



FOR IMMEDIATE RELEASE  
October 20, 2009

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## **New Analysis: Proposed Public Employee Health Plan Changes Overestimate Savings, Underestimate Costs**

**LANSING, Mich.** — House Speaker Andy Dillon’s proposed mandatory government-run health insurance plan for public employers could cost taxpayers up to \$500 million to launch and cost up to \$370 million a year to administer, and the claimed savings are dramatically overestimated, concludes a new analysis of the proposal by a respected public policy research and evaluation firm.

The analysis conducted by Public Policy Associates, Inc. (PPA), a national research firm based in Lansing, concludes the proposal’s claims of achieving significant cost savings through “administrative efficiencies and economies of scale” are “largely illusory.” That is because large insurance pools already exist in Michigan, and the proposal fails to account for the substantial costs of growing state government and other administrative functions to run what would amount to a \$4 billion to \$5 billion insurance company.

In the public school market, the analysis found that insurance market changes and Michigan’s ongoing budget pressures have resulted in an actual benefit cost decline for Michigan public schools in 2007-2008.

The PPA analysis finds the only opportunity for savings is through what proposal backers call “standardization of benefits,” which the report calls “a poor synonym” for reducing benefits for the 500,000 public workers, plus dependents, the proposal would cover or requiring them to pay more for their insurance.

“We find the savings claimed by the white paper and based on the legislation are largely illusory, especially those related to administrative efficiencies and economies of scale,” said PPA researcher Doug Drake, who authored the analysis. “The proposal could secure savings by reducing benefits and requiring employees to pay more toward their insurance, but that is happening today. An expansion of state government is not needed to capture savings that are already occurring.”

PPA based its analysis on a review of House Bill 5345, and on the white paper issued by Speaker Dillon on July 16 and later revised on September 9. The analysis was prepared at the request of Citizens for Accountability in Reform, a growing coalition representing taxpayers, police, firefighters, teachers, insurance companies and others who are concerned that this proposal doesn’t provide the reform it promises at a price taxpayers can afford. The full analysis (available at [www.publicpolicy.com](http://www.publicpolicy.com)) will be presented to all state legislators and to others for thorough review and consideration.

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The PPA analysis also found that:

- The Dillon proposal would effectively end collective bargaining for health care for the employees who are covered. “At best, HB 5345 suggests that employee groups would be limited to selecting from a small number of predetermined (benefit) options. That is simply not collective bargaining.”
- Health insurance savings are already being negotiated between public employees and their government employers across Michigan, and that’s a big reason why savings from the Dillon plan are overstated. The analysis notes that benefit costs declined for Michigan public schools in 2007-2008. “These savings are occurring in the market today due to the real impact of market forces, and further savings are virtually certain without HB 5345.”
- HB 5345 raises significant constitutional issues that need serious legal review. The analysis concludes Michigan’s public universities can’t be forced into a state government plan because of their autonomy under the state Constitution. In addition, creating a state “mandate” that would force local governments and school districts to participate in a statewide plan could violate Article IX, Section 29 of the Constitution (the “Headlee” local mandate provision).

#### **Administrative Costs**

Assuming all active and retired public employees and their dependents were in the plan, total premiums would be roughly equal to those of a \$4 billion to \$5 billion insurance company. PPA estimated the state’s costs of administering a book of business that size at \$295 to \$370 million. The figure is based on PPA’s estimate that administrative costs would be about 7 percent of total premiums. (Administrative expenses of North Carolina’s mandatory public employee health plan are 7 percent, while a similar pool operated in Georgia reported administrative expenses of 8.1 percent.)

#### **Efficiencies/Economies of Scale from “Super Pool” Based on Two Critical Errors**

The proposal is fundamentally based on the theory that creating a “super pool” of 500,000-plus public employees would produce substantial savings by creating new efficiencies and economies-of-scale. “The savings theory for public employees is based upon two critical errors of assumption,” the analysis concludes. First, the vast majority of public employees in Michigan are already in pools substantially large enough (50,000 to 250,918) to have already achieved these types of savings. Second, the proposal fails to recognize the fact that most public employee insurance plans bargained in Michigan already “stem from common basic programs of insurance such as PPOs and HMOs.” Simply stated: though there are thousands of bargaining units in Michigan, there are not thousands of unique individual plans.

#### **\$500 Million to Launch the Plan**

In addition to large administrative costs, the statewide plan would require adequate reserves or substantial reinsurance at start up, and the proposal fails to account for the costs of either option. “As a ballpark, this analysis estimates that in order to fund an appropriate reserve for self-funding, something on the order of two months of potential claims might be needed. This analysis projects this amount to be approximately \$200 million to \$250 million for each month, for a total of \$400 million to \$500 million. This money would need to reside in a reserved account, unavailable for use for payment of other bills of state government, and might be literally impossible for Michigan to create without borrowing given the (state’s) fragile cash flow position.”

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**About Public Policy Associates**

Serving clients throughout Michigan and the United States, Public Policy Associates, Inc. provides high-caliber, thoughtful policy research that results in strategies of value in the real world. PPA is known for expertise in a broad range of topics, credibility with policy decision makers across the nation, and analytical approaches to problems. PPA's signature services include custom-designed survey instruments, comprehensive reports with cross-tabulations of data, rapid study completion, long-term data collection and management, thorough evaluation of programs and services, and bilingual capabilities. PPA is a recognized leader on issues of national, state, and local interest, especially in the areas of economic development, education and workforce, environmental issues, and health care.

**About Douglas C. Drake**

Mr. Drake is a senior policy consultant and director of Health, Human Services, and Philanthropy at PPA. His career in public service and policy development spans over 30 years and is highlighted by his key policy roles and experience in developing and implementing Proposal A, Michigan's school finance reform legislation, and a variety of Michigan's taxation and education policies. He is widely regarded as one of Michigan's top public finance and public policy experts. Prior to joining PPA, Mr. Drake served for seven years as associate director of the State Policy Center for Wayne State University, where he coordinated the university's outreach efforts in public policy with state government, particularly with the Legislature. He wrote and edited public policy issue papers and arranged seminars and workshops for legislators and legislative staff. Mr. Drake has also consulted with foundations, school districts, and governmental agencies on policy issues. In addition, he has taught public finance for Western Michigan University's master's degree program in public administration, and for Michigan State and Wayne State. Other positions held by Mr. Drake include director of the state's Office of Education and Infrastructure at the Michigan Department of Management and Budget (MDMB), special advisor on economics and revenue to the MDMB director, and several other key policy and management positions for the Office of Revenue and Tax Analysis, where he was responsible for the economic forecasting and revenue estimating for the state, for the House Taxation Committee, and for the House's Democratic Research Staff. In these roles, Mr. Drake worked on a wide variety of bonding, budget, economic development, and education and tax issues before the Michigan Legislature.

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