Cities faced with increasing health insurance costs have a number of options to explore in attempting to control these costs. One option is to seek bids from different health insurance providers. Another is to change benefit levels, like deductibles and co-payments, to reduce premium costs. Increased deductibles and co-payments generally result in lower premiums because health insurance providers believe individuals will not use services to the same extent when they have to make a financial contribution. This second option can be used alone or in conjunction with seeking bids from different health insurance providers.

Cities interested in potentially adjusting the benefit levels of their health insurance plans should be aware of a state statute limiting their ability to reduce these benefit levels. Minnesota Statutes Section 471.6161, Subdivision 5 provides that “[t]he aggregate value of benefits provided by a group insurance contract for employees covered by a collective agreement shall not be reduced, unless the public employer and exclusive representative of the employees of an appropriate bargaining unit … agree to a reduction in benefits.”

In applying this law, it is important for cities to understand what qualifies as a “benefit.” The Attorney General’s Office has indicated that benefits include details such as deductibles and co-payments. Benefits do not include premium amounts.

It is also important to understand that this legal requirement to seek union approval only applies where there is a reduction in the “aggregate” value of benefits. This means the entire group of proposed changes must be viewed together to determine if there is a “net loss” in benefits. Sometimes this is not difficult to determine.

For example, if a city simply wants to increase the amount of the deductible or co-payment without a corresponding increase in benefits, there has been a reduction in the aggregate level of benefits. The question becomes more difficult where there is a proposed change in the benefit level that has increased benefits in some areas as well as decreased benefits in other areas. It is likely that such an “aggregate value” determination would become an actuarial calculation.

In negotiating benefits, the first step is to determine whether there would be a reduction in “aggregate benefit levels” under the city’s proposal. If the change does not reduce the aggregate benefit level, then the city does not have any obligation under this law to seek the union’s approval. A city making this determination must then look at the language of the collective bargaining agreement or determine whether there is any binding practice setting the benefit levels at a particular amount. Without a contractual or existing practice limitation, the city has significant flexibility in changing the benefit levels.

Where the city has determined it wants to make a change that will reduce the aggregate benefit level, it is best to already have a provision in the collective bargaining agreement that permits cities to make such a change in “aggregate benefit levels.” Some cities have “me too” provisions in the collective bargaining agreement that permit the city to provide the same level of benefits as that provided to non-union employees. They can then argue that the union has given prior permission for the city to make the change.

Cities that do not have a “me too” provision should seek to include one in order to have this flexibility. In the event that the union does not want to give up its authority in this process and allow a city to unilaterally increase the co-payments and deductibles of bargaining unit members, the city must take a different approach.

One recommended approach is for the city to provide the union with the information about the premium differences resulting from a change in benefit levels. This information can be used as a starting point for discussions on how the city and employees can benefit from the lesser benefits by focusing on a reduced premium. This approach recognizes that the employer and employees who contribute toward the health insurance premium benefit from lower health insurance premiums.

The following example demonstrates how such a change would benefit both the city and the employees in such a situation. A city can reduce its insurance premium by $20 per month if it increases its co-payment for office visits by the same $20. Thus, if an individual does not average one office visit per month, the premium savings would be more than offset the change in benefit level. If the city contribution to the health insurance premium stayed at the same dollar amount, the employee would achieve this entire savings. If the city and the employee equally shared the $20 savings, the employee would save $10 in premium contribution and would benefit unless he or she had six office visits in the same year.

Changing benefit levels is a valuable tool to consider in negotiations. The key is to remember that the Minnesota Legislature has given the union an important role in this process.

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