Legislative Analysis

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INCREASE PUBLIC EMPLOYER HEALTH CARE CONTRIBUTION LIMITS

House Bill 6058 as reported from committee
Sponsor: Rep. Mai Xiong
Committee: Labor
Complete to 12-11-24

SUMMARY:

Generally speaking, the act limits the amount that ***public employers*** can pay toward employees' medical benefit plans. Employers can choose between an inflation-adjusted capped contribution or a maximum 80% contribution.[1] A public employer can allocate its payments for health insurance costs among its employees and elected officials as it sees fit.

> ***Public employer*** means the state of Michigan; a local unit of government or other political subdivision of the state; an intergovernmental, metropolitan, or local department, agency, or authority; a local political subdivision; a school district, public school academy, or intermediate school district; a community college or junior college; or an institution of higher education.

A local unit of government (defined in the act as a city, village, or township; a county; a municipal electric utility system; certain public airport authorities;[2] or the Huron-Clinton Metropolitan Authority) generally can elect to opt out of these requirements with a two-thirds vote of its governing body, which must be extended each year.[3]

House Bill 6058 would increase the capped contribution and related inflation adjustment and would require employers who instead choose to pay a percentage of employee health insurance costs to pay for at least 80% of those costs.

<u>Increase contribution cap</u>
Currently, a public employer that offers or contributes to a health insurance plan for its employees or elected public officials cannot pay more of the annual costs or illustrative rate of the plan (and any reimbursements for co-pays, deductibles, or payments into health savings accounts [HSAs], flexible spending accounts [FSAs], or similar accounts) than a total annual amount equal to the sum of the following:

- $5,500 times the number of employees and elected officials with single-person coverage.

[1] A full analysis of the law as originally enacted can be found here: http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-0007-88186028.pdf
[2] Of note, House Bill 4618 of the current legislative session would additionally allow regional airport authorities to exempt themselves from the contribution limits. The bill was passed by the House in April 2024.
[3] A mayor or a county executive that is the chief executive and chief administrator of a city or county, respectively, must approve the exemption. Cities with a population over 600,000, effectively specific to Detroit, cannot be exempted.

- $11,000 times the number of employees and officials with coverage for themselves and one dependent.
- $15,000 times the number of employees and officials with family coverage.

These maximum payments are annually adjusted for inflation by the state treasurer based on the change in the medical care component of the United States Consumer Price Index for the previous year.[4]

Beginning January 1, 2025, House Bill 6058 would raise the maximum amount to the sum of $8,258.54 times the number of employees and elected officials with single-person coverage, $17,271.17 times the number of employees and elected officials with coverage for themselves and one dependent, and $22,523.34 times the number of employees and elected officials with family coverage.

For single-person and family coverage, the state treasurer would have to adjust the maximum payment for inflation (as is current law) or increase the amount by 3%, whichever is greater, by April 1 of each year. For individual-plus-dependent coverage, the adjustment would be as follows:

- 2.2 times the amount of single-person coverage for the 2026 calendar year.
- 2.3 times the amount of single-person coverage for the 2027 calendar year.
- 2.4 times the amount of single-person coverage beginning with the 2028 calendar year.

A public employer could bargain an amount over the maximum amounts and adjustments as follows:

- 101% for the 2025 calendar year.
- 102% for the 2026 calendar year.
- 103% for the 2027 calendar year.
- 104% for the 2028 calendar year.
- 105% beginning with the 2029 calendar year.

(These provisions would not apply to any collective bargaining agreements that are in effect on the bill's effective date.)

The maximum amounts would have to be concurred upon by each bargaining unit, and a public employer could have a different maximum amount set with each bargaining unit. A public employer would have to set the maximum amount for employees who are not members of collective bargaining units.

Establish 80% minimum contribution

As an alternative to the capped contributions, a public employer currently can instead elect to pay *up to* 80% of the total annual costs of all the medical benefit plans it offers or

[4] The adjustment amounts for the 2025 calendar year can be found here: https://www.michigan.gov/treasury/-/media/Project/Websites/treasury/Uncategorized/2024/Economic-Reports-and-Notices-2024/Final-Notice_03192024_PubEmpMedPlanLimit.pdf If House Bill 6058 were enacted, the 2025 amounts established by the bill would override these adjustments.

contributes to, including the premium or illustrative rate of the plan and all employer reimbursements of co-pays, deductibles, and payments into HSAs, FSAs, and similar accounts.

Beginning January 1, 2025, House Bill 6058 would require a public employer to pay *at least* 80% of the total annual costs of all of the medical benefit plans it offers or contributes to for its employees and public officials.

MCL 15.563 and 15.564

BRIEF DISCUSSION:

According to committee testimony, public employees typically accept a lower salary in comparison to the private sector in exchange for better benefits. However, the cost of health care premiums has far outpaced the act's hard cap provisions, even when adjusted for inflation, and public employees are spending a large portion of their salary on health care as a result. Reportedly, when public sector wages and benefits cannot keep up with these costs, employees will leave their jobs to join the private sector. This issue particularly impacts public school employees, since school districts are not subject to the opt-out provisions of the Publicly Funded Health Insurance Contribution Act that are available to other local governments.

Supporters of House Bill 6058 argue that reform to the Publicly Funded Health Insurance Contribution Act is necessary to better support public employers and to address staffing shortages. They believe that, even if the bill cannot fix the problem of skyrocketing health care costs, it is a step in the right direction to ensure that the act's hard cap keeps up with inflation. Supporters argue that many local governments want to contribute more to their employees' health care and have the funding to do so, but they are unable to under current law. HB 6058 would allow those employers and employee unions to negotiate for a better solution that would provide immediate relief for those facing health care cost increases in 2025, and local bargaining units will compromise as necessary to ensure municipal budget stability.

Opponents of the bill agree that Publicly Funded Health Insurance Contribution Act reform is necessary to reflect the current cost of health care but believe that House Bill 6058 takes the wrong approach. While some are supportive of the provisions to reset the hard cap, opponents worry that the bill would further restrict local governments' already limited financial resources, which would exacerbate staffing shortages rather than address them. Opponents also note that local governments that want to negotiate with their employees currently can use the act's opt-out provision, and they raise concerns that requiring approval from every bargaining unit would undermine the collective bargaining process by giving one group veto power over a negotiated solution.

FISCAL IMPACT:

House Bill 6058 would increase current public employer contribution hard caps and change the 80% contribution cap to an 80% employer contribution floor on medical benefit plans, which could result in increased costs for an applicable public employer under the bill. That said, the provisions of the bill would not require a public employer to implement higher contributions based on current contribution levels.

For calendar year 2025, for medical benefit coverage for state employees, the state pays, per employee participant, $7,335 annually for single person coverage, $16,504 annually for individual and spouse coverage, $12,836 annually for individual and dependent coverage, and $22,006 annually for family coverage. These contributions reflect an 80% contribution for the state and a 20% contribution for the employee. Instead of being caps as under current law, these would represent a contribution floor for the state under the bill.

The current published hard caps on public employer contributions for calendar year 2025 per employee participant are $7,718 annually for single person coverage, $16,141 annually for individual and spouse or individual and dependent coverage, and $21,049 for family coverage. The bill would increase these hard caps to $8,259 annually for single person coverage, $17,271 annually for individual and spouse or individual and dependent coverage, and $22,523 for family coverage. As noted above, these amounts would be adjusted in future years and a public employer could bargain an amount over the maximum in succeeding years.

Based on data from the current medical benefit plans offered by the state to employees and current participation, it is anticipated that for every one percentage point increase in the employer contribution rate, costs would increase by approximately $5.0 to $7.0 million annually. Of that amount, roughly 50% of the cost would be realized by the state's general fund. The remaining cost would be associated with employee compensation costs funded by federal or state restricted funding sources. Changes in employee participation trends and employee counts would directly affect the cost estimate. But, as noted above, the bill would not require any contribution changes based on current rates.

Information on medical benefit plan costs and contributions made by employees and employers toward those costs for local governments, school districts, community colleges, and public universities are not available. Therefore, no estimates can be provided as to the amount of costs those entities would incur if they were to raise contribution rates from current levels.

POSITIONS:

Representatives of the following entities testified in support of the bill (12-5-24):

- Michigan Education Association
- Michigan Nurses Association
- Michigan Professional Firefighters Union

The following entities indicated support for the bill (12-5-24):

- AFSCME
- AFT-MI
- Dearborn Firefighters
- IBEW Michigan State Conference
- Great Lakes Water Authority
- Michigan AFL-CIO
- SEIU Michigan
- SEIU 517M
- United Food and Commercial Workers Local 876

Representatives of the following entities testified in opposition to the bill (12-5-24):

- Michigan Association of Counties
- Michigan Municipal League

The following entities indicated opposition to the bill (12-5-24):

- Detroit Chamber
- Michigan Townships Association
- National Federation of Independent Business
- St. Clair County
- Small Business Association of Michigan
- Southeast Michigan Council of Governments

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