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TOWNSHIPS: EMPLOYEE BENEFITS

Senate Bill 539 (Substitute H-1) First Analysis (11-10-99)

Sponsor: Sen. Bill Bullard, Jr.
**House Committee: Local Government and
Urban Policy**
**Senate Committee: Local, Urban and State
Affairs**

THE APPARENT PROBLEM:

Chapter 16 of the Revised Statutes of 1846 allows a township to provide life, accident, health, hospitalization, and medical and surgical insurance to elected or appointed officers and employees and their dependents. The Revised Statutes because of their age do not address modern benefits arrangements that are offered to employees as a package, nor do they mention vision or dental insurance. What is more, the Revised Statutes do not authorize insurance benefits to retired officers and employees.

For example, currently, it is common for both public and private employers to offer employees a benefit package, as authorized under the Internal Revenue Code, known as a "cafeteria plan." The code defines "cafeteria plan" as a written plan under which employees may choose among two or more benefits consisting of cash and qualified benefits. (The term does not include any plan that provides for deferred compensation, although an employer may provide that separately.) According to committee testimony, townships are not permitted to offer employees a cafeteria plan because Chapter 16 does not specify the use of such plans.

It has been suggested that the Revised Statutes be modernized to allow but not require townships to offer benefits to officers and employees through "cafeteria plans," to expand health care coverage to include dental and vision care, and to offer insurance coverages to retirees.

THE CONTENT OF THE BILL:

Senate Bill 539 would amend Chapter 16 of the Revised Statutes of 1846, which provides for the powers and duties of townships, to allow a township to arrange for group insurance policies or prepayment plan contracts, or both, covering dental care and vision care to be offered to elected or appointed township officers and employees (and their dependents), any classes of elected or

appointed township officers and employees (and their dependents), and any classes of retired township officers and employees (and their dependents). Currently the law allows a township to provide life, accident, health, hospitalization, and medical and surgical insurance for its elected or appointed officers and employees.

Further, the bill would allow a township to establish a cafeteria plan, authorized under Section 125 of the Internal Revenue Code, for its elected or appointed officers and employees, any classes of elected or appointed officers and employees, and their dependents. Finally, the bill specifies that a township could offer any other employment benefit authorized by state or federal law.

MCL 41.110b

HOUSE COMMITTEE ACTION:

The House Committee on Local Government and Urban Policy adopted a substitute for the bill to allow townships to offer elected or appointed officers and employees (and their dependents), including those who have retired, insurance coverage for vision care and dental care. The substitute also allows a township to offer any other employment benefit authorized by state or federal law.

FISCAL IMPLICATIONS:

The House Fiscal Agency notes that to the extent a township chooses to provide these benefits, local costs would increase. In addition, because a cafeteria plan allows workers to fund their spending accounts with pretax income, taxable income (and therefore tax revenues) would fall. There is no way to accurately estimate how many townships would establish cafeteria plans or the degree to which eligible individuals would choose to participate. Thus, the amounts that local costs

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would rise and state income tax revenue would fall are both indeterminate. (11-8-99)

ARGUMENTS:

For:

The Internal Revenue Code authorizes employers to offer employees benefits through the use of cafeteria plans, which have become widely popular with both employers and employees because the plans offer greater flexibility and choice than traditional plans provide. Some townships have expressed an interest in offering employees benefits based upon a cafeteria plan; however, townships apparently have been unable to do so because that option is not authorized specifically in the statute. Further, townships are not now authorized to offer insurance coverages to retirees. By ensuring that townships could offer cafeteria plans for benefits, and certain insurance coverages for retirees, the bill would enable townships to accommodate the needs and interests of their employees. This also would allow townships to offer benefits similar to those that cities and villages can now provide.

Against:

The bill could cause townships to offer benefit packages that would prove to be too costly for limited township budgets.

Response:

The bill is entirely optional. A township would be under no obligation to offer more benefits than it could afford to pay. In fact, allowing townships greater flexibility in providing benefits through cafeteria plans could have the effect of reducing benefit costs over time.

POSITIONS:

There are no positions on the bill.

Analyst: J. Hunault

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.