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Benefit Changes in Michigan

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One Percent Tax on Paid Claims

In an effort to replace the current Medicaid funding mechanism in Michigan, legislators have passed Senate Bills 347 and 348. These bills replace the current six percent use tax on Medicaid HMO's and plans providing Medicaid mental health services with a one percent tax on all paid claims under both fully-insured and self-funded health plans. Fortunately, Health FSA's, HRA's, and HSA's are all exempt from this tax. The new law takes effect in 2012, but is due to sunset in 2014 without additional action.

Public Employer Funding Cap

After much debate, the Michigan Senate and House have agreed on a compromise bill ([Senate Bill 7](#)) that limits the amount that public employers may contribute towards health benefits of its employees. The compromise takes the two prevailing approaches of a hard dollar cap and an 80/20 contribution split and provides public employers with the option. The flat dollar annual cap limits employers to spending on average \$5,500 for employee only coverage, \$11,000 for employee

and spouse coverage, and \$15,000 for family coverage across all employee groups. The limits are based on an aggregated average versus the actual paid amounts for each coverage level. This is the default action that must be followed. As an alternative (and by majority vote of the governing body), an employer can choose to adhere to a limit of 80 percent of the annual health care costs (premiums and employer FSA/HRA/HSA contributions). A third option, to ignore either of the first two choices, can be accomplished by a two-thirds vote of the public sector entity's governing body. However, it is unclear from the language of the Act whether this third option would trigger a possible loss of certain revenue sharing dollars from the state.

The law is effective for plan years beginning on or after January 1, 2012. Current collective bargaining agreements entered into prior to September 15, 2011 remain in place until their contract expires. Some public sector entities may also choose to opt-out of the provisions. The law does not apply to state civil service employees or public universities.

Governor Snyder has now signed the bill into law, and applicable public employers should immediately begin work on ensuring compliance through one of the three options.

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