

CAPS ON PUBLIC EMPLOYER CONTRIBUTIONS
TO MEDICAL BENEFIT PLANS
“Hard Cap” or “80/20” Rule

[Senate Bill 7](#) (SB 7), the “Publicly Funded Health Insurance Contribution Act,” was approved by both the House and Senate on August 24, 2011. The law takes effect January 1, 2012 and applies to all public employers. However, any collective bargaining agreement or other contract executed on or after September 15, 2011 must comply.

SB 7 creates a “hard cap” on the amount a public employer may contribute to a medical benefit plan, which includes but is not limited to hospital and physician services, prescription drugs and related benefits. SB 7 provides an option to elect an 80% contribution cap rather than the hard cap, and it contains a provision to allow a local unit to opt-out entirely.

As of August 29, 2011, it is unclear how the penalties for non-compliance with this act will intersect with the requirements created by [EVIP](#) related to health care, and the penalties therein.

“Hard Cap”

For the medical benefit plan coverage year beginning on or after January 1, 2012, a public employer may not pay more of the annual costs for medical benefit plans than a total amount equal to:

- \$5,500 times the number of employees with single person coverage
- \$11,000 times the number of employees with individual and spouse coverage
- \$15,000 times the number of employees with family coverage

A public employer may allocate its payments among its employees and elected officials as it sees fit. These caps will be adjusted by October 1 each year, to apply to following calendar year, based on the change in the medical care component of the United States consumer price index (CPI) for the most recent 12-month period available from the United States Department of Labor, Bureau of Labor Statistics.

“80/20”

By a majority vote of its governing body, a public employer may opt-out of the hard cap and into an 80% cap option wherein the public employer may not pay more than 80% of the total annual costs of all the medical benefit plans it offers or contributes to for its employees and elected officials. See the next page for details on the option to opt-out entirely from these requirements.

The public employer may allocate employees’ share of total annual costs of medical benefit plan as the employer sees fit. However, *elected* public officials must pay 20% or more of the total annual costs of the medical benefit plan.

Complete Opt-Out

By a 2/3 vote of its governing body each year, a local unit of government may exempt itself from the requirements of this act for the next year. An exemption is not effective for a city with a mayor who is both the chief executive and chief administrator, unless the mayor also approves the exemption.

Total Annual Costs

Both the hard cap and the 80% cap pertain to total annual costs of the medical benefit plan. These include the premium and all employer reimbursement of co-pays, deductibles, and payments into health savings accounts, flexible spending accounts or related accounts.

Collective Bargaining Agreements or Other Contracts

This law does not apply to existing collective bargaining agreements or other contracts until the agreements or contracts expire, are extended, or renewed. However, any collective bargaining agreement executed after September 15, 2011, must comply.

A public employer's expenditures for medical benefit plans under a collective bargaining agreement or other contract are to be excluded from the maximum payment formula under the hard cap provision.

Deductions

A public employer may deduct an employee's or elected official's portion of the costs of medical benefit plans from compensation due, and the employer may condition eligibility for the plan on the employee/elected official providing authorization to make such a deduction.

Penalties

Failure to comply with this act will result in the State Treasurer reducing each Economic Vitality Incentive Program payment by 10% ([EVIP](#), PA 63 of 2011) for the period of non-compliance. This penalty is separate and distinct from the health care component of the EVIP certification process. Action under this act does not certify or disqualify you for regular EVIP payments.