City of Troy

Human Resources Department

Date: April 13, 2012

TO: The Honorable Mayor and City Council Members

FROM: John Szerlag, City Manager
Peggy Sears, Human Resources Director

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

RECOMMENDATION

In light of the most recent information available, City management recommends that City Council adopt a resolution opting out of Public Act 152 also known as Senate Bill 7, thereby complying with the requirements of the Act while retaining local control over the annual budget process. The proposed resolution preserves the City's ability to annually review healthcare costs and adjust them relative to budget constraints.

BACKGROUND

At the time this issue was last discussed, the decision was made by City Council to approve the recommendation as proposed by city administration to adopt the hard cap option provided for under the Act. That recommendation was based on the assumption that the application of the hard cap could be postponed until the following year when the actual costs of health insurance, as opposed to illustrative rates, can be calculated. Since that time, however, certain information has come to light that means that we must use illustrative rates this year in complying with the Act rather than waiting until the actual costs are known a year later.

The application of illustrative rates will, however, greatly impact the Classified and Exempt employee group to the point where it would be severely inequitable. It would mean the cost of increased insurance rates for non-union employees would be born solely by the non-union employees because union groups cannot be affected until such time as it is negotiated at contract expiration.

The primary reason in support of the resolution is the concept of local control. The governing body is elected to make the best financial decisions for the community through the annual budget process. These decisions are best made at the local level, not the state level. Additionally, the city is better equipped than the state to determine what benefit levels should be offered to attract and retain the best-qualified employees at the most reasonable costs.

Secondly, the City of Troy has been proactive in efforts to reduce and manage employee costs, especially healthcare costs. The Act's intent is to help communities whose collective bargaining units are resisting negotiating cost concessions. However, as you are aware, all Troy city employees recently agreed to concessions, which included significant health insurance changes, and resulted in cost reductions of over 10%. These concessions included coverage changes and increased deductibles, co-pays and prescription drug riders.

With these changes already made to C/E medical benefits, our 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, or $223,993/year.

With respect to collective bargaining obligations, the Michigan Employment Relations Commission (MERC) has ruled many times that medical benefits and employee premium contribution amounts are mandatory subjects of bargaining. PA 152 is silent when it comes to defining its options as either mandatory, permissive or prohibited subjects of bargaining under the Public Employment Relations Act. At least one major public sector union has taken the position that a public employer is required to bargain with the union over the "allocation" of medical benefit costs among the public employer's employees. Whether the allocation, or the adoption of an option other than the hard cap, is a mandatory subject of bargaining is unresolved in Michigan and will likely end up before MERC.

Finally, such micromanagement by the state government can result in treating employee groups differently because of the negotiation process that is required for bargaining units (should that issue be resolved in that direction). This could result in different options being applied to different employee groups, which would be both unfair and administratively inefficient. The opt out provision would provide greater control over how the costs are managed.