

HOUSE SUBSTITUTE FOR  
SENATE BILL NO. 7

A bill to limit a public employer's expenditures for employee medical benefit plans; to provide the power and duties of certain state agencies and officials; to provide for exceptions; and to provide for sanctions.

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 1. This act shall be known and may be cited as the  
2 "publicly funded health insurance contribution act".

3           Sec. 2. As used in this act:

4           (a) "Costs" does not include copayments, coinsurance,  
5 deductibles, other out-of-pocket expenses, or other service-related  
6 fees assessed to the coverage beneficiary under a medical benefit  
7 plan.

8           (b) "Designated state official" means:

1           (i) For an election affecting employees and officers in the  
2 judicial branch of state government, the state court administrator.

3           (ii) For an election affecting senate employees and officers,  
4 the secretary of the senate.

5           (iii) For an election affecting house of representative  
6 employees and officers, the clerk of the house.

7           (iv) For an election affecting legislative council employees,  
8 the legislative council.

9           (v) For an election affecting employees in the state  
10 classified service, the civil service commission.

11           (vi) For an election affecting executive branch employees who  
12 are not in the state classified service, the state employer.

13           (c) "Flexible spending account" means a medical expense  
14 flexible spending account in conjunction with a cafeteria plan as  
15 permitted under the federal internal revenue code of 1986.

16           (d) "Health savings account" means an account as permitted  
17 under section 223 of the internal revenue code of 1986, 26 USC 223.

18           (e) "Local unit of government" means a city, village,  
19 township, or county, a municipal electric utility system as defined  
20 in section 4 of 1976 PA 448, MCL 460.804, an authority created  
21 under chapter VIA of the aeronautics code of the state of Michigan,  
22 1945 PA 327, MCL 259.108 to 259.125c, or an authority created under  
23 1939 PA 147, MCL 119.51 to 119.62.

24           (f) "Medical benefit plan" means a plan established and  
25 maintained by a carrier, a voluntary employees' beneficiary  
26 association described in section 501(c)(9) of the internal revenue  
27 code of 1986, 26 USC 501, or by 1 or more public employers, that

1 provides for the payment of medical, optical, or dental benefits,  
2 including, but not limited to, hospital and physician services,  
3 prescription drugs, and related benefits, for public employees.  
4 Medical benefit plan does not include benefits provided to  
5 individuals retired from employment with a public employer.

6 (g) "Public employer" means this state; a local unit of  
7 government or other political subdivision of this state; any  
8 intergovernmental, metropolitan, or local department, agency, or  
9 authority, or other local political subdivision; a school district,  
10 a public school academy, or an intermediate school district, as  
11 those terms are defined in sections 4 to 6 of the revised school  
12 code, 1976 PA 451, MCL 380.4 to 380.6; a community college or  
13 junior college described in section 7 of article VIII of the state  
14 constitution of 1963; or an institution of higher education  
15 described in section 4 of article VIII of the state constitution of  
16 1963.

17 Sec. 3. Except as otherwise provided in this act, a public  
18 employer that offers a medical benefit plan to its employees shall  
19 pay no more of the annual premium or illustrative rate and any  
20 payments for reimbursement of co-pays, deductibles, or payments  
21 into health savings accounts or similar accounts used for health  
22 care, optical, or dental costs, than a total of \$5,500.00 for  
23 single person coverage, \$11,000.00 for individual and spouse  
24 coverage, \$12,500.00 for individual and child or children coverage,  
25 or \$15,000.00 for family coverage for a medical benefit plan  
26 coverage year beginning on or after January 1, 2012. By October 1  
27 of each year after 2011, the state treasurer shall adjust the

1 maximum payment permitted under this section for each coverage  
2 category for medical benefit plan coverage years beginning the  
3 succeeding calendar year, based on the change in the medical care  
4 component of the United States consumer price index for the most  
5 recent 12-month period for which data are available from the United  
6 States department of labor, bureau of labor statistics.

7       Sec. 4. (1) By a majority vote of its governing body, a public  
8 employer, excluding this state, may elect to comply with this  
9 section for a medical benefit plan coverage year instead of the  
10 requirements in section 3. The designated state official may elect  
11 to comply with this section instead of section 3 as to medical  
12 benefit plans for state employees and state officers.

13       (2) For medical benefit plan coverage years beginning on or  
14 after January 1, 2012, a public employer shall pay not more than  
15 80% of the total annual cost or illustrative rate of all of the  
16 medical benefit plans it offers to its employees and elected  
17 officials. Each elected official who participates in a medical  
18 benefit plan offered by a public employer shall be required to pay  
19 20% or more of the annual cost or illustrative rate of that plan.  
20 The public employer may allocate the employees' share of medical  
21 benefit plan costs or illustrative rate among the employees of the  
22 public employer; however, a public employer shall not allocate  
23 medical benefit plan costs among employees in a manner that causes  
24 employer sanctions under the patient protection and affordable care  
25 act, Public Law 111-148, or the health care and education  
26 reconciliation act of 2010, Public Law 111-152. In addition, a  
27 public employer that offers a medical benefit plan that includes a

1 flexible spending account or a health savings account may increase  
2 the amount it pays toward the annual cost or illustrative rate of  
3 an employee's or public official's medical benefit plan by an  
4 amount equivalent to the amount the employee or public official  
5 contributes to the health savings account or flexible spending  
6 account, and that increase may be excluded from the maximum public  
7 employer expenditure otherwise permitted under this subdivision. A  
8 public employer's contribution is not included in the public  
9 employer's annual maximum allowable payment for the cost or  
10 illustrative rate of a medical benefit plan if it is either of the  
11 following:

12 (a) A contribution to an employee's or elected official's  
13 flexible spending account or health savings account.

14 (b) A contribution to a health reimbursement arrangement that  
15 complies with all relevant statutory provisions, regulatory  
16 provisions, and internal revenue service rulings governing health  
17 reimbursement arrangements, including, but not limited to, section  
18 105(b) of the internal revenue code, 26 USC 105, internal revenue  
19 notice 2002-45, and internal revenue rulings 2005-24 and 2006-36.

20 Sec. 5. (1) If a collective bargaining agreement or other  
21 contract that is inconsistent with sections 3 and 4 is in effect  
22 for a group of employees of a public employer on the effective date  
23 of this act, the requirements of section 3 or 4 do not apply to  
24 that group of employees until the contract expires. A public  
25 employer's expenditures for medical benefit plans under a  
26 collective bargaining agreement or other contract described in this  
27 subsection shall be excluded from calculation of the public

1 employer's maximum payment under section 4. The requirements of  
2 sections 3 and 4 apply to any extension or renewal of the contract.

3 (2) A collective bargaining agreement or other contract that  
4 is executed on or after the effective date of this act shall not  
5 include terms that are inconsistent with the requirements of  
6 sections 3 and 4.

7 Sec. 6. A public employer may deduct the covered employee's or  
8 elected public official's portion of the cost of a medical benefit  
9 plan from compensation due to the covered employee or elected  
10 official. The employer may condition eligibility for the medical  
11 benefit plan on the employee's or elected official's authorizing  
12 the public employer to make the deduction.

13 Sec. 7. (1) The requirements of this act apply to medical  
14 benefit plans of all public employees and public officials to the  
15 greatest extent consistent with constitutionally allocated powers,  
16 whether or not a public employee is a member of a collective  
17 bargaining unit.

18 (2) If a court finds the requirements of section 3 to be  
19 invalid, the expenditure limit in section 4 shall apply to a public  
20 employer that does not exempt itself under section 8, except that  
21 the requirement for a majority vote of the governing body of the  
22 public employer in section 4 shall not apply. If a court finds  
23 section 4 to be invalid, the expenditure limit in section 3 shall  
24 apply to each public employer that does not exempt itself under  
25 section 8.

26 Sec. 8. (1) By a 2/3 vote of its governing body, a local unit  
27 of government may exempt itself from the requirements of this act

1 for the next succeeding medical benefit plan coverage year.

2 (2) A 2/3 vote of the governing body of the local unit of  
3 government is required to extend an exemption under this section to  
4 a new medical benefit plan coverage year.

5 (3) An exemption under this section is not effective for a  
6 city with a mayor who is both the chief executive and chief  
7 administrator, unless the mayor also approves the exemption.

8 Sec. 9. If a public employer fails to comply with this act,  
9 the public employer shall permit the state treasurer to reduce by  
10 10% each economic vitality incentive program payment received under  
11 2011 PA 63 and the department of education shall reduce by 10% each  
12 payment of any funds for which the public employer qualifies under  
13 the state school aid act of 1979, 1979 PA 94, MCL 388.1601 to  
14 388.1772, during the period of noncompliance.