

LEGISLATIVE FISCAL ESTIMATE TO
ASSEMBLY, No. 1600
STATE OF NEW JERSEY

DATED: JUNE 13, 1996

Assembly Bill No.1600 of 1996 allows employers other than the State (other than an independent State authority, board, commission, corporation, agency, or organization) to modify the employer and employee obligations to pay for health benefits coverage under the State Health Benefits Program (SHBP) in accordance with the terms of a binding collective negotiations agreement. Current law requires local government employers participating in the SHBP to pay the cost of SHBP coverage for an employee and authorizes those employers to require an employee to contribute toward some or all of the cost of dependent coverage. SHBP benefits with regard to covered services remain unchanged.

The bill provides that the obligations of any such employer to pay the premium or periodic charges for health benefits coverage under the SHBP may be determined by means of a binding collective negotiations agreement, including any agreements in force at the time of the adoption of this bill. With respect to employees of such employers for whom there is no majority representative for collective negotiations purposes, the employer may, in its sole discretion, modify the respective SHBP payment obligations for such employer and such employees in a manner consistent with the terms of any collective negotiations agreement binding on the employer. Employees shall have the opportunity to adjust their coverage under the available health care plans during an annual open enrollment period or a special open enrollment period before any change in the employer-employee obligations to pay the charges for SHBP coverage takes effect.

The definition of "employer" includes a county, municipality, school district, or a public agency or organization which operates public works or is engaged in service to the public for one or more municipalities, local boards of health, or counties and whose revenue is not derived from State funds.

The bill also allows local employers to establish a cafeteria plan for their employees pursuant to section 125 of the Internal Revenue Code to provide for a reduction in an employee's salary in exchange for payment by the employer of any required employee contribution for SHBP coverage, medical or dental expenses not covered by SHBP, or dependent care expenses. The amount of any reduction in an employee's salary for the purpose of contributing to the plan shall continue to be treated as regular compensation for all other purposes, including the calculation of pension contributions and the amount of any retirement allowance, but, to the extent permitted by the Internal

Revenue Code, shall not be included in the computation of federal taxes withheld from the employee's salary.

The Office of Legislative Services (OLS) notes that there will be no impact on the State as this legislation will only affect active employees of local government employers who participate in the SHBP. The specific impact of the bill on local government employers cannot be determined due in part to the elective nature of this legislation and in part because there is no information available to indicate how future collective bargaining agreements might be modified.

The OLS notes that approximately 350 school boards, 258 municipalities, 4 counties, and numerous local government agencies, authorities and commissions, representing 138,994 active employees, participate in the SHBP. No information, however, is available to indicate when local government employee contracts expire nor how future contracts may be modified in terms of sharing the cost of participating in the SHBP. It should be noted that some local employers do not have collective bargaining agreements with any of their employees. In addition, some local employers only have collective bargaining agreements with particular categories of employees, e.g., law enforcement personnel, whose benefits may be more generous than the benefits provided to other public employees. Under the terms of this legislation, these employers might have only one option, to extend the "more generous" payment obligations for health benefits negotiated with law enforcement unions to all their employees.

The bill also permits local government employers to establish a cafeteria plan for their employees pursuant to section 125 of the Internal Revenue Code to provide for a reduction in an employee's salary in exchange for payment by the employer of any required employee contribution for SHBP coverage, medical or dental expenses not covered by SHBP, or dependent care expenses. This provision would reduce the cost to the employee of paying for part of the cost of health benefits coverage by allowing the employee to use pre-tax dollars to pay medical premiums. Employees save federal (but not State) income taxes through the reduction in taxable income. In addition to the employee savings in federal income taxes, both the employee and the employer avoid Social Security and Medicaid taxes on amounts deferred under a Cafeteria Plan. The employer savings may be minimal though because the employer will have to hire additional staff or hire a private firm to administer the plan.

In addition, employees need to carefully review their particular circumstances because there are some drawbacks to Cafeteria Plans. One of the most important is that because the employee's contributions to Social Security are reduced under a Cafeteria Plan, employees who earn less than the Social Security threshold for their entire working lives will receive a reduced Social Security benefit upon retirement.

Employees electing not to participate in the Cafeteria Plan will further reduce any potential employer savings by avoiding Social Security and Medicare taxes.

The legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.