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Michigan State AFL-CIO

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MARK T. GAFFNEY, *President*

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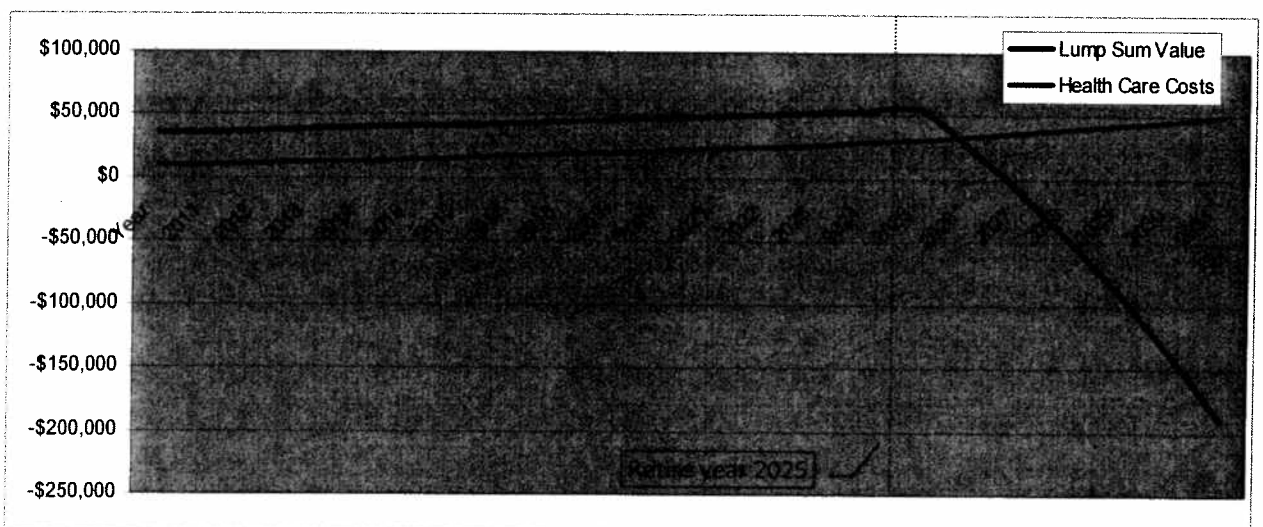
Dear Representative of the Michigan House of Representatives Appropriations Committee:

John Nixon clearly articulated that he is a budget director and not a policy maker. From a budget director's view, House Bill 4701 is merely a vehicle that reduces unfunded liability from 14 to 9 billion dollars. The budget director's view is void of social impact or legal ramification. This is the task a legislature must perform when deciding policy such as this bill.

House Bill 4701 has far reaching and potentially devastating effects on state workers. The monetizing of benefits provides minimal relief toward the loss of post retirement health care and falls exceedingly short in any case of catastrophic medical events. Even with full investment of their monetized benefit and returned 3% contribution, state workers' health retirement account will not keep pace with the inflation rate of health care. The gap will create new problems for the workers and the state. In some cases bankruptcy, foreclosure and increased reliance on family assistance programs will result, adding to the state's financial burden.

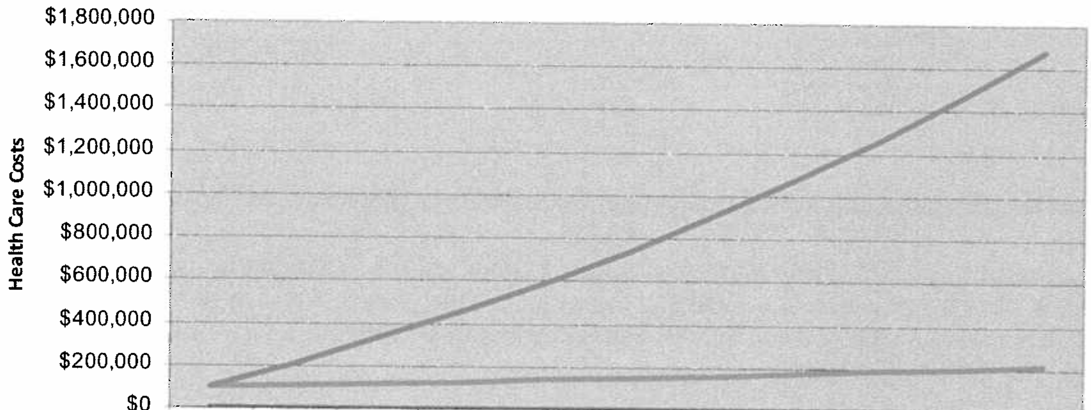
Using an example of a current worker, age 45 with 13 years service. The frozen accrual percentage at 39% provides a lump sum of $35,312. Retiring at age 60, the lump sum is valued at $55,015[1]. At the same time, health care cost for 2-person coverage will have risen to an annual premium of $31,722. By age 62, the lump sum value will be diminished and the retiree will be forced to use other assets to pay for health care premiums, reduce health care coverage, or eliminate it altogether. At age 65, if two-person health care coverage is maintained a retiree would be at a near $139,000 deficit and over $190,000 by age 66.



Another example is new employees who will receive $2000 upon retirement as the only state contribution toward their post retirement health care. Assuming employment at age 25, and retiring after 30 years of service (in year

[1] Assumes 3% increase as written in bill

2042) these workers will need to save nearly $1.7 Million Dollars to maintain a two person health care plan from age 55 to 65[2].



	55	56	57	58	59	60	61	62	63	64	65
$2000 at Retirement	$2,000	$2,120	$2,247	$2,382	$2,525	$2,676	$2,837	$3,007	$3,188	$3,379	$3,582
Health Care Costs	$100,627	$108,677	$117,371	$126,760	$136,901	$147,853	$159,682	$172,456	$186,253	$201,153	$217,245
Cumulative Health Care Cost	$100,627	$209,303	$326,674	$453,435	$590,336	$738,189	$897,871	$1,070,327	$1,256,580	$1,457,733	$1,674,978

Age

To assure that health care is available for post retirement a worker will be required to save at least $800 per month over 30 years[3] to save just *half* this amount. This is in addition to 20% co-pay for health care ($100 to $300 per month in today's dollars) while employed. These are only health care costs and are among many other concessions being forced on state workers. These demands on workers are too great and will likely cause many to be ill-prepared for retirement.

A lack of sufficient health care coverage will force some to delay getting medical care causing once easily controllable disease to become more difficult and costly to control. Emergency and urgent care visits will likely increase along with uncompensated care to hospitals. These actions are well known cost drivers causing health care costs to increase and premiums to rise.

State employment will be impacted too. Many workers afraid to retire; fearing the certainty of losing health care benefits, will remain on the job longer. This has a two-fold effect on the state. One, seniority workers typically cost more to employ, and two, job openings for younger workers will become scarcer. Furthermore, job openings that do occur may not attract the best and brightest applicants because of the lack of pension benefits.

The AFL-CIO is opposed to this legislation for these reasons, and believes it is bad policy that will have a long lasting negative impact on Michigan. Please contact me to discuss this further.

Sincerely,

Michael Keller

Michael Keller
Legislative Director

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[2] Assumes 8% annual increase in health care premium
[3] Assumes 6.5% annual return on health care savings investment