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**HOUSE OF REPRESENTATIVES
COMMITTEE ON
INSURANCE
ANALYSIS**

BILL #: CS/HB 1227

RELATING TO: State group health insurance and prescription drug programs

SPONSOR(S): Committee on Insurance and Representatives Spratt and Kilmer

TIED BILL(S):

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:

- (1) INSURANCE YEAS 13 NAYS 0
- (2) FISCAL POLICY & RESOURCES
- (3) FISCAL RESPONSIBILITY COUNCIL
- (4)
- (5)

I. SUMMARY:

The State of Florida offers state employees a State Group Insurance Program, which includes the state group health insurance plan. This proposed committee substitute would allow the governing body of a small county, small municipality, or a district school board, as defined in the proposed committee substitute, to apply for participation in the state group health insurance plan.

The State of Florida also offers state employees a State Prescription Drug Program. This proposed committee substitute would allow the governing body of a small county, small municipality, or eligible district school board to apply for participation in this program.

The small county, small municipality, or eligible district school board interested in participating in the state group health insurance program or prescription drug program would be required to issue a request for proposal prior to applying to the Department of Management Services (DMS). The small county, small municipality, or eligible district school board would be required to agree to specific terms and conditions for participation. Among the terms and conditions for participation, the small county, small municipality, or eligible district school board would be required to agree to reimburse the state 100 percent of its costs, including a \$2.61 fee per enrollee per month for reimbursement of administrative costs. Local government plan participation could begin with the January 1, 2003, plan year.

The act would take effect upon becoming a law.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1. Less Government Yes No N/A

This proposed committee substitute increases government by extending the option for coverage under the state group health insurance plan and state prescription drug program to specified local government entities.

2. Lower Taxes Yes No N/A

3. Individual Freedom Yes No N/A

4. Personal Responsibility Yes No N/A

5. Family Empowerment Yes No N/A

B. PRESENT SITUATION:

State Group Insurance Program

The state offers state employees a State Group Insurance Program, which includes group health insurance plans, health maintenance organization plans, group life insurance, group accidental death and dismemberment plans, and group disability insurance plans. The Division of State Group Insurance (DSGI), within the Department of Management Services (DMS), administers the State Group Insurance Program. This entails employee enrollment, premium collection, health care provider reimbursement, and administrative functions.¹ The state insurance program includes a package of insurance plans offering a comprehensive package of health insurance and retirement benefits to state officers and employees, retired state officers and employees, surviving spouses of deceased state officers and employees, and terminated individuals continuing coverage on a voluntary basis.²

State Group Health Insurance Plan

There are approximately 164,250 enrollees, excluding dependents, participating in the state group health insurance plan.³ According to the DMS, the current funding arrangements provide for a fixed employee contribution/premium for health care coverage, regardless of whether or not they are a member of the Preferred Provider Organization Plan (PPO) or a health maintenance organization (HMO). The enrollee also may make a contribution toward individual and dependent membership.⁴

The state group health insurance plan includes a choice of a self-insured PPO, managed by BlueCross BlueShield of Florida, or seven fully-insured contracted HMOs. The state group health insurance plan is a cafeteria plan as defined by s. 125 of the Internal Revenue Code, meaning that

¹ s. 110.123 (3), F.S.

² s. 110.123(1)(b), F.S.

³ According to the Department of Management Services as of March 2001.

⁴ s. 110.123(4)(b), F.S.

participants may choose between cash or health benefits and use their payroll deductions on a pre-tax basis.⁵

State Prescription Drug Program

The state offers employees a prescription drug program also managed by the DMS.⁶ Although the prescription drug program is separated statutorily from the state group health insurance plan, the prescription drug program is essentially part of the state group health insurance plan. Currently when an enrollee signs up with a PPO or an HMO, the plan includes a prescription drug program.

The current schedule for retail prescription drug co-payments for both the PPO and the HMO plan are:

- \$7.00 for generic medications;
- \$20.00 for “preferred brand name” medications; and
- \$35.00 for “non-preferred brand name” medications.⁷

Small Counties, Small Municipalities, and District School Boards Plans

Each small county, small municipality, and school board district is considered a “local government unit” and may self-insure or contract with a private health insurer or HMO.⁸ The small county, small municipality, or school board may choose a health plan that does or does not include a prescription drug program.

Actuarial Study and Internal Revenue Service Private Letter Ruling

During the 2000 Session, the Legislature enacted ch. 2000-163, L.O.F.⁹ This act directed the DMS to conduct an actuarial study to determine the costs of allowing small counties, small municipalities, and eligible district school boards to participate in the state group health insurance plan and prescription drug program. The act also instructed the DMS to request a determination letter and a favorable private letter ruling from the Internal Revenue Service (IRS) by October 1, 2000, stating that the state group health insurance plan is a “facially-qualified plan.”

The actuarial study recommended that claims be segregated into two risk pools, so that the premiums of state and local participants would be a function of their own experience and demographics. The following table compares the current state rate for coverage to the actuarial study’s estimated rates for local participants based on a 25 percent local participation rate for Fiscal Year 2002:

⁵ Internal Revenue Service, February 1, 2001.

⁶ s. 110.12315, F.S.

⁷ http://myflorida.com/dms/dsei/html/benefits_frame.htm

⁸ s. 112.08, F.S.

⁹ ch. 2000-363, L.O.F., CS/CS/CS/SB 414, 1st eng. (2000).

Comparison of State and Local Rates for Coverage Under the State Program				
Enrollee Type	State Rate¹⁰		Local Rate¹¹	
	PPO	HMO	PPO	HMO
Active Single	\$223.82	\$223.82	\$301.33	\$251.30
Active Family	\$507.80	\$507.80	\$535.02	\$566.74
Retirees ≥ 65	\$223.82	Determined on a county-by-county basis	\$419.12	\$211.37

The IRS refused to issue a ruling on the state group health insurance plan until a law goes into effect.

C. EFFECT OF PROPOSED CHANGES

This proposed committee substitute would allow the governing body of a small county, small municipality, or an eligible district school board to apply for participation in the state group health insurance plan and the prescription drug program. "Small county" would be defined as a county that has a population for 100,000 or fewer. "Small municipality" would be defined as an incorporated municipality that has a population of 12,500 or fewer according to the most recent decennial census. "District school board" would mean a district school board located in a small county or a district school board that receives a "sparsity" supplement.¹²

The small county, small municipality, or eligible district school board interested in participating in the state group health insurance plan or prescription drug program would be required to apply to the Department of Management Services (DMS) and submit a \$500 nonrefundable fee. If the DMS found the small county, small municipality, or district school board eligible to participate, then the small county, small municipality, or district school board would be required to agree to the following terms and conditions:

- a minimum enrollment or contractual period of 3 years;
- payment to DMS of an initial administrative fee not less than \$2.61 per enrollee per month or such other amount established annually;
- a one year written notice of termination;
- reimbursement to the state for 100 percent of its costs, including administrative costs;
- allow the Department of Revenue and the Department of Banking and Finance to deduct the amount owed by the employer from any funds distributed to small county, small municipality, or school boards, with the exception of funds pledged to satisfy bond debt service for failure to make payments;
- furnish any information that DMS finds necessary to administer the state program;
- adopt the State's eligibility rules;

¹⁰ http://myflorida.com/dms/dsei/html/benefits_frame.htm

¹¹ *Actuarial Study of Senate Bill 414*, William M. Mercer, Inc., December 1, 2000.

¹² Under s. 236.081(6), F.S., a district school board with between 17,000 and 24,000 students (annually, the General Appropriations Act sets a fixed number within this range) and three or less high school centers may receive a "sparsity" supplement. According to the staff of the Education Appropriations Committee, thirty-nine of sixty-seven district school boards receive a "sparsity" supplement.

- not participate in the State's cafeteria plan allowing for pre-tax treatment of premium contributions;¹³ and
- payment of monthly premiums in amounts sufficient to cover claims costs, DMS administrative costs, and third-party administrative costs, and provide adequate cash flow by contributing three months premiums and costs in advance of the coverage effective date.

Any costs or savings to the state group health insurance plan or prescription drug program resulting from participation by a small county, small municipality, or eligible district school board would be passed on to the local government participant and their employees.

The small county, small municipality, or eligible district school board would be required to consider alternative proposals from private sources, by issuing a request for proposal, before enacting an ordinance or adopting a resolution to join the state group health insurance plan or prescription drug program.

D. SECTION-BY-SECTION ANALYSIS:

N/A

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

N/A

2. Expenditures:

None expected. The proposed committee substitute states any costs or savings to the state group health insurance plan or prescription drug program resulting from participation by a small county, small municipality, or eligible district school board would be passed on to the local government participant and their employees.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

N/A

2. Expenditures:

Indeterminate. The degree of local government participation is unknown and cannot be estimated with any reasonable degree of certainty.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

It is possible that there would be a direct effect on small HMO's and supplemental plans doing business in the small county, small municipality, or eligible district school board due to loss of

¹³ If pre-tax treatment is desirable for employees of these participating employers, then each employee of a participating employer must execute a salary reduction agreement with that employer, and each participating employer must establish its own cafeteria plan.

membership. It is also possible that small HMO's could exit the area completely and no longer be a choice for the small county, small municipality, or district school board.

D. FISCAL COMMENTS:

The DMS would have the opportunity to structure the program any way the DMS sees fit. The actuarial study proposed that the small counties, small cities, and district school boards be consolidated into a separate risk pool to avoid any impact on the solvency of the state health insurance program and premiums charged to plan participants. Were the DMS to combine state and local participants into one risk pool, contrary to the recommendation in the actuarial study, it is possible state employees could experience increased premiums over time, although the actuarial study found that the local population as a whole was not riskier (i.e., more unhealthy) than the currently enrolled state employees.¹⁴

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This proposed committee substitute does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This proposed committee substitute does not reduce the authority that counties or municipalities have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This proposed committee substitute does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

The proposed committee substitute would allow for the DMS to adopt rules necessary to administer the program.

C. OTHER COMMENTS:

The proposed committee substitute refers to the "state group health insurance program," where s. 110.123(2)(i), F.S., uses the terminology "state group health insurance plan."

This proposed committee substitute might create a situation in which the state group health insurance plan would be classified as a Multiple Employer Welfare Arrangement (MEWA).¹⁵ A MEWA is defined as an arrangement for the purpose of offering or providing health insurance benefits to employees of two or more employers. The State Group Insurance Program is exempt

¹⁴ Actuarial Study of Senate Bill 414 by William Mercer, Inc. December 1, 2000

¹⁵ s. 624.427, F.S.

from ss. 624.436-624.446, F.S., ensuring that the state group health insurance plan would not be subject to the Department of Insurance's regulation on traditional MEWA's. The proposed committee substitute provides that small counties, small municipalities, and eligible district school boards would be exempt from ss. 634.436-624.446, F.S., as well.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

The proposed committee substitute differs from the original bill in that the proposed committee substitute:

- includes district school boards receiving "sparsity" supplements within the definition of "district school board" making them eligible to participate in the program proposed by the committee substitute;
- requires participating local governments to issue a request for proposal prior to contracting with DMS for health and drug coverage;
- reduces the administrative fee from \$2.75, per enrollee, to \$2.61, per enrollee;
- provides a statement of legislative intent;
- changes the effective date and date upon which local governments may begin participation with the state;
- requires any costs or savings to be passed on to the participating local government and employees;
- requires participating local governments to adopt the state's eligibility rules;
- prohibits participating employees from participating in the state's pre-tax plan; and
- requires participating local governments to pay three months of premiums and costs in advance.

VII. SIGNATURES:

COMMITTEE ON INSURANCE:

Prepared by:

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