

**STATE EMPLOYEE RETIREES ASSOCIATION  
(SERA)**

**Position Paper Addressing the Extraordinarily Large  
Cost Increases for Mail Order Prescription Drugs**

Historically, there has been a linkage between the benefits which are collectively bargained by the various unions for active employees and the resultant benefits received by retired state employees. This linkage is rooted in both practice and statute. The statutory basis for the linkage is contained in MCL 38.20d which ties the premium cost for retirees to the same proportion as negotiated for active employees. Past practice has dictated that other health care costs for active employees generally accrue to state retirees. It is within this context that co-payments and deductibles are determined for state retirees. Historically, this linkage has worked well for state retirees inasmuch as it provided retirees with an established structure by which their health care costs would be determined and eliminated the threat of arbitrary and capricious increases. Until the results of the current-year collective bargaining negotiations were made known, the increased costs to retirees were always modest and within acceptable economic growth patterns.

The non-statutory portion of the linkage has come into question this year due to the unprecedented increases in several areas. Chief among these are the co-payment increases for mail order prescription drugs which range from 167% to 186% per prescription, depending on the tier, for a three month supply. The other significant cost factor is a new \$50.00 co-payment for emergency room visits which do not result in hospitalization. Both of these increases work a financial hardship on the most elderly and financially vulnerable retirees. It seems unfair to increase costs for those who are on fixed incomes, many of which are already insufficient, and who are the primary users of prescription drug services and potentially frequent users of emergency room services. These increases would appear to be a deterrent to the utilization of these services for those who need them most because they can ill-afford the cost. The obvious alternative the state retirees are faced with is not to take the needed medications prescribed for them or not go to an emergency room when suggested by a doctor. This could easily translate into higher health care costs for the state due to more visits to the doctors' offices and hospitalization as the result of failure to take prescribed medication due to the economic realities these individuals face. There are many empirical medical studies which address this unfortunate situation.

For a number of years, SERA sought to get pension increases for those state retirees who have been retired for twenty to forty or more years. At the time of their retirement, their wages were relatively low which resulted in a small pension when compared with more recent retirees. The non-compounding 3% annual increase (capped at \$300.00) has not kept pace with the cost of living index as determined by the federal government. SERA's efforts to obtain pay increases for this group of retirees were to no avail. We were faced either with unsympathetic politicians or a state in financial crisis. In the meantime, the state retirees we sought to help continue to experience a deepening financial crisis. Their situation is now to be further exacerbated by extraordinary cost increases for vital services they so sorely need.

There has always been a question about the degree current retiree concerns are taken into consideration by the collective bargaining negotiating teams when they are at the table. Inherent in the negotiating process is the concept of self interest. Thus tradeoffs can unconsciously be made to protect the self interest of the active union members at the expense of retirees. The primary advantage that active employees have in reaching agreement with management is that pay increases are always a consideration. So in applying the results of collective bargaining to retirees, retirees are at a great disadvantage in that there are no eventual offsets (via pay raises) to

any significant economic cost increases resulting from contract negotiations. This is a fact of life that retirees have always known but have not been concerned with because of the heretofore modest health care cost increases. As a result of the most recent bargaining, retirees appear to be the victims of unintended consequences.

In the recent hearings held by the House Retirees Health Care Reforms Committee, there was much discussion regarding the so-called “promise” made by the State of Michigan to its employees at the time they retired. Each of the distinguished presenters testifying before the Committee acknowledged that a promise was made to retirees with the expectation by all parties that it would be fulfilled. The question becomes whether the State of Michigan has the moral courage and political will to fulfill its commitment to those who gave devoted service to their employer with the expectation that their employer’s loyalty to them would be fulfilling the promise to which all parties had a common and shared understanding. There are efforts now underway to provide the financial wherewithal to assure that the “promise” can be fulfilled for future retirees. This is the thrust of HB 5913 which establishes trust accounts to pre-fund retiree health care costs. The question becomes what happens to those current retirees who are presently experiencing the kind of treatment that HB 5913 intends to avoid.

While the Michigan Constitution protects state retiree pensions from being diminished, it does not afford such protection to the health care benefits of those same retirees. It is ironic that the reduction of retiree pensions, which cannot be done constitutionally, is being done administratively. The effect is the same on the individual retiree – reduced purchasing power. Their pension dollars are being diminished by the costs of health care. What was previously spent for food, housing, utilities, etc., will not have to be spent on drugs and other health care cost increases. To get an appreciation for the impact of the proposed health care increases, please see the attached comparisons of health care cost increases on various pension amounts.

Breaking the historical linkage between the cost of active state employees’ and retired state employees’ health care benefits is difficult for SERA to propose, but we must nevertheless do so. Our members are so unnerved by the proposed health care cost increases they are seeking directions and avenues to voice their concerns. Some have threatened to protest at the Civil Service Commission meeting when the issue of the Memorandum of Understanding is brought before the Commission while others are threatening to bombard the Governor with letters and still others are suggesting a media campaign against the perceived unfairness of the cost increases. It is the position of the SERA leadership that all of these efforts may be counter productive. We would prefer to see some solution developed within our work group that recognizes the issues facing those representing the state as well as those of us speaking for retired state employees.

It is our strong belief, that in order to arrive at a solution, the \$37 million savings to be realized and the resultant trade-offs cannot be the sole controlling factor. We believe that this issue consists of economic, political, moral, and a potential threat to the “promise” factors. If the single deciding factor is the \$37 million alleged savings, it appears that we have all lost. That would be unfortunate. Let’s all hope that the final decision will not be one that will diminish the health and lifestyle of those who worked so hard to eventually realize and enjoy the “promise!”