

MICHIGAN AFSCME COUNCIL 25  
EXECUTIVE BOARD  
LEGISLATIVE REPORT  
August, 2009

Prepared by

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## **BUDGET CRISIS LOOMS AGAIN! But Now Behind Closed Doors**

As I am writing this report, there are only 6 weeks left to the start of the 2010 Fiscal Year. The Governor presented a dismal budget message in February. And things have been pretty much downhill ever since. The current fiscal year would have collapsed but for President Obama and the Democratic Congress sending massive aid to the states. More aid is available for the next fiscal year but state legislators are fighting over how (and if) to use it.

One bill (the State Police Budget bill) remains in a House subcommittee because of disputes concerning the new State Police building and more layoffs.

All of the other budget bills have gone to House-Senate Conference Committees but none of those conference committees have met as they await instructions from leadership. That leadership has met sporadically with the Governor's Budget Director behind closed doors and all participants have imposed on themselves a decision to refuse to discuss the deliberations with any body.

One of the traditionally most contentious bills is the Department of Human Services Budget bill. "Target" instructions from House leadership were so low that the subcommittee chair feared being able to pass a bill with the level of cuts that would have been needed

### **AFSCME LEADS DEMAND FOR A BETTER MICHIGAN PLATFORM**

A lot has been said over the last few years about "reforming government" but most of it has just been code for slash and burn – particularly of public services and even more particularly of public employees. Michigan AFSCME Council 25 is working with a coalition of labor unions, public sector employers and human service advocacy groups to develop a campaign to make it clear that reforms are needed in several other areas:

- We need to audit tax expenditures – loopholes, credits and abatements – to assure that they are producing the jobs the private sector promised.
- We need to audit state and local contracts to expose the waste that privatization has caused
- We need to reform and modernize our tax structure to assure that we are capturing a fair share of growth when economic growth returns
- We need to take action to end Michigan's status as a "donor" state to the federal government because our tax structure depends so heavily on non-deductible revenue sources

It is hoped that a campaign will be "launched" by the time of the Board meeting. Please find attached the latest draft of the A Better Michigan proposal.

### **DILLON PLAN ATTACKS HEALTH CARE FOR PUBLIC EMPLOYEES**

Here we go again ... this time the Democratic Speaker of the House is carrying the torch to reduce public employee health care and collective bargaining rights.

To "save money" Dillon has proposed that all public employees and retirees be put into a single statewide pool for health insurance purposes. Dillon dismisses the efforts of President Barack Obama and the Democratic Congress to reform health care for all and insists that Michigan must cut the "overly generous" public employee health care plans by abandoning local control and slashing benefits across the board.

“Pooling” is a tried and true way of holding health insurance costs in line but Dillon relies on reduced benefits for his “savings” while protecting health insurers and over charges in administrative service only contracts. He insists we can bring down the cost of health care by slashing \$400 to \$600 million in “generous” health care benefits for public employees by limiting collective bargaining.

I have attached a copy of Dillon’s plan to this document but don’t let it raise your blood pressure – you might not be covered.

## **BALLARD PROVES STATE EMPLOYEES UNDERPAID**

Michigan AFSCME Council 25 in collaboration with the Coalition of State Employees Unions has released a study by Professor Charles L. Ballard of the Michigan State University Department of Economics and Nicole S. Funari of the Federal Aviation Administration entitled **The Retrenchment of the State Employee Workforce in Michigan** debunking many of the myths surrounding state employment. The study shows that Michigan state employees are paid less than their private sector counter-parts with comparable educations, do not receive extravagant benefits and, in recent years, have been forced to take on more and more work to compensate for their shrinking numbers. The report documents the savings state workers have generated for the State in Michigan’s depressed economy. A copy of the report is attached to this report.

## **P.A. 112 REPEAL – HOUSE LABOR COMMITTEE TAKES ACTION**

House Bill 4219, restoring full collective bargaining rights to non-instructional school personnel introduced by Rep. Fred Miller (D-Mt. Clemens), was approved by the House Labor Committee on May 22<sup>nd</sup> and awaits action by the full House this fall. The bill was reported out of committee without amendment and with a recommendation for passage by a straight party line vote. Voting for the bill were Representatives Lindberg, Kennedy, Kandrevas, Liss, Bettie Scott, Slezak and Young. Voting no were Representatives Amash, Daley, Haveman and McMillin.

## **“FAILING SCHOOL” REFORM Senate Republicans Respond With More Of The Same**

The Chairman of the House Education Committee, Rep. Tim Melton (D-Pontiac) and State Representative Bert Johnson (D-Detroit) worked with a united labor coalition to rewrite House Bills 4787, 4788 and 4789 to protect labor rights and take appropriate strong steps to improve the education in the worst performing schools in the state. The bills would allow the State to take direct action in about 35 schools that have failed to meet the requirements of the No Child Left Behind Act for 4 or more years and have consistently scored below 35% of minimum proficiency in both English and Math.

Michigan AFSCME Council 25 supported the final version of the bills as they passed the House. The revised versions of the bills provide for early input on reforms for troubled schools from all the stakeholders including workers in the design of a memorandum of understanding. That MOE would have to fail before any new school could be established and it could only be established by the state with the state as a co-employer. Collective bargaining principles are preserved and the onerous provisions of Public Act 112 making a number of issues (including privatization) prohibited subjects of collective bargaining are stricken from PERA.

The reaction from the Senate has been to propose expansion of Charter schools and further limitations of collective bargaining in a package of their own. The Chairs of the Senate Education Committee and the House Education Committee (Sen. Kuipers and Rep. Melton respectively) have both indicated that they expect the issue to be resolved in a joint House/Senate Conference Committee.

# **REFORMING THE STATE CONTRACTING PROCESS**

## **ATTACHMENTS**

Please find attached the documents referenced above and some other documents and articles that may be of interest.

## **MORE WAIT AND SEE ON TAX REFORM PROPOSAL**

After months of researching how to structurally reform state government and overall the tax structure, and weeks after Detroit Renaissance started facilitating private discussions amongst the business community to get a consensus on a proposal, it appears the public by-and-large will have to keep waiting to see if anything materializes.

House [Speaker Andy Dillon](#) (D-Redford Twp.) was the first this term to call for an overhaul of the tax structure, but Detroit Renaissance has picked up the ball and has been convening meetings with more than a dozen business associations to see whether most or all of them can agree on a proposal.

And like the Legislature getting a consensus on the budget, Detroit Renaissance President Doug Rothwell said Friday it takes time to get the various associations all on board.

While it's "promising" that all the groups are still in conversation about a proposal, Mr. Rothwell said he doesn't know whether or not there will be a final product to put before the public.

But he said the worst thing that could happen is to replicate the 2007 tax debate and have interest groups fighting against each other. "We need a critical mass of the business community. We can't just throw out a proposal to thrash it out in public."

All options are still being discussed, Mr. Rothwell said, but he expressed there is "serious issue" with going to a graduated income tax system, although a recent poll showed a majority of voters would favor that (See [Gongwer Michigan Report, July 9, 2009](#)).

Polling Detroit Renaissance has done shows that the more people delve into how a graduated income tax would work the more support falls off from the proposal, he said.

Asked whether the group is closer to supporting a proposal that would go before the voters, like a graduated income tax would have to, or one that the Legislature could just enact, Mr. Rothwell said that would be putting the cart before the horse because first the group wants to put together a proposal that is right for the state.

The Detroit Regional Chamber released a statement Friday saying it has participated in "inclusive and productive conversations with business organizations about moving the state forward. The conversation has included the need for a unified voice on structural reform and the state's overall tax structure."

But the Chamber said it continues to oppose a graduated income tax contrary to some media reports saying it supports such a measure.

"Our position hasn't changed," Chamber President and CEO Richard Blouse said. "We have been and will continue to advocate for real, substantial structural reform in the state budget, including the corrections system, sharing of government services and benchmarking employee pay and benefits."

Reached Friday Mr. Dillon said the Legislature has to make tough decisions on the budget in terms of cuts and reforms. Once the budget process is moved along and if there is a revenue hole to be filled that could "turn the heat back up" on enacting tax reforms.

While Mr. Dillon said he shared some ideas with Detroit Renaissance early on, they have not used all of those proposals and he added that at this time he doesn't necessarily agree with the direction the group is going.

However, he added it is still early in the process of figuring out what will be the final product.

Mr. Rothwell said legislative leadership and the administration are being briefed regularly on what the group is up to, but at this point, there isn't too much information to share.

Mr. Rothwell said while the group is mindful of the Legislature's timeline but there is no "imminent deadline" for getting a proposal ready for public and legislative consumption.

*Gongwer, 7-10-9*

# REFORM CONTRACTING – STOP OUTSOURCING – SAVE MONEY

## Introduction

For nearly twenty years the State of Michigan has been using extensive private contracting for “personal service” contracts. That has undermined Michigan’s Civil Service System and undermined the savings its workforce has sacrificed so greatly to generate.

## Saving Money by Insourcing

For years, Michigan has labored under the myth that private contracting of state work is always a cost savings. That has resulted in costly missteps both in terms of dollars and efficiency. While it would be inaccurate to suggest that all products and services could be provided “in house” it is even more correct to say that outsourcing of Michigan’s public service needs has wasted scarce state resources.

A recent example under contention by a task force of the Michigan State Employees Association AFSCME Local 5 involves the Michigan Department of Transportation. MDOT has requested authority to seek bids for a \$3 million, 6 year contract to monitor billboards as required by state and federal law. The request specifies that these services shall not exceed 832 hours per year. The cost would therefore exceed \$600 per hour for work that could be absorbed by current MDOT employees at little or no cost.

## Saving Money by Proper **Monitoring** of Private Contracts

Once a contract is issued, it often continues with little or no revue and quickly increases in cost. A quick look at a few recent renewal efforts demonstrates this fact. DEELEG is currently seeking renewal of contracts for the following services:

- Five years of “intermittent” janitorial services at a cost of \$1,000,000.00 for the same services that cost \$680,284.81 over the previous 5 year period.
- Five years of “intermittent” guard and security services at various locations at a cost of \$1,000,000 that cost \$736,265.26 over the previous 5 year period.
- Outsource mailing machines/equipment maintenance for \$1,000,000 that cost \$20,750.92 for the same period.
- Wiring and Other Electrical Services at a cost of \$1,000,000 that cost \$101,698.57 for the previous period.

Even if outsourcing were necessary in each of these cases, why should the cost for the next five years exceed the cost for the last five years by nearly \$2.5 million?

## Recognizing the Hidden Costs of Privatization

While it is true that Civil Service Rules require that the cost of outsourcing compare favorably with state workforce costs (albeit by as little as 5%) the documentation is rarely, if ever provided. Further, it is very questionable if such justification could be demonstrated if the cost of administration, monitoring and servicing the contract is included.

## Reforming Michigan's Civil Service rules

Civil Service Rule 7-1 (Disbursements for Personal Services outside the Classified Service) provides the Standards that need to be met for personal service contracts. The rule has not been amended since 2001. The standards are very general and lax, allowing Departments broad discretion. To appeal decisions authorized by DMB requires a complaint with Civil Service which is now housed within that Department. Technical review officers require complainants to prove a violation of the Constitution and/or a Civil Service Rule despite the fact that both the Constitution and Rules provide that neither the Civil Service Commission nor a Department may "make or authorize disbursements for personal services outside the classified service until the provisions of article 11, section 5, of the constitution and the civil service rules and regulations have been complied with in every particular."

Standard A, the most commonly used standard allowing for hires outside of civil service, allows virtually automatic approval for personal service contracts for services that are "temporary, intermittent or irregular." This is regularly allowed even though the Civil Service Commission has classified positions for temporary, non-career positions. "Limited Term Appointments" within civil service have expiration dates. "Intermittent" positions outside of civil service often become virtually permanent.

## Debunking Substance Abuse Myths

Michigan has a policy of random testing for substance abuse and uses an outside contract for that purpose. That contract covers alcohol and controlled substance random testing of 10% of the test-designated workforce annually as well as testing of all new hires. The contract therefore covers new hires plus approximately 3600 random tests annually. The total cost of the program for the 2006-2009 contract was \$1,274,100.00 covering new hires and 10% of all test-designated workers. (There are approximately 18,000 test-designated employees therefore the contract should result in 1800 controlled substance tests and 1800 alcohol tests in addition to testing of new hires). A similar program for 2009-2012 will cost the State \$900,000.00.

360 random tests were conducted on AFSCME Council 25 employees in 2007 with 5 positive findings. That means random testing discovered abuse in only 1.4% of the tests. In 2006, 360 random tests yielded only 4 positives (1.1%). During the same period, there were 5 reasonable suspicion tests conducted (though not all tested positive). If random testing were discontinued and replaced by reasonable suspicion testing we could reasonably expect to discover the same number of substance abusers and, even by the most conservative estimates, cut our costs in half.

## Conclusion

Even with limited access to critical information and limited resources, it is easy to show the possibility of substantial savings in Michigan's inefficient personal contract system. Civil Service rules need to be modernized and reformed and both the Department of Management and Budget and the Administrative Board should review the systems currently in place before seeking additional concessions from state workers.

**For additional information contact NICK CIARAMITARO, Director of Legislation and Public Policy, Michigan AFSCME Council 25 or Mark Rosenfeld, Ass't to the President, MSEA AFSCME Local 5**

Monday, August 10, 2009

# Michigan's mentally ill face major health benefit cuts

Karen Bouffard / The Detroit News

*Detroit* --Willie Bohler, 69, didn't know he had paranoid schizophrenia until he assaulted a stranger on a Detroit city bus with a pocket knife.

That incident seven years ago ended his 30-year career as a respiratory therapist. He went to trial, was found not guilty by reason of insanity and was sent to Walter Reuther Psychiatric Hospital, where he was institutionalized for two years.

Bohler has lived since then in his Detroit neighborhood, aided by psychotropic medication and intensive community-based programs. His court supervision ended July 1.

But his recovery is tenuous, like that of hundreds of thousands of Michiganians, including more than 25,000 in Wayne County, who stand to lose state-funded mental health services and prescriptions as the state attempts to close an expected \$1.8 billion budget deficit in the fiscal year that starts Oct. 1.

"They released him with the agreement that he would receive treatment, and he's been stable since he's been here," said Alma Ferrell, director of the Assertive Community Treatment (ACT) program, at the Northeast Guidance Center, which provides Bohler with two or more home visits a week by trained mental health specialists.

"He's not had any hospitalizations since then," Ferrell said. "We monitor his medications, and he and his cousin share a house. He's doing very well."

Gov. Jennifer Granholm has proposed shaving \$40 million from non-Medicaid community mental health programs -- such as those Bohler attends at the Northeast Guidance Center -- in the new fiscal year, continuing cuts she imposed by executive order in May. The state Senate passed a 2009-10 budget that would cut \$61.8 million from non-Medicaid mental health services.

Senate leaders say the state doesn't have the money to pay for such services, and it is the lawmakers' constitutional obligation to balance the budget.

"The Senate did the best they could to minimize the impact of the cuts, but the fact of the matter is they're necessary if we're going to turn Michigan around," said Matt Marsden, a spokesman for the Senate Republicans and Senate Majority Leader Mike Bishop, R-Rochester.

"We have a finite number of resources to deal with."

Democrats, who hold the majority in the House, favor using federal stimulus money to avoid cuts to mental health at a

time when unemployment has spiked to 15.2 percent.

"Because of being unemployed and not being able to care for their families, many of those people go into depression and face serious mental health problems," state Sen. Irma Clark-Coleman, D-Detroit, said. "We've got huge layoffs ... and at the same time we're cutting services to people who need them the most."

## Not poor enough

The proposed cuts mostly would affect people not poor enough to qualify for Medicaid -- working or retired people who either don't have health insurance, or can't afford the large deductibles and co-pays that come with their insurance plans.

This year, \$332.6 million from the state's general fund went to 46 community mental health service providers that deliver treatment. In 2008, more than 230,000 Michiganders were helped through such programs.

Medicaid recipients would be affected as well under a Granholm proposal that would require pre-approval for most drugs used to treat mental illness, a policy that Michael Vizena, executive director of the Michigan Association of Community Mental Health Boards, said will likely require patients to fail on cheaper medicines before getting the most effective drug.

"Other states that have tried this have found many persons in this 'fail first' environment end up costing more in terms of hospital visits," Vizena said. "Prior authorization can be costly, and the worst outcome is that people put in the position to fail first have some fairly serious outcomes."

Monitoring medications -- and helping patients get them -- is one of the most time-consuming tasks. But funding to employ case managers is threatened by the proposed cuts.

Cynthia Jackson, program director for adult services at Northeast Guidance Center, said case managers routinely cut through red tape, sign clients up for discounts, and collect free samples from pharmaceutical companies to get clients their meds.

Last month, Bohler went to a pharmacy for a refill on his schizophrenia medicine and was told his insurance company would no longer pay for the \$600-per-month prescription.

"It takes someone to sit down with the client and figure out what you're dealing with -- if it's the pharmacy's neglect, or the insurance company, or they changed the rules," Jackson said.

Bohler is getting by today on free samples while the problem is being sorted out.

"They charge so much for that medicine, and if you don't take it, you know what's going to happen," Bohler said. "You might be back in the hospital."

## A place to belong

Bohler is one of 156 active members of the Motor City Clubhouse, a psycho-social therapy program at Northeast Guidance Center that will be threatened if the proposed cuts are enacted.

Open from 8 a.m. to 4:30 p.m. five or six days a week, members socialize, share lunch, receive therapy, and have jobs to learn work skills -- some are paid positions funded by state general fund dollars.

"I feel much better since coming here," Bohler said.

Phyllis Bosquez, 48, of Detroit said she is better at staying on her meds since joining the club. "I'm bipolar, and I

would think, 'It's fine, it's been three months, I don't need this medicine,' " Bosquez said. "Then it would be chaos.

"I need to get here or I might not be sane next week, or next month."

Club director Miguel Weeks said many members would sit home alone if they didn't have the clubhouse to come to. "We try to give them a home away from home," Weeks said. "It's based on the belief that every individual has a right to a dignified life."

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Thursday, July 9, 2009

# Voters don't want cops, schools cut

## Poll reveals Michiganians disagree with lawmakers on priorities in next year's budget

Karen Bouffard / Detroit News Lansing Bureau

*Lansing* -- Michiganians have some advice for lawmakers hammering out next year's budget: Spare schools and police, slash your expenses.

As the Legislature returns Monday from its two-week vacation to hash out competing budget proposals, an exclusive Detroit News-WXYZ statewide poll finds that most voters also want to preserve funding for Medicaid, roads and job training. Programs or services that voters said should be targeted for cuts are substance abuse programs, retaining state workers, prisons and environmental protection.

The EPIC-MRA poll found voters are at odds with Gov. Jennifer Granholm's proposals to further reduce the State Police force following 100 trooper layoffs June 28 and to reduce school funding by \$59 per pupil -- issues that House Democrats and Senate Republicans also can't agree on.

Budgets passed by the House line up better with voters' viewpoints than those passed by the Senate or the governor's recommendations, according to Bernie Porn of EPIC-MRA in Lansing. But nobody in Lansing seems to be nailing voters' priorities -- entrenched differences over how to fix Michigan's economy portend budget battles that could stretch into the fall.

"It is going to be very difficult to match up the budgets of the two (chambers) because they're at loggerheads," Porn said.

"Irrespective of party, people are placing a high priority on preserving the State Police, Medicaid funding and support for education."

The Senate's budget proposal cuts \$1.2 billion out of the state's \$18.4 billion budget that is expected to be \$1.7 billion in the red for the fiscal year that begins Oct. 1. The House proposed cutting less than half of that amount. Once the two chambers come to agreement, federal recovery cash will be used to erase the remainder of the deficit.

The chambers have to agree on the 2009-10 budget before the new fiscal year starts to avert another state government shutdown like the brief closure in 2007 when legislators failed to approve a budget by the Sept. 30 deadline.

## **Voters recognize crisis**

"I'm really tired of our state Legislature not being able to get together with the executive branch," said Scott Gill, 50, of Shelby Township, a survey respondent laid off from General Motors Corp. in January after more than 28 years.

"I'd like to see the environment protected, more job training, more diversification of our economic base and fewer people in prison."

Of 600 voters surveyed statewide June 23-25 and June 27-28, 76 percent said Michigan's budget is in a "crisis situation," although 58 percent said budget cuts haven't really affected them yet. Of those who have been affected, 17 percent said they've felt the impact in education costs or cuts; 15 percent have felt it in road disrepair; 12 percent in rising costs; and 10 percent in unemployment.

Asked to rank state programs in the order funding should be cut, 69 percent of respondents said funding for State Police should be the last to be cut, followed by Medicaid funding at 67 percent, per-pupil funding for local public schools at 65 percent, and revenue sharing for local governments to fund police, fire and other local services at 60 percent.

Asked which one or two department budgets the state should cut first, the state Legislature was named more than any other area, with 37 percent saying lawmakers' budgets should be the first to go. The environment and prisons each were named by 8 percent of respondents, followed by state workers and substance abuse programs, each named by 6 percent.

## **Plans focus on troopers**

"Keep police and education -- cut the state personnel," said Jing Zhang, 48, of Oxford, who participated in the poll. "State personnel should (be cut) by the same rate as the population has gone down.

"Every time they want to increase tax, they say they want to cut police and education -- this is a political trick," Zhang said. "If every home could save \$400 per month on taxes, they could lease a car."

The state House didn't approve a State Police budget before going on break, and the Senate concurred with Granholm's plan to eliminate 66 trooper positions in the next budget year through attrition, but would use federal economic recovery funds to avoid trooper layoffs.

The Senate slashed \$110 per student from school aid and \$140 million from Granholm's popular Promise Grant program, which pays up to \$4,000 for college tuition over four years.

Under the House bills, federal stimulus money would be used to avoid cuts to school aid and spending for colleges and universities. The House increased funding for Promise Grants from \$80.5 million to \$140 million.

The House and Senate are roughly \$500 million apart on spending for Community Health. The House bill leaves funding for Medicaid at roughly its current level, while the Senate bill would shave about \$600 million through reductions in Medicaid payments to doctors and hospitals, increased co-pays for patients and other

changes.

"Right now, they are struggling with how to balance the budget, and there's two visions of how to do that," Porn said. "It will all boil down to cutting areas the public is willing to accept."

The poll has a margin of error of 4 percentage points.

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FOR IMMEDIATE RELEASE  
MONDAY, Aug. 10, 2009

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Michigan Must Close Tax Loopholes as Cash Shortfall Burns Hole in Budget  
Michigan citizens deserve positive change; business-as-usual unacceptable

LANSING – Citizens watchdog Progress Michigan today called on Lansing to immediately close hundreds of tax loopholes big and small that do not create jobs but which deprive Michigan citizens of much-needed tax dollars. Progress Michigan made the call as budget experts warn that revenue is falling faster than anticipated. Michigan faces a budget shortfall of nearly \$3 billion, while a growing chorus of groups and individuals is warning that critical public services are being slashed to dangerous levels.

"Michigan must immediately close tax loopholes that benefit the special interests and corporate fat cats, but which rob Michigan citizens of the opportunity to build a better future," Progress Michigan Executive Director David Holtz said. "Michigan is dying the death of a thousand loopholes. We need to stop the bleeding and close these unfair loopholes."

Senate Fiscal Agency Director Gary Olson recently warned that Michigan's revenue is falling at a faster rate than anticipated. Olson said Michigan's outdated tax structure is incompatible with a modern economy and 21st century consumers. Progress Michigan and others, including Oakland County Treasurer Andy Meisner, are calling for Michigan to fix Michigan's budget crisis by closing hundreds of tax loopholes and exemptions – some of which date to the 1970s – that do not create Michigan jobs but which rob Michigan taxpayers of billions of dollars in lost revenue.

In an Associated Press story published in recent days, Olson said the percentage of their personal income that state residents and profitable businesses pay in state taxes has dropped over a full percentage point since hitting a high of 8.4 percent in the mid- and late 1990s. So far this fiscal year, the rate is 7.3 percent.

Residents aren't necessarily paying fewer tax dollars, Olson said, but as their incomes have risen, they're giving the state a smaller proportion of their money - 2 full percentage points less than they did a decade ago.

One solution to declining revenues is closing loopholes.

“Business as usual is not acceptable if Michigan wants to move forward and create 21st century jobs,” said Holtz. “Unsafe bridges and failing schools do not attract investments and jobs. Closing tax loopholes that have help very few but hurt so many is a good solution to Michigan’s budget crisis.”

## **TAX DECLINES AMONG ALL STATES SHARPEST ON RECORD**

Tax collections fell at a record pace during the first quarter of 2009 across all the states, a report from a New York state institute said. Across the United States, state tax collections fell by 11.7 percent during that time, the steepest drop in 47 years.

The report from the Nelson A. Rockefeller Institute of Government in Albany also said that when all factors - changes in tax laws, inflation and other anomalies are calculated - total tax collections fell in 47 states.

And early indications of revenues from April and May could indicate that states will suffer an even worst second quarter than they did the first, the study said. Nationwide, the study indicates that tax collections fell by nearly 20 percent from April and May of 2008.

The study focused on collections from the personal income tax, the sales tax and corporate income tax. But it reported total revenues from all taxes that a state collects.

Michigan's total tax revenues were down by 16.5 percent from the first quarter of 2008 compared to the first quarter of 2009.

While Michigan suffered among the worst drops in revenues, it was nothing compared to what Alaska saw in the first quarter. Alaska's total revenues during the first quarter fell by 72 percent, from \$1 billion during the first quarter of 2008 to \$280 million.

Every region of the country saw revenue declines during the first quarter, the report said. The report said the far west region (which includes Alaska, California, Hawaii, Nevada, Oregon and Washington) suffered the worst in percentage loss from 2008 to 2009, 16 percent. The Rocky Mountain states of Colorado, Idaho, Montana, Utah and Wyoming, fared the best with losses of 5 percent.

The Great Lakes region (which the report lists as Michigan, Illinois, Wisconsin, Indiana and Ohio) saw revenues decline 10.3 percent during the quarter. Indiana saw revenues decline 3.5 percent, Ohio by 9 percent, Illinois by 10.8 percent, and Wisconsin saw revenues fall by 11.2 percent.

Wyoming, which is rich in minerals and energy sources, was the only state that saw a bonanza in terms of total revenues, seeing overall increases of 19.8 percent during the first quarter.

According to the study, income taxes among all the states collecting income taxes fell by 17.5 percent during the quarter compared to the first quarter in 2008, a rate that it called unprecedented.

Sales tax revenues were down by 8.3 percent from the first quarter of 2008 to the first quarter in 2009.

Corporate income taxes declined by 18.8 percent during the same period, the report said.

While the first quarter was the worst on record for state tax collections, the report said the indications for the second quarter indicate collections for that period could be even worst. While June revenues were not yet reported, the report said there is "little reason to expect reported revenues for that month to be strong."

# UNIONS' RESPONSE TO INTERIM LCGE RECOMMENDATIONS

## TALKING POINTS

### REGARDING POTENTIAL OVERARCHING CONCLUSIONS

We agree with the LCGE's recognition that the State's problems are largely structural.

We agree with the LCGE's recognition that the State's revenue structure is out of whack and that tax policy needs revision.

We agree with the LCGE's recognition that neither an economic recovery nor incremental improvements in efficiencies will suffice to address the State's revenue problems.

We disagree with the LCGE's understatement of the impact and effect of the American auto sector's collapse and restructuring on the State's economy. Prior to 2008, Michigan was already suffering significant job losses and loss of tax revenue compared to other states. At the same time, the need for public services has rose while tax breaks continued to be initiated and implemented.

We disagree with the LCGE's failure to include as a primary driver of the State's structural problems the fact that privatization – which permeates the State system and the public sector – has not saved taxpayers dollars and, in fact, has led to pervasive cost overruns. We urge the LCGE to include privatization as a primary driver of the State's structural problems in its “overarching conclusions.”

### K-12

We disagree with the LCGE's interim recommendation to re-allocate \$300 million of school aid.

A better savings for both K-12 and Community Colleges would be if the State assumes responsibility for education employee retirement costs. (LCGE's sister Legislative Commission on Statutory Mandates has identified the \$1.45 billion made as an unfunded mandate that needs to be rectified.) Cost savings can be realized by having the State assume responsibility for

education employee retirement costs. Currently, the State sends funding to districts only to have districts return it, resulting in wasteful administrative costs.

The LCGE should recommend exploration of the possibility of recalibrating the timing of school aid payments (and payments to other local government units) to avoid districts having to borrow short term, leading to additional administrative waste.

We disagree with the LCGE's interim recommendation that school consolidations should be mandated. Rather, we ask LCGE to revise that recommendation to provide incentives to districts which can show savings through consolidation, without mandating such consolidations.

We disagree that early retirement incentives are a good idea based on our experience with such initiatives. However, the recommended \$5,000 incentive is not enough to compel someone to retire and will only be an additional cost in connection with those who plan to retire anyway.

### **HIGHER ED**

We disagree with the LCGE's interim recommendation to cut the Promise Grant. Cutting the grant will not help create a better educated work force and will hurt the State's efforts to retain its best and brightest and attract new business.

We agree that it is worth examining restructuring the Promise Grant criteria, taking into consideration successful educational programs like Lansing's Hope Scholarship and the Kalamazoo Promise scholarship.

### **MEDICAID/DCH**

We support initiatives that provide the State's needy population with access to adequate medical services. Without such access, this population will continue to seek care in hospital emergency rooms and other higher cost facilities which will only shift those higher costs to insured Michiganians and result in higher premiums.

LCGE interim recommendations must emphasize the problem of accessibility because resolving this problem is the key to efficiency. Accessibility includes an inability to see certain doctors because of reductions in Medicaid payments to doctors and location of facilities which may be isolated and off public transit routes.

We urge that any recommendations that touch on health care be postponed for implementation in light of the current debate in Congress on national health care solutions which would impact these recommendations and result in unnecessary inefficiency if implemented before the contours of federal legislation is known.

## **CORRECTIONS**

We agree with the LCGE's recognition that current sentencing guidelines impact the Corrections budget. However, we disagree with the LCGE's failure to recognize that little responsible change can occur with the Corrections budget without sentencing reform. We ask that sentencing reform be emphasized as a first task on the road to examining the Corrections budget because without such reform, responsible decisions centering on a reduction in the prison population cannot be made.

Greater analysis is needed of the cost impact of prison population reduction, including providing adequate services outside the prison setting (counseling, education, housing, work assistance) and the need to increase parole/probation and law enforcement personnel.

Without first tackling sentencing guidelines, the LCGE's interim recommendations could shift costs elsewhere and endanger public safety and already understaffed law enforcement, parole/probation officers, and social service sector.

We disagree with the premise that overtime can be simply cut in half without addressing prison employee understaffing. Without addressing understaffing, safety of in-prison personnel and other prisoners and the surrounding external prison community will be endangered.

We strongly agree with the interim recommendation that current privatization contracts be reviewed. We especially agree with this review in connection with prison health care costs. It is well documented that the privatization of State prison health care has resulted in high cost overruns and the increased need to access higher cost off-prison medical facilities and additional associated transportation and personnel costs due to artificially low per-prisoner health care costs that contractors initially promise but cannot sustain. The Auditor General has documented these overruns and artificially low initial contract costs. Proper pay to those holding prison health care classifications will attract employees and bringing work in house to allow the State to manage a prisoner health care more cheaply and efficiently.

## **REVENUE SHARING**

We disagree with the LCGE's interim recommendations. The interim recommendations destroy local control (home rule), which exists and is important and protected because Michigan is a geographically and economically diverse state.

We support voluntary cooperative efforts among local government units.

We disagree with the LCGE's interim recommendation that local governments should have increased taxing authority. Permitting such authority will only facilitate in taxes from the State to the local individual taxpayer.

### **PERSONNEL PRACTICES**

We ask that the Civil Service rules be amended to include specific protection to civil service employees who recommend efficiencies or identify wasteful, inefficient practices in the course of performing their jobs. Without such protection, employees are subject to potential discipline for pointing out that their direct and indirect supervisors are not managing the workplace efficiently because potentially useful recommendations are, unfortunately, seen as an attack on management.

### **HEALTH BENEFITS FOR STATE AND LOCAL**

#### **GOVERNMENT EMPLOYEES AND RETIREES**

We disagree with the LCGE's interim recommendation that "professional consultants" must be hired to examine and assess current employee health care benefit plans. Unions have been conducting such reviews and negotiating with public employers for decades on health care cost reductions, often pointing out areas for massive savings to the employer. Unions and public employers are knowledgeable about today's health care issues and have experts that have provided advice at little or no cost to Michigan's public employers during negotiations.

Health care is part of a public employee's total compensation package. It is well established that for years, public employees have bargained wage cuts or wage freezes in exchange for maintaining health care; bargained slight wage increases (often below the cost of living increase) in exchange for accepting an increase in health care premium co-pays; or bargained a slight wage increase (often below the cost of living increase) in exchange for a different, less expensive health care benefit plan.

Note that just this year, State of Michigan employees have accepted six unpaid furlough days in addition to paying higher health benefit co-pays and wage freezes.

We disagree with the LCGE interim recommendation of having a two-tier health care system. We believe that it would be highly inefficient to have two health care employee pools. Further, employers that offer their employees different health care benefits may run the risk of adversely impacting their ability to deduct those health care expenses.

We disagree with the LCGE interim recommendation that all public sector employees should be in the same health care pool. Managing a too-large pool would be inefficient. It would also be bad business to have one insurer manage. This plan would also destroy local control over health care and collective bargaining; different employers and employees in different locations in the State have health care models that work for them efficiently but may not work elsewhere for differently located employers and employees.

We disagree with the LCGE's interim recommendation to consider conditioning receipt of some revenue sharing dollars by local government units, K-12, community colleges, and universities in exchange for their implementation of a health care benefit package with the same co-pay as that received by State classified employees. We believe that there are significant legal issues with compelling constitutionally independent universities to implement this plan but most importantly, this interim recommendation is anti-local control, anti-collective bargaining, and is only another means of moving to a State-wide health care pool.

We agree with the LCGE's interim recommendation to pre-fund retiree health care. The State did this in the past, but no longer. Can the State be trusted to continue to pre-fund in light of its less-than-stellar track record? We disagree that selling bonds would help pre-fund retiree health care because of the State's economic condition.

# [The following is the “White Paper” issued by Speaker Dillon as his proposal for Consolidating all Public Employee and Public Retiree Health Care Benefits -- nc]

## SUMMARY

### Background

The State of Michigan faces a 2010 fiscal year deficit of more than \$1.7 billion. Structural changes in public sector active and retiree health care benefits provide an opportunity to help the state address this budget deficit by reducing costs by an estimated **\$700 to \$900 million per year**.

### Proposals

- Consolidate the planning, delivery and administration of health care benefits, including negotiations and purchasing, for public sector employees and retirees in Michigan \*
  - The state, counties, cities, school districts and other municipalities spend thousands of hours to individually negotiate and administer hundreds of unique health care plans for Michigan’s public sector employees and retirees; consolidation of these activities will simplify the process and generate an estimated **\$65 - \$75 million in annual savings** across Michigan’s public sector
  - Economies of scale will ensure that Michigan’s public sector has access to the most efficient and cost-effective health care plans available, generating an estimated **\$100 - \$200 million in annual savings**
  - The combined size and scale of the state’s public sector can be leveraged to explore opportunities to pay doctors, hospitals and other medical providers for the holistic treatment of a patient’s medical condition instead of the current fee-for-service model that encourages overtreatment and duplicate medical testing, and to make medical cost and quality information available to patients, which will generate additional savings
- Standardize the health care coverage offered to Michigan public sector employees and retirees to ensure fair, uniform benefits at a lower cost to taxpayers with estimated expected savings of **\$400 to \$600 million annually** \*
  - All public sector employees, from the local school bus driver to the Governor and other elected officials, should be able to choose from the same portfolio of health care plans.
  - The health care benefits offered to Michigan public sector employees and retirees should be similar to
    - those offered to public sector employees and retirees in other states
    - those offered to private sector employees and retirees in Michigan
  - The average costs paid by Michigan public sector employees and retirees for their health care benefits should be consistent with the average cost paid by
    - public sector employees and retirees in other states (subject to means testing on income)
    - private sector employees and retirees in Michigan (subject to means testing on income)
  - Establish a mechanism to ensure that the health care delivered in Michigan conforms to recognized best medical practices. This is important, and the savings could be substantial, as studies show that it often takes seventeen years for best practice treatments to be fully adopted by the medical community. As a result, patients do not get the correct diagnosis for their medical conditions up to 20% of the time and, even when the diagnosis is correct, patients do not receive the best course of care up to 60% of the time, which increases the cost of health care.

### Recommended Immediate Action:

- Governor to appoint “Director” to design the vision and an action plan for adoption of a uniform, public sector health benefits program for the State of Michigan
  - Vision to be completed no later than September 30, 2009
  - Action plan to be completed no later than October 31, 2009
  - Approvals to be completed no later than December 31, 2009

- Implementation to begin in January 2010

## Goals

- Implement fundamental changes in the planning, delivery and administration of health care benefits for Michigan's public sector employees in order to create substantial savings for the state
- Provide competitive, affordable health care benefits to the state's public sector employees
  - Plans should be similar in design and average cost share as the health care benefit plans offered to the majority of the state's private sector employees and retirees, and
  - Plans should be similar in design and average cost share as the health care benefit plans offered to the majority of the state's private sector employees and retirees
- Use the combined size of Michigan's public sector to ensure access to the most efficient and cost-effective health care plans available
- Preserve patient choice
- Sustain collective bargaining rights
- Aim to optimize the health of public sector employees, retirees and their families, by investing in prevention and wellness, rewarding healthy behaviors and encouraging individuals to actively participate in the management of their own health
- Establish a mechanism to ensure that the health care delivered in Michigan conforms to recognized best medical practices
- Once the infrastructure to administer health care benefits for Michigan's public sector employees and retirees is in place and standardized health care benefits programs are operational, the state should offer its health care benefit plans as an option to all residents and businesses in Michigan
- Reposition Michigan as the preferred place to do business

\* Any government units that offer lower cost plans to their employees would be exempted from participation in the state plan

## DETAILED REPORT

### Background

The State of Michigan faces a 2010 fiscal year deficit of more than \$1.3 billion. Structural changes are needed in order to address this deficit. Changes in public sector active and retiree health care benefits provide an opportunity to help the state reduce costs; specifically, changes that would centralize the oversight and administration of health care benefits, standardize benefits for all public sector employees, leverage an increased purchasing scale and position the state to have a stronger voice in ensuring that all residents receive medical care that conforms to recognized best practices.

**Expected savings range from an estimated \$700 to \$900 million per year.**

### Current Status

- **Complexity**

The State of Michigan, through the Civil Service Commission, manages and purchases health care benefits for most state employees and retirees. The state's counties, cities, other municipalities, and schools are responsible for providing and administering benefits for their own employees and retirees. [public school retiree health care provided through MPERS/NC] Due to the challenges and complexities involved in establishing and managing health care benefits, many public sector communities, local governments and school districts use a third party administrator (TPA) to perform these tasks. For example, the Michigan Education Special Services Association (MESSA) is a TPA that provides health care benefits to more than three quarters of the state's public schools and universities, covering more than fifty percent of teachers. The American Federation of State, County and Municipal Employees (AFSCME) through MEBS, the Michigan Public School Employees Retirement System (MPERS), the State Employee Retirees Association (MI-SERA), the Michigan Municipal League (MML) and the Municipal Employees' Retirement System of Michigan (MERS) are other examples of organizations with a voice in health care benefit programs for public sector employees and retirees in Michigan.

Thousands of hours are spent annually on multiple levels to manage and administer health care benefits for Michigan's public sector employees and retirees who participate in the benefit plans offered by the state and its vast number of counties, cities, schools, other municipalities and local units of government. To give this some perspective, Michigan has:

- 83 counties
- More than 630 cities and 1,250 townships
- 839 school districts and intermediate school districts (with about 1,200 bargaining locals)
- Numerous other local units of government such as courts, libraries, road commissions and community health agencies
- Each of these units may negotiate benefit contracts with **multiple** unions representing active employees and **multiple** unions representing retired workers

- **The Cost of Health Care for Michigan's State Employees and Retirees**

According to House Fiscal Agency, the state incurred \$551.7 million to provide health care coverage to 48,529 active employees and their families in 2008. This was an average cost per contract (a contract is an employee and his/her dependents) of \$11,368. The state also paid \$360.9 million in 2008 to cover 45,551 retirees and their families, which was an average cost of \$7,923 per retiree contract. House Fiscal estimates that the state will save \$100 million in health care costs in 2009 due to increases in premium sharing (from five to ten percent) and point-of-service costs (e.g., deductibles and copayments) for state employees. The increases went into effective on October 5, 2008.

Although state employees recently assumed a larger portion of overall health care costs, data show that they continue to pay less in premiums (on both an absolute and percentage basis) than the amount paid on average by their counterparts in Michigan's private sector. For example, the total 2009 cost of coverage for a family enrolled in the state's health care program ranges from generally just under \$16,000 for an HMO to just over \$17,000 for the state's PPO plan. State employees pay between \$800 and \$1,500 annually, or five to eight percent, of the HMO premium and \$1,700 annually, or ten percent, of the PPO premium. Conversely, the average 2009 annual total premium for family coverage provided in Michigan's private sector for businesses with more than 50 employees is estimated to range from \$13,000 to \$14,000, with private sector employees paying on average 18%, or \$2,300 to \$2,500, of the total premium. This means that private sector employers pay on average \$10,700 to \$11,500 for family coverage after deducting the employee premium share, compared to just over \$15,000 paid by the state.

The total 2009 annual premium for individual coverage under the state's PPO plan is \$6,190 with employees paying ten percent or \$619 of that premium. Under the available HMO plans, the total 2009 annual premium for individual coverage ranges from \$3,774 to \$6,111, with employee premiums ranging from five to eight percent, or \$189 to \$540 per year. The total average premium for individuals enrolled in all plan types is \$5,176 in Michigan's private sector with the individual paying 15% (\$772) of the premium.

(Note: The State of Michigan pays 90% of the total health care premium for its PPO plans, and 95% of the total premium for the same coverage code as the State Health Plan PPO. Accordingly, state employees pay ten percent of the total premium for PPO coverage and between five and eight percent for HMO coverage. This calls into question the incentive or motivation for HMO plans to price their products at levels below ninety-five percent of the PPO premium.)

The report "Civil Service Salary and Benefit Comparisons," published by House Fiscal Agency in November 2008 shows that, as a result of the new contract agreements that went into effect in October 2008, Michigan's state employees will pay \$142.37 per month for family health care coverage. The report goes on to state that this amount is higher than the average paid by private/public sector employees surveyed in 2007.

The \$142.37 per month premium reflects coverage under the PPO plan, the most expensive plan option available, whereas monthly premiums for the HMO plans range from \$42 to \$124 for family coverage. When health care inflation is added to the average premium cost paid by private sector employees, the new premium paid by state employees for family coverage continues to be lower. Per the House Fiscal report, the average premium for family coverage paid by private sector employees in Michigan was \$138.15 as of June 2007. This increases to \$152 per month (or \$10 more than the maximum paid by state employees) when compounded for two-years of inflationary increases at five percent, which is a conservative yet fair increase as the Joint Economic Committee of the U.S. Congress reported that health care inflation was 8.8 percent in 2007 and other sources have quoted increases of five percent for 2008.

While the premiums paid by state employees for family coverage continue to be less than those paid by private sector employees, state employee health care premiums far outpace those paid by other employees in the public sector. In 2007, the average monthly premium paid by Michigan's public sector employees for family coverage was \$62.01. Compounded at 5 percent per year for two years, this would increase to \$68.37, or \$74 per month less than the maximum premium paid by state employees for family coverage.

- **The Cost of Health Care for Michigan's Active and Retired School Employees**

(Note: The analysis presented in this section focuses primarily on active school employees covered through MESSA.)

For the 2008 fiscal year, House Fiscal Agency reports that the school share of cost for all insurance provided to active school employees was \$1,989.5 million. This equates to about \$1,727 million for health care costs when adjusted for life insurance and disability (a total of about three and one-half percent) and dental and vision (about seven to ten percent). The school share of cost for retiree insurance was \$734.5 million (health, dental and vision), or about \$660 million for health care only.

The Michigan Education Special Services Association (MESSA) is affiliated with the Michigan Education Association (MEA) and provides health care coverage to about three quarters of Michigan's school districts and more than fifty percent of the state's teachers. Notably, some large districts such as the Detroit Public School (DPS) system are self insured and therefore are not part of MESSA. MESSA covers active teachers through a Voluntary Employees Beneficiary Association (VEBA), where the association develops health care plans and programs, offers them to various school districts and then administers the benefit programs. Specific cost information on the state's self-insured schools is not available.

The benefits provided through MESSA are comprehensive and considered by some to be more generous than the benefits offered to state employees and in the private sector. For example, MESSA plans have covered massage therapy without a prescription or referral from a physician. This type of benefit is generally not covered by other insurance carriers, sometimes even with a physician referral.

MESSA offers a variety of health care plans with a range of deductibles and other copayments. While there is an increasing trend in the number of school districts where employees pay premiums, many pay no premiums or very small premiums for their health care benefits, and several services performed by in-network providers are not subject to deductibles, copays and/or coinsurance.

Per the House Fiscal Agency, the average cost to a school district per employee for insurance benefits offered through MESSA is \$15,000 per year. About three and one-half percent of this cost represents life insurance and disability coverage, while it's estimated that approximately another seven to ten percent is for dental and vision coverage. Therefore, assuming that the average cost of a benefit plan is \$15,000 per year, the net average cost per employee for health care benefits is approximately \$13,000 per year. House Fiscal also notes that the costs of a MESSA benefit package vary from district to

district and that the costs would be higher if not sold as part of a package (a typical MESSA PAK includes health care, dental, vision, life insurance and disability).

**Table 1 – Average Cost of Health Care through MESSA**

Total Average Insurance Cost	Adjustment for Life and Disability @ 3.5%	Adjustment % for Dental and Vision	Adjustment \$ for Dental and Vision	Net Average Health Care Insurance Cost
\$15,000	(\$525)	7%	(\$1,050)	\$13,425
\$15,000	(\$525)	10%	(\$1,500)	\$12,975

While the premium cost per plan type for MESSA coverage is not specifically available, Table 2 below shows an estimated range of premium costs based on projected enrollment in each coverage type and using the \$13,000 average cost per contract. Assuming enrollment in family coverage of forty-five to fifty percent, the family premium for health care costs could range from \$15,600 to \$16,300. Due to the law of averages, the cost of a single/individual premium, as well as the enrollment rates across the various plans, will drive the premium cost for family coverage.

**Table 2 – Estimated Ranges of Premium Cost for MESSA Health Care Plan by Type of Coverage**

Type of Coverage	Enrollment	Cost		Enrollment	Cost	
Single/Individual	20%	\$6,500	\$7,000	15%	\$6,500	\$7,000
Two Party	30%	\$13,000	\$12,000	40%	\$12,000	\$11,500
Family	50%	\$15,600	\$16,000	45%	\$16,150	\$16,300
Average	100%	\$13,000	\$13,000	100%	\$13,000	\$13,000

MESSA reports that it has controlled health care cost increases at levels below national averages and individual school districts would pay far more for health care coverage outside of the MESSA plans. The Michigan Education Association (MEA) has said that due to the size and scale of MESSA, the only way a consolidated plan for state employees would save money is by reducing health care benefits for teachers.

There are examples of school districts leaving MESSA only to find that their premiums skyrocketed in the following year, as well as examples where school districts achieved cost savings when they moved from MESSA coverage to another carrier. There are a number of reasons why a school district that leaves MESSA coverage may experience an increase in health care costs, but this is primarily because:

- MESSA is able to leverage its size and scale to purchase health care services more efficiently than many school districts can do independently or as part of a smaller scale collaborative;
- The size and number of participants in MESSA plans create larger pools that help spread the risk so that an individual school district is not severely penalized for large claims; and
- MESSA offers health management tools such as chronic disease support, medical case management and wellness information.

Previously, it was more difficult for a school district to accurately compare its cost for MESSA coverage against prices offered by other carriers. The state now requires MESSA to provide details on claim data by specific school district as this information is needed to enable the districts to seek bids from other carriers.

- **The total cost of health care for other public sector employees (counties, cities, townships, and other governmental units) is not readily available, however this cost can be estimated by the following methods:**
  1. **Extrapolated from Other Data:** The cost of health care benefits as of May 2007 was estimated at \$880 million for 69 of 83 Michigan counties; 559 cities, villages and townships of over 1,800 statewide; and nearly 250 other local units of government.
    - Assuming that the estimate of \$880 million represents 75% of the total health care costs incurred by all counties, cities, villages, townships and other local government units, then their total annual health care costs would approximate \$1,170 million
    - If the estimate of \$880 million represents 50% of total health care costs incurred by all counties, cities, villages, townships and other local other local government units, then their total annual health care costs would approximate \$1,750 million
    - This yields a total cost range of \$1,170 to \$1,750 million per year

2. **As a Percentage of Health Care Premium Cost for State and School District Employees and Retirees:** The following table shows the expected total cost of health care benefits provided to public sector employees and retirees covered by county, municipal, city, township and other government units if those costs approximate 35%-50% of the total amount spent for state employees and active and retired school employees.

**Table 3: Estimated Cost of Health Care Benefits for Cities, Counties and Other Local Governments**

Type of Health Care Coverage	2008 Total Annual Cost Paid by State or Schools \$(millions)	Other Public Sector @ 35% \$(millions)	Other Public Sector @ 50% \$(millions)
Active State	\$552		
Retired State	\$361		
Active Teacher	\$1,727		
Retired Teacher	\$660		
Total	\$3,300	\$1,150	\$1,650
Range For All	\$3,300	\$4,450	\$4,950

- (Note: the total costs shown in this chart for all local governments range from \$1,150 to \$1,650, which is fairly consistent with the range calculated under Method 1 above.)

### How Michigan's Public Sector Compares

Total premiums spent to provide health care benefits to Michigan public sector employees continue to outpace total premiums paid for health care benefits for public sector employees in other states. [How can we know that if we don't know the cost for municipal employees? -- NC] Using 2006 data, the National Council of State Legislators (NCSL), which is referenced in the report "Budget Action Plan: Restructuring Options to the State Legislature for Transforming Michigan's Budget," prepared by Public Sector Consultants for Detroit Renaissance and released on September 17, 2008, compared Michigan's state employee benefits to other states. The reports state that "Michigan's total monthly premium costs for family health care coverage were \$1,249.76, compared to the average cost of all 50 states of \$1,012.67. State of Michigan employees paid five percent (in 2008 and earlier) of their premiums, compared to a 19 percent average across all 50 states."

Said another way and considering the recent increase in premium contributions, the premiums paid by Michigan's state employees are nine percentage points lower than those paid by their counterparts in other states. Further, the report "Fiscal Year 2008 Liabilities of the State Employees' Group Insurance Program," published in March 2007 by the State of Illinois Commission on Government Forecasting and Accountability, reported that Michigan's average 2006 family health care premium of \$1,249.76 ranked eighth highest of all states.

These conclusions are supported by information published by the Kaiser Family Foundation “Employer Health Benefits 2007 Annual Survey.” The survey reports that “state and local government workers in the United States pay an average of 13 percent of their health insurance premium if they have single coverage and 22 percent for family coverage. For employees of all public and private sector employers included in the survey, these proportions are sixteen percent and twenty-eight percent respectively. The average total monthly premium cost for family PPO health coverage was \$1,037.”

Per the Kaiser Family Foundation “Employer Health Benefits 2008 Annual Survey,” the average health care costs for family coverage across all employers was \$12,680, with employees paying on average twenty-seven percent of that cost. (Note: twenty percent of workers with single coverage pay no premium and seven percent of workers with family coverage pay no premium.)

Certainly, recent increases in premium contributions for Michigan’s state employees have closed the gap with percent of premium paid by their counterparts in other states. However, it continues to be the case that Michigan’s total premium costs are higher than the total premium costs paid for public sector employees in other states. Total premiums for family coverage provided by the State of Michigan are between \$16,000 (HMO) and \$17,000 (PPO). The state pays about \$15,200 and employees contribute \$800 to \$1,700 (five to ten percent). While the total premium cost of a family plan is not specifically available for MESSA health care coverage, it is estimated at about \$16,000 per year; the premium contribution paid by Michigan’s public school employees is not available. Premium costs are also not available for Michigan’s other public sector units.

**Table 4 – Comparisons of Michigan’s Public Sector Premium Costs**

	Annual Premiums for Individual Coverage				Annual Premiums for Family Coverage			
	Total	Employer	Employee	EE %	Total	Employer	Employee	EE %
National Average <sup>a</sup>	\$4,940	\$4,160	\$780	16%	\$13,300	\$9,750	\$3,550	27%
Average Public Sector - All States <sup>b</sup>	tbd	tbd	tbd	13%	\$14,000	\$10,900	\$3,100	22%
Private Sector – Michigan <sup>c</sup>	\$5,176	\$4,400	\$776	15%	\$13,000 - \$14,000	\$10,700 - \$11,500	\$2,300 - \$2,500	18%
MI State Employees <sup>d</sup>	\$3,774 - \$6,190	\$3,585 - \$5,571	\$189 - \$619	5% - 10%	\$16,000 - \$17,000	\$15,200 - \$15,300	\$800 - \$1,700	5% - 10%
MI School Employees <sup>ce</sup>	\$6,000 - \$7,000	n/a	n/a	n/a	\$15,000 - \$16,500	n/a	n/a	n/a

<sup>a</sup> Kaiser Foundation 2008 average premium cost marked up for five percent inflation: single of \$4,704 becomes \$4,940; family of \$12,680 becomes \$13,300; national average includes both public and private sectors

<sup>b</sup> US average public sector premiums, including Michigan, using 2006 annual premium cost of \$12,150 for family coverage with three years of compounded inflation at five percent per year

<sup>c</sup> Michigan private sector and schools are estimated at 2009 premiums

<sup>d</sup> Michigan state employees at published 2009 premium rates

<sup>e</sup> The cost of individual coverage for Michigan’s school districts is estimated to run between \$6,000 - \$7,000 for a contract; working within those ranges, the cost for family coverage is calculated at \$15,000 - \$16,500 assuming between 15-20% of enrollees have individual contracts, 30-40% have two-party contracts, and 45-50% have family contracts

The data shown in the above Table 4 suggest three possible reasons why the total cost of health care premiums in Michigan’s public sector are higher than in other states and when compared to private sector employers in Michigan:

- 1) The premium cost of health care benefits for public sector employees in Michigan is generally higher than the premium costs for the benefits provided to public sector employees in other states and in Michigan’s private sector, indicating that

the benefits may be more generous than those offered by other states to their public sector employees as well as those offered to private sector employees in Michigan [unsubstantiated speculation – NC]

- 2) Public sector employees and retirees in Michigan pay a smaller share of health care premiums versus the national averages for public sector employees, the national average for all employees, and the Michigan average for the private sector; additional data show that:
  - State employees have partially closed the gap with their counterparts in terms percent of premium contributions with the changes implemented on October 5, 2008
  - The premiums paid by other public sector employees and retirees in Michigan generally continue to be less than those paid by Michigan's state employees and their counterparts in other states
  - Considering both private and public sector employers, Michigan ranked 45<sup>th</sup> in terms of employee premium contributions for family health care coverage at 19% (with a 2% margin of error) vs. the national average of 25.39%
  - Similarly, for employee premium contributions to individual health care, Michigan ranked 41<sup>st</sup> of all states at 14.5% (with 1.5% margin of error) vs. the national average of 19.14%
  
3. The cost for health care is more expensive in Michigan than in other states
  - This is not a likely conclusion as the per capita health care cost in Michigan ranked 36<sup>th</sup> at \$5,058 vs. the U.S. average of \$5,283 (2004 cost)

## Opportunities

There are four broad categories to improve the safety, quality and delivery of health care while reducing costs:

### 1) **Administrative, Projected Savings estimated at \$65 to \$75 million annually**

#### Rationale

- Consolidation of responsibilities and functions needed to plan and administer benefit programs under the Office of the State Employer would create savings by streamlining the organizational infrastructure and minimizing the costs associated with duplicate processes, staffs and insurance brokers and agents
- Duties of the Office of the State Employer would include, but are not limited to, researching best practices in health care design, negotiating benefit plans, administering benefits, communicating with and educating employees and retirees, managing relationships with health care plans and other providers, and participating in/supporting public forums focused on health care reform

#### Support for Savings Projection

- A study conducted by BCBSM in August 2007 estimated \$70 million per year in potential savings from consolidation of all public health plans into a state administered self-funded plan. The savings would be most significant for insured groups moving to a self-funded status due to the elimination of commissions and other broker fees and improved efficiency in administration. It is important to note that these savings are only for the plans currently administered by BCBSM.
- Assuming that BCBSM has, on average, 80% of the plans for public employees, total savings to the state could approximate \$85 - \$90 million; however, assuming the costs to administer a state self-funded plan could be in the range of \$15 - \$20 million, net savings would fall between \$65 - \$75 million per year.

### 2) **Economies of Scale (Leveraged Purchasing Drives Lower Cost), Projected Savings estimated at \$100 - \$200 million annually**

#### Rationale

- Increased enrollment will drive economies of scale in the purchase of certain services and products, such as lower costs for prescription drugs
- All participants in Michigan's public sector would have access to the highest quality and lowest cost health care plans
- This would also better position the state to have a voice in the payment practices for medical services
- With more centralized control of health care benefits, the state will also have a bigger voice in policies and practices designed to improve the health of state residents

#### Support for Savings Projection

- AFT and IOUE Local 547  
The American Federation of Teachers (AFT) and International Union of Operating Engineers (IUOE) Local 547 published a report in 2005 projecting savings of \$156 million annually in the 1<sup>st</sup> year, increasing to \$223 million annually by the 3<sup>rd</sup> year from the consolidation of teacher health care coverage into a single system, increased competition and implementation of programs to encourage improvements in patient health. The estimated savings are based on a system with:
  - State-sponsored catastrophic stop loss coverage
  - Competitive health care purchasing through coalitions/regional pools

- Transparent health care information for school employers and employees
- Disclosure of hospital and physician performance on measures of quality
- State-of-art programs to improve member health
- Efficient administrative services that leverage industry standards and IT

- Center for Michigan [Phil Power group – NC]

According to the Center for Michigan, the savings calculated and presented by the AFT and IUOE represents a seven percent savings on the cost of health care for teachers. The Center for Michigan extrapolated this seven percent savings to include local governments and estimated a total savings of \$500 million through mandated health care benefits pooling. [but we don't know cost of local government health care – NC] The Center for Michigan analysis categorizes all of the savings to be the result of "leverage" although the AFT/IUOE recommendation included savings related to improvements in health care quality and administrative efficiencies. The Center for Michigan savings is based on a total of \$7.1 billion spent on "health insurance benefits" for public sector employees as reported by the U.S. Census for 2005-06. However, further analysis reveals that the \$7.1 billion covered insurance trust expenditures including unemployment compensation, employee retirement and workers' compensation.

- Savings Quantification

Using data from Table 3 above, estimated annual total health care costs for all employees and retirees in Michigan's public sector range from \$4,450 to \$4,950. Recognizing that the seven percent savings used by the Center for Michigan includes savings from administrative simplification and other health care reform programs, a more conservative estimate of savings from leveraged purchasing would fall into the two to four percent range, which would yield total savings of **\$100 to \$200 million annually**. Cost reductions from volume discounts on the purchase of prescription drugs could be a substantial percent of this savings.

Accordingly, the leverage gained from consolidation of teacher benefits into a single program would produce savings ranging from \$50 to \$110 million per year, or about thirty to fifty percent of the savings estimated by the AFT and IOUE, with the balance of their savings estimate coming from increased competition, administrative simplification and implementation of programs to encourage improvements in patient health.

3) **Broad use of evidenced-based health care and standardization of employee benefits** present further opportunities for substantial savings, with a total estimated range of **\$400 to \$600 million annually**

**Rationale**

- **Adoption of Best Practices Medicine (also known as Evidenced-based Standards of Care); this will create additional savings**

The use of best medical practices will increase the safety and quality of medical care delivered in Michigan, saving lives and helping to control costs in the long run.

- Across the United States, adult patients receive only about half of the recommended, best-practice care for treatment of their medical conditions (source: McGlynn, et al., "The Quality of Health Care Delivered to Adults in the United States," *The New England Journal of Medicine* (June 26, 2003): 2635-2645).
- Results of second opinion reviews by Best Doctors show fifteen to twenty percent of patients do not receive a proper diagnosis for their medical condition, and, when a proper diagnosis is received, up to sixty percent of

patients do not receive treatment that is consistent with recognized best practices for medical care (source: Best Doctors).

- The Southern California Schools VEBA introduced a second-opinion program through Best Doctors in 2004. The program produced a 3 to 1 ROI in the first 6 months.

- **Standardization of Employee Benefits** – there is substantial opportunity to save costs by changing benefit design to be more in line with public sector employees and retirees in other states as well as private sector employees and retirees in the state of Michigan and standardizing the type and level of benefits offered across all public sector employees and retirees in the state

- Studies demonstrate the level of benefits offered to public sector employees and retirees in Michigan are more generous and more expensive than the benefits offered to their counterparts in other states [unsubstantiated – NC]
- Data show that Michigan’s public sector employees and retirees have more generous benefits than individuals employed by private companies in Michigan [unsubstantiated – NC]
- There are wide differences in the levels of benefits offered to public sector employees and retirees across Michigan

- There are several ways to **modify plan designs** that encourage employees and retirees to become better consumers of health care, thereby improving their health status while helping to control costs. For example, **state employees now must pay \$50 for use of the emergency room unless they are admitted to the hospital. Also, the use of larger differentials in copayments for generic versus brand drugs would help incentivize members to choose equally effective yet lower-cost generics.**

[Yet claims no diminishment of collective bargaining rights! – NC]

- **Increased Employee/Retiree Cost Share** – types of cost share include premiums, deductibles, copayments and coinsurance
  - Studies also show that public sector employees and retirees in Michigan pay much less of the cost for their health care benefits than their counterparts in other states as well as private sector employees and retirees in Michigan (as well as other states)
  - The components of employee/retiree cost share are important because they allow the state to structure benefit programs to encourage employees/retirees to participate in health care services that deliver the most value (such as preventive care and annual physicals) instead of more costly services such as unnecessary ER visits, and they give the user some “skin in the game”
  - **Shifting of additional costs to Michigan’s public sector employees needs to be done with some caution, using appropriate means testing of employee income levels [ibid – NC]**

### Support for Savings Projection

- **Detroit Renaissance** report “Budget Action Plan: Restructuring Options to the State Legislature for Transforming Michigan’s Budget” (September 17, 2008)  
The Detroit Renaissance report “Budget Action Plan: Restructuring Options to the State Legislature for Transforming Michigan’s Budget,” published on September 17, 2008, **suggests an annual savings of \$269 million by increasing premiums and reducing benefits to levels [ibid – NC] consistent with the plans offered in other states. This savings is ONLY for state employees, state retirees, and public school retirees. It does not address the impact of making similar changes for active teachers and municipal workers. Effective October 2008, benefit changes shifted about \$100 million in cost to state employees and retirees, leaving an additional opportunity of \$169 million.**
- **Center for Michigan**  
The **Center for Michigan extrapolated** the savings presented in the Detroit Renaissance report to include local governments and schools **and estimated that “an across-the-board shift of ten percent of health insurance expenses from employer to employee would save an estimated \$700 million per year.”** They based this estimate on ten percent of \$7.1 billion spent on “health insurance benefits” for public sector employees as reported by the U.S. Census for 2005-06. However, further analysis reveals that the \$7.1 billion covered insurance trust expenditures including unemployment compensation, employee retirement and workers’ compensation. Regardless, **shifting additional cost to employees will generate substantial savings.**

Further analysis shows that total health care costs for Michigan’s public sector employees and retirees ranges from \$4,650 to \$4,950 million per year. A ten percent cost shift from the current status quo would deliver cost savings ranging from \$450 to \$500 million. However, the opportunity for real savings may be less as state employees just saw a five percent premium cost shift in October 2008, and income-based means testing should be conducted to ensure any cost shift is equitable.

- National Conference of State Legislatures

Average premiums for health care for public sector employees (active teachers = \$13,000) and retirees in Michigan are higher than national averages (\$12,680 per NCSL), indicating that health care benefits in Michigan are more generous than in other states. Also, the health care benefits provided to public sector employees and retirees in Michigan are more generous than the benefits offered to many private sector employees in Michigan.

- Changes should be pursued to align the type and level of Michigan's public sector health care benefits with those offered in other states – equalizing Michigan's average public sector premiums with other states would save between **\$200-\$300 million annually**
- The State of Michigan should take a leadership role in driving reform in payment practices for health care services; movement to value-based health insurance is regarded as a key opportunity to improve the quality of health care, improve health status and lower cost – this will generate additional savings

#### **Other Positives**

Could garner wide public support – most individuals in the state have seen their benefit levels reduced over the past several years and have had to pay more for the benefits that they have. There is a perception that public sector employees have benefit levels that exceed those available to individuals working in private businesses. Private sector employees who have made sacrifices may support a plan to change the benefit levels of public sector employees to levels that are more aligned with the benefits provided in the private sector.

Standardization of benefit plans and centralization of benefit administration will allow the state to focus on the promotion of wellness and healthier lifestyles. Health care plans may be designed to incentivize individuals to take a more active role in their own health, creating a healthier workforce with lower absenteeism and higher productivity. This will make Michigan a more attractive place to do business.

## **Challenges**

**Complexity** – there are thousands of individual plan designs today covering hundreds of thousands public sector employees and retirees at the state level and in thousands of municipalities, school districts, courts, etc., each with multiple local labor contracts with staggered expirations. It will take the UAW more than two years to establish administrative practices and consolidate operations to manage the health care benefits for UAW retirees from Chrysler, Ford and GM. While a complex task, the establishment of the UAW VEBA is not as complicated as the administrative consolidation of the diverse and disparate mix of health care options covering Michigan’s public sector employees and retirees.

## **Resistance to Change**

## The Retrenchment of the State Employee Workforce in Michigan

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# The Retrenchment of the State Employee Workforce in Michigan

## Executive Summary

This report details some of the changes that state employees have seen in their level of employment, compensation, and benefits. From 2001 to 2008, the size of the state workforce decreased by more than 11,000. This period, state employees have also accepted furlough programs. Real wage growth for state employees has been very close to zero, and state employees have paid more for retirement and health-care benefits. Taken together, these changes have saved the State of Michigan approximately \$3.3 billion in wages, \$143 million in pension expenditures, and \$300 million in health expenditures, for a total of more than \$3.7 billion.

We present the highlights of these changes in this executive summary. More details can be found in the remainder of the report.

### 1. The Shrinking Number of State Employees

- From 2001 to 2008, Michigan's state-employee workforce was reduced by more than 11,000, or 18.1% of 2001 employment. The employment decreases affected nearly every department of state government. For example, State Police employment was reduced 32.3% from 2002 and 2008. The Departments of Agriculture, Natural Resources, and Environmental Quality lost an average of 28.8% of their workforces from 2001 to 2008.
- By 2008, employment reductions led to a decrease of more than \$600 million annually in salary alone, when we compare with the level of employment that existed in 2001. When accumulated over the entire period since 2001, these employment reductions are associated with a reduced state expenditure of more than \$3 billion.

### 2. Pay Levels for State Employees

- The House Fiscal Agency reports that state employees earn less than their private-sector counterparts, on average, in *each* of eight different categories of educational attainment.

### 3. Changes in Wages, Benefits, and Other Work Arrangements

- From 2002 to 2009, after adjustment for inflation, covered state employees saw little to no real wage growth. In 2003-05, state employees accepted "banked-leave-time" and furlough programs, resulting in savings of approximately \$275 million for the State of Michigan. Another furlough program is currently underway.
- Beginning in 2008, state employees accepted substantial increases in their premiums, deductibles, and copays for health insurance. Over the life of the current contract, these changes are expected to lead to \$300 million of savings for the State of Michigan.
- Beginning in 1997, new state employees were covered under a defined-contribution pension plan. This change is estimated to have led to savings for the State of Michigan of \$143 million through 2006. The savings will accelerate in future years.

# The Retrenchment of the State Employee Workforce in Michigan

## I. Introduction

The employees of the State of Michigan perform **Figure 1. Classified Employees of the** an extraordinarily wide variety of duties. In recent **State of Michigan, 2000-2008** years, the number of these state employees has decreased substantially. This raises serious questions

about the ability of the remaining state employees to discharge the duties that are required of them. Moreover, the state employees who remain have made a variety of concessions involving their compensation.

The purpose of this report is to document several of these significant changes in the size and compensation of the state workforce. No attempt will be made to assess the optimal number of state employees, or the optimal compensation. However, at a minimum, it will be clear that state employees have already played a very large role in helping the State of Michigan to grapple with its budgetary problems. Further cuts will run an increasing risk of leaving the state government unable to perform its vital functions.

## II. The Shrinking Numbers of State Employees

We discuss wage and benefit issues in a later section. We begin with a description of the shrinkage in the number of state employees. The data presented here are taken from the Annual Workforce Reports, prepared by the State of Michigan Civil Service Commission.<sup>1</sup>

These workforce data are readily available, all the way back to 1966. The state workforce reached its peak in 1980, with nearly 70,000 workers. However, in this report, we focus on the trends in the current decade.

Figure 1 shows the number of state classified employees from 2000 to 2008. Figure 1 shows that the number of employees actually increased slightly from 2000 to 2001, but decreased substantially since 2001. Figure 1 and the subsequent figures provide a label with the highest and lowest levels of employment during this period. From the decade's peak in 2001, the size of the state-employee workforce decreased by more than 11,000.

This is a reduction of about 18.1% of the peak employment.

The employment reductions shown in Figure 1 were spread very widely across the various departments of state government. Figures 2(a) through 2(g) show the decreases in the number of employees in selected departments. The details vary from one department to the next, but the trend is broadly similar in every case shown.<sup>3</sup>

Figure 2(a) shows the employment reduction in the State Police, where more than 20 percent of the peak employment in 2002 was gone by

2008. Figure 2(b) shows the reduction in the Department of State, which is

involved with elections and motor-vehicle licensing and registration. In the Department of State, employment decreased by nearly one-third (32.3

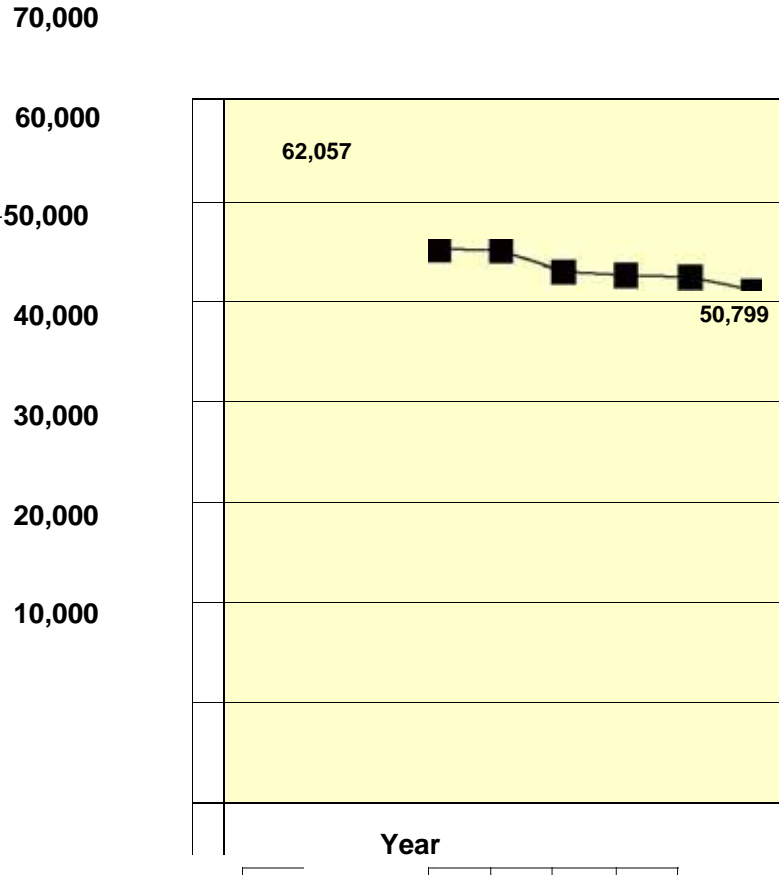
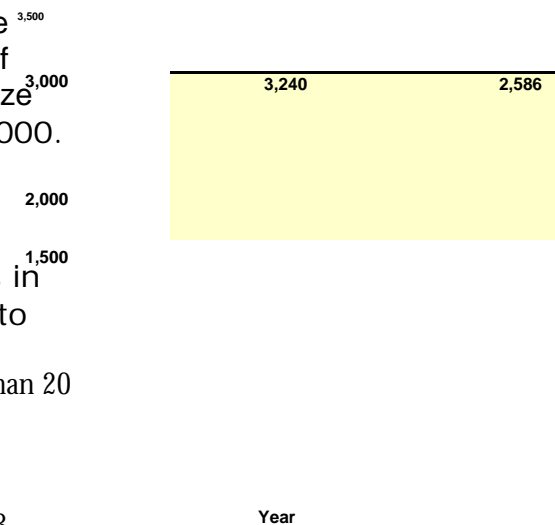


Figure 2(a). Classified Employees in the State Police, State of Michigan, 2000-2008



percent) from 2002 to 2008.

Figures 2(c), 2(d), and 2(e) show the trends for the Departments of Agriculture, Natural Resources, and Environmental Quality. We place these departments together, because each of them is involved with Michigan's outdoor environment. In each of these departments, employment peaked in 2001 or 2002. From the peak until 2008, employment fell by 25.8 percent in Agriculture, 37.7 percent in Natural Resources, and 16.3 percent in Environmental Quality. The weighted average of the employment declines in these three departments is 28.8 percent.

In today's discussions of Michigan economy, tourism is frequently mentioned as an engine of future economic growth. Michigan tourism is closely linked with physical environment of the state. Thus, the policy of dramatically decreasing the number of employees who work in the Departments of Agriculture, Natural Resources, and Environmental Quality raises serious questions. One set of questions has to do with the health of the tourism sector,

and whether it will truly be able to produce the economic growth that is hoped for. More broadly, the policy raises questions about Michigan's ability to preserve its environment for future generations. Reductions in other parts of the state workforce

lead to similar questions regarding the economic health, public safety, public welfare, and public finances of Michigan.

Figure 2(f) shows the employment trends in the Department of Human Services and its predecessor, the Family Independence Agency. From 1969 until 1991, this agency had more employees than any other part of state government. Since then, it has been second only to Corrections. Figure 2(f) shows that employment in this department has decreased by 27.7 percent during the current de-

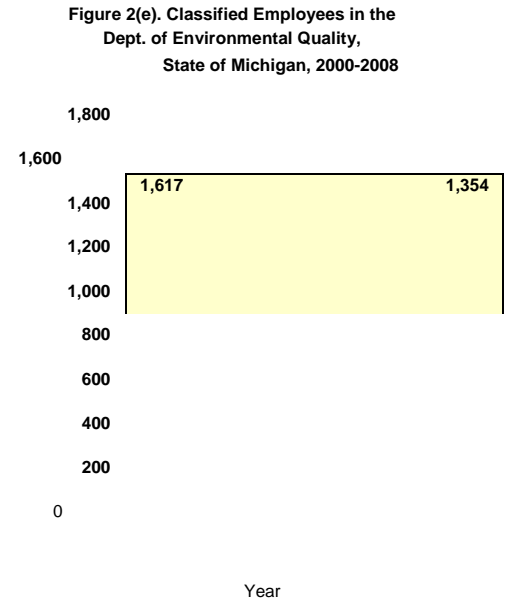
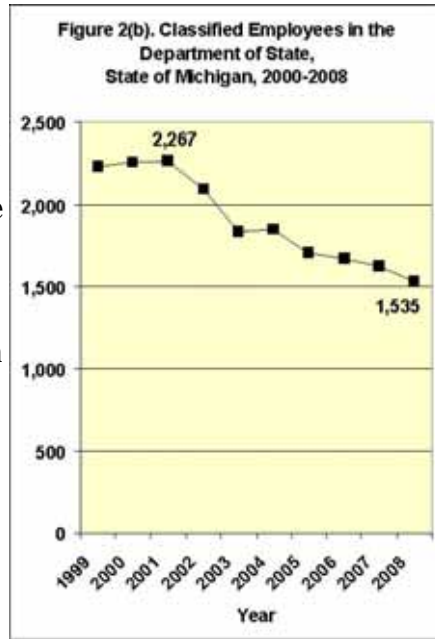


Figure 2(c). Classified Employees in the Department of Agriculture, State of Michigan, 2000-2008

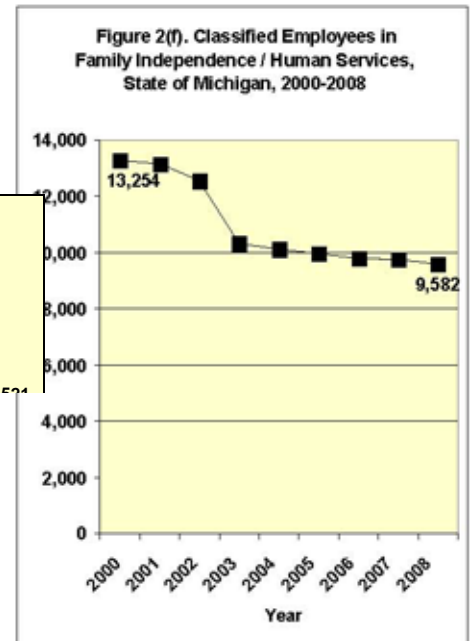
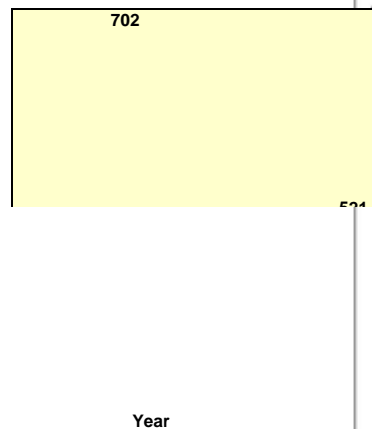
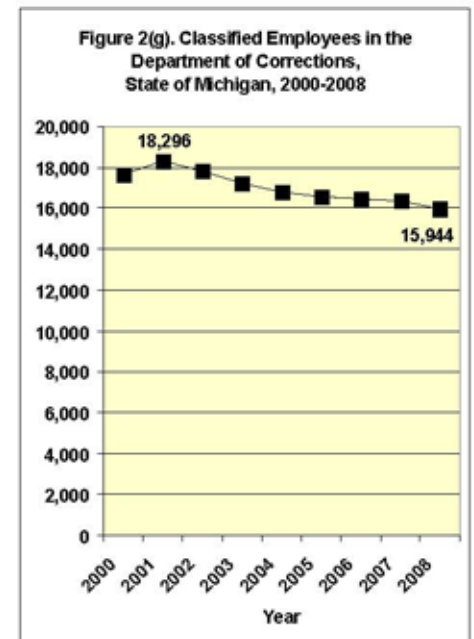
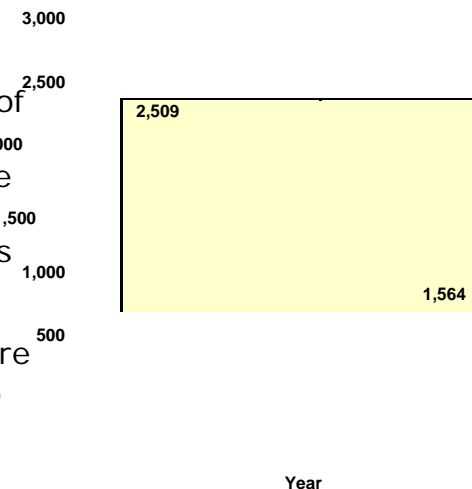


Figure 2(d). Classified Employees in the Department of Natural Resources, State of Michigan, 2000-2008



cade. In fact, if we compare with the all-time peak of employment in this agency, in 1995, the decrease in employment is 33.6 percent.

Especially during the 1980s and 1990s, there were rapid increases in the number of persons incarcerated in Michigan prisons. As a result, employment in the Department of Corrections increased from fewer than 2000 (in the 1960s) to more than 18,000 (in 2001). However, Figure 2(g) shows that the Department of Corrections has not been spared from employment reductions in recent years. From 2001 to 2008, Corrections employment decreased by 12.9 percent.

### III. Pay Levels for State Employees

According to the Civil Service Commission's most recently quarterly report, the current average annual salary of State of Michigan classified employees is \$54,246.<sup>4</sup> In 2007, for full-time year-round workers in the United States, average annual earnings in the labor market were \$51,588.<sup>5</sup> Thus, on the surface, it might appear that the state employees are paid slightly more than their counterparts nationwide. However, the State of Michigan employees have substantial experience, and they are unusually well educated.

In addition to the 27.5 percent of state workers who completed their education with a Bachelor's degree, 16.5 percent have a Master's degree, 3.6 percent have a professional degree, and 7.2 percent have a doctorate.<sup>6</sup> Thus, a total of nearly 55 percent of state workers have at least a Bachelor's degree, so that the state workforce is considerably more highly educated than the workforce as a whole. This is not an accident. In fact, more than half of the jobs in the state workforce *require* at least a Bachelor's degree, because of the technical skills involved.

**Table 1**

Highest Educational Attainment	Average Earnings for State Workers, As Percent of Average Earnings for Private-Sector Workers
No High School Completion	54.9
High School Completion	93.2
Some College, No Degree	99.4
Associate's Degree	94.9
Bachelor's Degree	72.4
Master's Degree	62.2
Professional Degree	80.4
Doctoral Degree	76.1
Overall	102.3

Not surprisingly, earnings for workers with this type of educational attainment tend to be well above the average. If we look at all American full-time year-round workers with a Bachelor's degree in 2007, the average earnings were about \$66,700. For those with a Master's degree, average earnings are more than \$79,600. For those with a professional degree, the comparable figure is about \$132,400, and for those with a doctorate, it is about \$106,000. Thus, since the state workforce has an unusually high degree of educational attainment, it would be expected that their salaries would be above average. In fact, in view of their educational attainment, it is somewhat surprising that the state workers are not paid considerably more.

The data in the preceding paragraph are roughly comparable with data for Michigan, from the 2007 American Community Survey. These data, reported by the House Fiscal Agency, reveal that state employees earn *less* than their private-sector counterparts, on average, in *each* of eight different categories of educational attainment. The extent of the differences is shown in Table

1.<sup>7</sup> Table 1 suggests that state employees and private-sector workers in Michigan receive salaries that are roughly comparable, for those with

a high-school diploma and for those with a college education that did not end with a Bachelor's degree. However, for those with higher levels of educational attainment, the salaries of state workers fall well short of those of their private-sector counterparts.

A complete comparison of the earnings of state workers with the earnings of private-sector workers would require a sophisticated econometric analysis, controlling for a host of variables. Such an analysis is beyond the scope of this report. Nevertheless, at a minimum, the data in Table 1 contradict the widespread impression that state employees are grossly overpaid.

The last line in Table 1 shows the comparison between *all* state employees and all private-sector workers who were included in the surveys. When we do not control for educational attainment, the average state worker earned slightly *more* than the average private-sector worker. This highlights the dangers of simplistic earnings comparisons that do not control for factors such as education.

In the previous section, we documented the fact that the cuts in the state-employee workforce have been both substantial and widespread. These large employment reductions lead directly to large reductions in the amount of state funds that are

devoted to employee

pay. We multiply the reductions in the state-employee workforce by the average salary, we can obtain an estimate of the approximate reduction in salary payments. The result is that, by 2008, the employment cuts are associated with an *annual* reduction of more than \$600 million in salary payments alone, when we compare with the level of employment that existed in 2001.

As shown in Figure 1, the employment reductions have proceeded fairly steadily since 2001. The state-employee workforce has shrunk, year after year. The figure of more than \$600 million in the preceding paragraph is based on a comparison of 2008 employment levels with 2001 employment levels. If we make a similar comparison with 2001, for each of the years from 2002 to 2008, we find an *average* annual reduction of more than \$440 million in salary payments alone. Over the entire period, this comes to more than \$3 billion.

Even though the state workforce has been reduced significantly, the work that many state employees are asked to do has not been reduced commensurately. Thus, the employees who do remain at work often find themselves in a very difficult situation, since there are practical limits on the ability to do more with less. It should be noted that many in the state workforce (such as social-service caseworkers) have jobs that involve direct personal contacts. In a job of this type, it is difficult to achieve major productivity gains through the use of labor-saving technology.<sup>8</sup> Thus, the workforce reductions can lead to real reductions in the quantity and quality of services that can be provided. In the next section, we consider other changes in the employment situation, for those who still are employed by the State of Michigan.

**Table 2 State Employee Wage Increases and Wage Concessions, Fiscal Years 2002-03 to 2008-09**

Fiscal Year	Negotiated Increase	Banked Leave-Time Concession	Furlough	Net Change in Wage
2002-03	2.0%			2.0%
2003-04	3.0%	-5.0%	-2.0%	-4.0%
2004-05	4.0%	-4.0%		0.0%
2005-06	2.0%			2.0%
2006-07	4.0%			4.0%
2007-08	4.0%			4.0%
2008-09	0.0%		2.4%	-2.4%

**IV. Changes in Wages, Benefits, and Other Work Arrangements**

More than two-thirds of state employees are covered by collective-bargaining agreements.<sup>9</sup> Collective-bargaining agreements negotiated in 2001, 2004, and 2007 led to wage increases ranging from zero to four percent per year. However, these increases can be misleading, unless they also include concessions in 2003-04 and 2004-05, and in the current fiscal year.

In 2003-04, under a program of “banked leave time”, employees worked a 40-hour week, but were paid only for 38 hours. In 2004-05, a 40-hour week was associated with pay for only 38.4 hours. These are reductions of five percent and four percent, respectively. In 2003-04, employees were also required to take 40 hours of unpaid leave under a program of “furlough days”. The banked-leave-time program is estimated to have saved \$243.8 million for the State of Michigan, and the furlough-day program is estimated to have saved an additional \$31.7 million. Another furlough program recently began in June, 2009. Before the end of the current fiscal year, a majority of state employees will take six furlough days.

Table 2 provides an overview of the negotiated wage agreements and the concessions.<sup>10</sup> It makes sense to see how these wage changes compare with the rate of inflation over

the same period. The best-known measure of inflation is the Consumer Price Index (CPI).<sup>11</sup> A full comparison with the CPI for the entire period shown in Table 2 is not yet possible, since the 2008-09 contract stretches through September. However, if the CPI were to rise at three-tenths of one percent per month for the rest of the fiscal year, it would say that the cost of living has increased by 21.7 percent during the period covered by Table 2.

If, instead, the inflation rate for the rest of this fiscal year is two-tenths of one percent per month, the cost of living would have risen by about 21.1 percent during the period.

The CPI has been criticized on technical grounds.<sup>12</sup> If we continue to assume that the inflation rate for the rest of this fiscal year is two-tenths or three-tenths of one percent per month, but if we instead use the Personal Consumption Expenditures deflator,<sup>13</sup> the increase in the cost of living is between 19.8 percent and 20.5 percent, for the period covered by Table 2.

If we look only at the second column of Table 2, with the officially negotiated increases, the total compounded increase over this seven-year period is approximately 20.5 percent. If this figure is compared with the increases in the cost of living, from the preceding paragraph, it could be said that the pay increases were almost identical to

the increases in the cost of living. However, this simple calculation does not account for the banked-leave-time program or the two furlough programs.

These two were sufficient to reduce the total amount of pay received over the period (without discounting) by about 1.6 percent. After this adjustment, the pay increases were slightly smaller than the overall change in the cost of living. (This compares very closely with the change in per-capita income for the state as a whole. From 2001 to 2008, per-capita income in Michigan decreased by about one percent, after adjusting for inflation.<sup>14</sup>)

Table 2 presents the wage changes that have already occurred. It should also be noted that the current contract includes a one-percent increase, scheduled for October 1, 2009, and a three-percent increase, scheduled for October 1, 2010. (These changes do not apply to State Troopers and Sergeants.) Over the eight years to which we have given the most attention in this report, the average rate of inflation has been about 2.3% or 2.4%, depending on which price index is used. Thus, if the inflation trend of recent years were to continue for the next two years, the scheduled wage increases would fall slightly short of keeping up with the cost of living.<sup>15</sup>

The preceding paragraphs have dealt with salaries. However, fringe benefits are also an important part of the picture. In the collective bargaining agreement that took effect in October 2008, state employees (other than State Troopers) accepted significant changes to their health-insurance arrangements. As a result of these changes, state employees are experiencing a doubling of their premiums and deductibles. There are also increases in co-pays, and a new charge for an emergency-room visit. Consequently, the employee monthly cost for family coverage more than doubled, from approximately \$68 per month in 2006-07 to approximately \$142 per month in 2008-09. Before these changes, the employee health-care costs for state employees were lower than the average for other workers in Michigan. After the changes, the state employees faced higher-than-average costs. It is estimated that these changes will generate savings of \$300 million for the State of Michigan, over the three-year life of the contract.

Pensions are another important fringe benefit. Before 1997, state employees were eligible for a defined-benefit pension plan. For new employees hired on or after March 31, 1997, the pension was switched to a defined-contribution plan. The Michigan Office of Retirement Services estimates that this change has resulted in savings of \$143 million for the State of Michigan from 1997-98 to 2005-06. Over time, those hired

since 1997 make up an ever-larger portion of the state workforce. Thus, the annual savings to the state are expected to grow.

## V. Conclusion

We have briefly reviewed some key aspects of the employment relationship between the State of Michigan and its employees. We have four key findings:

- In this decade, the number of employees has dwindled substantially, even though workloads have not shrunk proportionally. As a result of the reductions in the workforce, salary payments by the State of Michigan have decreased by more than \$3 billion.
- State employees with a high-school education or some college receive salaries that are roughly comparable with their counterparts in the private sector. However, because of the technical demands of many of the jobs performed by state employees, more than half have at least a Bachelor's degree. In terms of salaries, on average, these highly educated state employees fall substantially short of their private-sector counterparts.
- During this decade, salary increases for those who have remained on the payroll have been very close to the rate of inflation. In addition, from 2003 to 2005, state employees accepted a "banked-leave-time" program and a furlough program. These are estimated to have saved the State of Michigan approximately \$275 million. Another furlough program began in 2009.
- Beginning in 2008, state employees also accepted increases in their health-insurance premiums, co-pays, and deductibles. Over the three-year life of the current contract, these changes are estimated to save the State of Michigan approximately \$300 million. In addition, the switch from a defined-benefit pension system to a defined-contribution pension

system is estimated to have saved \$143 million for the State of Michigan through 2006, and those savings will accelerate over time.

If we add all of the elements listed here, the total is a saving for the State of Michigan of more than \$3.7 billion.

It is far beyond the scope of this paper to determine the "optimal" size of the state workforce, or the "optimal" structure of salaries and fringe benefits for state workers. However, it is indisputable that state employees have already played a very considerable role in helping the State of Michigan to address its budgetary problems.

## Notes

1. The Annual Workforce Reports are produced on a fiscal-year basis. In Michigan, the fiscal year begins on October 1 and ends on September 30. The most recent complete report is available at [http://www.michigan.gov/documents/mdcs/29th\\_AWFR\\_Complete\\_266650\\_7.pdf](http://www.michigan.gov/documents/mdcs/29th_AWFR_Complete_266650_7.pdf).
2. In Figure 1 and subsequent figures, the years correspond to the calendar year during which the fiscal year comes to an end. Thus, for example, when Figure 1 refers to "2008", this refers to the average number of employees during the fiscal year that began on October 1, 2007, and ended on September 30, 2008.
3. It should be noted that information-technology employees from a variety of departments were consolidated into the new Department of Information Technology, beginning in 2002. Also, human-resources staffers were consolidated into the Civil Service Commission, beginning in 2007. Thus, a portion of the employment reductions shown in Figures 2(a) through 2(g) were due to reorganizations, rather than to outright decreases. However, the total employment in the Department of Information Technology and the increase in the Civil Service Commission represent only about four percent of the total number of state employees in 2008, and only about 3.2 percent of the total in 2001. Thus, the trends for individual departments shown in Figures 2(a) through 2(g) are indicative of genuine decreases in the number of employees. They are not merely the result of the reorganizations of the state workforce.
4. This report, for the Second Quarter of the 2008-2009 Fiscal Year, is available at [http://www.michigan.gov/documents/mdcs/WF\\_2009\\_2nd\\_Quarter\\_Complete\\_275758\\_7.pdf#pagemode=bookmarks](http://www.michigan.gov/documents/mdcs/WF_2009_2nd_Quarter_Complete_275758_7.pdf#pagemode=bookmarks).
5. The data for this calculation are taken from <http://www.census.gov/hhes/www/income/histinc/p32.html>. Data for 2008 are not yet available. We report data for the entire United States, because of the lack of high-quality data at this level of disaggregation for the individual states.
6. See "Civil Service Salary and Benefit Comparisons", prepared by the House Fiscal Agency in November 2008.
7. The comparison in Table 1, like any comparison, must be viewed in context. It is based on a survey that includes some university workers, as well as civil service workers. It does not involve a comparison with public-school teachers, because of differences in work schedule, and it does not involve a comparison with workers in hotel and restaurant chains, because of the lack of comparable jobs. In addition, it does not control for a wide variety of factors that could influence wage levels, such as the perceived riskiness of the job. If state workers are perceived to have greater job security than those in the private sector, this would be expected to result in lower wages for state workers, all else equal. The comparison also does not control for age. However, if we were to control for age, the shortfall of state-worker salaries is even more remarkable, since state workers are a few years older, on average, than their private-sector counterparts.
8. The best-known discussion of these issues is William J. Baumol, "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis", *American Economic Review* 57: 415-426.
9. According to civil-service rules, employees in supervisory, managerial, and confidential positions are not eligible for collective bargaining. Also, some groups of employees who are eligible for collective bargaining have not elected representatives.
10. Table 2 simplifies the wage increases in 2005-06, 2006-07, and 2007-08. In fact, only half of these wage increases came at the beginning of the fiscal year. The other half did not become effective until April. Thus, in present discounted value, the actual increases are slightly smaller than the increases shown in Table 2, since a two-percent increase in October and a two-percent increase in the following April is worth less to the employee than a four-percent increase in October.
11. Data for the Consumer Price Index are available at the website of the Bureau of Labor Statistics, at <http://stats.bls.gov/cpi/>. The calculations reported here use seasonally adjusted monthly data.
12. For example, see Michael J. Boskin, Ellen R. Dulberger, Robert J. Gordon, Zvi Griliches, and Dale W. Jorgenson, "Consumer Prices, the Consumer Price Index, and the Cost of Living," *Journal of Economic Perspectives* 12: 3-26.
13. Data for the Personal Consumption Expenditures deflator, as well as a host of other price indexes, are available from the website of the Bureau of Economic Analysis. See Table 1.1.4 at <http://www.bea.gov/national/nipaweb/SelectTable.asp?Selected=N>.
14. The per-capita income data are from the Bureau of Economic Analysis, at <http://www.bea.gov/regional/index.htm#state>. The inflation adjustment is based on the Personal Consumption Expenditures deflator.
15. In 2008, the U.S. financial system suffered its greatest shocks since the Great Depression. In an effort to limit the damage, the Federal Reserve has injected unprecedented amounts of liquidity into the economy. Some observers have suggested that this will lead to a substantial increase in inflation. The economy is sufficiently complex that macroeconomic forecasting is never easy, and the difficulties of forecasting are even greater in the current situation. However, it should be acknowledged that there is a real possibility of a substantial increase in the rate of inflation in the next few years. If that were to occur, the margin by which the scheduled wage increases for state employees would fall short of the inflation rate would be correspondingly wider.

