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BILL ANALYSIS

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Senate Bill 7 (Substitute S-10 as passed by the Senate)
Sponsor: Senator Mark C. Jansen
Committee: Reforms, Restructuring and Reinventing

Date Completed: 8-24-11

CONTENT

The bill would create the "Publicly Funded Health Insurance Contribution Act" to require that all public employees pay a certain percentage of the overall cost of purchasing health insurance.

Employee Health Coverage

Beginning January 1, 2012, the bill would require that public employers who offer medical benefit plans to their employees or elected officials pay not more than 80.0% of the total annual costs of all the medical benefit plans they offer to employees and elected officials. In addition, any collective bargaining agreement or contract settled on or after the effective date of the proposed Act, if that date were after July 1, 2011, would have to comply with the requirements of the Act; however, the employer's required payments under the Act would not become operative until January 1, 2012. Elected officials who participate in a medical benefit plan offered by a public employer would be required to pay 20.0% or more of the annual cost of that plan. The public employer would be allowed to allocate the employee share of medical benefit plan costs among its employees as it saw fit.

The bill includes the following definitions:

-- "Costs" and "total costs" of a medical benefit plan would 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, village, township or authority created under Public Act 147 of 1939 (which pertains to the Huron-Clinton Metropolitan Authority).
-- "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 hospital and physician services, prescription drugs, and related benefits, to public employees.
-- "Public employer" would be defined as this State; a county, township, village, city, or other political subdivision of this State; any intergovernmental, metropolitan, or local department, agency or authority; a school district, public school academy, or intermediate school district; a community college or junior college; or a public institution of higher education.

A public employer that offers a medical benefit plan that includes a health savings account would have to increase the amount it pays toward the annual cost of an employee's medical benefit plan by an amount equal to the amount contributed by the employee to that health savings account. That increased amount would be excluded from the maximum amount payable by the employer under the bill.

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.

Retiree Health Coverage

The State Employees' Retirement Act ties the maximum State amount of health care premium coverage for State retirees to the level provided to active classified State civil service. Specifically, Section 20d (MCL 38.20d) of the Act affects employees first hired on or before March 31, 1997, and states, "The amount payable shall be in the same proportion of premium payable by the state of Michigan for the classified employees occupying positions in the state civil service." Section 68 (MCL 38.68) includes a similar provision for employees hired between March 31, 1997, and April 1, 2010 (those subject to graded health care coverage), such that the maximum coverage may not "exceed the lesser of 90% of the payments for health insurance coverage or the portion of the health insurance coverage premiums payable by this state for a retirant, his or her beneficiary, and his or her dependents under section 20d".

Therefore, if this legislation is enacted and the Civil Service Commission is required to (or chooses to, if the legislation is unenforceable without the adoption of SJR C, and SJR C is adopted) increase the percentage of premium paid by active State employees as outlined in the bill, then it appears that both current State retirees and future State retirees will be required to adhere to the premium cost-sharing levels established for active State employees. However, State employees hired on or after April 1, 2010, already pay 20% of the premium for health care, and the State Employees' Retirement Act requires this group of employees to also pay the level of health care coverage in retirement as paid for by active employees.

FISCAL IMPACT

Savings to State government would result mainly from the impact on civil service employees (either through amendments to the State Constitution approved by the voters or action by the Civil Service Commission). As of June 25, 2011, there were 44,559 classified employees enrolled in State-sponsored health insurance plans. State employees hired on or after April 1, 2010, already contribute 20% of the cost of their medical benefit plan. Based on that data, and also including unclassified and exempted employees, savings to the State would be approximately $70 million. Approximately 53% of the savings would be to the State General Fund, and the balance would be savings to Federal and State restricted funding sources.

The bill also could generate State savings related to retired State employees. These savings would occur if active civil service employees were charged a health care premium cost sharing rate higher than 10%, because the State Employees' Retirement Act states that retiree cost sharing is the same as active employee cost sharing. Currently, since active employees pay 10% of their health care premiums, retirees also pay 10% (until Medicaid eligible), and the State pays the other 90%. According to the 2010 State Employees' Retirement System Comprehensive Annual Financial Report, members of the system (retirees) contributed roughly $21 million for the support of "other post-employment benefits", including health, dental, and vision coverage. Assuming that the vast majority of the $21 million represents the 10% coverage for medical means that if the cost-sharing were doubled to 20%, an estimated $17 million could be generated in State savings, since member contributions would increase if the State Civil Service Commission implemented 80/20 cost sharing.

Comprehensive data do not exist to accurately calculate the potential savings to local government, school districts, and public higher education employers from this bill. During budget hearings this year, several community colleges and universities reported that their employees were already paying 20% of the cost of health insurance.

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