

MEMORANDUM

TO: Several

FROM: Nick Ciaramitaro

RE: Dillon Public Employee Health Care Proposal

DATE: July 16, 2009

Speaker Dillon has offered a proposal to consolidate public employee and public retiree health care through the Office of the State Employer. The proposal has serious ramifications for AFSCME members. This memo analyzes the proposal and makes recommendations for AFSCME's response.

Process

It is important to note that – though the proposal would affect the great majority of AFSME members – there was no prior consultation or notification. After first hearing that there was talk on the street of an impending proposal, I was approached by correspondent Tim Skubick asking for our reaction to the proposal that he indicated the Speaker would be announcing on Friday. He told me that it was his understanding that no one in labor had been consulted. I then received a voice message on my cell from the Free Press looking for reaction. The Speaker's office responded to my inquiries by directing me to www.freep.com.

Background

For some time we knew that the Speaker was attempting to put together a proposal to reform Michigan's tax structure in consultation with Detroit Renaissance President Doug Rothwell (formerly Gov. Engler's MEDC Director) and economist Pat Anderson (formerly of the Mackinac Center). As labor was not represented in those deliberations a delegation of labor leaders requested an opportunity for input. Michigan League for Human Services Chairperson Lynn Jondahl (former Democratic State Representative and former Chair of the House Taxation Committee) was invited to join in the discussions at the request of AFL-CIO President Mark Gaffney. Lynn met several times with Pat Anderson who finally confided that Detroit Renaissance (his client) was not interested in revenues for the state but instead was interested in "reforming" state government in general and particularly by reducing labor costs.

Content of the Proposal

The outline of the proposal is included in a 16 page document entitled “Opportunities to Save Cost on Public Sector Health Care Benefits Preliminary/Draft.” While purporting to protect and enhance health care for public sector employees and retirees and maintain collective bargaining rights, much of the document strikes at the heart of each.

The proposal would “consolidate the planning, delivery and administration of health care benefits, including negotiations and purchasing, for public sector employees and retirees in Michigan.” Public sector employees would include at least all state employees and retirees, all municipal (county, city, township, etc.) employees and retirees and all school employees and retirees. It may also include elected officials (active and retired) and judicial employees.

The plan would “standardize” coverage. It is this standardization, pegging the new health care plan to the average of other state public sector plans and average private sector plans in the State of Michigan which purports to provide the greatest savings to the State (\$400 to \$600 million annually). The projected savings are based on unsubstantiated (and inaccurate) conclusions that Michigan public sector health plans are “too generous” and that public sector employees do not share in the cost of health care to the same extent as those public sector employees in other states and to private sector employees. Other savings projected include \$65 to \$75 million per year by consolidating negotiating and administering health care plans and \$100 to \$200 million from economies of scale.

The proposal would have the Governor appoint a “Director to design the vision and an action plan for adoption of a uniform, public sector health benefits program” by October 31, 2009 with implementation to occur by January, 2010. Once the plans are operational, they would be made available to the general public as well.

Dillon’s “white paper” explaining his proposal makes several claims without substantiation including:

- “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.”
- “... 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.”
- “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."

- "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" though the white paper indicates that we don't know the cost for municipal employees health care benefits.
- "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"
- "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"
- "Data show that Michigan's public sector employees and retirees have more generous benefits than individuals employed by private companies in Michigan"

Draft A – bill to be introduced

Since issuing the White Paper analyzed above, Dillon has distributed a Draft of the first bill in the expected package. It differs from the original proposal slightly but is based on the same faulty assumptions. The Speaker continues to insist that he is protecting collective bargaining rights but has offered a draft that severely limits collective bargaining rights and amounts to little more than a meet and consult system (aka collective begging). He has recognized that comparisons to the private sector are not appropriate and has instead proposed that we peg the options that would be approved by a Michigan Health Benefits Program Board upon recommendation of the Director of the Office of the State Employer to the average of all public plans in the nation.

The draft further provides:

- the state and all cities, villages, townships, school districts, counties, community colleges, public universities other political subdivisions of the state, and all public employee retirement systems that offer health care would be limited to plans approved by the Michigan Health Benefits Program Board for all employees, officers, elected officials and retirees.

- The Michigan Health Benefits Program Board would be made up of 13 members as follows:
 - 4 members appointed by the Governor to represent the interests of state, municipal, educational and public safety employees;
 - 1 member appointed by the Governor to represent the interests of the general public;
 - 3 members appointed by the Governor to represent the interests of county, municipal and public education employers;
 - 3 “independent” members with expertise in the areas of “benefit design, value-based insurance design, or health care actuarial science.” 1 of these “independent members” would be appointed by the Governor, the Speaker of the House and the Senate Majority Leader each;
 - the State Employer or designee; (The State Employer would serve as chair of the Board.)
 - the State Budget Director or designee.
- The duties of the Board would include:
 - review recommendations of the State Employer as to benefit plans and costs;
 - adoption or rejection of the recommendations of the State Employer.
 - review plans for making the state system available to the private sector.
- The duties of the State Employer would be expanded to include:
 - administration of the Michigan Health Benefits Program;
 - communicating and educating the public on the Program;
 - managing relationships between health care plans in the Program and providers;
 - participation in health care forums;
 - analyzing current public employee health care plans;
 - reviewing data on public employee and retiree health care plans in other states;
 - developing a selection of health care plans;
 - “negotiate with appropriate parties to develop plan recommendations;”
 - authority to negotiate with health insurance plans;
 - authority to contract externally (i.e. privatize) administration and operation of the Program;
 - authority to hire an executive director and staff to fulfill his/her duties;
 - audit any participating employer
- All public employers and all public employee retirement plans would be prohibited from agreeing to provide health care except through the Michigan Health Benefit Program. No local plans would be allowed unless they could demonstrate that the plan offered comparable benefits at 5% or more cost savings over 3 years. Self insurance would be prohibited. Public employers would only be allowed to collectively bargain over three issues:
 - which plan(s) the employer would offer;

- employer and employee cost sharing of premium and other costs of health care;
 - which employees would be covered by health care and which would not.
- Contractual plans would continue only until the current contract expires.
- The state would establish a separate fund that would pay for the health care plans and administration through assessments on every public employer who would be responsible for collecting the employee cost sharing.