HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 5701 PCB CEED 10-04 Health Insurance Subsidies
SPONSOR(S): Full Appropriations Council on Education & Economic Development and Rivera
TIED BILLS: **IDEN./SIM. BILLS:**

	REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.:	Full Appropriations Council on Education & Economic Development	11 Y, 6 N	Delaney	Voyles
1)				
2)				
3)				
4)				
5)				

SUMMARY ANALYSIS

In 1987, the Florida Legislature established the Retiree Health Insurance Subsidy (HIS) which assists retirees of all state-administered retirement systems with health insurance costs. Participants of optional retirement plans have the amount of the HIS paid directly into their retirement accounts in lieu of receiving future HIS benefits. When the Florida Retirement System (FRS) Investment Plan became effective July 1, 2001, participating retirees also became eligible to receive the HIS.

The amount of the HIS payment has increased three times since the program was established. Currently, eligible retirees receive $5 per month for each year of service, with a minimum monthly payment of $30 and a maximum monthly payment of $150.

The HIS program is funded by required contributions from FRS participating employers. Each employer contributes a percentage of payroll for all active employees covered by the FRS, which includes the state, university system, county school boards, community colleges, and participating municipalities, charter schools, metro planning districts and special districts. The required contribution rate has increased 5 times since 1987, from 0.24 percent to the current rate of 1.11 percent of payroll. Per law, if these funds fail to provide full subsidy benefits to all participants, the subsidy payments may be reduced or cancelled.

For fiscal year 2007-2008, the Division of Retirement reported that 244,390 individuals were receiving HIS payments totaling $305.7 million dollars. The average monthly HIS payment was $105.78. Total employer contributions during the same period were $334.8 million dollars. There are over 17,000 participants in the optional retirement plans.

The bill terminates further contributions to the HIS, effective July 1, 2010. The State Board of Administration estimates that there will be sufficient funds to continue paying full benefits through December 31, 2010. At that point, the bill terminates future HIS payments for all recipients and any remaining funds are transferred to the FRS after all expenses and adjustments have cleared the account. In addition, the bill terminates contributions representing the HIS into the optional retirement plans. The bill repeals provisions related to the HIS effective, June 30, 2011.

The bill conforms the laws to the proposed House of Representatives FY 2010-11 General Appropriations Act (GAA) as funds associated with the termination of the HIS contribution are included in the GAA.

The projected annual fiscal impact to the state is a savings of approximately $196.7 million in General Revenue and $26.7 million in trust funds. The fiscal impact to counties, municipalities and other participants is a savings of approximately $111.4 million.

The bill provides an effective date of July 1, 2010.

HOUSE PRINCIPLES

Members are encouraged to evaluate proposed legislation in light of the following guiding principles of the House of Representatives

- Balance the state budget.
- Create a legal and regulatory environment that fosters economic growth and job creation.
- Lower the tax burden on families and businesses.
- Reverse or restrain the growth of government.
- Promote public safety.
- Promote educational accountability, excellence, and choice.
- Foster respect for the family and for innocent human life.
- Protect Florida's natural beauty.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation:

In 1987, the Florida Legislature established s. 112.363 F.S., providing for a retiree Health Insurance Subsidy (HIS) to assist retirees of all state-administered defined benefit retirement systems in paying health insurance costs. Participants of the State University System Optional Retirement Program, the State Senior Management Optional Annuity Program , and the State Community College Optional Retirement Program also had the amount of the HIS contribution paid into their retirement accounts in addition to the appropriate normal cost of the FRS defined benefit plan membership class. When the FRS Investment Plan became effective July 1, 2001, retirees of this defined contribution plan were also eligible to receive monthly HIS benefits if certain criteria were met. A retiree must have satisfied the vesting requirements for his or her membership class, unless that person has retired due to an in-line-of-duty disability. A participant of the defined benefit plan must have six years of service, and a participant in the Investment Plan must have one year of service, and have proof of insurance coverage to be eligible for the HIS payment.

The amount of the HIS payment has increased three times since the program was established. Currently, eligible retirees receive $5 per month for each year of service, with a minimum monthly payment of $30 and a maximum monthly payment of $150. For participants in the Investment Plan, a similar amount is added to their accounts.

The HIS program is funded by required contributions from FRS participating employers. Each employer contributes a percentage of payroll for all active employees covered by the FRS, which includes the state, the state university system, county school boards, community colleges, and participating municipalities, charter schools, metro planning districts and special districts. The required contribution rate has increased 5 times since 1987, from .24 percent to the current rate of 1.11 percent of payroll. The HIS is part of the total contribution rate contributed by employers, but the HIS portion is deposited into a separate trust fund. The bulk of contributions are paid out relatively quickly to eligible retirees and beneficiaries, and do not remain in the fund for long periods of time, essentially, the fund operates on a 'pay-as-you-go basis.' Per law, if funds are insufficient to provide full HIS benefits to all participants, the HIS payments may be reduced or cancelled.

The Florida Retirement System's Fiscal Year 2007-2008 Annual Report indicated that 244,390 individuals were receiving HIS payments totaling $305.7 million dollars. The average monthly HIS payment was $105.78. Total employer contributions during the same year were $334.8 million dollars.

In 2001, the State University System Optional Retirement Plan (SUSORP), the Community College Optional Retirement Plan (CCORP), and the Senior Management System Optional Annuity Plan (SMSOAP), which are separate defined contribution programs, had fixed contribution rates set by law that included a 0.94 percent HIS contribution into their retirement accounts in lieu of receiving monthly HIS payments at a later date. There are 16,091 participants in the SUSORP, 41 participants in the SMSOAP, and staff indicated that there were approximately 1,400 participants in the CCORP.

Effect of Bill:

Effective July 1, 2010, the bill reduces employer HIS contribution rates to zero, thereby terminating employer contributions. In addition, eligibility to participate in the HIS is closed to retirees that do not establish eligibility prior to July 1, 2010. The State Board of Administration projects that there will be sufficient cash in the fund to continue paying full benefits to eligible retirees through December 31, 2010, leaving a reasonable operating cushion. At that point, the bill terminates HIS payments for all recipients and any remaining funds will be transferred to the FRS Trust Fund, after all expenses and adjustments have cleared the account. In addition, the bill reduces the employer contribution into the SUSORP, CCORP, and the SMSOAP by the 0.94 percent representing the HIS contribution, effective July 1, 2010.

The bill repeals provisions related to the HIS effective, June 30, 2011.

The projected annual fiscal impact to the state is a savings of approximately $196.7 million in General Revenue and $26.7 million in trust funds. The projected fiscal impact to counties, municipalities and other participants is a savings of approximately $111.4 million.

The bill provides an effective date of July 1, 2010.

B. SECTION DIRECTORY:

Section 1: Removes a cross-reference to the s. 112.363, F.S.

Section 2: Removes a cross-reference to ch. 121, F.S.

Section 3: Removes a cross reference to ch. 121, F.S.

Section 4: Amends s. 112.363, F.S., to terminate the HIS contribution into the accounts of SUSORP participants, effective June 30, 2010; to prohibit HIS payments from being made to retirees that do not establish eligibility prior to July 1, 2010; set HIS contribution rates at zero percent, effective July 1, 2010; close eligibility to new retirees or beneficiaries, effective July 1, 2010, and terminate all HIS payments effective, December 31, 2010, and to transfer any remaining assets in the HIS trust fund to the FRS. In addition, s. 112.363, F.S., is repealed June 30, 2011.

Section 5: Amends s. 121.051 F.S., to reduce the contribution rate for CCORP participants by .94 percent to adjust for the termination of the HIS.

Section 6: Amends s. 121.052 F.S., to reduce HIS contribution rates for members of the Elected Officers' Class to zero percent, effective July 1, 2010.

Section 7: Repeals s. 121.052(7)(c), F.S., effective June 30, 2011, pertaining to HIS provisions for the Elected Officers Class.

Section 8: Amends s. 121.053, F.S., to prohibit renewed members in the Elected Officers Class from earning additional HIS benefits if they terminate subsequent to June 30, 2010.

Section 9: Repeals s. 121.053(5), F.S., effective June 30, 2011, pertaining to the ability for renewed members to earn additional credit towards the maximum HIS.

Section 10: Amends s. 121.055 F.S., to reduce HIS contribution rates for members of the Senior Management Service Class to zero percent, effective July 1, 2010, and to reduce the contribution rate for SMSOAP by .94 percent to adjust for the termination of the HIS.

Section 11: Repeals s. 121.055(3)(c), F.S., effective June 30, 2011, pertaining to the HIS contribution rates for the Senior Management Services Class.

Section 12: Amends s. 121.071, F.S., to reduce HIS contribution rates for the Regular Class, Special Risk Class and Special Risk Administrative Support Class to zero percent, effective July 1, 2010.

Section 13: Repeals s. 121.071(4), F.S., effective June 30, 2011, pertaining to the HIS contribution rates for the Regular Class, Special Risk Class and the Special Risk Administrative Support Class.

Section 14: Amends s. 121.091, F.S., to provide that former DROP participants terminating on or after June 1, 2010, will not receive HIS payments.

Section 15: Amends s. 121.091, F.S to provide for future repeal of certain provisions to conform to changes made by this act.

Section 16: Amends s. 121.122, F.S., to prohibit renewed members, in certain classes, from earning additional credit towards the maximum HIS.

Section 17: Repeals s. 121.122, F.S., effective June 30, 2011, pertaining to the ability for renewed members in certain classes to earn additional credit towards the maximum HIS.

Section 18: Amends s. 121.35, F.S., to provide that HIS funds, for individuals who elect to participate in the SUSORP plan but fail to contract with an approved company after July 1, 2010, return to the FRS, and to reduce the contribution rate for SUSORP by .94 percent to adjust for the termination of the HIS.

Section 19: Repeals s. 121.4501(18), F.S. effective June 30, 2011, which provides that all employees participating in the PEORP (Investment Plan) can receive the HIS per s.112.363, F.S.

Section 20: Amends s. 121.571, F.S. to remove references to the HIS.

Section 21: Amends s. 121.591, F.S., to conform provisions to changes made by this act.

Section 22: Amends s. 121.76, F.S., to revise provisions relating to contributions for Social Security and the retiree health insurance subsidy.

Section 23: Amends s.1012.875, F.S. to reduce the contribution rate for the CCORP by .94 percent to adjust for the termination of the HIS.

Section 24: Provides an effective date of July 1, 2010, except as otherwise provided in Section 4.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None

2. Expenditures:

   The estimated cost savings by employer group is noted below:

	General Revenue	Trust Funds
State Agencies	$ 29.0 million	$ 26.7 million

Universities	$ 11.7 million
Community Colleges	$ 9.0 million
School Boards	$ 146.9 million
Total	$ 196.7 million

Note: Typically, the state reduces funding associated with reductions in required employer contribution rates for state universities, community colleges and county school boards as well.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None

2. Expenditures:

The cost savings by employer group is noted below:

Counties	$ 95.0 million
Others	$ 16.4 million
Total	$ 111.4 million

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Eligible retirees and beneficiaries will no longer receive a HIS payment after December 31, 2010.

D. FISCAL COMMENTS:

None

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill results in reduced costs for municipalities and counties, thus the Mandates Provision is not applicable.

2. Other:

B. RULE-MAKING AUTHORITY:

None

C. DRAFTING ISSUES OR OTHER COMMENTS:

None

IV. AMENDMENTS/COUNCIL OR COMMITTEE SUBSTITUTE CHANGES

On March 23, PCB CEED 10-04 was amended in the Full Appropriation Council on Education & Economic Development upon the adoption of one technical amendment clarifying two section references.