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BILL ANALYSIS

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Senate Bill 26 (as introduced 1-19-11)
Sponsor: Senator Rick Jones
Committee: Reforms, Restructuring, and Reinventing

Date Completed: 3-3-11

CONTENT

The bill would amend the Michigan Legislative Retirement System Act, which currently requires the State to contribute 90% of the retiree health insurance premium payments for legislators elected after March 31, 1997, who qualify for retirement with benefits. A legislator must have served at least six years, and must be at least age 55, in order to begin receiving health care provided by the State's plan.

Senate Bill 26 would place legislators and the Lieutenant Governor elected on or after November 1, 2010, into a graded health care system, similar to the system in place for State employees. Specifically, legislators and the Lieutenant Governor would vest after four years in office (rather than the current six years), but a State subsidy of retiree health benefits would not be available for a member unless he or she had at least 10 years of service.

With 10 years of service, the State would pay 30% of the premium, and the individual would earn an additional 3% subsidy per year up to a maximum coverage of 90% after 30 years. However, current term limits would restrict the maximum coverage for a legislator to 42% of State premium coverage (since he or she would earn 30% coverage for the first 10 years and then 12% coverage for the additional four years). However, a Lieutenant Governor who served 14 years in the Legislature and eight years as Lieutenant Governor could earn a maximum of 66% State subsidized health care coverage.

MCL 380.1050b, et al

FISCAL IMPACT

The fiscal impact on the State would be long-term health care savings due to the elimination and reduction in subsidies. For any legislator or Lieutenant Governor elected after November 1, 2010, with less than 10 years of service, the State would save the entire cost of that person's retirement health care subsidy. At the present time, the average yearly single person health coverage under the Legislative Retirement System is roughly $8,000, with the State subsidy totaling $7,200. For a two-person plan, the average yearly cost is $15,400, with the State subsidy totaling almost $14,000. These costs would be eliminated for retirees if they served less than 10 years (100% savings), or they would be reduced to $3,400 per year for a single person, and to $6,500 per year for a two-person family, if the legislator or Lieutenant Governor served 14 years, reductions of 48% from current payments.

One possible concern with this proposed legislation is that, due to the lower State subsidy, the only participants remaining in the system might be those with very expensive health care claims. In other words, it is possible that healthier participants could find cheaper methods to fund retiree health, but those less healthy would choose the 30% subsidy over no health care plan, which could drive up costs if insurers charged high rates to all participants, based on the claims of a few.

The analysis here only addresses average health care premiums, and does not include dental or vision. In addition, any potential self selection issues could reduce potential long-term savings. In fiscal year 2007-08, $4.7 million was paid in health care costs under the Legislative Retirement System, covering 341 subscribers, or a total of roughly 700 retired elected officials and their spouses, surviving spouses, and eligible dependents.

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