Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4572 (Substitute H-7 as passed by the House)
Sponsor: Representative Joel Johnson
House Committee: Oversight, Reform, and Ethics
Senate Committee: Reforms, Restructuring and Reinventing

Date Completed: 6-28-11

CONTENT

The bill would create the "Public Employer Health Insurance Cap Act" to do the following:

- **Limit the amount a public employer could pay for an employee's health insurance to $5,500 for a single person, $11,000 for a couple, or $15,000 for a family in 2012.**
- **Require annual adjustments to the cap.**
- **Provide that the cap would not apply to a group of employees covered by a conflicting collective bargaining agreement or contract, until it expired.**
- **Provide for a 10% reduction in a public employer's economic vitality incentive payment or School Aid payment, if the public employer did not comply with the cap.**

"Public employer" would mean the State; a county, township, village, city, school district, or other political subdivision of the State; an authority; a public institution of higher education; or any other entity jointly created by two or more public employers.

"Health insurance" would mean employee medical, dental, or optical benefits.

Except as otherwise provided in the proposed Act, a public employer that offers health insurance to its employees through an insurance carrier or through self-insurance would be required to pay not more of the annual premium or illustrative annual premium cost 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 two-person coverage, or $15,000 for family coverage for the 2012 calendar year.

By October 1 of each year after 2011, the State Treasurer would have to adjust the maximum payment permitted for each coverage category for the next calendar year, based on the change in the medical care component of the U.S. consumer price index for the most recent 12-month period for which data were available from the U.S. Department of Labor, Bureau of Labor Statistics.

If a collective bargaining agreement or other contract that was inconsistent with the cap requirements were in effect for a group of employees of a public employer on the Act's effective date, the requirements would not apply to that group until the contract expired.

The requirements would apply to any extension or renewal of the contract. A collective bargaining agreement or other contract that was executed on or after the Act's effective date could not include terms inconsistent with the cap requirements.

If a public employer chose not to comply or failed to comply with the cap requirements, the employer would permit the State Treasurer to reduce by 10% each economic vitality incentive program payment received under Public Act 63 of 2011, and the Department of Education would be required to reduce by 10% each payment of any funds for which the public employer qualified under the State School Aid Act, during the period of noncompliance. This would be subject to the provision for an existing collective bargaining agreement or other contract.

(Public Act 63 of 2011 is the omnibus State budget for fiscal year 2011-12. The Act includes appropriations for an economic vitality incentive program, which is a revenue sharing program for cities, villages, and townships based on consolidation of services, employee compensation practices, and accountability and transparency practices.)

The requirements for a cap on health insurance payments would apply to all public employees to the greatest extent consistent with constitutionally allocated powers.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Based on data for FY 2010-11, the bill would result in approximately $113.2 million in gross savings ($60.0 million GF/GP) in the cost of health insurance provided to State employees in the first year. Comprehensive data do not exist to accurately calculate the amount of potential savings to local government, school districts, and public higher education employers from this bill; therefore, that amount is not included in the estimated cost savings.

Currently, for employees hired before April 1, 2010, the State pays 90% of the total premium for the State plan for health care. If the employee was hired on or after April 1, 2010, the State pays 80% of the total premium. As of October 1, 2010, the State's portion of the annual premiums for employees hired before April 1, 2010, is an estimated $7,000 for a single employee, an estimated $13,900 for employee and spouse coverage, and an estimated $19,500 for a married employee with dependents. The State's portion for premiums for employees hired on or after April 1, 2010, is an estimated $5,700 for a single employee, an estimated $11,200 for employee and spouse coverage, and an estimated $15,800 for a married employee with dependents.

The bill would cap the State's portion of payments for employee health care premiums at $5,500 for single coverage, $11,000 for two-person coverage, and $15,000 for family coverage for the 2012 calendar year. These capped amounts would be adjusted annually for inflation.

Based on the State's FY 2010-11 expenditures for health insurance premiums based on the payment of 80% and 90% of premiums, depending on when the employee was hired, the State would save in the first year an estimated $112.4 million gross ($59.6 million GF/GP) in premium payments for employees hired before April 1, 2010, and an estimated $768,100 gross ($400,000 GF/GP) for employees hired on or after April 1, 2010.

Fiscal Analyst: Joe Carrasco

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