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SFA



BILL ANALYSIS

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Senate Bill 539 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Bill Bullard, Jr.
Committee: Local, Urban and State Affairs

Date Completed: 10-4-99

RATIONALE

Chapter 16 of the Revised Statutes of 1846 allows a township to provide life, accident, health, hospitalization, and medial and surgical insurance to elected or appointed officers and employees and their dependents. 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.) Reportedly, townships are not permitted to offer employees a cafeteria plan because Chapter 16 does not specify the use of such plans. Also, it has been pointed out that townships are not authorized to offer insurance benefits to retired officers or employees. It has been suggested that townships be allowed to offer benefits to officers and employees through the use of cafeteria plans, and to offer certain insurance coverages to retirees.

CONTENT

The bill would amend Chapter 16 of the Revised Statutes of 1846, which provides for the powers and duties of townships, to 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 dependents of the officers and employees.

Further, the bill would allow a township to provide life, accident, health, hospitalization, and medical and surgical insurance for its retired officers and employees.

MCL 41.110b

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

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.

Opposing Argument

The bill could cause townships to offer benefit packages that would prove to be costly drains on limited township funds.

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.

Legislative Analyst: G. Towne

FISCAL IMPACT

Townships would be able to establish a cafeteria plan to provide employee benefits, which could minimally reduce benefit costs. Additionally, townships would be able to provide health benefits to retired officers and employees, which would increase benefit costs. This bill would have no State fiscal impact.

Fiscal Analyst: R. Ross

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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.