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New Spending Limits on Medical Benefits for Michigan Public Employers

This Burning Benefits Newsletter is a follow up to the September 23, 2011 newsletter on new Michigan bid requirements for public employers that maintain medical benefit plans. In addition to the [new bid requirements discussed in this previous newsletter](#), the Michigan legislature has passed Senate Bill 7 (the “publicly funded health insurance contribution act” or the “Act”), imposing new limits on public employer spending on employee medical benefit plans. Much like the new bid requirements, the requirements of the Act are intended to curb rising medical plan costs in the State of Michigan.

The Act includes two alternatives for limiting public employer contributions to medical benefit plans in addition to an opt-out provision. Public employers must comply with one of the following three options for plan years beginning on or after January 1, 2012:

Option 1 — Total Dollar Limit. The default requirement under the Act limits public employer contributions to medical benefit plans to a total of \$5,500 times single employees covered, plus \$11,000

times employees with individual plus spouse coverage, plus \$15,000 times employees with family coverage. The total of these three components operates as an overall limit on the public employer’s medical benefit expenditures such that an employer may elect to spend more on one type of coverage but must make up for the overspending by spending less on the other types.

Option 2 — Percentage Limit. As an alternative to complying with the default requirement, a public employer may elect, by majority vote of its governing body, to comply with a percentage limit on employer contributions to medical benefit plans. Under this option, the employer must cap its medical benefit plan contributions to no more than 80% of the total annual costs of all of the medical benefit plans it offers or contributes to for its employees. For the purposes of this limit, costs include premiums or a plan’s illustrative rate, employer payments for reimbursement of co-pays or deductibles, and payments towards health savings accounts or flexible spending accounts.

444 S. Main Street
Ann Arbor, MI 48104
734.747.7050
www.skalaw.com

SKA CONTACT ATTORNEYS

Robert B. Stevenson
bob@skalaw.com

Timothy J. McGraw
tim@skalaw.com

Andrew Stumpff
andrew@skalaw.com

Michael Billington
michael@skalaw.com

Option 3 — Opt Out. As a third option, the public employer may elect, by a 2/3 vote of its governing body, to exempt itself from the Act entirely for the next year. (A vote must be taken each year in order to extend the exemption into the next year.)

Note: The requirements of the Act do not apply to the extent that they are inconsistent with preexisting collective bargaining agreements (agreements entered into before September 15, 2011).

Take Away. Public employers should start planning now in order to make sure that they can comply with one of the two limits on medical benefit plan spending for plan years beginning after January 1, 2012. Alternatively, employers should consider whether they desire to opt out of the Act’s requirements and whether this is a viable option politically.

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