer's plan becomes their secondary coverage.

Federal health care requirements now include health care coverage for dependents until the age of 26. Employers are now looking to increase co-pays and other savings options to compensate them for the cost increase of providing this additional mandated health care coverage for an employee's dependent children.

Due to the cost involved, local governments are conducting dependent eligibility audits and revising their dependent enrollment processes to allow only qualified dependents into employee and legal dependent health care programs. This will be especially important under the Patient Protection and Affordable Care Act (PPACA), which was approved by Congress and signed into law by the President on March 23, 2010. The U.S. Supreme Court subsequently upheld the legality of this national health care law.

Some local governments are starting to audit health plan claims administrators of self-insurance programs to identify any processing and overpayment issues. When claims reviewers, who work for private contract consultants, review employee health care bills, and approve their payment with the employer's funds, such oversight is especially important.

Some local governments that are self-insured are considering employee bonuses, like profit-sharing in the private sector, when annual health care savings accrues to the employer due to health care savings made by employees. This is health care savings in the public sector, and is becoming more coming in recent years. The split of such savings, like 80% for the local government and 20% for the employee, will become more common in future years.

Some public employers are increasing insurance premium payments and co-payments for those employees that neglect to make required routine medical visit for check-ups. This means that those employees who get their regular medical check-ups pay less for their health insurance premiums and co-payments. More and more employees are also required to have an annual physical examination. This is an incentive for employees to hold down the medical expenses of their employers.

Health care benefit plans are usually part of approved labor agreements with an employer's bargaining units. In such cases, elected officials and unions must first vote to open-up negotiations to discuss health benefit coverages and possible saving options. If the health benefit structure is changed the changes must also be voted on and approved by a union's members, and by elected officials to approve the revised labor agreement that contain these changes.

Available Budget Reduction Options

Elected officials must approve a formal budget reduction process that involves the modification of existing union labor agreement contracts. They would ultimately have to approve, by majority vote, proposed labor agreements that modify existing policies and practices to achieve anticipated savings to help balance the budget or the coming fiscal year.

The management staff, including the City Manager, Finance Director, and other department managers, must also agree to work with their elected officials and public employee unions to propose and achieve desired budget reduction options. Department managers would have to work with the City Manager and Finance Director to modify labor agreements for those employees that work in their respective departments (e.g., police, fire, public works, etc., etc.)

All of a local government's employee unions must agree to open-up negotiations with their employer to discuss, propose, and consider changes and amendments to their respective labor agreements to help achieve projected budget savings goals for the coming fiscal year. Once these agreements are reached between the city's management staff and the representatives of an employee bargaining units, the employees of each bargaining unit must approve the proposed changes to their respective labor agreement.

The Future

Everyone, including elected officials, management staff, union officials, and employees at all levels, should work together to help balance their public budget to avoid having to make future employee layoffs. There seems to be numerous operational and financial options that are available and reasonable, some even mutually advantageous, for existing employees, retirees, and new employees that haven't even starting working yet.

All parties involved in this process should work with their respective legal staffs to ensure that the proper negotiation processes, legal procedures, and pension/health benefit options, are taken into consideration. Many of these cost-reduction and revenue-enhancement options appear to have potential benefits for everyone involved in this budget-balancing process.

The elected officials can reduce the public costs of their employee pension and health care benefit plans to help balance their budget. While the union representatives, and their respective employee members, can help avoid or reduce future employee layoffs. It seems like both of these options are in the best interest for all parties involved, including the residents who are the taxpayers that finance employee pension and health care fringe benefit plans.

These suggested budget-balancing guidelines and program options are offered with the intention of providing insight into this arduous process. Budget reduction and revenue enhancement strategies that reflect responsibility and respect, not only to the employees who provide public services, but also to those who must foot-the-bill, the citizens that receive these services and pay for them, must ultimately prevail.