

Testimony of Mr. Tim Spink, Plan Administrator
Michigan State AFL-CIO Public Employee Trust
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Thank you Mr. Chairman and Committee members for the opportunity to come before you today to discuss VEBAs and the 'Dearborn Model'.

My name is Tim Spink and I am the Plan Administrator for the Michigan State AFL-CIO Public Employee Trust. I also serve in the same capacity for two other VEBAs – The Midwest Employee Medical Benefits Association and the Ohio Healthcare Trust. All three VEBAs exist for the purpose of providing public employees the right benefits at the right price and to provide collective bargaining tools in the benefits arena. Part of my duties to these VEBAs is to serve as the President of Associated Mutual, a Michigan Domiciled Insurance Company, and as the CEO of MEBS, a Third Party Administrator of Employee Benefits. I have been involved in the benefits industry since I began my own Third Party Administration firm in New Jersey in the late 1990's. I sold that firm to a large national competitor and then led the national sales efforts of a large healthcare software company. Just before coming to the Public Employee Trust in 2008, I spent several years consulting with Healthcare Insurance Carriers and Third Party Administrators across the country. It is my pleasure this morning to speak a little bit about VEBAs in general, the Public Employee Trust more specifically, and how the Public Employee Trust provided a unique collective bargaining solution to Dearborn Public Schools and the Dearborn Federation of Teachers.

A voluntary employees' beneficiary association (VEBA) is a form of trust fund permitted under American tax law whose sole purpose must be to provide employee benefits. VEBAs were first introduced in 1928, then enhanced by the Federal government in 1984 and 1986. The plan may pay benefits to employees, their dependents, or their designated beneficiaries, or to disabled, laid-off, or retired former employees.

The organization must also meet the following additional requirements:

- It must be a voluntary association of employees;
- Substantially all of its operations are for the purpose of providing benefits;
- Its earnings may not benefit any private individual, organization, or shareholder other than through the payment of benefits;
- It must be controlled by its members, in whole or part by their trustees, or by an independent trustee; and
- It must be nondiscriminatory in the payment of its benefits (unless it was established pursuant to a collective bargaining agreement).

Employer contributions to a VEBA are tax-deductible.

Beneficiaries of a VEBA must have an employment-related common bond (such as a common employer), be covered by a collective bargaining agreement, or belong to a labor union. However, if multiple employers share the same line of business and the same geographic area, they are considered to share the "common bond" specified by the law.

There are over 7,200 VEBAs operating in the United States. They vary from single employer VEBAs to Taft-Hartley VEBAs, to retiree VEBAs, to multi-employer government-based VEBAs. They also vary in the type of benefits that are offered through the VEBA - some offer all lines of benefits, while others offer ancillaries only. Still others offer benefits only to a retiree population.

The Michigan State AFL-CIO Public Employee Trust is a VEBA that provides benefits to almost 300 public employers throughout Michigan, and has saved the public sector millions of dollars in benefit costs over the past 25 years while protecting the benefits of public employees. Each public entity that provides benefits to its employees through the Trust has saved money as a result of effective collective bargaining at the local level.

Recently, the Public Employee Trust has implemented a new model of delivering benefits designed to broaden its offering to all stakeholders in the collective bargaining process.

The collective bargaining agreement between Dearborn Public Schools and the Dearborn Federation of teachers establishes the Dearborn School Employee Health Plan (DSEHP). The DSEHP is a segregated group inside the Michigan State AFL-CIO Public Employee Trust.

The school and the union collectively bargained a contribution by the school to the DSEHP with a fixed cost for each of the three years of the agreement. The first year is a fixed monthly dollar amount based on FTEs. The second year has an automatic 7% escalator, and the third year has a guaranteed 2.4% escalator that may increase if school funding increases, and there is a specific formula for any increase above the 2.4%.

Once the school makes the contribution, their responsibility ends. It is up to the DSEHP, with assistance from the Public Employee Trust, to purchase an appropriate plan for their members. If medical trend exceeds the contribution in future years, the DSEHP must make adjustments to plan design or agree on a premium contribution formula for their members. There is no mechanism to ask the district for more funding.

If trend is lower than the contribution, then the DSEHP is able to bank the savings against future increases.

The district has three years of predictable costs at a level that is appropriate for the school board and for the community, and no risk of unpredictable rate increases.

The union has gained control of their healthcare, and can make their own decision about how to spend the contribution in the best interests of their members. They are able to match risk of higher costs with the reward of corporately managing trend.

This model was the result of strong leadership on the part of Brian Whiston, superintendent of Dearborn Public Schools, and Chris Sipperly, President of the Dearborn Federation of Teachers, and their teams. Again, this was accomplished through collective bargaining at the local level.

The collectively bargained agreement saved Dearborn Public Schools 4 million dollars in benefit costs, or 24% of their benefit spend. That is in line with the guidance of both the governor's office and the legislature. That being the case, it should be irrelevant as to what the current premium share is and who the holds the policy. This type of model, while it may interest many public entities and labor organizations, is not a one size fits all solution.

The value of a VEBA, such as the Michigan State AFL-CIO Public Employee Trust, lies in its ability to provide a multitude of creative collectively bargained benefit models through a single vehicle. This creates value in negotiating, purchasing, underwriting, and other related expenses.

I hope this brief overview has been helpful. I stand ready to answer any questions that you may have.