

Legislative Analysis



CAP ON PUBLIC EMPLOYEE HEALTH INSURANCE

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

House Bill 4572

Sponsor: Rep. Joel Johnson

Committee: Oversight, Reform, and Ethics

Complete to 6-28-11

A SUMMARY OF HOUSE BILL 4572 (H-7) AS PASSED BY THE HOUSE

House Bill 4572 would create a new law to be known as the Public Employer Health Insurance Cap Act. The new act would go into effect for the 2012 calendar year.

Under the bill, a public employer that offered health insurance to its employees through an insurance carrier, or through self-insurance, would be prohibited from paying 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. The bill would require the state treasurer to adjust the maximum payment annually based on changes in the medical care component of the United States consumer price index (for the most recent 12-month period for which data were available).

The bill also specifies that the caps would not apply until the expiration of an existing collective bargaining agreement or other executed contract, if that agreement or contract was inconsistent with the caps. However, a collective bargaining agreement or other contract that is executed after the effective date of this legislation if it is enacted into law, could not include terms that are inconsistent with these requirements.

In addition, if a public employer chose not to, or failed to, comply with these requirements, then the public employer would be required to permit the state treasurer to reduce by 10 percent each economic vitality incentive program payment, and the Department of Education to reduce by 10 percent each payment of any funds for which the public employer qualified under the State School Aid Act during the period of non-compliance.

Finally, the bill specifies that these requirements would apply to all public employees to the greatest extent consistent with constitutionally allocated powers.

As used in the act, the term "health insurance" is defined to mean employee medical, dental, or optical benefits. The term "public employer" is defined to mean this state; a county, township, village, city, school district, or other political subdivision of this state; an authority; a public institution of higher education; or any other entity jointly created by two or more public employers.

FISCAL IMPACT:

State Government Fiscal Impact: Currently, for health, dental, and vision coverage for state employees hired prior to April 1, 2010, the state pays, per employee participant, \$7,033 annually for employee only coverage, \$13,954 annually for employee and spouse coverage,

and \$19,572 annually for family coverage. For health, dental, and vision coverage for state employees hired after April 1, 2010, the state pays, per employee participant, \$5,665 annually for employee only coverage, \$11,220 annually for employee and spouse coverage, and \$15,799 annually for family coverage.

Based on FY 2010-11 data from the current health insurance plan offered by the state to employees hired prior to April 1, 2010, capping the state's contribution to \$5,500 for single-person coverage, \$11,000 for 2-person coverage, and \$15,000 for family coverage would result in an estimated annual savings to the state of \$115.5 million Gross. Of that amount, roughly 50 percent of the savings, or \$57.8 million, would be realized in the state's General Fund. Remaining savings would be associated with employee compensation costs funded by federal or state restricted funding sources. For employees hired after April 1, 2010, capping the state's contribution to \$5,500 for single-person coverage, \$11,000 for 2-person coverage, and \$15,000 for family coverage would result in an estimated annual savings to the state of \$1.3 million Gross and \$638,332 GF/GP. Combined, total annual savings to the state is estimated at \$116.8 million Gross and \$58.4 million GF/GP.

The attached tables (on Page 4) summarize combined health, dental, and vision premium costs for employees hired prior to and after April 1, 2010 under the current insurance plan structure and under the structure proposed in HB 4572 (H-7).

The estimated savings amount does not include any potential savings from capping the state's contribution toward retiree health insurance costs. Also, the estimated savings amount does not assume any savings for employees who participate in the current employee and dependents (with no spouse) coverage category. Under the provisions of HB 4572 (H-7), there would be three categories of coverage as opposed to four categories of coverage under the current structure.

Potential growth in savings to the state over time under HB 4572 (H-7) would be subject to two major factors. On one hand, state savings would be expected to grow over time as employees would presumably pay an increasing share of their insurance costs, assuming health care inflation continues to outpace consumer inflation. On the other hand, growth in savings would be mitigated or offset by the fact that an increased percentage of total state employees will have been hired under the new state health plan, under which per-employee savings would be lower under HB 4572 (H-7) due to higher employee contributions than under current policy.

Local Government and Higher Education Fiscal Impact: Comprehensive data on the contributions made by employees and employers toward health insurance costs for local governments, school districts, community colleges, and public universities are not available. Therefore, no estimate can be provided as to the amount of savings those entities would realize under the provisions of HB 4572 (H-7).

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

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.

Combined - Health, Dental, and Vision Premium Costs
For Employees Hired Prior to April 1, 2010

<u>Coverage Type</u>	<u>Number of Participants*</u>	Current			Under HB 4572			
		<u>Employee Share</u>	<u>State Share</u>	<u>Total</u>	<u>% Employee Share</u>	<u>Employee Share</u>	<u>Total</u>	<u>% Employee Share</u>
Employee Only	10,426	\$742	\$7,033	\$7,775	9.5	\$2,275	\$7,775	29.3
Employee & Spouse	7,281	\$1,479	\$13,954	\$15,433	9.6	\$4,433	\$15,433	28.7
Family	17,063	\$2,056	\$19,572	\$21,628	9.5	\$6,628	\$21,628	30.6

Combined - Health, Dental, and Vision Premium Costs
For Employees Hired After April 1, 2010

<u>Coverage Type</u>	<u>Number of Participants*</u>	Current			Under HB 4572			
		<u>Employee Share</u>	<u>State Share</u>	<u>Total</u>	<u>% Employee Share</u>	<u>Employee Share</u>	<u>Total</u>	<u>% Employee Share</u>
Employee Only	785	\$1,293	\$5,665	\$6,958	18.6	\$1,458	\$6,958	21.0
Employee & Spouse	548	\$2,581	\$11,220	\$13,801	18.7	\$2,801	\$13,801	20.3
Family	1,284	\$3,577	\$15,799	\$19,376	18.5	\$4,376	\$19,376	22.6

*Number of Participants does not include the number of employees who are currently participating in the employee and dependents (no spouse) coverage category. The total number of these employees is 6,554 (6,095 hired prior to April 1, 2010 and 459 hired after April 1, 2010).