



Legislative Update

April 19, 2010

NEW JERSEY ENACTS LEGISLATION IMPACTING HEALTH BENEFITS

On March 22, 2010 New Jersey Governor Chris Christie signed *Chapter 2, P.L. 2010*. This law enacts substantial changes to what public employees will contribute towards their health benefits. The law also makes several changes to the State Health Benefits Plan (SHBP) and the State Educators Employee Benefits Plan (SEHBP). The new law takes effect on May 21, 2010.

This bulletin focuses on the laws' impact to public employees of municipalities, school districts, county governments, boards, authorities and any other local governmental entity. The highlights of the law are as follows:

Contributions for Health Benefits for Active Employees and Retirees

- After the law's effective date and upon the expiration of any applicable collective bargaining agreements, all local governmental employees will have to contribute 1.5% percent of their base salary toward the cost of health care coverage. This will apply regardless of whether the entity participates with either of the two State Plans or contracts with a private insurer.
- The revenue raised by the 1.5% shall be kept by the local employer to be used to off set their benefit costs.
- The imposition of the 1.5% does not apply immediately. It shall take effect upon the expiration of any collective bargaining agreements. If an entity is in either of the State Plans, the 1.5% collected shall be maintained by the local entity and does not get paid to the State Plan.
- The 1.5% of salary is based on a person's base salary only and shall not be calculated to include overtime, longevity or other forms of salary.
- All newly hired public employees (those hired on or after the effective date of the law) shall be required to contribute 1.5% of their base pension towards health benefits upon retirement. However, all current public employees and current retirees shall not be required to contribute 1.5% of their base pension to their health benefits after retirement.

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- The 1.5% of salary contribution does not replace any cost sharing provisions already in place. The 1.5% shall be in addition to any other cost sharing arrangements in place. The 1.5% of salary becomes the minimum amount one must contribute. Local governmental entities and employee unions may agree to impose contributions above the 1.5% on a local basis based on collective bargaining.
 - For local governmental entities that have employees that are not party to a collective bargaining agreement, the 1.5% shall take effect upon the imposition of the law.
 - Benefit waiver incentives that may be offered to employees in place of enrolling for benefits be set at no more than 25% of the amount saved by the employer provided that such an amount is not greater than \$5,000 per year. This will apply to waivers filed after the law's effective date.

Local governmental entities that have not previously collected contributions for health benefits, will need to adopt plans and lawful mechanisms to properly collect and deduct the 1.5% contribution. They may do so on a pre-tax basis, but will have to adopt a cafeteria style "Premium Only Plan" that allows employers to deduct such amounts tax free. Local governmental employers will also have to make the necessary changes internally or through their payroll vendor to accommodate the collection process.

To assist local governmental entities in this regard, Conner Strong has developed a template Premium Only Plan ([click here](#)) employers may use to arrange for the lawful, pre-tax deduction of the new 1.5% contribution amounts. It is suggested that local officials and administrators check with counsel to ensure the proper enactment of administrative processes are adopted to deduct and collect the 1.5% amount.

Changes to the Two State Health Benefit Plans

The new law also implements various changes to the SHBP and SEHBP in the area of coverage and eligibility ("the State Plan"). The changes are as follows:

- A local governmental entity that participates in a State Plan may now, through collective bargaining, limit the plan choices offered by the State to their active employees. For example, a local governmental entity may bargain to only offer the Direct 10 Plan or only the Direct 15 plan.
 - Changes made to the State Plan that impact State employees shall automatically apply to local government employees at the same time and in the same manner as they apply to State employees.
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- Upon the enactment of the law, enrollment in the SHBP will be limited to a person who satisfies the following criteria:
 1. The worker must be a full-time appointive or elective officer of the State or local government whose hours of work are fixed at 35 or more per week, a full-time employee of the State, or a full-time employee of an employer other than the State whose hours of work are fixed by the governing body at not less than 25 per week; or
 2. An appointive or elective officer, an employee of the State, or an employee of an employer other than the State who has or is eligible for health benefits coverage in SHBP on that effective date and continuously thereafter.
 - The law similarly limits enrollment in the SEHBP to persons employed full-time whose hours of work are fixed by the governing body at not less than 25 per week.
 - Upon enactment of the law, an eligible individual may only enroll in the SHBP/SEHBP as an employee, retiree, or dependent. Multiple coverages under the SHBP and/or SEHBP shall now be prohibited under the law. For example: a husband and wife both have coverage based on their employment and have children eligible for coverage. In this instance, one may choose family coverage making the spouse and children ineligible for any other SHBP/SEHBP coverage. Alternatively, one may choose single coverage and the spouse may choose parent and child(ren) coverage. The Division of Pensions and Benefits will send lists of employees who have multiple coverages to the local governmental entity employer so that the employees can be notified to waive coverage for themselves or remove dependents as may be necessary.

This notice is intended to provide summary information regarding Chapter 2, P.L. 2010. In the event you have specific questions or need additional assistance, please contact your Conner Strong account representative at 1-877-861-3220.

This Legislative Update is provided for general informational purposes only and is not intended to be legal advice. Readers are urged to contact an attorney for legal advice or assistance.
