

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 781 CS Retiree Health Insurance Subsidy  
**SPONSOR(S):** Allen and others  
**TIED BILLS:** **IDEN./SIM. BILLS:** SB 2266

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Governmental Operations Committee</u>	<u>7 Y, 0 N</u>	<u>Brazzell</u>	<u>Everhart</u>
2) <u>Local Government Council</u>	<u>6 Y, 0 N, w/CS</u>	<u>Nelson</u>	<u>Hamby</u>
3) <u>Fiscal Council</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
4) <u>State Administration Council</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
5) <u>  </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

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### SUMMARY ANALYSIS

HB 781 increases the health insurance subsidy received by eligible retirees under the Florida Retirement System's defined benefit and contribution plans from \$5 per month for each year of creditable service to \$6 per month for such service effective January 1, 2006, and from \$6 to \$7 per month effective January 1, 2007. To fund the benefit, the bill increases the contribution paid by employers from 1.11 percent of gross compensation per pay period to 1.22 percent effective July 1, 2005, and to 1.66 percent on July 1, 2006.

HB 781 is estimated to result in increased expenditures of \$5.8 million in FY 2005-06, \$30.1 million in FY 2006-07, and \$31.3 million in FY 2007-2008 for state government; and \$20.6 million in FY 2005-06, \$107.3 million in FY 2006-07, and \$111.6 million in FY 2007-2008 for local governments that participate in the Florida Retirement System.

The bill appears to meet the criteria for a mandate under the provisions of s. 18 (a), art. VII, of the State Constitution, but also appears to meet the requirements for effectively binding affected counties and municipalities by containing the required statement that the bill fulfills an important state interest and applies to all persons similarly situated. See, Comments.

# FULL ANALYSIS

## I. SUBSTANTIVE ANALYSIS

### A. HOUSE PRINCIPLES ANALYSIS:

#### **Empower families**

This bill provides additional funds to retirees and certain spouses and beneficiaries to enable them to purchase health insurance.

### B. EFFECT OF PROPOSED CHANGES:

#### **Current Situation**

Pursuant to s. 112.363(1), F.S., the purpose of the retiree health insurance subsidy program is to assist retired members of state-administered retirement systems in paying the costs of health insurance. Currently, the law provides that eligible retirees and beneficiaries<sup>1</sup> receive a benefit of \$5 per year of creditable service, with a minimum benefit of \$30 and a maximum benefit of \$150.<sup>2</sup> The Legislature last increased this benefit in 1999. Contributions from Florida Retirement System (FRS) employers of 1.11 percent for current employees' gross compensation per pay period currently fund the benefit. If this funding is insufficient to pay full benefits to all participants, s. 112.363(5), F.S., provides that "the benefits may be reduced or canceled at any time."

The monthly amount paid by retirees for health insurance under the State Group Health Insurance Program varies depending on the coverage selected, but ranges from about \$197 for a Medicare-eligible retiree electing single coverage to about \$841 for a non-Medicare eligible retiree electing family coverage.<sup>3</sup> However, retirees receiving the health insurance subsidy are not required to purchase health insurance through the State Group Health Insurance Program. As of January 2005, of the approximately 60,000 state retirees, roughly 30,000 have their health insurance premium deducted from their retirement benefit.

The FRS covers not only state agencies, but also counties, including school boards; special districts; and those municipalities that have chosen to participate. There are a few other state-administered retirement systems that are no longer covering new members but have retired members receiving this benefit.

#### **Proposed Changes**

HB 781 increases the health insurance subsidy received by eligible retirees under the Florida Retirement System's defined benefit and contribution plans from \$5 per month for each year of creditable service to \$6 per month for such service effective January 1, 2006, and from \$6 to \$7 per month effective January 1, 2007. The bill changes the minimum amount received from \$30 to \$36 (a \$6 monthly increase) and the maximum from \$150 to \$180 (a \$30 monthly increase) effective January 1, 2006, and further increases the minimum and maximum allowable payments to \$42 and \$210,

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<sup>1</sup> To be eligible, a retiree must have retired under a state-administered retirement system, satisfied the vesting requirements for his or her class under the Florida Retirement System defined benefit program (regardless of whether the retiree retired under the defined contribution or defined contribution program) or retired due to disability, and have verified health insurance coverage. The survivors and beneficiaries of such individuals entitled to receive retirement benefits also are eligible; if there are multiple survivors and beneficiaries, the health insurance subsidy is split among them. Participants in the Senior Management Service Optional Annuity Program and the State University System Optional Retirement Program are not eligible for the health insurance subsidy; neither are recipients of benefits under s. 121.40, F.S., for cooperative extension personnel; under s. 218.07(16)(a), F.S., for certain survivors of Teachers' Retirement System members; under s. 250.22, F.S., for Florida National Guard officers and enlistees; under 110.1232, F.S., for persons who retired before January 1, 1976 (they receive full health coverage); or under any other special pension or relief act. See, s. 112.363(2), F.S.

<sup>2</sup> Section 112.363(3)(e)2., F.S.

<sup>3</sup> Information provided by the Division of State Group Insurance, Department of Management Services.

respectively, on January 1, 2007; however, the bill grandfathers in beneficiaries whose benefit would otherwise be reduced.

To fund the increased benefit, the bill increases the contribution paid by employers from 1.11 percent of gross compensation per pay period to 1.22 percent effective July 1, 2005, and to 1.66 percent on July 1, 2006.

C. SECTION DIRECTORY:

Section 1: Amends s. 112.363, F.S., to provide for an increase in the health insurance subsidy under certain conditions.

Section 2: Provides a Legislative finding that this act fulfills an important state interest.

Section 3: Provides an effective date of upon becoming law.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

This bill does not create, modify or eliminate a state revenue source.

2. Expenditures:

Under current law, projections indicate that the state will expend \$58.4 million in FY 2005-06 and \$60.8 million in FY 2006-07 for the health insurance subsidy. Under the bill's provisions, projections indicate that the state would expend an additional 5.8 million in FY 2005-06, \$30.1 million in FY 2006-2007, and \$31.3 million in FY 2007-2008.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

This bill does not create, modify or eliminate a local revenue source.

2. Expenditures:

Under current law, projections indicate that local governments that participate in the FRS will expend \$208.3 million in FY 2005-06 and \$216.6 million in FY 2006-07 for the health insurance subsidy. Under the bill's provisions, projections indicate that these local governments would expend an additional \$20.6 million in FY 2005-06, \$107.3 million in FY 2006-2007, and \$111.6 in 2007-2008.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill will increase the state subsidy to help certain retirees covered under the Florida Retirement System pay for health insurance.

D. FISCAL COMMENTS:

The Department of Management Services has indicated that if projections hold true, and the benefit level does not exceed \$7, the funding changes proposed by this bill would not result in a major decrease in the benefit reserve.

A reserve of at least six months is important to allow sufficient time to notify the Legislature and recipients of any inability to continue to pay health insurance subsidy benefits at the current level. If CS/HB 781 is enacted, the fund's reserve would dip initially to 5.9 months in January 2006, from

December 2005's reserve of 7.2 months. However, if current retirement trends continue, the increase in the contribution rate in the six months prior to the initial benefit increase and the second rate increase effective July 1, 2006, contribute to keeping the reserve in the six-month range through May 2010.

### III. COMMENTS

#### A. CONSTITUTIONAL ISSUES:

##### 1. Applicability of Municipality/County Mandates Provision:

The bill appears to meet the criteria for a mandate under the provisions of s. 18(a), art. VII, of the State Constitution. The bill results in an increase in expenditures by those local governments which are compulsory members of the Florida Retirement System by a projected \$20.6 million in FY 2005-06, \$207.3 million in FY 2006-07, and \$111.6 million in FY 2007-08. However, the bill appears to meet the requirements for effectively binding affected counties and municipalities by containing the required statement regarding the bill's fulfilling an important state interest and applying to all persons similarly situated.

##### 2. Other:

None.

#### B. RULE-MAKING AUTHORITY:

None.

#### C. DRAFTING ISSUES OR OTHER COMMENTS:

##### **Drafting Issues**

The Department of Management Services<sup>4</sup> provided the following actuarial statement of fiscal soundness:

##### ACTUARIAL STATEMENT OF FISCAL SOUNDNESS:

a. This bill is not subject to the requirements of s. 14, art. X of the State Constitution.

b. This bill is not subject to the provisions of part VII, ch. 112, F. S.

c. Explanation:

This bill increases the health insurance subsidy payment to eligible retirees or their eligible beneficiaries from \$5 per month for each year of creditable service to \$6 per month for such service, with a maximum of \$180 per month effective January 1, 2006, and then provides another increase from \$6 to \$7 per month with a maximum of \$210 per month effective January 1, 2007. This bill provides for an increase in the contribution rate paid by employers of active members to fund benefits.

d. Fiscal Note:

The Health Insurance Subsidy Program is funded on a pay-as-you-go basis, and the reserve maintained is adequate to provide benefits for only four to six months. If benefits are increased without sufficient funding, the HIS Trust Fund will be depleted and the subsidy would have to be reduced or canceled as provided in s. 112.363(5), F.S. The funding of this program would require annual reviews to ensure sufficient reserves are available to pay the benefits proposed by this bill.

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<sup>4</sup> Robert Dezube, Enrolled Actuary, April 11, 2005.

## Other Comments

The Division of Retirement, Department of Management Services, has provided the following items for consideration:

- Page 4, lines 100-103, page 4, lines 144-145, and page 6, lines 146-147 of CS/HB 781 contains this phrase, "The health insurance subsidy amount payable to any person receiving the retiree health insurance subsidy payment on January 1, 2005, shall not be reduced solely by operation of this subparagraph." This phrase should be amended to contain the date of December 31, 2005, to correspond to the bill's effective date for the first benefit increase proposed by this bill.
- The Governmental Accounting Standards Board (GASB) has issued an exposure draft on post-employment benefits that will require the state to begin disclosing the long-term liabilities of the HIS program by fiscal year 2007. While the HIS program is funded on a pay-as-you-go basis and, by law, if insufficient funding for the current benefit level is available benefits may be reduced or eliminated, it is covered by this GASB requirement. Any increase in HIS benefits will have a substantial impact on the disclosed long-term liabilities of this program.
- The projection module used to estimate the reserve life of the HIS Trust Fund is based upon recent retirement trends and retirees applying to receive the HIS benefit. If state or local governments offer incentives to encourage members to retire sooner and in greater numbers than anticipated, or if HIS credit is allowed for periods of DROP participation, the balance in the HIS Trust Fund would deplete sooner requiring a rate increase sooner or a reduction in benefits to match available funding.

## IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

The Council on Local Government adopted a strike all amendment at its meeting on April 6, 2005, which increases the health insurance subsidy from \$5 to \$6 per month for each year of service, beginning on January 1, 2006, and increases the subsidy to \$7 on January 1, 2007. The amendment also deletes cost of living increases, increases the contribution paid by employers to 1.22 beginning July 1, 2005, and to 1.66 percent effective July 1, 2006, and changes the effective date to upon becoming law.