

**STORAGE NAME:** h1931.frc.doc  
**DATE:** April 12, 2001

**HOUSE OF REPRESENTATIVES**  
**FISCAL RESPONSIBILITY COUNCIL**  
**ANALYSIS**

**BILL #:** HB 1931 (PCB FRC 01-64)  
**RELATING TO:** Health Insurance Subsidy  
**SPONSOR(S):** Fiscal Responsibility Council and Representative Lacasa

**TIED BILL(S):**

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

- (1) FISCAL RESPONSIBILITY COUNCIL YEAS 18 NAYS 0
  - (2)
  - (3)
  - (4)
  - (5)
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**I. SUMMARY:**

Section 112.363, Florida Statutes, provides for a retiree health insurance subsidy. This subsidy is paid from the Retiree Health Insurance Subsidy Trust Fund to eligible retirees in the Florida Retirement System (FRS). The amount of the monthly subsidy is \$5 for each year of service in the FRS, but not less than \$50 nor more than \$150.

The subsidy is funded through a contribution by employers participating in the FRS. The current contribution is 0.94% of the employer's monthly payroll. The contribution is paid to the Department of Management Services for deposit in the Retiree Health Insurance Subsidy Trust Fund. This program is funded as on a "pay-as-you-go" basis rather than on an actuarial basis. This means that the revenues and expenditures of the trust fund are designed to match each other, with minimal reserves accumulated.

This bill increases the contribution from 0.94% to 1.0% of monthly payroll paid by employers participating in the Florida Retirement System for the retiree health insurance subsidy.

The contributions will be deposited in the Retiree Health Insurance Subsidy Trust Fund. State public employers will incur additional costs estimated to be \$3.0 million annually and local governments will incur additional costs estimated to be \$9.2 million annually.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

- |                                   |                              |                             |   |
|-----------------------------------|------------------------------|-----------------------------|---|
| 1. <u>Less Government</u>         | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 2. <u>Lower Taxes</u>             | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. <u>Individual Freedom</u>      | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. <u>Personal Responsibility</u> | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 5. <u>Family Empowerment</u>      | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a "no" above, please explain:

B. PRESENT SITUATION:

Section 112.363, Florida Statutes, provides for a retiree health insurance subsidy. This subsidy is paid from the Retiree Health Insurance Subsidy Trust Fund to eligible retirees in the Florida Retirement System (FRS). The amount of the monthly subsidy is \$5 for each year of service in the FRS, but not less than \$50 nor more than \$150.

The subsidy is funded through a contribution by employers participating in the FRS. The current contribution is 0.94% of the employer's monthly payroll. The contribution is paid to the Department of Management Services for deposit in the Retiree Health Insurance Subsidy Trust Fund. This program is funded as on a "pay-as-you-go" basis rather than on an actuarial basis. This means that the revenues and expenditures of the trust fund are designed to match each other, with minimal reserves accumulated.

Participants of the university, community college and senior management service defined contribution retirement programs receive contributions equal to the employer contribution directly into their retirement accounts during the years of employment. These participants will not receive the subsidies during retirement. Participants of the Public Employee Optional Retirement Program will not receive the health insurance subsidy contributions directly but will be eligible to receive the health insurance subsidy upon retirement.

Special Study 2000-2(B) relating to the Health Insurance Subsidy

The Department of Management Services commissioned a study relating to the reduction of the vesting period for eligibility for the health insurance subsidy. In this study, the actuaries predicted that the Retiree Health Insurance Subsidy Trust Fund will be in a deficit situation in FY 2002-03 or FY 2003-04 if the current contribution rates are maintained.

C. EFFECT OF PROPOSED CHANGES:

This bill increases the contribution paid by participating employers from 0.94% to 1.0% of monthly payroll. Based on the in flow of new revenues, the Trust Fund is not expected to experience a deficit situation until FY 2003-04 or FY 2004-05.

D. SECTION-BY-SECTION ANALYSIS:

Section 1 amends s. 112.363, F.S., to increase the contribution paid for the retiree health insurance subsidy from 0.94% to 1.0% of monthly payroll.

Section 2 amends s. 121.052, F.S., to increase the contribution paid for the retiree health insurance subsidy from 0.94% to 1.0% of monthly payroll for members of the Elected Officers Class of the Florida Retirement System, effective July 1, 2001.

Section 3 amends s. 121.055, F.S., to increase the contribution paid for the retiree health insurance subsidy from 0.94% to 1.0% of monthly payroll for members of the Senior Management Service of the Florida Retirement System, effective July 1, 2001.

Section 4 amends s. 121.071, F.S., to increase the contribution paid for the retiree health insurance subsidy from 0.94% to 1.0% of monthly payroll for members of the Regular Class, the Special Risk Class and the Special Risk Administrative Support Class, effective July 1, 2001.

Section 5 amends s. 121.571, F.S., to clarify that the employer contributions into the Public Employee Optional Retirement Program are in addition to the employer contributions into the Retiree Health Insurance Subsidy Trust Fund.

Section 6 provides a finding of an important state interest.

Section 7 provides that the bill takes effect July 1, 2001.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The Retiree Health Insurance Subsidy Trust Fund will receive additional contributions estimated to be \$12.2 million annually.

2. Expenditures:

State public employers participating in the Florida Retirement System will be assessed additional costs to fund the health insurance subsidy. The increased costs are estimated to be \$3.0 million annually. Of the \$3.0 million additional costs, \$2.1 million will be funded by General Revenue and \$0.9 million will be funded from trust funds.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

Local government employers participating in the Florida Retirement System will be assessed additional costs to fund the health insurance subsidy. The increased costs are estimated to be \$9.2 million annually.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

None.

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

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill requires cities and counties to spend money. However, the bill includes a legislative finding that this bill fulfills an important state interest, and this bill applies to all persons similarly situated (public employers participating in the Florida Retirement System). Thus, this bill requires a majority vote of each house to be binding upon cities and counties.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the revenue raising authority of cities and counties.

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

This bill does not reduce the percentage of a state tax shared with cities and counties.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

None.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

FISCAL RESPONSIBILITY COUNCIL:

Prepared by:

Staff Director:

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Joe McVaney

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David K. Coburn