Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 418 (as reported by the Committee of the Whole)
Senate Bills 419, 420, and 421 (as reported without amendment)
Sponsor: Senator Mark C. Jansen (S.B. 418)
Senator Wayne Kuipers (S.B 419)
Senator Patricia L. Birkholz (S.B. 420)
Senator Cameron S. Brown (S.B. 421)
Committee: Local, Urban and State Affairs

CONTENT

Senate Bill 418 would create the "Public Employees Health Benefit Act" to:

-- Require that all school medical benefit plans and public universities in the State be offered the opportunity to participate in a catastrophic stop loss (CSL) benefit plan.
-- Create a board of directors that, beginning July 1, 2007, would have to implement and administer a CSL fund that provided two or more CSL benefit plans.
-- Require the CSL fund to reimburse a participating medical benefit plan for a claim over a certain dollar threshold (of at least $50,000 per claim), as specified in the CSL benefit plan; and require the fund to assume liability for a covered claim exceeding the threshold.
-- Require a medical benefit plan to give the CSL fund information it needed to price coverages under the CSL benefit plan chosen by the medical benefit plan.
-- Allow a public employer to join with other public employers by establishing and maintaining a public employer pooled plan to provide benefits on a self-insured basis.
-- Require a person to obtain a certificate of authority before establishing or maintaining a public employer pooled plan.
-- Establish requirements for the maintenance of a public employer pooled plan, including minimum cash reserves.
-- Require a carrier that provided one or more medical benefit plans to a public employer, covering 100 or more of that employer's employees, to provide the employer with claims utilization and cost information, as long as the public employer had 100 or more public employees entered in a pooled plan or signed a letter of intent to enter them; and require a public employer or combination of public employers to disclose the information to any carrier or administrator it solicited to provide benefits.
-- Require all medical benefit plans in the State to compile and make available claims utilization and cost information for the medical benefit plan in the aggregate and for each public employer.
-- Assign responsibilities to the Commissioner of the Office of Financial and Insurance Services (OFIS), including granting certificates of authority, maintaining reserves, and taking action against pooled plans for violations of the proposed Act.

Senate Bill 419 would amend the Revised School Code to require a school board, if it provided medical, optical, and dental benefits to employees and their dependents, to provide those benefits in accordance with the proposed Public Employees Health Benefit Act.

Senate Bill 420 would amend Public Act 35 of 1951 (which authorizes intergovernmental contracts between municipal corporations) to allow a municipal corporation to provide medical benefits as permitted under the proposed Act.

Senate Bill 421 would amend the Community College Act to require the board of trustees of a community college that provided medical, optical, or dental benefits to employees and their dependents, to provide those benefits in accordance with the proposed Act.

The four bills are tie-barred to each other.

MCL 380.632 et al. (S.B. 419) Legislative Analyst: Craig Laurie
124.5 (S.B. 420)
389.123 & 389.124 (S.B. 421)

FISCAL IMPACT

Senate Bill 418 would result in new State administrative costs associated with the creation of a catastrophic stop loss fund and the creation of a board of directors for oversight and management of the fund, and in the examination and regulation of pooled plans under this bill. Specific State costs could include the hiring of skilled actuaries trained in determining the stop loss premiums charged to participating public employers, and information technology costs pertaining to the collection and manipulation of necessary data. However, costs the State would incur in creating and overseeing the fund should be included in the premiums charged to participating public employers, thereby resulting in zero net State costs, once the premium fees were collected and used to pay for start-up and maintenance. Other responsibilities imposed by the bill and associated with the examination and regulation of pooled plans would increase the administrative costs of the Office of Financial and Insurance Services within the Department of Labor and Economic Growth. These costs probably would be recovered via an assessment on each pooled plan in the amount of 0.25% of the annual self-funded contributions made to the plan each year. In addition to the activities listed above, OFIS would be required to collect and ensure access to data on the cost efficiency and performance of administrative service providers and health care facilities and providers, and to prepare and make available a buyer's guide with information on medical benefit plan design, administration, selection of providers, and medical care planning. It appears that these costs would not be recovered via the premiums or assessments charged to participating public employers.

The State Civil Service currently self-insures and does not purchase catastrophic stop-loss insurance. If the costs to purchase CSL insurance from the new fund were cheaper than what the State currently pays in excessive claims, the State civil service could see savings under this bill.

According to "A Model for Saving Public School Health Care Dollars Through Large Claim Pooling, Increased Competition and Improving Health Care Quality", an August 10, 2005, report sponsored by the Michigan Federation of Teachers and School Related Personnel and the International Union of Operating Engineers Local 547, the estimated savings to schools for the proposed model partially contained within the bill are $156 million in the first year, representing savings of 7.20% of the total cost of school employee health care. Some of the savings in this report (2.77% due to the self-funding, or "pay-as-you-go", of medical claims, rather than the purchase of policies) assume that because of the creation of a statewide catastrophic stop loss fund available to participating employers and complete availability of health care claims data, 75% of groups that are currently fully insured would move to self-funding through purchasing coalitions or pools, and the report uses HayGroup assumptions found in the July 13, 2005, paper, "Report on the Feasibility and Cost-Effectiveness of a Consolidated State-wide Health Benefits System for Michigan Public School Employees".

Two of the assumptions used in the above report are contained within Senate Bill 418: the creation of a statewide catastrophic stop loss fund and the provision of health care claims data for public employers with 100 or more public employees, or for a pooled plan with 100 or more pooled employees.

Other estimated savings found in the August 10, 2005, report include frequent updates of employer eligibility, more aggressive checks of students' eligibility for benefits, negotiated administrative fees, provider access fees, and pharmacy carve-out (savings estimated to equal 4.88% of total school employer health care costs). The bill itself would not force these savings; instead, if a public employer did regionally pool and self-insure, it would be in the best interests of that employer to undertake these activities and generate the possible savings. Again, however, this bill would not force or guarantee those stated savings, but likely would make it easier for a self-funded, pooled benefit arrangement to occur due to the availability of a statewide catastrophic stop loss fund and the potential availability of health care claims data.

The report and potential savings listed above relate only to school districts. This bill would allow all public employers to use the catastrophic stop loss fund and/or petition to become a pooled plan. It is unknown what the fiscal impact would be on all public employers due to a lack of detailed information on the vast array of current plans offered, actuarial assumptions used, employees covered, benefits offered, employee payments toward health care, and other information.

Participants in the statewide catastrophic stop loss fund would pay premiums based on the expected losses and expenses of the catastrophic stop loss fund. Premiums could be adjusted for any excess or deficient premiums from previous periods. Pooled plan participants also would pay assessments to OFIS of 0.25% of the annual self-funded contributions made to the self-insured medical benefit plan for a given year.

Senate Bills 419 and 421 would have no fiscal impact on the State.

The bills would require school districts, public school academies, urban high school academies, strict discipline academies, intermediate school districts, and community colleges that offered medical, optical, or dental benefits to employees and their dependents to provide those benefits in accordance with the proposed Public Employees Health Benefit Act. The only local mandate under that Act would require a public employer to be furnished with complete and accurate claims utilization and cost information with respect to the employer's claims and benefits so long as the public employer had 100 or more public employees entered into a pooled plan, or had signed a letter of intent for such pooling. Therefore, the fiscal impact on public employers under the bills would be zero (unless a benefits provider under contract with a public employer chose to increase the premiums charged to cover any costs associated with providing claims data), though the availability of claims data could lead to different benefit choices.

Senate Bill 420 would have no fiscal impact on the State.

The bill would allow municipal corporations to group self-insure if the benefits were provided under the Public Employees Health Benefit Act. Therefore, the fiscal impact under the bill is indeterminate and would depend upon how many municipal corporations used the bill's provisions and any resulting changes the provisions would make in the cost of providing insurance. The bill would expand the circumstances under which municipal corporations are allowed to pool group self-insurance, but would not mandate such activities. The availability of this type of arrangement could lead to changes in the provision of benefits, and corresponding differences in costs, but the bill itself would not require those benefit changes.

Date Completed: 6-27-07 Fiscal Analyst: Kathryn Summers-Coty

Floor\sb418

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.