

**The Florida Senate**  
**PROFESSIONAL STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Governmental Operations Committee

BILL: SB 1666  
 INTRODUCER: Senator Lawson  
 SUBJECT: State Employee Health Insurance  
 DATE: March 25, 2007

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wilson	Wilson	GO	<b>Favorable</b>
2.			GA	
3.				
4.				
5.				
6.				

**I. Summary:**

The bill removes the prohibition in state law that precludes differential payments for retirees and surviving spouses under the state group insurance program.

This bill amends section 110.123 of the Florida Statutes.

**II. Present Situation:**

The State of Florida provides comprehensive benefits for its more than 110,000 active state officers and employees and more than 50,000 combined state university system employees. Pension benefits are provided at no cost to the officer and employee irrespective of their choice of a defined benefit or defined contribution plan. Only elected officers may decline pension participation.

Retirees and active employees are covered by group term life insurance. Active employees pay a premium based upon salary and may purchase additional units of coverage at certain intervals. Retirees may choose only two levels, \$2500 or \$10,000, at a current monthly premium of \$4.20 and \$35.79, respectively.

Affected employees, their spouse, and dependent children may choose from four types of health insurance: no coverage whatsoever, a self-insured preferred provider organization externally managed by a third party administrator, a health maintenance organization, or TRICARE coverage for former military veterans eligible under CHAMPUS.<sup>1</sup> All plans have embedded

<sup>1</sup> The Civilian Health and Medical Program of the Uniformed Services.

prescription drug benefits, permit single or family coverage, and authorize high deductible, low premium selection as part of a consumer directed health plan.

Active employees have seventy-five percent of the calculated premium borne by their public employer. Designated occupations within specific organizations enjoy the same coverage free of premium, usually in exchange for the ineligibility for civil service status.

Retirees are permitted to continue their active coverage if they so choose within thirty days' of their termination of employment. The choice must be made affirmatively and the failure to execute this choice precludes future eligibility outside of an open enrollment for that purpose. "Early retirees," defined as those who claim a retirement benefit but are less than Medicare age, are assessed the full premium for the coverage type selected. Medicare retirees are assessed a premium that reflects the state plan as a secondary payer. The discount for these choices is about twenty percent. All participating employees<sup>2</sup> are eligible for a fixed dollar health insurance subsidy pursuant to s. 112.363, F.S., which provides a tax-sheltered payment of \$5 per month per year of service not to exceed \$150 per month.

Current retiree premiums are as follows:

State Employee Health Insurance  
 Monthly Premium Payments for "Early," Medicare  
 and TRICARE Retirees by Plan Type

Category	PPO/HMO Std.	High deductible
Early Retirees		
Single	\$ 396.16	\$ 319.48
Family	\$ 895.92	\$ 696.88
Medicare		
One eligible	\$ 210.34	\$ 154.16
One over/under	\$ 606.50	\$ 515.32
Both eligible	\$ 420.69	\$ 308.32
TRICARE		
Single	\$ 60.00	\$ 60.00
Family	\$160.00	\$160.00

**III. Effect of Proposed Changes:**

The bill eliminates the provision in s. 110.123, F.S., which precludes the charging of a differential premium for retirees for coverage in the state employee health insurance program.

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<sup>2</sup> Participants in the university optional annuity plans authorized under s. 121.35, F.S., and the Senior Management Optional Annuity program established under s. 121.055(6), F.S., are ineligible for this payment.

**IV. Constitutional Issues:**

## A. Municipality/County Mandates Restrictions:

None.

## B. Public Records/Open Meetings Issues:

None.

## C. Trust Funds Restrictions:

None.

**V. Economic Impact and Fiscal Note:**

## A. Tax/Fee Issues:

None.

## B. Private Sector Impact:

To the extent that a retiree anticipates that future legislative action will contain a reduced premium for coverage, the result will be more financially favorable for those keeping existing coverage or seeking alternative coverage that may be currently too expensive. As discussed, below, that is not the only possible result.

## C. Government Sector Impact:

The result may repackage the incidence of premiums but the overall result should be neutral to the plan's trust fund. To the extent that the Legislature charges a lower rate for retiree coverage the difference will have to be paid for by the public employer in the form of higher premiums for active employees or a lesser standard of coverage for all.

A Report on the Financial Outlook of the State Employees' Group Health Insurance Trust Fund issued March 2, 2007, illustrated the near-term operating difficulties under which it operates. The trust fund is estimated to end the current fiscal 2007 year with an ending cash balance of \$200.1 million. By the end of fiscal year 2009, the ending cash balance will have eroded to \$2.2 million, a nearly \$200 million operating loss. The Executive Summary section of the forecast paints a candid picture of the cost drivers:

*Recurring growth in benefit expenses . . .with relatively stable revenues . . .will cause significant deterioration of cash position in Fiscal Year 2008-09. Attention to the favorable improvement in cash position will be required no later than Fiscal Year 2008-09 in order to sustain sufficient cash balance for operations.*

...

*Growth in annual subscriber enrollment has continued to be below one percent since Fiscal Year 2000-01 . . . . Enrollment patterns also suggest a larger*

*employee subscriber base in a state-contracted HMO plan than in a self-insured PPO health plan by the end of the forecast period. In contrast, the self-insured PPO health plans continue to enroll a disproportionate number of post-employment subscribers as compared to the state-contracted HMO plans.*

As retirees begin to comprise an increasingly larger segment of the covered subscriber base, revenues from a flat to declining active employee base will be insufficient to keep premiums at current levels.

Growing health care liabilities are a major concern for public employers since governments tend to be salary-poor and benefit-rich in terms of total compensation. The federally chartered Government Accounting Standards Board has promulgated two accounting rules, GASB 43 (financial reporting) and GASB 45 (employer disclosure), to require fuller disclosure of public employer post-retirement benefit costs. These disclosures will ultimately require amortization of any unfunded, but promised, liabilities in a fashion similar to pension plan obligations. **No actions are required prior to July 1, 2008, and there is considerable uncertainty on the scale and scope of the effects and required actions.** A working group of key participants from the Office of the Auditor General, the Department of Financial Services, the Office of the Governor, the Department of Management Services, and the Legislative Branch are meeting regularly to gauge the effects this will have on preparation of financial statements, the recognition of liabilities, and the amortization of unfunded costs.

Based upon the initial estimates prepared by consulting actuaries for the Department of Management Services the following table displays the estimated OPEB liabilities for the State of Florida on three of its key benefit programs, the health insurance subsidy, state employee health insurance, and state employee group life insurance:

**Accrued Actuarial Net Liability for  
Retiree Healthcare and Health Insurance Subsidy**

<b>BENEFIT</b>	<b>Investment Return (7.75%)</b>	<b>Investment Return (4.00%)</b>	<b>Extra Annual Contributions (7.75%)</b>	<b>Extra Annual Contributions (4.00%)</b>
Health	\$ 2,138,000,000	\$ 6,971,000,000	\$ 162,000,000	\$ 213,000,000
Health Subsidy	\$ 4,475,000,000	\$ 6,746,000,000	\$ 363,175,000	\$ 495,487,000
Life Insurance	N/A	N/A		
<b>TOTAL</b>	\$ 6,613,000,000	\$ 13,717,000,000	\$ 495,175,000	\$ 708,417,000

If one of the results of this bill is to increase subsidized post-employment benefits to retirees through separate legislative action, the results will add to the unfunded liabilities and the required amortization listed above. The experience rating for life insurance operates differently from the other two programs and there does not appear to be a current OPEB liability to report. The same cautionary note applies: any suppression or subsidy of retirees premiums will cause a requirement for recognition and reporting of liability and its possible future amortization. The fundamental change in the liability recognition for public employers is the shift from a pay-as-you-go basis - benefits are recognized when paid - to an accrual basis - expenses are recognized when incurred.

**VI. Technical Deficiencies:**

In its present form it is not clear how this bill will address a complementary provision in s. 112.0801, F.S. That section links coverage choices and premium levels assessed for both active and retired employees.

**VII. Related Issues:**

The fact that the law may be silent on the size or incidence of premium does not necessarily mean that the result will be favorable to a retiree. The Legislature may choose to further subsidize the retiree premium to reduce out-of-pocket costs. It may also charge a differential premium for active employees that allocate premium costs on the basis of demand level. This could result in higher retiree premiums because of the disproportionate share of retirees making demands on health services. Section 112.0801, F.S., provides a concurrent statement that links service coverage and premiums for active and retired employees. This does not prevent the Legislature from raising premiums overall; it only precludes charging retirees more than the active rate.



## **VIII. Summary of Amendments:**

None.

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This Senate Professional Staff Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

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