State Notes

TOPICS OF LEGISLATIVE INTEREST

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State Employee Concessions – An Update

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As a result of the ongoing Michigan budget crisis, the State continues to explore a number of cost-saving measures. Cutbacks in the amount of funding to pay for Michigan's State employee payroll and benefits often have been included in efforts to achieve State savings. The following provides an update on the concessions State Civil Service employees have made over the current and previous fiscal years to reduce State expenditures. These concessions have included furlough days, banked leave time, and changes to health care benefits.

Background

Article XI, Section 5 of the Michigan Constitution of 1963 establishes the classified State Civil Service and the State Civil Service Commission (CSC), and provides for a process to increase the rates of compensation for State employees. Ultimately, the CSC has authority over rates of compensation and conditions of employment, including the authority to make modifications to previously agreed-upon collective bargaining agreements.

Over 70.0% of the total State classified work force is represented by unions eligible to bargain collectively on behalf of State employees. Employees not eligible for exclusive union representation include those in supervisory, managerial, and confidential positions as well as employees in business/administration services. These nonexclusively represented employees (NEREs) have their terms and conditions of employment determined through a process administered by the Civil Service Employee Relations Board. The Employee Relations Board serves as a Coordinated Compensation Panel that recommends a Coordinated Compensation Plan for NEREs to the Civil Service Commission. The Coordinated Compensation Plan and the collective bargaining agreements are subject to review, modification, and approval by the Civil Service Commission.

On December 17, 2007, the Civil Service Commission approved collective bargaining agreements for the next three fiscal years (2008-09, 2009-10, and 2010-11) for employees exclusively represented by the American Federation of State, County, and Municipal Employees (AFSCME), the Michigan State Employees Association (MSEA), the Michigan Corrections Organization (MCO), the United Automobile, Aerospace, and Agricultural Implement Workers of America (UAW), and the Service Employees International Union (SEIU) Local 517M. The agreements include hourly rate increases as follows:

October 1, 2008 - 0%
October 1, 2009 – 1.0%
October 1, 2010 – 3.0%

Article XI, Section 5 of the Michigan Constitution also states that increases in the rates of compensation authorized by the CSC require prior notice to the Governor, who then transmits the increases to the Legislature as part of the budget. Within 60 calendar days following the transmission, the Legislature, by a two-thirds vote of the members elected to and serving in each house, may reject or reduce increases in rates of compensation authorized by the CSC. Reductions made by the Legislature must apply uniformly to all classes of employees and cannot adjust pay differentials already established by the Commission. Rates of compensation also cannot be reduced below those in effect at the time the increases were transmitted to the Legislature.

To date, the Legislature has never rejected the wage increases approved by the Civil Service Commission for represented State employees; however, on February 10, 2010, the Civil Service Employee Relations Board did not agree to the 3.0% wage increase for NEREs for FY 2010-11 resulting in an estimated savings of $43.7 million gross ($17.7 million General Fund). The remaining represented civil service employees will receive the scheduled 3.0% base wage increase beginning October 1, 2010.

FY 2008-09 and Furlough Days

Concessions agreed to by State employees and the State Employer during FY 2008-09 included a furlough program. The furlough program required full-time State employees to take 48 hours of unpaid leave in FY 2008-09. The unpaid leave time equated to a 2.3% pay reduction for State employees. All employees, except essential employees, were furloughed without pay on June 19, July 6, July 24, August 7, August 21, and September 4, 2009. The furlough program did not have any effect on an employee's retirement service credit, longevity payments, step increases, holiday pay, sick and annual leave time accruals, benefit levels, or insurance premiums. The amount saved from this program in FY 2008-09 was an estimated $53.7 million gross; $21.7 million General Fund/General Purpose (GF/GP).

Table 1 illustrates the amount of savings achieved by State departments or agencies through the furlough program in FY 2008-09.

Table 1
FY 2008-09
Furlough Day Savings by Department

Department/Agency	Gross	GF/GP
Agriculture	$769,900	$395,200
Attorney General	960,400	449,500
Casino Gaming Board	154,900	0
Civil Rights	188,300	158,000
Civil Service Commission	776,900	216,700
Community Health	5,283,200	2,252,700
Corrections	9,487,300	9,316,500
Education	605,000	59,900
Environmental Quality	2,109,700	284,800
Executive Office	82,000	82,000
History, Arts, and Libraries	262,800	227,600
Human Services	12,560,700	4,773,700
Information Technology	2,734,600	978,700
Labor and Economic Growth	4,172,400	160,700
Lottery	297,800	0
Management and Budget	1,121,000	255,500
Michigan Strategic Fund Agency	249,500	249,500
Military Affairs	637,300	200,100
Natural Resources	2,069,600	144,900
State	1,801,600	196,400
State Police	1,569,300	1,013,800
Transportation	3,984,100	0
Treasury	1,790,600	263,200
Total	**$53,668,900**	**$21,679,400**

Source: State Budget Office

FY 2009-10 and Banked Leave

Concessions agreed to by State employees represented by the five bargaining units described above, NEREs, the Michigan State Police Troopers Association (MSPTA), and the State Employer for FY 2009-10 primarily include a banked leave time provision. It is important to note that the MSPTA has not ratified this agreement to take banked leave time although it is anticipated. In addition, the employees represented by the MSEA have already taken five furlough days on January 29, February 12, February 26, March 12, and March 26, 2010. In addition to banked leave time savings, two bargaining units achieved additional savings totaling $9.5 million through specific modifications to their contracts: The MCO will save $7.6 million from elimination of pre-shift meetings and the UAW will save $1.9 million for withdrawal from the Joint Employee Education, Training and Development Fund.

In FY 2009-10, employees have continued to work 40 hours per week, but their base pay has been reduced by two or three hours per pay period depending on the bargaining unit. The number of pay periods affected also depends on the bargaining unit. Table 2 provides the detail by bargaining unit.

The two or three hours per pay period for which State employees are not being paid instead will be placed into a separate banked leave time account and will not count toward an employee's regular annual leave cap. The accumulated banked leave time hours may be used as regular annual leave or remain in the employee's banked leave time account until separation from State employment, at which time the State will make a contribution to the employee's 401k or 457 retirement plan for the banked leave time hours. The amount of the State's contribution for the banked leave time will be based on the employee's rate of pay at the time of separation.

The banked leave time provision equates, on average, to an estimated 1.6% pay reduction for State employees while the furlough day provision equates to a 1.9% pay reduction for those employees. State employees, however, did receive their previously negotiated 1.0% base wage adjustment on October 1, 2009. The savings from these concessions in FY 2009-10 is estimated at $46.6 million gross ($33.6 million from banked leave time, $9.5 million from specific bargaining unit savings, and $3.5 million from furlough days). The GF/GP savings is estimated to be about 53.0% of the gross savings amount, on average.

Table 2 provides detail, by bargaining unit, on the number of banked leave time hours taken, furlough days, and the corresponding amount of savings achieved in FY 2009-10.

Table 2
FY 2009-10
Estimated Employee Concession Savings by Bargaining Unit

Bargaining Unit	Banked Leave Time Hours Taken	Furlough Days Taken	Number of Pay Periods Affected	Specific Bargaining Unit Savings	Furlough Day or Banked Leave Time Savings	Gross Estimated Savings
MSEA	None	5	5	N/A	$3,446,000	$3,446,000
MCO	3 total; 3 per PP	None	1	$7,600,000	600,000	8,200,000
SEIU	34 total; 2 per PP	None	17	N/A	4,200,000	4,200,000
MSPTA[1)]	30 total; 2 per PP	None	15	N/A	1,400,000	1,400,000
AFSCME	45 total; 3 per PP	None	15	N/A	1,950,000	1,950,000
UAW	26 total; 2 per PP	None	13	1,932,100	10,760,000	12,692,100
NEREs	28 total; 2 per PP	None	14	N/A	14,700,000	14,700,000
Total				**$9,532,100**	**$37,056,000**	**$46,588,100**

1) The MSPTA has not ratified these changes, though it is anticipated by the State Employer that these concessions will be agreed to by the end of the fiscal year, and the savings realized.

Source: State Budget Office

FY 2009-10 and FY 2010-11 Health Care Benefit Changes

Along with rates of compensation and conditions of employment, health care benefits also are negotiated in the collective bargaining process. The approved collective bargaining agreements for FY 2008-09, FY 2009-10, and FY 2010-11 made some significant changes to the premium and co-pay amounts paid by State employees. Employees choosing to enroll in the State Health Plan PPO (preferred provider organization) now are required to pay 10.0% of the annual premium, compared with 5.0% in previous contracts. Those enrolling in a health maintenance organization (HMO) plan previously did not pay any portion of the premium, 100% of which was paid by the State. Under the new contracts, employees choosing an HMO plan now pay 5.0% of the annual premium.

The new collective bargaining agreements for FY 2008-09, FY 2009-10, and FY 2010-11 also made significant changes to the deductible and prescription and office visit co-pay amounts that State employees pay. The deductible for members under the State Health Plan PPO increased from $200 per member ($400 per family) to $300 per member ($600 per family) for in-network services, while the deductible for out-of-network services increased from $500 per member ($1,000 per family) to $600 per member ($1,200 per family). The out-of-pocket maximums remained the same: $1,000 for individuals and $2,000 per family for in-network services; $2,000 for individuals and $4,000 per family for out-of-network services.

The prescription drug co-pay amounts increased under the new collective bargaining agreements. The co-pay for generic drugs was set at $10 while the co-pay for brand name drugs was set at $20. Also, the co-pay for nonpreferred brand name drugs increased from $30 to $40. The co-pay for mail order prescriptions of 90-day supplies now is $20 for generic, $40 for brand name, and $80 for nonpreferred brand name drugs. Finally, the co-pays for office visits and emergency services were increased for in-network services. The office visit co-pay increased to $15 per visit, while emergency visits are still covered at 100%. If an individual is *not* admitted to the hospital, however, a $50 co-pay per emergency room visit is required.

Concession agreements made between the State Employer and represented employee unions and NEREs include further changes to the amount of health premiums newly hired State employees must pay along with increased co-pay amounts. The State Employer has ratified memorandums of understanding with employee unions (except MSPTA) and NEREs for changes that took effect on April 1, 2010, for employees hired on or after that date. These agreed-upon concessions affect employees choosing the State Health Plan PPO and those choosing an HMO. The agreed-upon changes are detailed in Table 3 and include changes to the amount of premium paid by the employee, prescription drug and office visit co-pays, emergency room visit co-pays, and deductible amounts.

Table 3

Comparison of Health Care Plans for Current Employees vs. New Hires as of 4/1/2010

Item	Current Employee PPO	New Employee PPO	Current Employee HMO	New Employee HMO
Employer Premium Share	90%	80%	95%	85%
Prescription Drug Co-pays	Retail - $10/$20/$40	Retail - $10/$30/$60	Retail - $5/$10	Retail - $10/$30/$60
	Mail order - $20/$40/$80	Mail order - $20/$60/$120	Mail order - $10/$20	Mail order - $20/$60/$120
In-Network:				
Deductible	$300 - member $600 - family	$400 - member $800 - family	N/A	N/A
Office Visit Co-pay	$15	$20	$10	$20
Emergency Room Co-pay (if not admitted)	$50	$200	$50	$200
Co-insurance after deductible	0%	10%	N/A	N/A
Out-of-Pocket Maximum	$1,000 member $2,000 family	$1,500 - member $3,000 - family	N/A	N/A
Out-of-Network:			**No out-of-network for HMOs**	**No out-of-network for HMOs**
Deductible	$600 - member $1,200 - family	$800 - member $1,600 - family		
Office Visit Co-pay	10% after deductible	20% after deductible		
Emergency Room Co-pay (if not admitted)	$50	$200		
Co-insurance after deductible	10%	20%		
Out-of-Pocket Maximum	$2,000 - member $4,000 - family	$3,000 - member $6,000 - family		

Source: State Budget Office

The actual savings for the health care benefit changes agreed-upon by these concessions are yet to be determined. The Office of State Employer estimates that these concessions will save approximately 21.3% from current plan costs. The average number of new employees hired annually by the State between 2005 and 2009 was 2,100. The annual premium for health care for the family plan in the State Health Plan PPO for employees hired before April 1, 2010, averages $17,600 per year while the premium for HMO coverage averages $16,000 annually. Due to changes in co-pays and deductibles, the annual premium for employees hired on or after April 1, 2010, drops to an average of $15,600 for the State Plan PPO (for the family plan) and $14,500 for HMO coverage.

Using these averages, the current State portion (90.0%) of premium paid for the State Plan PPO family plan is an estimated $15,840 annually compared with $15,200 (95.0%) paid for the family plan HMO. The decreased portion of the premiums required to be paid by the State for newly hired employees equates to an estimated $12,480 (80.0%) for the State Plan PPO and $12,325 (85.0%) for the HMO. Depending on the plan chosen, the estimated savings to the State of the changes to health care premiums alone for the 2,100 new employees hired annually could exceed $7.1 million per year, a 21.3% reduction compared with current costs for the same 2,100 new employees.

Conclusion

Negotiations on the State budget for all departments and agencies for FY 2010-11 continue as of this printing. How the budget will be resolved likely will require some concessions between the employee unions and the State Employer. These concessions could include furlough days, banked leave time, or further changes to employee health plans. The savings realized from previous concessions serve as a model for potential future savings. If history provides a hint to the future, it is likely that employee concessions will continue to provide a partial solution to the State's budget woes.