



## CITY of NOVI CITY COUNCIL

Agenda Item 2  
September 26, 2011

**SUBJECT:** Approval of Resolution to comply with Senate Bill 7 Publicly Funded Health Insurance Contribution Act by adopting the 80/20 cost sharing model set forth in Section 4 of that Act.

**SUBMITTING DEPARTMENT:** Human Resources *dia*

**CITY MANAGER APPROVAL:** *[Signature]*

**BACKGROUND INFORMATION:**

Senate Bill 7, was designed to lessen the burden of employee healthcare costs on Government employers.

Communities were given four (4) options when determining the impact of the Bill on the employees in each unit of government. Those options included:

- 1) Apply the Hard Cap (capped dollar amount each government employer may pay towards an employee's healthcare costs);
- 2) Adopt by majority vote the 80%/20% cost-sharing model;
- 3) Elect not to follow the statute/non-compliance;
- 4) Opt out of the cost-sharing model as set forth in the bill and revisit it prior to the next plan year.

**Hard Cap** limits the amount a public employer may contribute toward an employee's healthcare cost by implementing caps. If the Hard Cap is preferred by the City, the City Council does not need to take any action. Under the Hard Cap the City's contributions would be limited to: \$5,500 toward a single coverage; \$11,000 toward a 2-person coverage and \$15,000 toward a family coverage. These amounts are annual caps and will be adjusted annually based on the change in the medical care component of the United States consumer price index (CPI). The cap includes all annual costs related to healthcare coverage including payments for reimbursements of co-pays and deductibles and payments into health savings accounts, flexible spending accounts, or other similar accounts used for healthcare costs.

**80/20 Cap** also limits the amount a public employer may contribute towards "the total annual costs" of an employee's healthcare costs by limiting the employer portion to 80% of the cost of premium paid and the remaining 20% paid by the employee. This option would take a majority vote by City Council in order to adopt. This option also includes all annual costs related to healthcare coverage including payments for reimbursements of co-pays and deductibles and payments into health savings accounts, flexible spending accounts, or other similar accounts used for healthcare costs.

**Non-compliance** provides for a specific penalty for non-compliance with its requirements. A public employer that fails to comply may be penalized by a ten (10%) percent reduction in its Economic Vitality Incentive Program (EVIP) payments (formerly Statutory State Share Revenue), which for the City of Novi would be approximately \$2,500.

**Opt out** which requires a two-thirds vote of the Council. Each subsequent year the Council must attain another two-thirds vote to remain exempt, or to opt out of the Bill. Although the Bill indicates that the City would be in compliance with the Bill if it voted to "opt out" and therefore would not be subject to the ten (10%) percent reduction in EVIP, the Bill does not address if there are any consequences to opting out of the Bill.

Senate Bill 7 will not apply to employees covered under a current collective bargaining agreement or those groups who settle prior to September 15, 2011. This exemption will run out when the existing labor agreements expire. For all other employee groups these requirements will become effective January 1, 2012. By adopting the 80/20 option under SB 7, approximately 148 employees out of 202 who elect the City's healthcare, will be contributing 20% of their healthcare costs by January 1, 2012. The employee groups that do not have a current collective bargaining agreement include Police Officers, MAPE, administrative non-union, and Library personnel. By June 30, 2013, all employees should be contributing 20% of their healthcare costs based upon the expiration dates of current collective bargaining agreements.

By adopting the 80/20 option the City will save an estimated \$400,000 in healthcare premium costs. This savings will help further improve the City's fiscal position and provide resources for the workforce to continue to provide exemplary services to the Novi community.

Additionally, our goal has been to require all employees to contribute to the cost of their healthcare based upon a percentage of the entire cost. Currently, our Administrative and Library employees, Police Command Officers and Fire Fighters pay 10% of the cost of their healthcare.

The Hard Cap option does not allow for a percentage contribution on top of the Hard Cap. Consequently, some employees would pay nothing for their healthcare due to the premium cost being below the Hard Cap.

Lastly, there will be consistency as well as an equitable component, once all current collective bargaining agreements have expired, in that all employees, regardless of bargaining group, will be contributing 20% of the cost of their healthcare.

At this point, however, SB7 has been approved by both houses of the state Legislature but is awaiting signature by the governor before becoming effective. The administration is recommending that the Council choose the 80/20 option, and that it do so now on the assumption that the bill will be signed and become law. Such action now allows for the maximum amount of time for administration to complete the 2012 employee healthcare program and for employees to select plan accordingly during the upcoming November healthcare open enrollment. There is, however, language in the attached resolution making the resolution and the City's action null and void in the event it is not signed and does not become law.

**RECOMMENDED ACTION:** Approval of Resolution to comply with Senate Bill 7 Publicly Funded Health Insurance Contribution Act by adopting the 80/20 cost sharing model set forth in Section 4 of that Act.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Gatt				
Council Member Fischer				
Council Member Margolis				

	1	2	Y	N
Council Member Mutch				
Council Member Staudt				
Council Member Wrobel				



## RESOLUTION TO CONDITIONALLY ADOPT THE 80/20 COST SHARING MODEL AS SET FORTH IN SECTION 4 OF SENATE BILL 7

**WHEREAS**, Senate Bill 7, recently passed by the state Legislature, was designed to lessen the burden of employee healthcare costs on public employers;

**WHEREAS**, Communities are given four options for complying with the requirements of the Bill, depending on the impact of the Bill on the employees of each public employer;

**WHEREAS**, those four options are as follows:

- 1) Apply the Hard Cap (capped dollar amount each government employer may pay towards an employee's healthcare costs);
- 2) Adopt by majority vote the 80%/20% cost-sharing model;
- 3) Elect not to follow the statute/non-compliance;
- 4) Opt out of the cost-sharing model as set forth in the bill and revisit it prior to the next plan year.

**WHEREAS**, SB 7 has been adopted by both houses of the state Legislature but has not yet been signed by the Governor, and this Resolution is being brought forward based upon the currently enrolled version of SB 7 as submitted to the Governor in order to assist City administration in evaluating and carrying out its eventual compliance obligations.

**WHEREAS**, assuming for purposes of complying with its obligations that SB 7 becomes law by virtue of signature by the Governor (or otherwise by the passage of time), the City Council has determined to adopt the 80/20 cost sharing model as its choice of compliance obligations under SB 7;

**WHEREAS**, if SB 7 is not signed by the Governor or is not otherwise made into law, or if there are substantive amendments to the version of SB 7 as currently enrolled, then this Resolution shall be null and void. In other words, the choice made herein is only to be effective if SB 7 becomes law as it has been passed by the state Legislature as of this date, and in no instance should this choice be construed as a change in employee contributions except as contemplated by SB 7 should it become law.

**NOW, THEREFORE, BE IT RESOLVED**, the Novi City Council elects to comply with the requirements of the Publicly Funded Health Insurance Contribution Act by adopting the 80/20 cost sharing model set forth in Section 4 of Senate Bill 7.

**CERTIFICATION:** I hereby certify that the foregoing is a true and complete resolution adopted by City Council for the City of Novi at a regular meeting held this 26<sup>th</sup> day of September, 2011.

### CITY COUNCIL

#### Mayor

David B. Landry

#### Mayor Pro Tem

Bob Gatt

Terry K. Margolis

Andrew Mutch

Dave Staudt

Justin Fischer

Wayne Wrobel

#### City Manager

Clay J. Pearson

#### City Clerk

Maryanne Cornelius

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Maryanne Cornelius  
City Clerk



City of Novi - Senate Bill 7 Options Summary  
 Based on 2012 Projections & August 2011 Census *z\**

	Option 1 - Applying Hard Cap	* Option 2 - <u>80/20</u> Cost Share Model	Option 3 - Election to not follow the statute	<i>(Current)</i> * Option 4 - Election to opt-out of cost sharing models
<b>City's Contributions/Costs</b>				
Senate Bill 7	\$ 1,852,712	\$ 1,789,940	\$ -	\$ -
Contractual obligation	\$ 634,568	\$ 634,568	\$ -	\$ -
Current contribution rates (2011)	\$ -	\$ -	\$ 2,743,867	\$ 2,743,867
EVIP - State Revenue Sharing	\$ -	\$ -	\$ 2,500	\$ -
<b>Total City Contributions/Costs</b>	<u>\$ 2,487,280</u>	<u>\$ 2,424,508</u>	<u>\$ 2,746,367</u>	<u>\$ 2,743,867</u>
<b>Employees' Contributions</b>				
Senate Bill 7*	\$ 384,711	\$ 447,483	\$ -	\$ -
Contractual obligation	\$ 103,278	\$ 103,278	\$ -	\$ -
Current contribution rates (2011)	\$ -	\$ -	\$ 231,402	\$ 231,402
<b>Total Employee contributions</b>	<u>\$ 487,989</u>	<u>\$ 550,761</u>	<u>\$ 231,402</u>	<u>\$ 231,402</u>
<b>Total Costs</b>	<u>\$ 2,975,269</u>	<u>\$ 2,975,269</u>	<u>\$ 2,977,769</u>	<u>\$ 2,975,269</u>

\*The bill requires the City to recover costs from eligible employees "as it sees fit"

FIRST CONFERENCE REPORT

The Committee of Conference on the matters of difference between the two Houses concerning

Senate Bill No. 7, entitled

A bill to limit a public employer's portion of the cost of health insurance benefits; and to provide for exceptions.

Recommends:

First: That the Senate and House agree to the Substitute of the House as passed by the House, amended to read as follows:

(attached)

Second: That the Senate and House agree to the title of the bill to read as follows:

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.

\_\_\_\_\_  
Mark C. Jansen

\_\_\_\_\_  
Tom McMillin

\_\_\_\_\_  
Patrick Colbeck

\_\_\_\_\_  
Joel Johnson

\_\_\_\_\_  
Coleman Young II

\_\_\_\_\_  
Timothy Bledsoe

Conferees for the Senate

Conferees for the House

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) "Designated state official" means:

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

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

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

3           (iv) For an election affecting legislative council employees,  
4 the legislative council.

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

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

9           (b) "Flexible spending account" means a medical expense  
10 flexible spending account in conjunction with a cafeteria plan as  
11 permitted under the federal internal revenue code of 1986.

12           (c) "Health savings account" means an account as permitted  
13 under section 223 of the internal revenue code of 1986, 26 USC 223.

14           (d) "Local unit of government" means a city, village,  
15 township, or county, a municipal electric utility system as defined  
16 in section 4 of the Michigan energy employment act of 1976, 1976 PA  
17 448, MCL 460.804, an authority created under chapter VIA of the  
18 aeronautics code of the state of Michigan, 1945 PA 327, MCL 259.108  
19 to 259.125c, or an authority created under 1939 PA 147, MCL 119.51  
20 to 119.62.

21           (e) "Medical benefit plan" means a plan established and  
22 maintained by a carrier, a voluntary employees' beneficiary  
23 association described in section 501(c)(9) of the internal revenue  
24 code of 1986, 26 USC 501, or by 1 or more public employers, that  
25 provides for the payment of medical benefits, including, but not  
26 limited to, hospital and physician services, prescription drugs,  
27 and related benefits, for public employees or elected public



1 officials. Medical benefit plan does not include benefits provided  
2 to individuals retired from a public employer.

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

14 Sec. 3. Except as otherwise provided in this act, a public  
15 employer that offers or contributes to a medical benefit plan for  
16 its employees or elected public officials shall pay no more of the  
17 annual costs or illustrative rate and any payments for  
18 reimbursement of co-pays, deductibles, or payments into health  
19 savings accounts, flexible spending accounts, or similar accounts  
20 used for health care costs, than a total amount equal to \$5,500.00  
21 times the number of employees with single person coverage,  
22 \$11,000.00 times the number of employees with individual and spouse  
23 coverage, plus \$15,000.00 times the number of employees with family  
24 coverage, for a medical benefit plan coverage year beginning on or  
25 after January 1, 2012. A public employer may allocate its payments  
26 for medical benefit plan costs among its employees and elected  
27 public officials as it sees fit. By October 1 of each year after

1 2011, the state treasurer shall adjust the maximum payment  
2 permitted under this section for each coverage category for medical  
3 benefit plan coverage years beginning the succeeding calendar year,  
4 based on the change in the medical care component of the United  
5 States consumer price index for the most recent 12-month period for  
6 which data are available from the United States department of  
7 labor, bureau of labor statistics.

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

14       (2) For medical benefit plan coverage years beginning on or  
15 after January 1, 2012, a public employer shall pay not more than  
16 80% of the total annual costs of all of the medical benefit plans  
17 it offers or contributes to for its employees and elected public  
18 officials. For purposes of this subsection, total annual costs  
19 includes the premium or illustrative rate of the medical benefit  
20 plan and all employer payments for reimbursement of co-pays,  
21 deductibles, and payments into health savings accounts, flexible  
22 spending accounts, or similar accounts used for health care but  
23 does not include beneficiary-paid copayments, coinsurance,  
24 deductibles, other out-of-pocket expenses, other service-related  
25 fees that are assessed to the coverage beneficiary, or beneficiary  
26 payments into health savings accounts, flexible spending accounts,  
27 or similar accounts used for health care. Each elected public

1 official who participates in a medical benefit plan offered by a  
2 public employer shall be required to pay 20% or more of the total  
3 annual costs of that plan. The public employer may allocate the  
4 employees' share of total annual costs of the medical benefit plans  
5 among the employees of the public employer as it sees fit.

6       Sec. 5. (1) If a collective bargaining agreement or other  
7 contract that is inconsistent with sections 3 and 4 is in effect  
8 for a group of employees of a public employer on the effective date  
9 of this act, the requirements of section 3 or 4 do not apply to  
10 that group of employees until the contract expires. A public  
11 employer's expenditures for medical benefit plans under a  
12 collective bargaining agreement or other contract described in this  
13 subsection shall be excluded from calculation of the public  
14 employer's maximum payment under section 4. The requirements of  
15 sections 3 and 4 apply to any extension or renewal of the contract.

16       (2) A collective bargaining agreement or other contract that  
17 is executed on or after September 15, 2011 shall not include terms  
18 that are inconsistent with the requirements of sections 3 and 4.

19       Sec. 6. A public employer may deduct the covered employee's or  
20 elected public official's portion of the cost of a medical benefit  
21 plan from compensation due to the covered employee or elected  
22 public official. The employer may condition eligibility for the  
23 medical benefit plan on the employee's or elected public official's  
24 authorizing the public employer to make the deduction.

25       Sec. 7. (1) The requirements of this act apply to medical  
26 benefit plans of all public employees and elected public officials  
27 to the greatest extent consistent with constitutionally allocated

1 powers, whether or not a public employee is a member of a  
2 collective bargaining unit.

3 (2) If a court finds the requirements of section 3 to be  
4 invalid, the expenditure limit in section 4 shall apply to a public  
5 employer that does not exempt itself under section 8, except that  
6 the requirement for a majority vote of the governing body of the  
7 public employer in section 4 shall not apply. If a court finds  
8 section 4 to be invalid, the expenditure limit in section 3 shall  
9 apply to each public employer that does not exempt itself under  
10 section 8.

11 Sec. 8. (1) By a 2/3 vote of its governing body each year, a  
12 local unit of government may exempt itself from the requirements of  
13 this act for the next succeeding year.

14 (2) A 2/3 vote of the governing body of the local unit of  
15 government is required to extend an exemption under this section to  
16 a new year.

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

20 (4) An exemption under this section is not effective for a  
21 county with a county executive who is both the chief executive and  
22 chief administrator, unless the county executive also approves the  
23 exemption.

24 Sec. 9. If a public employer fails to comply with this act,  
25 the public employer shall permit the state treasurer to reduce by  
26 10% each economic vitality incentive program payment received under  
27 2011 PA 63 and the department of education shall assess the public



1 employer a penalty equal to 10% of each payment of any funds for  
2 which the public employer qualifies under the state school aid act  
3 of 1979, 1979 PA 94, MCL 388.1601 to 388.1772, during the period  
4 that the public employer fails to comply with this act. Any  
5 reduction setoff or penalty amounts recovered shall be returned to  
6 the fund from which the reduction is assessed or upon which the  
7 penalty is determined. The department of education may also refer  
8 the penalty collection to the department of treasury for collection  
9 consistent with section 13 of 1941 PA 122, MCL 205.13.



## SB 7 FAQ's

**Q: *How does an employer decide and designate their plan?***

A All public employers default to the hard cap plan. The hard cap plan is \$5,500 for single coverage, \$11,000 for couple coverage, and \$15,000 for family coverage.

With a simple majority vote, they may **OPT-IN** to the 80/20 plan.

Cities, villages, townships, counties, municipal electric utilities, airport authorities and metro parks may elect to **OPT-OUT** – without penalty -- with a 2/3 vote each medical plan year. Entities with a strong mayor or county executive must concur.

**Q: *Are elected officials covered by this act?***

A Elected officials – including legislators – are covered by the act.

**Q: *Are state or university employees covered by this act?***

A The act does not impact state (civil service) or university employees unless SJR C is passed by 2/3 vote of the House and approved by the voters. Community Colleges ARE impacted by this act.

**Q: *How does this act impact VEBA participants?***

A Public employers who provide funding for a VEBA can calculate their maximum legal contribution based on the hard cap aggregate formula. Dearborn Public Schools has reviewed and does not object to the language in the conference report.

**Q: *Is there a relief mechanism for lower paid employees' contributions?***

A Under either method, the public employer may choose to aggregate the employer costs and distribute the employee share as they see fit. The employer may consider the employees ability to pay if they choose.

**Q: *How will the hard cap be adjusted?***

A The hard cap is adjusted annually by the State Treasurer based on the change in the medical care component of the U.S. CPI. The unadjusted 12-months ending July 2011 is an increase of 3.2%. For the past decade, the medical care component of the U.S. CPI has increased about 2-5% annually.

**Q: *Who is the decision making authority?***

A The bill clarifies who the decision-making authority is for each type of public employer.

**Q: *How does this affect HSA and other high-deductible plans?***

A Under the hard-cap plan, an employer may elect to spend up to the hard cap amount a combination of premium, HSA contributions, Rx reimbursements, etc. up to the amount of the hard cap.

Under the 80-20 plan, employees will be expected to reimburse or contribute costs no less than 20% of what the employer has paid.

Q: ***How does this bill affect existing contracts?***

A The bill **does not** take effect on existing contracts until that contract is modified or expires.

Q: ***When does this law take place?***

A The act applies to medical benefit plan coverage years beginning on or after January 1, 2012. However, contracts settled between Sept. 1, 2011 and January 1, 2012 must not contain terms that are contrary to the act, and will go into effect upon the expiration of the medical benefit plan year.

Q: ***Is there a penalty associated with this act?***

A This act penalizes public employers that do not comply with the Act either 10% of school aid payments or 10% of economic vitality payments that were included in statutory revenue sharing in 2011 (\$200 million). Public employers that operate under the hard-cap, operate under the 80/20 or who OPT-OUT legally are **NOT** subject to penalty.

CAPS ON PUBLIC EMPLOYER CONTRIBUTIONS  
TO MEDICAL BENEFIT PLANS  
"Hard Cap" or "80/20" Rule

Senate Bill 7 (SB 7), the "Publicly Funded Health Insurance Contribution Act," was approved by both the House and Senate on August 24, 2011. The law takes effect January 1, 2012 and applies to all public employers. However, any collective bargaining agreement or other contract executed on or after September 15, 2011 must comply.

SB 7 creates a "hard cap" on the amount a public employer may contribute to a medical benefit plan, which includes but is not limited to hospital and physician services, prescription drugs and related benefits. SB 7 provides an option to elect an 80% contribution cap rather than the hard cap, and it contains a provision to allow a local unit to opt-out entirely.

*As of August 29, 2011, it is unclear how the penalties for non-compliance with this act will intersect with the requirements created by EVIP related to health care, and the penalties therein.*

**"Hard Cap"**

For the medical benefit plan coverage year beginning on or after January 1, 2012, a public employer may not pay more of the annual costs for medical benefit plans than a total amount equal to:

- \$5,500 times the number of employees with single person coverage
- \$11,000 times the number of employees with individual and spouse coverage
- \$15,000 times the number of employees with family coverage

A public employer may allocate its payments among its employees and elected officials as it sees fit. These caps will be adjusted by October 1 each year, to apply to following calendar year, based on the change in the medical care component of the United States consumer price index (CPI) for the most recent 12-month period available from the United States Department of Labor, Bureau of Labor Statistics.

**"80/20"**

By a majority vote of its governing body, a public employer may opt-out of the hard cap and into an 80% cap option wherein the public employer may not pay more than 80% of the total annual costs of all the medical benefit plans it offers or contributes to for its employees and elected officials. See the next page for details on the option to opt-out entirely from these requirements.

The public employer may allocate employees' share of total annual costs of medical benefit plan as the employer sees fit. However, *elected* public officials must pay 20% or more of the total annual costs of the medical benefit plan.



### **Complete Opt-Out**

By a 2/3 vote of its governing body each year, a local unit of government may exempt itself from the requirements of this act for the next year. An exemption is not effective for a city with a mayor who is both the chief executive and chief administrator, unless the mayor also approves the exemption.

### **Total Annual Costs**

Both the hard cap and the 80% cap pertain to total annual costs of the medical benefit plan. These include the premium and all employer reimbursement of co-pays, deductibles, and payments into health savings accounts, flexible spending accounts or related accounts.

### **Collective Bargaining Agreements or Other Contracts**

This law does not apply to existing collective bargaining agreements or other contracts until the agreements or contracts expire, are extended, or renewed. However, any collective bargaining agreement executed after September 15, 2011, must comply.

A public employer's expenditures for medical benefit plans under a collective bargaining agreement or other contract are to be excluded from the maximum payment formula under the hard cap provision.

### **Deductions**

A public employer may deduct an employee's or elected official's portion of the costs of medical benefit plans from compensation due, and the employer may condition eligibility for the plan on the employee/elected official providing authorization to make such a deduction.

### **Penalties**

Failure to comply with this act will result in the State Treasurer reducing each Economic Vitality Incentive Program payment by 10% (EVIP, PA 63 of 2011) for the period of non-compliance. This penalty is separate and distinct from the health care component of the EVIP certification process. Action under this act does not certify or disqualify you for regular EVIP payments.