



who have not accepted township health care coverage may opt to take health care coverage for one year so that they may opt out of it in the future to receive the cash benefit.

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## ***Detailed Fiscal Analysis***

### **CURRENT LAW**

Under current law, townships may procure and pay for all or any portion of life insurance policies or health insurance policies including sickness and accident insurance. Township trustees may procure and pay for all or any part of the cost of health insurance policies and/or benefits including: hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance. Acceptance or refusal of coverage does not affect the availability to other township officers and employees.

The board must provide uniform coverage for township officers and full-time employees and their immediate dependents and may also provide for part-time employees and their immediate dependents. In addition, township trustees may procure and pay for group life insurance (the amount of coverage provided cannot exceed \$50,000 per “officer”).

### **BILL PROPOSES**

This bill authorizes a township to offer health benefits to employees through a “cafeteria plan” meeting the requirements of Section 125 of the Internal Revenue Service Code.

- A cafeteria plan is defined as (1) all participants are employees and (2) participants may choose among two or more benefits consisting of cash and qualified benefits or two or more qualified benefits.

#### The bill would allow for:

- Township trustees may establish a policy allowing any “township appointing authority” to make a cash payment to any officer or employee in lieu of providing for (1) health insurance, (2) health care services benefit, or (3) life insurance. This may include flexible spending accounts for medical or dependent care related costs.
- Cash payments cannot exceed 25% of the cost of premiums or payments under an offered policy or plan.
- To receive a cash payment, officers or employees must sign a statement affirming that they are covered under another health insurance or health care policy, contract or plan.

### **RECENTLY ENACTED LEGISLATION (Am. Sub. H.B. 187)**

Am. Sub. H.B. 187 of the 123<sup>rd</sup> General Assembly authorized that a township may reimburse any officer or employee for each out of pocket premium that the officer or employee incurs for insurance policies with specified types of benefits for the following reasons: (1) a township chooses to not procure health care benefits, (2) an officer or employee is denied coverage under a township health care plan, or (3) an officer or employee elects not to participate in the township’s plan. To facilitate this option a township’s trustees must adopt a resolution specifying that the township has chosen to offer this reimbursement in lieu of benefits, develops maximum payment thresholds for reimbursements, and states which types of benefits will be reimbursed.

Am. Sub. H.B. 187 and this bill provide options for employees electing not to participate in township health care plans. It is unclear how they would work together if H.B. 379 is enacted. Am Sub. H.B. 187 became effective September 20, 1999. These two bills do not appear to be compatible. It is possible, under the combined provisions of Am Sub. H.B. 187 and H.B. 379, individuals may opt out of a township's plan, may receive cash in lieu of health care coverage and may receive reimbursement for out-of-pocket premiums related to other plans they choose to participate in.

## **COUNTY EXPERIENCES**

It is anticipated that townships would be providing this option to employees as a cost-saving measure or as a way to provide alternative benefits to employees. Some counties have implemented similar policies with the following results:

### Fulton County:

Fulton County currently implements a policy where employees are able to opt for a \$500.00 annual payment in lieu of accepting health care benefits. Currently, approximately 12 (4%) of 300 employees have elected to receive the funds. Administrative costs are considered to be "minimal" requiring individuals to designate benefit preferences on an annual basis using a check-off box on a benefit form. If they choose to accept cash, two checks per year are issued to those individuals and are paid out during June and December of each year. The employees who have accepted the cash payment in lieu of benefits are believed to have a spouse also employed by the county.

### Mahoning County:

Mahoning County implements a similar program where individuals would receive \$1,200 for opting out of health care plans offered by the county. Annually, approximately 100 employees have accepted this offer. To be eligible for this option individuals are required to provide proof of other health care insurance coverage. It was stated that cost savings have resulted from this initiative due to the cash benefit being less expensive for the county to pay than the insurance coverage payments.

Currently, the county is in negotiations to have a third party vendor administer Section 125 of the Internal Revenue Code programs. It is anticipated that the administration costs of running Section 125 programs will be revenue and cost neutral. The county plans to contract with a third party administrator. Third party cost estimates is approximately \$70,000 per year to run the program for 2,000 employees at an annual per employee cost of \$35.00. A county official stated that the funds saved by not having to pay workers compensation, federal or state taxes on pre-tax dollars individuals put into flexible spending accounts will result in funds being available for the county to help pay for the actual costs of administering the program.

### Montgomery County:

Montgomery County implemented a cafeteria plan program in the mid-1980s at a time when the county was changing their health care coverage. Since this affected employee health care co-payments, alternatives and options were introduced to help mitigate cost impacts for the employees. Introducing cash payments in lieu of health care and contracting with a third party to administer medical and dependent flexible spending accounts were implemented. Currently, the county offers employees \$1,000 if they do not opt to take the county's health care benefits. Approximately 500 (13%) of 4,000 employees have accepted this offer. Costs of administering

this portion of their benefits program are stated to be “minimal.” The total costs for using a third party to administer the flexible spending account program are \$13,000 annually which averages to less than \$35.00 per year per participating employee (385 employees).

## **FISCAL IMPACTS**

It is difficult to determine specific fiscal impacts associated with this legislation. A variety of outcomes are possible and dependent upon what each township decides to allow as well as what employees actually decide to do. Examples are stated below:

### Cost savings to townships may occur if:

- Individuals opt to no longer have coverage under their township’s plan. The township pays no more than 25% of the annual premium and the township saves 75% of current individual’s health care premium costs.
- Administrative costs combined with cash payments are less than the cost of an individual’s current health care premium plan costs.

### Cost increases to townships may occur if:

- Individuals choose to opt out of a township’s cafeteria plan, accept a cash payment and then are eligible to be reimbursed for the costs of another health care plan that they procure themselves (per Am. Sub. H.B.187).
- Healthier individuals are the ones who opt out of township health care plans. As a result, the premiums paid by the township may increase over time.
- It is possible a township may have few employees who currently have dual health care plans. If these employees (who have, in effect, already opted out) are allowed to participate officially by being considered as having opted out of the current program to receive a cash payment, it is possible township costs would increase as more employees take the township up on the offer of a cash benefit. Alternatively, individuals who have not accepted township health care coverage may opt to take health care coverage for one year so that they may opt out of it in the future to receive the cash benefit.

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