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BILL ANALYSIS



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Senate Bill 7 (Substitute H-6, Conference Report-1 as adopted by Conference Committee)
Sponsor: Senator Mark C. Jansen
Senate Committee: Reforms, Restructuring and Reinventing
House Committee: Oversight, Reform, and Ethics

Date Completed: 8-24-11

CONTENT

The bill would create the "Publicly Funded Health Insurance Contribution Act" to impose certain limits on the portion of employees' medical benefit plan coverage paid for by public employers.

Employee Health Coverage

The bill includes the following:

- Medical benefits include, but are not limited to, hospital and physician services, prescription drugs, and related benefits.
- Under Section 3, the amount a public employer could pay, for its employees' or elected public officials' annual costs or illustrative rate and any payments for reimbursement of co-pays, deductibles, or payments into health savings accounts, flexible spending accounts, or similar accounts used for health care costs, could not be more than a total amount equal to \$5,500 times the number of employees with single person coverage, \$11,000 times the number of employees with individual and spouse coverage, plus \$15,000 times the number of employees with family coverage, for a medical benefit plan coverage year beginning on or after January 1, 2012. A public employer could allocate its payments for medical benefit plan costs among its employees and elected officials as it saw fit.
- Annual adjustments to the caps by the State Treasurer, based on the medical care component of the United States Consumer Price Index, would be required.
- Under Section 4, public employers could elect to pay not more than 80% of the total annual costs for all of the medical benefit plans it offers or contributes to for its employees and elected public officials, instead of the "hard caps" included under Section 3. This election would have to be authorized by a majority vote of the public employer's governing board, or the designated State official for State public employers. Each elected public official would be required to pay 20% or more of the total annual costs of that plan. The public employer could allocate the employee's share of total annual costs of the medical benefit plans among the employees as the employer saw fit.
- Under Section 8, a local unit of government could exempt itself from the requirements of this bill for the next succeeding year by a two-thirds vote of its governing body. A two-thirds vote of the governing body would be required to extend an exemption. Approval of the chief executive would be required in certain cases.

- The bill provides that the requirements of the bill apply to medical benefit plans of all public employees and elected public officials to the greatest extent consistent with constitutionally allocated powers, whether or not a public employee is a member of a collective bargaining unit. If a court found the requirement of the hard cap provision to be invalid, the expenditure limit for the 80/20 provision would apply to a public employer that did not exempt itself pursuant to Section 8. If a court found the 80/20 provision to be invalid, the expenditure limit for the hard cap provision would apply to a public employer that did not exempt itself under Section 8.
- A public employer could deduct the covered employee's cost from compensation.
- If the requirements limiting the amount of employer-paid health insurance benefits were inconsistent with a collective bargaining agreement or other contract currently in effect, the requirements of the bill would not take effect until the collective bargaining agreement expired, or was amended, extended, or renewed. A collective bargaining agreement or contract that is executed on or after September 15, 2011, could not include terms inconsistent with the bill.
- A 10% penalty in a public employer's economic vitality incentive payment or School Aid payment would be imposed for a public employer during the period the public employer failed to comply with the provisions of the bill.

(Public Act 63 of 2011 is the omnibus State budget for fiscal year 2011-12. The Act includes appropriations for an economic vitality incentive program, which is a revenue sharing program for cities, villages, and townships based on consolidation of services, employee compensation practices, and accountability and transparency practices.)

Retiree Health Coverage

While the bill included language asserting that the requirements of the bill do not apply to retirement plans, the State Employees' Retirement Act does, in fact, tie the maximum State amount of health care premium coverage for retirees to the level provided to active classified State civil service. Specifically, Section 20d (MCL 38.20d) of the Act affects employees first hired on or before March 31, 1997, and states, "The amount payable shall be in the same proportion of premium payable by the state of Michigan for the classified employees occupying positions in the state civil service." Section 68 (MCL 38.68) includes a similar provision for employees hired between March 31, 1997, and April 1, 2010 (those subject to graded health care coverage), such that the maximum coverage may not "exceed the lesser of 90% of the payments for health insurance coverage or the portion of the health insurance coverage premiums payable by this state for a retirant, his or her beneficiary, and his or her dependents under section 20d".

Therefore, if this legislation is enacted and the Civil Service Commission is required to (or chooses to, if the legislation is unenforceable without the adoption of SJR C, and SJR C is adopted) increase the percentage of premium paid by active State employees as outlined in the bill, then it appears that both current State retirees and future State retirees will be required to adhere to the premium cost-sharing levels established for active State employees. Retirees of other systems (schools, townships, community colleges, etc.) defined in this legislation would not be affected, unless those systems chose to make cost-sharing changes, since their retiree health coverage is not tied by statute to the active employee health care levels.

Also, State employees hired on or after April 1, 2010, already pay 20% of the premium for health care, and the State Employees' Retirement Act requires this group of employees to also pay the level of health care coverage in retirement as paid for by active employees. Therefore, adoption of this legislation would have no impact on the group of State employees hired on or after April 1, 2010, but would affect anyone hired before that date.

FISCAL IMPACT

Savings to State government would result mainly from the impact on civil service employees (either through amendments to the State Constitution approved by the voters or action by the Civil Service Commission). As of June 25, 2011, there were 44,559 classified employees enrolled in State-sponsored health insurance plans. State employees hired on or after April 1, 2010, already contribute 20% of the cost of their medical benefit plan. Annual savings to the State would depend on whether the Civil Service Commission elected the "hard cap" or the 80/20 cost share. Savings to the State would range from approximately \$42.5 million to \$59.1 million. Approximately 53% of the savings would be to the State General Fund, and the balance would be savings to Federal and State restricted funding sources.

The bill also could generate State savings related to retired State employees. These savings would occur if active civil service employees were charged a health care premium cost sharing rate higher than 10%, because the State Employees' Retirement Act states that retiree cost sharing is the same as active employee cost sharing. Currently, since active employees pay 10% of their health care premiums, retirees also pay 10% (until Medicaid-eligible), and the State pays the other 90%. According to the 2010 State Employees Retirement System Comprehensive Annual Financial Report, members of the system (retirees) contributed roughly \$21 million for the support of "other post-employment benefits", including health, dental, and vision coverage. Assuming that the vast majority of the \$21 million represents the 10% coverage for medical means that if the cost-sharing were doubled to 20%, an estimated \$17 million could be generated in State savings, since member contributions would increase if the State Civil Service Commission implemented 80/20 cost sharing. Data were not available at the time of the analysis to determine an estimate of the retiree impact if hard caps were imposed on active civil service employees.

Comprehensive data do not exist to accurately calculate the potential savings to local government, school districts, and public higher education employers from this bill. During budget hearings this year, several community colleges and universities reported that their employees were already paying 20% of the cost of health insurance.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.