



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #284

Initial State Payments for Health Insurance Premiums for Certain State Employees (ETF)

Bill Item

[LFB 2007-09 Budget Summary: Page 134, #9]

CURRENT LAW

Under current law, for certain state employees, the employer is required to pay required employer contributions toward the health insurance premium of the insured employee beginning on the date on which the employee becomes insured (generally the first day of the month after beginning employment). Such employees include: (a) any member or employee of the Legislature; (b) a state constitutional officer; (c) a district attorney who did not elect to continue insurance coverage with a county (or who did elect such coverage but has terminated that election); (d) a justice of the Supreme Court; (e) a Court of Appeals judge; (f) a Circuit Court judge; (g) the chief clerk or sergeant at arms of the Senate or Assembly; or (h) faculty and academic staff of the University of Wisconsin System who are participating employees and who are employed for an expected duration of not less than six months on at least a one-third full-time employment basis.

For all other state employees, including limited-term employees, the employer is required to pay required employer contributions toward the health insurance premium of the insured employee beginning on the first day of the seventh month beginning after the date on which the employee begins employment with the state, not including any leave of absence. [Such employees may become covered by group health insurance by electing coverage within 30 days of being hired, to be effective as of the first day of the month which begins on or after the date the application is received by the employer, but must pay the full premium cost of this coverage until the employer contribution begins on the first day of the seventh month beginning after the date on which the employee begins employment with the state.]

The Department of Employee Trust Funds (ETF) administers the health insurance plans and other benefit programs available to state employees.

GOVERNOR

Provide that, except for limited-term employees, the employer-required contribution toward the health insurance premium of certain state employees would begin on the first day of the third month, instead of the first day of the seventh month, beginning after the date on which the employee begins employment with the state, not including any leave of absence. The provision would take effect July 1, 2008.

DISCUSSION POINTS

1. According to administration officials, the provision to modify the timing of the initial state payment for health insurance coverage for certain state employees is intended to help in the recruitment of state workers. The Office of State Employment Relations (OSER) works closely with state agencies in their hiring efforts. In addition, OSER holds hearings with agency personnel in preparing the biennial compensation plan for nonrepresented employees, works with the Association of Career Employees and the State Human Resource Management Council, and conducts canvases of state agency heads. OSER indicates that a top request by agencies in recent years has been to allow the provision of state contributions for health insurance coverage at an earlier date than it is currently provided for certain employees, in order to facilitate the recruitment of state workers.

2. The current law provision of state contributions for health care coverage for certain employees on the first day of the seventh month beginning after the date on which the employee begins employment with the state appears to make such coverage coincide with the successful completion of the six month probationary period required of most state employees.

3. ETF and OSER officials believe that for other public employers in Wisconsin the average wait for employer-supported coverage is about two months. Some typical forms of initial coverage include: (a) coverage provided on the first of the month following 30 days of employment; (b) allowing employees to enroll for coverage after 30 days of employment, with coverage effective on the first day of the month following enrollment; (c) allowing employees to enroll for coverage within the first 30 days of employment, with the coverage effective on the first day of the month following enrollment; (d) coverage within 30 days of employment; and (e) coverage on the first day of employment. Examples of public employers with these types of initial coverage include Brown, Dane, La Crosse, Milwaukee, and Oneida Counties, the City of Madison, and the Janesville, Madison, and Waunakee school districts.

4. A 2006 annual benefits survey of the Greater Madison Area Society of Human Resource Management provides data on the waiting period for health care coverage among

participating employers. This data indicates that 80% of employers have a waiting period equal to, or less than, the first of the month following 90 days of employment or within 90 days of the date of hire, as shown in the following table. The Society had 67 participating organizations in 2006, primarily private sector businesses. All of the participating organizations responded to the survey.

**Health Insurance Coverage Waiting Period Survey Data
Greater Madison Area
2006**

<u>Waiting Period</u>	<u>Percent of Employers</u>
First of month after date of hire	27.0%
First of month after 30 days of employment or 30 days from date of hire	22.0
First of month after 60 days of employment or 60 days from date of hire	16.0
First of month after 90 days of employment or 90 days from date of hire	<u>15.0</u>
Total	80.0%

5. OSER also indicates that the surrounding states of Illinois, Iowa, Indiana, Michigan and Minnesota all have initial coverage, with full employer contributions, ranging from the day of employment (Illinois) to 35 days after the date of hire (Minnesota). These provisions are generally consistent with Wisconsin's treatment of members or employees of the Legislature, state constitutional officers, district attorneys, justices of the Supreme Court, Court of Appeals and Circuit Court judges, the chief clerk or sergeant at arms of the Senate or Assembly, and certain teachers employed by the University of Wisconsin System. For these positions, coverage is generally provided on the first day of the month after beginning employment.

6. The effective date for the provision would be July 1, 2008, limiting any fiscal effect to the second year of the 2007-09 biennium. No funding is provided under the bill for the costs of making the modification. Administration officials believe any additional costs can be absorbed in base funding and that little or no supplementation from compensation reserves will be needed. This is because new employees are hired predominantly to fill existing positions that already are fully funded for salary and fringe benefits. Therefore, base funding would typically include the funds necessary to fund employer contributions for the additional months required under the bill.

7. While it is true that state agencies may absorb the additional costs of health care coverage for new employees within base funding, there is, nevertheless, a real cost of providing this benefit because an additional four months of state contributions for health insurance coverage would be provided to the affected new employees. Approval of the provision would result in lower year-end lapses from sum certain appropriations.

8. While the provision would take effect on July 1, 2008, it would affect those employees hired prior to this date who have not yet reached the seventh month of employment.

Therefore, affected employees hired in January through April, 2008, would become eligible for employer contributions for health insurance coverage on the effective date of the provision.

9. OSER indicates that the average number of new state employees hired each year totals approximately 2,790. Assuming that one-twelfth of this total is hired every month and using projected employer costs for health care coverage in 2008-09, an additional four months of health insurance coverage provided to new employees would result in additional spending of approximately \$12.0 million (all funds) in 2008-09. This amount would include approximately \$5.2 million GPR. As noted above, these amounts would most likely already be included in base funding and, therefore, would not require additional appropriations.

10. If the Committee wishes to address the recruitment issue identified by OSER, but to do so at lower cost, it could approve an alternative that would provide that, except for limited-term employees, the employer-required contribution toward the health insurance premium of certain state employees would begin on the first day of the fifth month beginning after the date on which the employee begins employment with the state (rather than the first day of the seventh month under current law or the first day the third month under the bill). This would provide new employees with two additional months of state-paid coverage, instead of the four additional months as provided under the bill. Under this alternative, the increased costs would again be absorbed in base funding or through compensation reserves. Providing an additional two months of health insurance coverage to new employees would result in additional spending of approximately \$6.0 million (all funds) in 2008-09, including approximately \$2.6 million GPR.

11. If the Committee deletes the provision, the initial employer contributions toward the health insurance premium of affected new employees would continue to be made on the first day of the seventh month beginning after the date on which the employee begins employment with the state.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide that, except for limited-term employees, the employer-required contribution toward the health insurance premium of certain state employees would begin on the first day of the third month, instead of the first day of the seventh month, beginning after the date on which the employee begins employment with the state, not including any leave of absence. The provision would take effect July 1, 2008.

2. Modify the Governor's recommendation to provide that, except for limited-term employees, the employer-required contribution toward the health insurance premium of certain state employees would begin on the first day of the fifth month, beginning after the date on which the employee begins employment with the state, not including any leave of absence. The provision would take effect July 1, 2008.

3. Delete provision.

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