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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: 6-13-11

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. 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.

FISCAL IMPACT

Based on data for FY 2010-11, the passage of Senate Bill 7 (S-10) would result in approximately $173.9 million in gross savings ($92.2 million GF/GP) in the cost of health insurance provided to State employees in the first year. This assumes the employer-share of health insurance cost would be capped at 80.0% of premiums as opposed to the 90.0% of premiums currently paid by the employer. Comprehensive data do not exist to accurately calculate the potential savings to local government, school districts, and public higher education employers from this bill. If one assumes the same level of savings for other public sector employees in Michigan as with State employees, the approximate savings could surpass $500 million.

As of October 1, 2010, the average annual premium of the State plan for health care for a married classified employee with dependents hired before April 1, 2010, was an estimated $19,700. The average annual premium for the same plan for employees hired on or after April 1, 2010, dropped to an estimated $17,500. If the employee was hired before April 1, 2010, the State pays 90% or $17,700 of that premium. If the employee was or is hired on or after April 1, 2010, the State pays 80% or $14,000 of the lower premium.

Currently, there are an estimated 49,400 employees enrolled in a State health plan. Based on the most recent data, an average of 2,400 new employees are hired annually, meaning an estimated 47,000 currently enrolled employees were hired before April 1, 2010. If those 47,000 employees were required to pay 20% of their premium, it is assumed that the cost of their annual premium would drop to that of the less expensive health plan offered to employees hired on or after April 1, 2010. The estimated annual savings for the State based on the State's paying 80% of the lower premium is $3,700 per employee. If the $3,700 saving is multiplied by the estimated 47,000 employees to whom this proposal would apply, there could be estimated gross savings of $173.9 million. The GF/GP saving is estimated at 53% of the gross savings, or $92.2 million in year one.

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