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HOUSE OF REPRESENTATIVES
COMMITTEE ON
STATE ADMINISTRATION
ANALYSIS

BILL #: HB 647

RELATING TO: FRS/Group Insurance Program

SPONSOR(S): Representative(s) Trovillion

TIED BILL(S):

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

(1) STATE ADMINISTRATION
(2) GENERAL GOVERNMENT APPROPRIATIONS
(3) FISCAL POLICY & RESOURCES
(4)
(5)

I. SUMMARY:

All state officers, full-time state employees, and part-time state employees may participate in the state group insurance program. Participation is voluntary. Retired state officers and employees also may participate if, when they retired, they elected to continue all or part of the coverage they had under the program at the time of retirement. These coverages consist of the health insurance and life insurance programs.

This bill provides for a one-time 90-day open enrollment period commencing on July 1, 2002, during which retired state officers and employees who did not elect at the time of retirement to continue coverage under the state group insurance program, can elect to participate in the program with all or part of the coverage they had at the time they retired. Those retirees choosing to enroll would be required to make the full premium contribution in effect at the time they enroll in the state health insurance plan.

This bill also permits those former state officers and employees vested in the Florida Retirement System but not yet receiving their state retirement benefits to participate in the state group health insurance plan at the time they begin receiving their state retirement benefits.

The Department of Management Services estimates that the bill could have a negative fiscal impact of between $18.2 million and $21.8 million for FY 2002-2003, based on certain enrollment assumptions. The bill does not have a fiscal impact on local government.

This bill takes effect upon becoming a law.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1.	Less Government	Yes []	No [X]	N/A []
2.	Lower Taxes	Yes []	No []	N/A [X]
3.	Individual Freedom	Yes []	No []	N/A [X]
4.	Personal Responsibility	Yes []	No [X]	N/A []
5.	Family Empowerment	Yes [X]	No []	N/A []

The bill opens a window for a re-examination of the decision not to participate in the state group health and life insurance programs by certain classes of retirees. While this bill does not propose a new program, it results in costs to the existing group health and life insurance programs greater than that which would be covered by the premiums generated by the new participants allowed under this bill.

It can be argued that the bill does empower persons and families by ensuring that retired members can review current coverage to determine whether their health insurance does adequately cover anticipated medical expenses and whether they have adequate life insurance to cover the inevitable costs of burial.

Alternatively, the bill appears to be a disincentive to personal responsibility in that it allows for a shifting of medical costs to the state group health insurance program with the remainder of the costs (after premiums paid) borne by all employer and employee participants in the programs.

B. PRESENT SITUATION:

Section 110.123(3)(f), F.S., provides that all state officers, full-time state employees, and part-time state employees may voluntarily participate in the state group insurance program. Retired state officers and employees also may participate if, when they retired, they elected to continue all or part of the coverage they had under the program at the time they retire. These coverages consist of the health insurance and life insurance programs. A surviving spouse is permitted to continue coverage only under the state group health insurance plan or health maintenance organization plan.

According to the Division of State Group Insurance (DSGI) within the Department of Management Services, there are approximately 48,202 state retirees. Of these, 26,527 participate in the state group health program and 19,055 participate in the life insurance program. The DSGI estimates that there are as many as 24,000 retirees who did not elect to continue participation in the state group health insurance program at the time they retired and an additional 15,400 vested but terminated FRS members would be eligible to join the program under the provisions of this bill.

The division estimates that nearly 28,000 members that did not elect to continue participation in the life insurance program would also become eligible. This is notable because in the first redesign of benefits under the life insurance program since 1980, the state negotiated an increased death benefit for the same monthly premium. Prior to January 1, 2000, retirees continuing their life insurance coverage paid $4.50 for a $1,500 death benefit. Retirees now receive a $10,000 death benefit for that same $4.50 monthly premium. Additionally, those with a life expectancy of 24 months or less may receive an accelerated payment of the death benefit of 80 percent of the face value of the policy, or $8,000. At death, beneficiaries could receive the remaining $2,000 benefit. This is a significant change in the benefit and would make it more valuable to retiree FRS members than it might have been at the time of their election not to participate in this program.

Section 110.123(4)(e), F.S., provides that retirees that do participate in the state group insurance program must pay the full premium costs for coverage. Section 112.363, F.S., provides authority to the state to pay a retiree health insurance monthly subsidy of $5 for each year of creditable service, up to a maximum of 30 years or $150, to retired members for the purpose of helping those retirees pay for health insurance.

Information found at the division's website, <www.state.fl.us/dms/dsei/>, indicates that for retirees participating in the state group health insurance program and not receiving Medicare, the current monthly premium for individual coverage is $257.38; for family coverage it is $583.96. For retirees participating in the state group health insurance program and covered under Medicare, the current monthly premium for individual coverage is $136.88; for family coverage it is $273.76 if both family members are covered under Medicare, and $394.29 if only one member is covered. For those on Medicare, the state group health plan acts as a supplemental source of coverage.

The website also provides information regarding retiree participation an HMO and in the mail-order drug program. Retirees exercising an option to join an HMO are subject to the current co-payments for physician office visits of $10 and the prescription drugs co-payments of $7 for generic drugs and $20 for brand-name drugs. The current co-payments for generic and brand name mail-order drugs are the same $7 and $20, respectively. Retirees that continue their coverage will be eligible for a health insurance subsidy equal to $5.00 per month for each year of creditable service up to a maximum of 30 years or $150.00.

Section 110.12312, F.S., directed the Department of Management Services in 1997 to hold an open enrollment for those retirees wanting to obtain health insurance under the state program under the same premium payment conditions in effect for covered retirees, including eligibility for certain health insurance subsidy payments.

C. EFFECT OF PROPOSED CHANGES:

This bill provides for a one-time 90-day open enrollment period commencing on July 1, 2002, during which retired state officers and employees, who did not elect at the time of retirement to continue coverage under the state group insurance program, can elect to participate in the program with all or part of the coverage they had at the time they retired. Those retirees choosing to enroll are required to make the full premium contribution in effect at the time they enroll in the state health insurance plan.

Under current law, these retired state officers and employees are required to make the full premium contribution in effect at the time they enroll in the state health insurance plan.

This bill also permits those former state officers and employees vested in the Florida Retirement System, but not yet receiving their state retirement benefits, to participate in the state group health insurance plan at the time they begin receiving their state retirement benefits.

D. SECTION-BY-SECTION ANALYSIS:

See "Effect of proposed changes," above.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

See Fiscal Comment section, below.

2. Expenditures:

The DSGI estimates that the bill to have a total recurring negative fiscal impact of between $18.2 million and $21.8 million, based on certain enrollment assumptions. [See Fiscal Comments section of this analysis regarding assumptions used for participation rates.] The division believes this legislation will result in adverse selection against the system, that is, the implementation of this bill will cost the system more than the premiums generated by these new participants will cover.

The division estimates that the group health insurance program will be negatively impacted by approximately $7.8 million for FY 2002-2003 for the group of active retirees who now elect to participate in the program. The division estimates that the group health insurance program will be negatively impacted by approximately $5.4 million for FY 2002-2003 for the group of vested retirees that have deferred receipt of retirement benefits until age 62 to avoid early retirement penalties and now elect to participate in the program.

Finally, the division, through the actuaries for Prudential Life Insurance which is under contract with the state to provide a life insurance product, estimates that the group life insurance program will be negatively impacted by between $4.9 and $8.5 million for FY 2002-2003 as a result of the participation of those who qualify under this bill.

Additionally, since this special open enrollment period is not concurrent with the annual open enrollment period for state employee insurance programs, the division indicates that there would be a nonrecurring negative fiscal impact of approximately $140,000 in administrative costs associated with the special open enrollment period.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Adding additional enrollees into these state insurance plans could translate into increased premium costs for enrollees.

Retirees allowed to enroll in the state group health insurance program during this open enrollment period will not be purchasing health insurance coverage from other private sector providers.

D. FISCAL COMMENTS:

The estimated recurring negative fiscal impact of between $18.2 million and $21.8 million is based on certain assumptions about the degree of participation. The $24.1 million impact on the state group health insurance program assumes that 10 percent of those retirees eligible to enroll because of this bill will enroll; this impact is offset by $11.2 million in premiums. The life insurance impact of $5 million assumes an enrollment rate of 25 percent and an offset of $0.1 million in premiums; the $10 million impact assumes a 100 percent enrollment rate and an offset of $1.5 million in premiums.

If the bill were to result in the addition of a substantial new pool of enrollees in the life insurance plan, then all of the current rate and cost assumptions could be rendered unreliable, requiring the restatement of the benefit and/or increases in premium. Additionally, the impact in future years cannot determined because the estimate for the number of enrollees cannot be determined with reasonable accuracy.

IV. <u>CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION</u>:

A. APPLICABILITY OF THE MANDATES PROVISION:

The bill does not require counties or municipalities to spend funds or to take action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The bill 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:

The bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. <u>COMMENTS</u>:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

None.

VI. <u>AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES</u>:

N/A

VII. <u>SIGNATURES</u>:

COMMITTEE ON STATE ADMINISTRATION:

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