

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 2224

SPONSOR: Governmental Oversight and Productivity Committee and Senator Thomas

SUBJECT: State Group Insurance Program

DATE: March 30, 1999 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>FP</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

## I. Summary:

The bill makes internal organizational changes to the Division of State Group Insurance, revises provisions of existing law which authorize the division to contract for self-insured and managed care providers, provides continuation coverage for designated public officers, and permits the designation of division and Division of Retirement staff for participation in the Senior Management Class,

This bill amends sections 20.22; 110.123; 110.1232; 110.1234; 110.1238; 110.161; 110.205; 121.025; and 215.94, F.S.

## II. Present Situation:

The Division of State Group Insurance is the state agency charged with the management of the self-insured state employee and retiree health insurance plan. It acts as a contract negotiator for the plan administrator, Blue Cross and Blue Shield of Florida, and prequalifies managed care organizations for employee selection during the annual open enrollment period. It also oversees an employee term life insurance program administered by Prudential Insurance Company. Prescription drug coverage is provided by its contractor through participating community pharmacies and a mail-order drug program.

The division is a relatively autonomous entity in spite of its placement within the Department of Management Services (DMS). Its director is appointed by the Governor and the division's policies are reviewed by an external advisory body. Enrollment eligibility is determined by statute while the terms of coverage are a function of the contractual providers and the benefits they provide within their plans. There is a minimum plan of benefits which all self-insured and managed care providers must make available to enrollees and their dependents. At the annual open enrollment period each qualifying employee may change providers. All premiums for insurance are payroll-deducted and employee shares of such sums are routed through a pretax account to shield

them from federal taxation. The State of Florida pays each provider company the same allowance for health insurance coverage regardless of employee choice.

The division is in its second year of a financial recovery precipitated by an unfavorable operating and financial experience with its prior third-party self-insurance administrator. This experience was followed by a Statewide Grand Jury Presentment which identified internal managerial and external contractual irregularities.

### **III. Effect of Proposed Changes:**

**Section 1.** Section 20.22, F.S., is amended to fully recognize the official name of the division and to remove its director as a voting member of its advisory council. The division shall provide general, but not dedicated assistance, to the advisory council.

**Section 2.** Section 110.123, F.S., is amended to include in the definition of “enrollee” terminated employees or individuals with continuation coverage; to define as a “health plan member” any person participating in the health plan choices offered active employees and their dependents; and “state-contracted HMO” as any participating managed care plan.

The division’s director and assistant director are made exempt from the Career Service System and the director may designate a total of 10 positions as exempt from civil service protection.

Generally, this and other sections of the bill provide nomenclature changes to refer to the “program” as those units inclusive of the indemnity and managed care alternatives combined and the “plan” as inclusive of the respective plans individually by type.

The division may use any of the contracting systems provided through the DMS for the procurement of managed care services. These include a request for proposal, invitation to bid, and invitation to negotiate. The division may require additional detailed information on each managed care organization’s ability to meet service requirements. The division will make its selection on the basis of the plan which offers high value to enrollees, rather than the best overall benefit package for the affected service area.

Specific authority for contracting with specialty psychiatric hospitals is deleted.

The detailed listing of information required to be submitted by managed care organizations for participation in the state group insurance plan is reduced. Such information will be determined by rulemaking of the division.

The division shall develop its comprehensive insurance benefit package in consultation with the department in furtherance of its duties in collective bargaining matters.

Employer assumption of insurance premiums conditioned by a firefighter or law enforcement officer’s incurring of a catastrophic injury is rephrased to bring s. 110.123, F.S., into compliance with amendments made to ss. 112.19 and 112.191, F.S., on the same subject.

State employees are authorized to participate in the group health insurance plan at the time of receiving their state retirement benefits.

Legislators vested in the state retirement system who terminate their elected service after July 1, 1999, may continue to participate in the group health and life insurance programs at the same premium cost as retirees and their surviving spouses.

The bill grammatically rephrases existing exemptions from public records on patient medical and claims records.

**Section 3.** Section 110.1232, F.S., is amended to make grammatical cross reference changes to retiree and spouse health insurance coverage.

**Section 4.** Section 110.1234, F.S., is amended to correct agency cross references from department to division.

**Section 5.** Section 110.1238, F.S., is amended to delete the per admission overcharge refund qualification. The amended section no longer applies to overcharges regardless of whether it is an in-patient or out-patient billing procedure.

**Section 6.** Section 110.161, F.S., is amended to make style and drafting changes to the employee insurance premium pretax benefit statute. Under the amended statute, language suggesting its developmental character is deleted as the program is now a permanent feature of payroll calculations on employee deductions.

**Section 7.** Section 110.205, F.S., is amended to correct the nomenclature change of the Department of Health and Rehabilitative Services to the Department of Children and Family Services and to add each of the assistant directors of the Division of Retirement and the Division of State Group Insurance to exempt status from the Career Service System.

**Section 8.** Section 121.025, F.S., is amended to exempt the assistant director of the Division of Retirement and to add that position and up to ten others to the Senior Management Service Class.

**Section 9.** Section 215.94, F.S., is amended to correct the name change of the group insurance division for purposes of cross reference in the state personnel management system statute.

**Section 10.** The bill is effective July 1, 1999.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

The grammatical rephrasing of the public records section does not close any public records that are not otherwise exempt from inspection under current law.

**C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

None.

**B. Private Sector Impact:**

Health care organizations will be required to adhere to the information elements determined by the division in their subsequent submissions for participation. These elements may be more detailed or comprehensive than those provided by statute. No specific costs are determinable at present.

**C. Government Sector Impact:**

The bill authorizes both the Division of State Group Insurance and the Division of Retirement to designate six positions each for inclusion in the Selected Exempt Service for workplace benefits. The Selected Exempt Service provides for the advance crediting of annual leave in the amount of 176 hours and sick leave at 104 hours. It also includes employer-paid life and disability insurance. Individuals so designated will be given the opportunity to roll-over their existing leave balances or receive payment for them prior to the crediting of new leave.

Any of these six individuals determined by the agency head to have policy making and managerial responsibilities may be placed in the Senior Management Service with increased leave credits of 240 hours and 120 hours for annual and sick time, respectively. For retirement purposes, such individuals will move from the Regular Class to the Senior Management Service Class. The change produces an increase in the accrual rate from 1.6 percent to 2 percent per year of service. The employer's contributions will also increase to fund the additional service upgrade. Individuals so designated will also be permitted to elect coverage in an optional annuity program in lieu of membership in the Florida Retirement System. That annuity program is a defined contribution plan in which the employer provides a pension contribution to an employee-owned immediately vested account.

Because this bill provides that these actions are discretionary with the division management, and may be accompanied by changed salary levels, it is not possible to estimate actual costs, only the direction of impact.

Legislative members availing themselves of the continuation coverage provision of the bill, and who do not otherwise retire under FRS, will be required to pay its full, unsubsidized cost.

The division reports that its monthly cost for prescription drugs has increased from \$69.38 in calendar year 1998 to a projected monthly cost of \$106.70 by June 30, 2001. Similar cost increases have been experienced in the mail-order drug program where the promise of savings for maintenance drugs for chronic conditions have been undermined by low, fixed co-payments for prescriptions when they are found to be therapeutically ineffective or inappropriate.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

Section 110.123(4)(h), F.S., as created by this bill, permits state employees to participate in the health insurance plan at the time of receiving their retirement benefits. While this would appear to apply only to those who are inactive state employees, it also may be interpreted to permit continuous open enrollment for retirees. Over time this would produce adverse selection if unhealthy retirees who had declined coverage choose to avail themselves of this option at any time during their life expectancy. The provision is silent on whether the division may require medical underwriting of these individuals under such circumstances. The phrase does not differentiate between the initial receipt of retirement benefits or its continuation, since pension payments are processed on a monthly basis.

**VIII. Amendments:**

None.