Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

LIMIT PUBLIC EMPLOYER CONTRIBUTION TO EMPLOYEE MEDICAL BENEFIT PLANS

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

Complete to 5-23-11

A SUMMARY OF SENATE BILL 7 AS PASSED BY THE SENATE 5-18-11

Senate Bill 7 (Substitute S-10) would create the "Publicly Funded Health Insurance Contribution Act" to require that all public employees pay a certain percentage of the overall cost of medical benefit plans. The bill would prohibit public employers who offer medical benefit plans to their employees or to elected officials from paying more than 80 percent of the total annual costs of all the medical benefit plans they offer.

Also under the bill, elected officials who participated in a medical benefit plan offered by a public employer would be required to pay 20 percent or more of the annual cost of that plan.

The bill specifies that a public employer would be allowed to allocate the employee share of the medical benefit plan costs among its employees as it saw fit. Further, the bill would require that a public employer that offered a medical benefit plan that includes a health savings account increase the amount the employer pays toward the annual total cost of an employee's or public official's medical benefit plan by an amount equivalent to the amount the employee or public official contributed to the health savings account. That increase would be excluded from the maximum public employer expenditure otherwise permitted.

This subsection would be implemented on the following dates: (1) Any collective bargaining agreement or other contract settled on or after the effective date of the new act, on July 1, 2011, would have to comply with the requirements of this new act. However, the limitation imposed on the employer would not become operative until January 1, 2012. (2) For any collective bargaining agreement or other contract in effect on the effective date of the new act, and for all other public employees subject to the provision of this act, the implementation date would be January 1, 2012.

Under the bill, a public employer's contribution would not be included in the employer's annual maximum allowable payment for the cost of medical benefit plans if it was either of the following: (1) a contribution to an employee's or elected official's health savings account, or (2) 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.

Under the bill, a public employer could deduct the covered employee's portion of the cost of a medical benefit plan from the employee's annual compensation.

If the requirements limiting the amount of employer-paid health insurance benefits were inconsistent with a collective bargaining agreement currently in effect, the requirements of the bill would not take effect until the collective bargaining agreement expired, or was amended, extended, or renewed.

A local unit of government could exempt itself from the requirements of the proposed act for the next succeeding contract period 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.

The bill specifies that the requirements of Section 5 -- the 80% cap for public employers -- would apply to medical benefits plans of all public employees to the greatest extent consistent with constitutionally allocated powers, whether or not a public employee was a member of a collective bargaining unit.

The bill includes the following definitions:

- "Costs" and "total costs" of a medical benefit plan do not include copayments, coinsurance, deductibles, other out-of-pocket expenses, or other service-related fees assessed to the covered beneficiary.
- "Local unit of government" would be defined as a city, county, township, authority created under Public Act 147 of 1939 (which pertains to the Huron-Clinton Metropolitan Authority), or village.
- "Medical benefit plan" would mean a plan established and maintained by a carrier or 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, to public employees.
- "Public employer" would be defined as this state; a city, village, township, county, 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 a public institution of higher education.

FISCAL IMPACT:

State Government Fiscal Impact: Currently, state government classified 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 classified employees, capping 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 ($32.2 million) would be realized in the state's General Fund/General Purpose budget. 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 only address the employer and employee percentage contributions toward overall health insurance costs.

If implementation of the 80 percent cap were implemented beginning January 1, 2012, a partial (three-quarters) year savings would be realized in fiscal year 2012-13, with full-year savings realized in subsequent fiscal years.

Local Government and Higher Education Fiscal Impact: Comprehensive data on the percentage contributions made toward employees and employers toward health insurance costs for local governments and public universities are not available. No estimate can be provided, therefore, as to the total savings those entities would realize under the provisions of Senate Bill 7.

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 current budget deliberations by public universities indicate that a number of universities already require an employee contribution above 10 percent of total health insurance costs. As a major example, the University of Michigan currently requires a 30 percent contribution.

Legislative Analyst: J. Hunault
Fiscal Analyst: Robin Risko
Kyle Jen