



CITY COUNCIL AGENDA ITEM

Date: January 19, 2012
To: Mayor and City Council Members
From: John Szerlag, City Manager
Subject: Publicly Funded Health Insurance Contributions Act (Public Act 152 of 2011)

The attached staff memo dated December 14, 2011 was distributed to City Council, and Council requested a study item relative to this matter. Succinctly, this Act is intended to assist the government by requiring municipal employee contributions to assist with the burden of increasing health care coverage costs. Under this law, the State of Michigan would withhold state shared revenue payments for any municipality that did not select one of three options contained in Public Act 152. These options are:

1. Opt Out
2. Hard Cap
3. 80/20 Split

Detailed explanations of these options are set forth in the attached memo.

The City is already in compliance with the hard cap option, as a result of significant concessions made by the employees during the past few years. Under this option, employees would also bear any cost increases over the amount of the hard cap should health insurance costs exceed the hard cap amount.

Council also has the option to implement an 80/20 split option, which would be effective immediately for the 84 Classified and Exempt City employees. All other City employees would not be impacted until the termination of their collective bargaining agreement, and the first of six labor contracts expires on June 30, 2013. The selection of the 80/20 split option would result in inequity among the City employees, and would significantly and negatively impact the Classified and Exempt City employees, who were the first of all City employee groups to provide concessions totaling at least 10% of the aggregate amount of base salary/wage, pension, FICA and worker's compensation. The momentum achieved by obtaining the concessions from all employee groups, in addition to the massive staff reductions, allowed the City to achieve economic sustainability at this time.

If you have questions or concerns about the potential legal employment implications of these options, you may want to have a closed session discussion with our retained labor counsel, Craig Lange, at sometime in the future.

Please know we have already received our State Shared Revenue funds. This is because we are currently in compliance with the hard cap option. Also know that whatever option is selected, it must



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be reviewed annually by the governing body, who can then select an option. As such, I continue to recommend the hard cap option through April of 2013, as this date is more in line with the expiration of labor contracts.

As always, please feel free to contact me should you have any questions.

c: Lori Grigg Bluhm, City Attorney
Craig Lange, Labor Attorney
Exempt/Classified Personnel



Human Resources Department

Date: December 14, 2011

TO: The Honorable Mayor and City Council Members

FROM: John Szerlag, City Manager
Tom Darling, Interim Director of Financial and Administrative Services
Monica Ireland, Asst to the City Manager/Coord of Continuous Improvement
Stephen Cooperrider, Risk Manager
Peggy Sears, Human Resources Director

SUBJECT: Publically Funded Health Insurance Contributions Act
("Public Act 152 of 2011")

BACKGROUND

On September 28, 2011, Public Act 152 (PA 152), became law and applies to medical benefit plan coverage years beginning on or after January 1, 2012. PA 152 prohibits the state, local governments, public schools, colleges and universities from paying more for employee health insurance benefits than the total cost of \$5,500 for a single person, \$11,000 for a couple and \$15,000 for a family plan. This is referred to as the "Hard-cap". With the concessions that employees have already given, the City is currently in compliance with PA 152's Hard Cap option. Alternatively, the public employer could elect annually the 80/20 Option to require employees to contribute at least 20 percent of the total cost of healthcare. Local governments can elect the third option, called the Local Unit Opt-Out, to waive the requirements annually with a two-thirds vote of their governing body. The decision to elect any option must be made annually.

Failure to comply with the Act will result in the State Treasurer reducing each Economic Vitality Incentive Program (EVIP) payment by 10% for the period of non-compliance.

CITY OF TROY EMPLOYEE GROUPS

Collective bargaining agreements in effect prior to September 15, 2011 (as with all City of Troy union contracts) are not affected by the Act until they expire. However, with respect to collective bargaining obligations, whether the allocation, or the adoption of the 80/20 option, is a mandatory subject of bargaining under the Public Employment Relations Act is unresolved in Michigan and will likely end up before the Michigan Employment Relations Commission (MERC).

Seventy-three percent (73%) of Troy employees are represented by one of six unions. This equates to 225 employees. Those contracts expire on June 30th in 2013 (AFSCME, MAP and TCOSA); 2014 (TCOA and TFSOA); and 2015 (TPOA). Therefore, the earliest that the Act would apply to these employees would be the expiration date of their respective contract.

Non-union employees (who comprise the Classified and Exempt employee groups) represent twenty-seven percent (27%) of the full-time City workforce. It is this employee group, consisting of 83 employees, who would be immediately affected by the Act.

IMPACT

Attached is a comparison of the aggregate cost to the City, based on the current hard-cap rates referenced above, and our current insurance carrier premiums (for HMO coverage) and illustrative rates (for Blue Cross Blue Shield coverage). Because the Act would not apply to collective bargaining groups until their contracts expire, only the rates for the Classified and Exempt (C/E) employee group are shown.

Under the Hard-Cap option, we are in compliance with the Act. No changes to the current C/E medical benefit plan contributions would be necessary as of January 1, 2012. However, this could change when new premium rates are provided by the carriers for the April 1, 2012 renewals.

The C/E employees have already saved the city \$223,993/ year in medical costs with the concessions taken in 2011. The City's medical benefit strategy was to increase deductibles and co-pays so as to put the cost on employees at the time of service. These changes included replacing the PPO plan with the Community Blue PPO; increasing employee premium contributions to 5%; increasing the prescription drug plan to \$10/\$40 with mandatory generic, prior authorization and step therapy; increased co-pays for office visits (\$30) and emergency room visits (\$50); increasing the basic deductible to \$250/\$500; reducing the frequency of covered vision exams to once every two years, and reducing the cost of mail order prescription drugs. These changes resulted in 23.5% reduction in C/E medical benefit costs.

Under the 80/20 Option, the C/E employees would be required to contribute another 15% of the premium or illustrative rate.

If City Council elected the Local Unit Opt-Out, the City would be able to make their own decision as it relates to medical benefits for C/E employees, as they do now, in conjunction with the annual budget process.

RECOMMENDATION

Due to the partnership that has been achieved with the Classified and Exempt employee group that has resulted in significant concessions, city management recommends the Hard-Cap option. Under this option we are in compliance with PA 152 and there would be no adverse effect on the EVIP. There is no resolution required by City council. If the insurance costs increase above the hard cap, employees will have to pay the difference between the hard-cap and the increased cost.

Should City Council wish to discuss this matter further, a study session can be scheduled before April 1, 2012. Otherwise, management will advise the state that we are in compliance with PA 152.

Public Act 152
 Classified/ Exempt Employees

<u>"Hard Cap"</u>	<u>Current Enrolled Employees</u>		
1- person \$5,500	x	16	= \$ 88,000.00
2- person \$11,000	x	15	= \$ 165,000.00
Family \$15,000	x	30	= \$ 450,000.00
Total Aggregate:			\$ 703,000.00

City of Troy's Current Rates*	<u>Current Enrolled Employees</u>		
BCN			
1- person \$5,745.96	x	6	= \$ 34,475.76
2- person \$13,215.72	x	2	= \$ 26,431.44
Family \$14,939.52	x	11	= \$ 164,334.72
HAP			
1- person \$5,595.60	x	5	= \$ 27,978.00
2- person \$12,870.00	x	7	= \$ 90,090.00
Family \$14,548.68	x	11	= \$ 160,035.48
CB PPO			
1- person \$5,153.88	x	5	= \$ 25,769.40
2- person \$12,369.36	x	6	= \$ 74,216.16
Family \$14,946.12	x	8	= \$ 119,568.96
Total:			= \$ 722,899.92
Employee Contribution- 5%			= \$ 36,145.00
Total City Contribution			\$ 686,754.92

The current cost for C/E health insurance is 2.3% below the aggregate which makes the City in compliance with the Hard Cap option of PA 152.

<u>"80/20 "</u>	
City would pay:	\$578,319.94
C/E employees would pay:	\$144,579.98

<u>Impact on Current Employees</u>	<u>Current Annual Contribution</u>		
	5%	Extra 15%	Total 20%
BCN			
1- person \$5,745.96	\$287.30	\$861.89	\$1,149.19
2- person \$13,215.72	\$660.79	\$1,982.36	\$2,643.14
Family \$14,939.52	\$746.98	\$2,240.93	\$2,987.90
HAP			
1- person \$5,595.60	\$279.78	\$839.34	\$1,119.12
2- person \$12,870.00	\$643.50	\$1,930.50	\$2,574.00
Family \$14,548.68	\$727.43	\$2,182.30	\$2,909.74
CB PPO			
1- person \$5,153.88	\$257.69	\$773.08	\$1,030.78
2- person \$12,369.36	\$618.47	\$1,855.40	\$2,473.87
Family \$14,946.12	\$747.31	\$2,241.92	\$2,989.22

"Local Unit Opt-Out"

With a 2/3 vote of the governing body, the Council may exempt the City of Troy from PA 152. This will allow for local control over employee medical benefits.

*rates as of 12/6/2011