Legislative Analysis

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CAPPING/LIMITING EMPLOYER CONTRIBUTIONS TO EMPLOYEE MEDICAL BENEFIT PLANS

Senate Bill 7 as passed by the House
Sponsor: Sen. Mark Jansen
Senate Committee: Reforms, Restructuring, and Reinventing
House Committee: Oversight, Reform, and Ethics

Complete to 7-7-11

A SUMMARY OF SENATE BILL 7 (H-6) AS PASSED BY THE HOUSE

Senate Bill 7 (Substitute H-6) would create a new law to be known as the Publicly Funded Health Insurance Contribution Act. The provisions of the new act would go into effect January 1, 2012.

Under the bill, a public employer that offers a medical benefit plan to its employees would be prohibited from paying more of the annual premium or illustrative rate (and any payments for reimbursement of co-pays, deductibles, or payments into health savings accounts or similar accounts used for health care, optical, or dental costs) than a total of $5,500 for single person coverage, $11,000 for individual and spouse coverage, $12,500 for individual and child or children coverage, or $15,000 for family coverage. The bill would require the state treasurer to adjust the maximum payment amounts annually based on changes in the medical care component of the United States consumer price index for the most recent 12-month period for which data were available.

Rather than comply with the hard cap requirements referenced above, a public employer could opt to instead comply with a requirement that it pay no more than 80 percent of the total annual cost or illustrative rate of all the medical benefit plans it offers to its employees. For state employees, the designated official could opt for this alternative; for other public employees, a majority vote of the employer's governing body would be required. Under this option, a public employer would be prohibited from paying more than 80 percent of the total annual costs of the medical benefit plan it offers and employees and elected officials would be required to pay 20 percent or more of the annual costs. The bill authorizes a public employer to allocate the employee share of medical benefit plan costs among its employees.

Relevant to the 80/20 plan only, Senate Bill 7 (H-6) would authorize a public employer that offers a medical benefit plan that includes a flexible spending account or a health savings account to increase the amount the employer pays toward the annual total costs of an employee's or public official's medical benefit plan by an amount equivalent to the amount the employee or public official contributes to the flexible spending account or health savings account. That increase could be excluded from the maximum public employer expenditure otherwise permitted. A public employer's contribution would not be included in the public employer's annual maximum allowable payment for the costs of a medical benefit plan if it was a contribution to an employee's or elected official's flexible spending account or health savings account, or if it was a contribution to a health reimbursement arrangement that complied with all relevant statutory provisions, regulatory provisions, and Internal Revenue Service rulings governing health reimbursement arrangements.

The requirements of the bill would not apply to employees covered under collective bargaining agreements which are inconsistent with provisions of the bill until the collective bargaining agreements expire. Requirements of the bill would apply to any extension or renewal of collective bargaining agreements.

Under the bill, a public employer would be authorized to deduct the covered employee's or elected official's portion of the costs of a medical benefit plan from the employee's or elected official's annual compensation. A public employer would be authorized to condition eligibility for the medical benefit plan on the employee's or elected official's authorization to the employer to make the deduction.

The requirements of the bill would apply to medical benefit plans of all public employees and elected officials to the greatest extent consistent with constitutionally allocated powers, whether or not a public employee was a member of a collective bargaining unit.

A local unit of government could exempt itself from the requirements of the bill for the next succeeding medical benefit plan coverage year by a two-thirds vote of its governing body. Another two-thirds vote would be required of the governing body to extend an exemption to a new contract period.

If a public employer failed to comply with the requirements of the bill, the state treasurer would be permitted to reduce each Economic Vitality Incentive Program payment (for cities, villages, and townships) by 10 percent, and the Department of Education would be required to reduce each payment of any funds for which the public employer qualified for under the State School Aid Act by 10 percent, during the period of non-compliance.

The bill includes the following definitions:

- "Costs" do not include copayments, coinsurance, deductibles, other out-of-pocket expenses, or other service-related fees assessed to the covered beneficiary under a medical benefit plan.
- "Designated state official" means for an election affecting employees and officers in the judicial branch of state government, the State Court Administrator; for an election affecting Senate employees and officers, the Secretary of the Senate; for an election affecting House of Representative employees and officers, the Clerk of the House; for an election affecting Legislative Council employees, the Legislative Council; for an election affecting employees in the state classified service, the Civil Service Commission; for an election affecting executive branch employees who are not in the state classified service, the State Employer.
- "Local unit of government" means a city, village, township, or county, a municipal electric utility system, an authority created under Public Act 327 of 1945 (which pertains to public airport authorities), or an authority created under Public Act 147 of 1939 (which pertains to the Huron-Clinton Metropolitan Authority).

- "Medical benefit plan" means a plan established and maintained by a carrier, by a voluntary employees' beneficiary association (VEBA), or by one or more public employers that provides for the payment of medical, optical, or dental benefits, including, but not limited to, hospital and physician services, prescription drugs, and related benefits, for public employees. (It does not include benefits provided to individuals retired from employment with a public employer.)
- "Public employer" means this state; a local unit of government or other political subdivision of this state; any intergovernmental, metropolitan, or local department, agency, or authority, or other local political subdivision; a school district, a public school academy, or an intermediate school district; a community college or junior college; or an institution of higher education.

FISCAL IMPACT:

State Government Fiscal Impact: The state would realize an indeterminate amount of savings as a result of Senate Bill 7 (H-6). The amount of savings would depend on which option public employers chose under the bill—hard caps or percentage limits. The following information includes estimates of savings to the state under each of the options. Under the bill, implementation of either option would be January 1, 2012. Therefore, a partial (three-quarters) year savings would be realized in fiscal year 2012-13, with full-year savings realized in subsequent fiscal years.

<u>Capped Employer Contributions</u>:
Currently, for medical, optical, and dental coverage for state employees hired prior to April 1, 2010, the state pays, per employee participant, $7,033 annually for single person coverage, $13,954 annually for individual and spouse coverage, $12,652 annually for individual and child or children coverage, and $19,572 annually for family coverage. For medical, optical, and dental coverage for state employees hired after April 1, 2010, the state pays, per employee participant, $5,665 annually for single person coverage, $11,220 annually for individual and spouse coverage, $10,246 annually for individual and child or children coverage, and $15,799 annually for family coverage.

Based on FY 2010-11 data from the current health insurance plan offered by the state to employees hired prior to April 1, 2010, capping the state's contribution to $5,500 for single person coverage, $11,000 for individual and spouse coverage, $12,500 for individual and child or children coverage, and $15,000 for family coverage would result in an estimated annual savings to the state of $116.4 million Gross. Of that amount, roughly 50 percent of the savings, or $58.2 million, would be realized in the state's General Fund. Remaining savings would be associated with employee compensation costs funded by federal or state restricted funding sources. For employees hired after April 1, 2010, capping the state's contribution to $5,500 for single person coverage, $11,000 for individual and spouse coverage, $12,500 for individual and child or children coverage, and $15,000 for family coverage would result in an estimated annual savings to the state of $242,009 Gross and $121,005 GF/GP. Combined, total annual savings to the state is estimated at $116.7 million Gross and $58.3 million GF/GP.

The attached tables (on Page 5) summarize combined medical, optical, and dental premium costs for employees hired prior to and after April 1, 2010, under the current insurance plan structure and under the structure proposed in SB 7 (H-6).

Over time, savings to the state under Senate Bill 7 (H-6) would potentially decrease due to the fact that an increased percentage of total state employees will have been hired under the new state health plan.

80 Percent/20 Percent Limit:
Currently, state employees hired before April 1, 2010, contribute 10 percent of health insurance costs, with the state contributing the remaining 90 percent. Employees hired after April 1, 2010, contribute 20 percent of those costs, with the state contributing the remaining 80 percent.

Based on data from the current health insurance plan offered by the state to employees, limiting the state's contribution for each employee hired before April 1, 2010, at 80 percent of the average total health insurance cost per employee would result in an annual state savings of $64.4 million. Of that amount, roughly 50 percent of the savings, or $32.2 million, would be realized in the state's General Fund. The remaining savings would be associated with employee compensation costs funded by federal or restricted funding sources.

The estimated savings amount described above is based on the assumption that the additional 10 percent contribution would be applied to each employee health insurance group in the same manner. Additionally, the estimated savings do not account for the lower overall costs of the health insurance plan offered to state employees hired after April 1, 2010, as the provisions of Senate Bill 7 (H-6) only address the employer and employee percentage contributions toward overall health insurance costs.

Local Government and Higher Education Fiscal Impact: Comprehensive data on the contributions made by employees and employers toward medical benefit plan costs for local governments, school districts, community colleges, and public universities are not available. Therefore, no estimate can be provided as to the amount of savings those entities would realize under the provisions of Senate Bill 7 (H-6).

Anecdotal information, however, indicates that, proportional to total health insurance costs, savings could be significantly lower for some public entities. For example, information submitted to the Legislature as part of FY 2011-12 budget deliberations by public universities indicate that a number of universities already require an employee contribution above 10 percent of total health insurance costs. A major example of this is the University of Michigan, which currently requires a 30 percent contribution.

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■ 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.

Combined - Medical, Optical, and Dental Premium Costs
For Employees Hired Prior to April 1, 2010

		Current				Under SB 7 (H-6) Hard Cap Option			
Coverage Type	Number of Participants	Employee Share	State Share	Total	% Employee Share	Employee Share	State Share	Total	% Employee Share
Single Person	10,426	$742	$7,033	$7,775	9.5	$2,275	$5,500	$7,775	29.3
Individual & Spouse	7,281	$1,479	$13,954	$15,433	9.6	$4,434	$11,000	$15,434	28.7
Individual & Dependents	6,095	$1,319	$12,652	$13,971	9.4	$1,471	$12,500	$13,971	10.5
Family	17,063	$2,056	$19,572	$21,628	9.5	$6,629	$15,000	$21,629	30.6

Combined - Medical, Optical, and Dental Premium Costs
For Employees Hired After April 1, 2010

		Current				Under SB 7 (H-6) Hard Cap Option			
Coverage Type	Number of Participants	Employee Share	State Share	Total	% Employee Share	Employee Share	State Share	Total	% Employee Share
Single Person	785	$1,293	$5,665	$6,958	18.6	$1,458	$5,500	$6,958	21.0
Individual & Spouse	548	$2,581	$11,220	$13,801	18.7	$2,801	$11,000	$13,801	20.3
Individual & Dependents	459	$2,289	$10,246	$12,535	18.3	$34	$12,500	$12,534	0.3
Family	1,284	$3,577	$15,799	$19,376	18.5	$4,376	$15,000	$19,376	22.6