

The Florida Senate  
**COMMITTEE MEETING EXPANDED AGENDA**

**BUDGET**  
**Senator Alexander, Chair**  
**Senator Negron, Vice Chair**

**MEETING DATE:** Wednesday, February 16, 2011  
**TIME:** 10:30 a.m.—12:00 noon  
**PLACE:** *Pat Thomas Committee Room, 412 Knott Building*

**MEMBERS:** Senator Alexander, Chair; Senator Negron, Vice Chair; Senators Altman, Benacquisto, Bogdanoff, Fasano, Flores, Gaetz, Hays, Joyner, Lynn, Margolis, Montford, Rich, Richter, Simmons, Siplin, Sobel, Thrasher, and Wise

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TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
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Budget Work Session

Overview of the State Employee Health Plans, Pension Plans and the Governor's recommended changes to these plans.

- Michelle Robleto, Director, Division of State Group Insurance, Florida Department of Management Services

- Sarabeth Snuggs, Director, Division of Retirement, Florida Department of Management Services



# **Florida State Group Insurance Program**

**February 16, 2011**

**Senate Budget Committee**

# State Group Insurance Program

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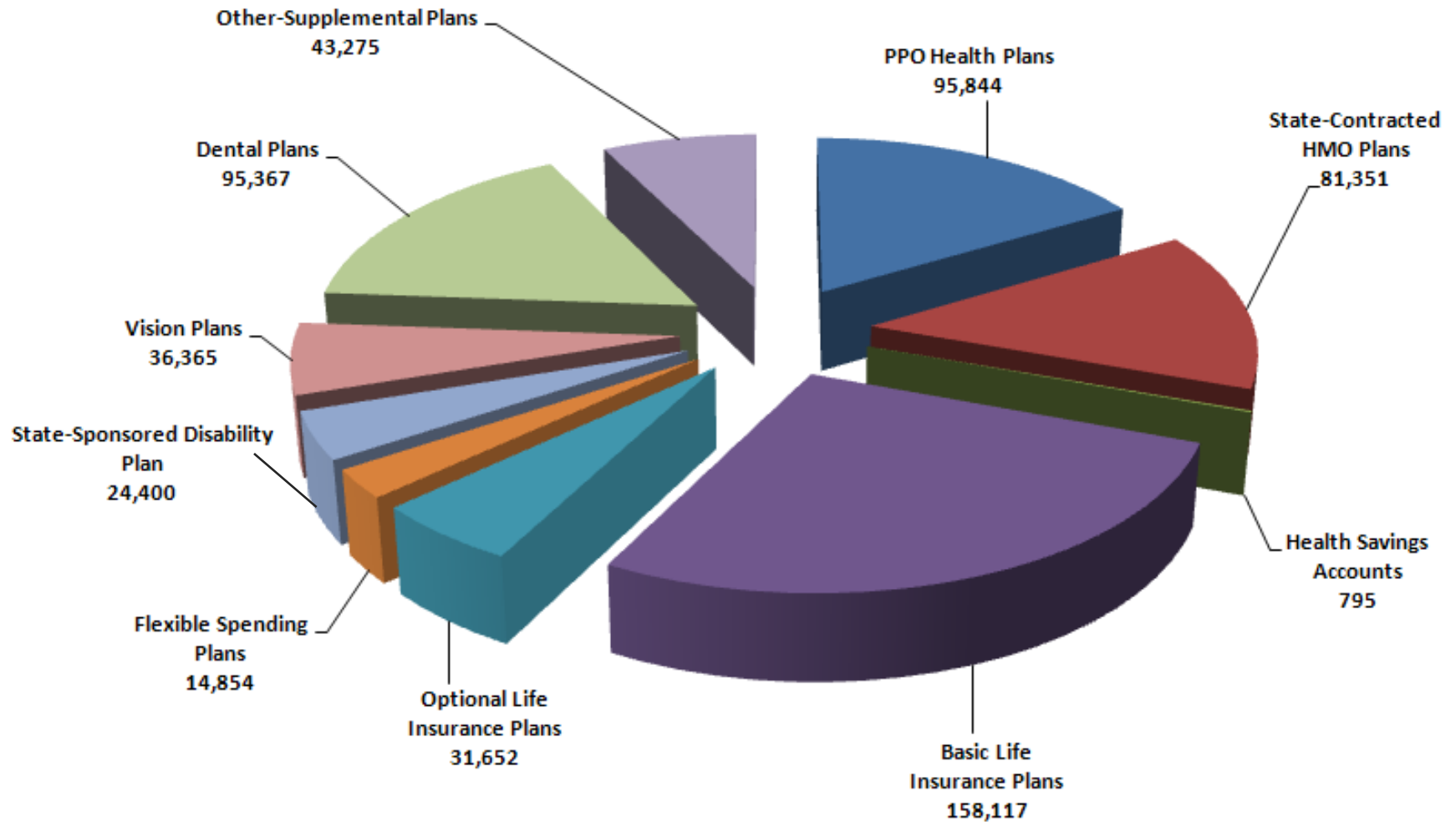
- **Employer-Sponsored Insurance**
  - State entities contribute to some types of coverage as part of employee compensation.
- **Cafeteria Plan**
  - Section 125 of the Internal Revenue Code; tax savings for employees and the state.
- **Trust Funds**
  - Four treasury accounts to record the collection of premiums and revenue and the disbursements for health benefits and administrative costs.

# State Group Insurance Program

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- Employer Contribution Plans
  - Health
  - Life
  - Disability for select classes
- Employee Pay-All Plans
  - Optional life (post-tax)
  - Flexible spending plans
  - Dental
  - Vision
  - Other supplemental products

# Average Enrollment FY 09-10



# Health Insurance Customers

## Health Insurance Enrollment, Fiscal Year 09-10

State Agencies	92,607
State Universities	34,828
Benefits Only—Retirees, COBRA, etc.	35,601
Florida Board of Bar Examiners	40
Florida Inland Navigation	6
Justice Administrative Commission	8,457
Legislature	1,684
Miami Dade Expressway	54
State Board of Administration	203
State Courts System	3,692
Tri-Rail	96
West Coast Inland Navigation	3

# Health Insurance Plans

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- Self-insured Preferred Provider Organization (PPO)
- Fully Insured Health Maintenance Organizations (HMOs)
- High Deductible Health Plan (HDHP) with an Integrated Health Savings Account (HSA)
  - Referred to as a Health Investor Health Plan
  - Same medical and prescription drug coverage
  - Lower employee premium but greater out-of-pocket costs
  - State contributes \$500/\$1,000 to HSA for single/family coverage

# Health Insurance Enrollment

## Avg. Enrollment (FY 2009-10)

Category	Contract Count	Percent to Total	PPO Plan	HMO Plans	HDHP/HSA
Active	140,735	79.4%	65,786	73,694	1,255
COBRA	874	.5%	594	277	3
Early Retiree	7,913	4.5%	5,235	2,633	45
Medicare	27,675	15.6%	23,337	4,307	31
<b>Total</b>	<b>177,197</b>		<b>94,952</b>	<b>80,911</b>	<b>1,334</b>

COBRA: Consolidated Omnibus Budget Reconciliation Act

Total covered lives at fiscal year end: 374,764



# Premiums

## Monthly Premiums Effective December 2010 for January 2011 Coverage

Category	Coverage	Standard Plan PPO/HMO			Health Investor Health Plan PPO/HMO		
		Employer	Enrollee	Total	Employer*	Enrollee	Total
Career Service	Single	499.80	50.00	549.80	499.80	15.00	514.80
	Family	1,063.34	180.00	1,243.34	1,063.34	64.30	1,127.64
	Spouse	1,243.32	30.00	1,273.32	1,097.64	30.00	1,127.64
SES/SMS/EOG LEG/Lottery	Single	541.46	8.34	549.80	506.46	8.34	514.80
	Family	1,213.34	30.00	1,243.34	1,097.64	30.00	1,127.64
COBRA	Single			534.09			455.90
	Family			1,207.82			1,004.81
Early Retirees	Single			549.80			473.12
	Family			1,243.34			1,044.32
Medicare Retirees	One Eligible			305.82			230.52
	Family			881.80			722.16
	Two Eligible			611.64			461.04

# Health Insurance Trust Fund

## Summary of the outlook for FY's 09-10 through 13-14

### Financial Outlook

(Dollars in Millions)	Actual	Actual & Projected	----- Projected -----		
	2009-10	2010-11	2011-12	2012-13	2013-14*
Beginning Cash Balance	206.2	224.6	243.1	99.6	0.0
Revenues	1,792.0	1,901.8	1,901.6	1,959.1	2,081.4
Expenses	<u>1,773.6</u>	<u>1,883.3</u>	<u>2,045.1</u>	<u>2,287.4</u>	<u>2,686.5</u>
Operating Gain/ (Loss)	<u>18.4</u>	<u>18.5</u>	<u>(143.5)</u>	<u>(328.3)</u>	<u>(605.1)</u>
Ending Cash Balance	<u><u>224.6</u></u>	<u><u>243.1</u></u>	<u><u>99.6</u></u>	<u><u>(228.7)</u></u>	<u><u>(605.1)</u></u>

\* Assumes no carry forward of negative cash balances from prior year.

State Employees' Group Health Self-Insurance Trust Fund, Report on the Financial Outlook, August 9, 2010

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# Governor's Recommendations on State Employee Health Insurance Program



## Plan Year 2011

- All employees begin paying the same premiums effective July 1, 2011. (This is expected to save state agencies about \$45 million in FY 2011-12).
- The contributions into the health savings accounts are continued at \$500 for individual coverage and \$1,000 for family coverage.



## Plan Year 2012

- Self insure the HMO portion of the health insurance plan. (This is expected to save \$45 to \$55 million annually).
- The 2011 premium structure remains in place, with no increase premiums paid by the state agencies or employees.
- Retirees not eligible for Medicare will be charged an actuarially indicated premium, but not to exceed 120% of the active employee total premium. (This is expected to save \$7 million in FY 2011-12 and \$20 million in FY 2012-13).



## Plan Year 2012 (continued)

- Retirees eligible for Medicare will be charge an actuarially indicated premium. (This is expected to save \$12.5 million in FY 2011-12 and \$22 million in FY 2012-13).
- Prescription Drug Program
  - Allow DMS to negotiate pharmacy dispensing fee consistent with best industry practice
  - Allow DMS to implement “step therapy” by requiring generic or formulary drug to be used prior to more expensive alternative drug within a therapeutic class
- The contributions into the health savings accounts are continued at \$500 for individual coverage and \$1,000 for family coverage).



## Plan Year 2013

- Implement defined contribution health insurance plan. The state will contribute \$5,000 per employee to purchase health insurance coverage through an option offered by the Division of State Group Insurance.
- All retirees will pay the actuarially indicated premium for the coverage selected.
- The contributions into the health savings accounts set at \$600 for each employee participating in an eligible high deductible plan.





# **Florida Retirement System**

**February 16, 2011**

**Senate Budget Committee**



# Florida Retirement System (FRS)

Pension Plan	Investment Plan
<ul style="list-style-type: none"> <li>• Defined Benefit Plan</li> </ul>	<ul style="list-style-type: none"> <li>• Defined Contribution Plan</li> </ul>
<ul style="list-style-type: none"> <li>• Vested after six years of service</li> </ul>	<ul style="list-style-type: none"> <li>• Vested after one year of service</li> </ul>
<ul style="list-style-type: none"> <li>• Provides a lifetime monthly benefit when you retire based on a set formula</li> </ul>	<ul style="list-style-type: none"> <li>• You choose how to receive the balance of your investment account when you retire</li> </ul>
<ul style="list-style-type: none"> <li>• Benefit is based on the following formula: <b>AFC* x Years of Service x Accrual Rate</b></li> </ul>	<ul style="list-style-type: none"> <li>• Account balance is based on the following formula: <b>Contributions + Earnings - Losses</b></li> </ul>

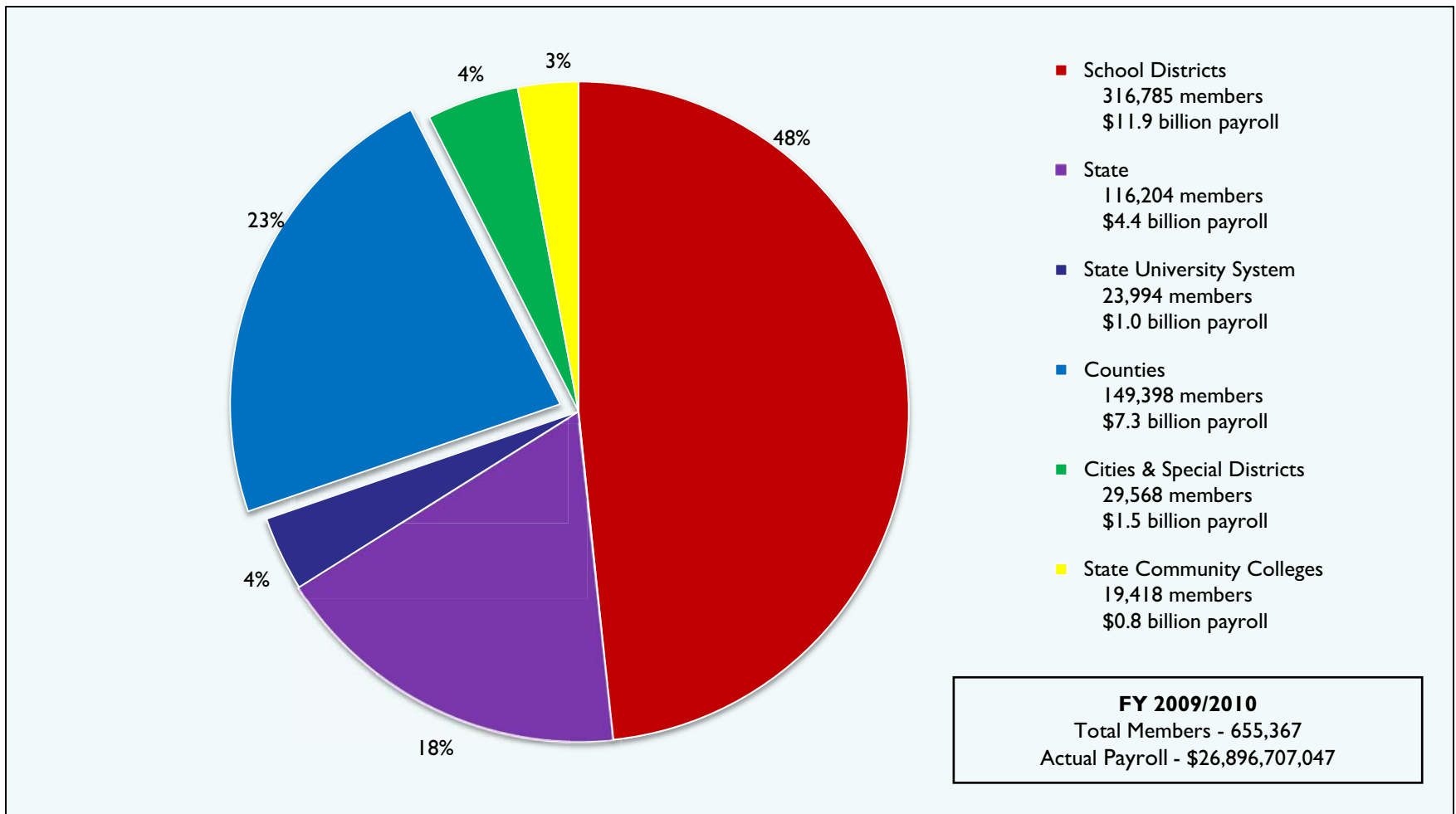
\* AFC = Average Final Compensation

# FRS Active Membership by Employer Group

Employer Group	Pension Plan	Investment Plan	Total	Percent of Membership
School Boards	273,357	43,428	316,785	48%
County Governments	127,498	21,900	149,398	23%
State	96,817	19,387	116,204	18%
Cities and Special Districts	24,952	4,616	29,568	4%
State Universities	19,683	4,311	23,994	4%
Community Colleges	15,278	4,140	19,418	3%
<b>Total</b>	<b>557,585</b>	<b>97,782</b>	<b>655,367</b>	<b>100%</b>

6/30/2010

# FRS Active Membership by Employer Type



**% = Percent of Total Active Members on 6/30/10**

# FRS Active Membership by Membership Class

Membership Class	Pension Plan	Investment Plan	Total	Percent of Membership
Regular Class	485,331	84,867	570,198	87.00%
Special Risk Class	64,734	10,332	75,066	11.46%
Senior Management Service Class	5,693	2,055	7,748	1.18%
Elected Officers' Class	1,774	510	2,284	0.35%
Special Risk Administrative Support Class	53	18	71	0.01%
<b>Total</b>	<b>557,585</b>	<b>97,782</b>	<b>655,367</b>	<b>100%</b>

6/30/2010

# FRS Average Annual Salary

	Regular Class	Senior Management Service Class	Special Risk Class	Special Risk Administrative Support Class	Elected Officers' Class	Average Salary
<b>School Boards</b>	\$37,642	\$98,294	\$57,493	N/A	\$38,279	<b>\$37,790</b>
<b>County Governments</b>	\$42,955	\$99,088	\$61,535	\$53,810	\$76,008	<b>\$49,263</b>
<b>State</b>	\$36,423	\$64,773	\$37,923	\$43,794	\$123,046	<b>\$38,595</b>
<b>Cities and Special Districts</b>	\$47,394	\$107,620	\$66,751	\$73,778	\$14,590	<b>\$50,311</b>
<b>State Universities</b>	\$43,249	\$172,361	\$52,727	N/A	N/A	<b>\$43,642</b>
<b>Community Colleges</b>	\$40,873	\$131,932	\$48,909	N/A	\$60,439	<b>\$41,904</b>
<b>Average Salary</b>	<b>\$39,188</b>	<b>\$80,855</b>	<b>\$53,435</b>	<b>\$44,922</b>	<b>\$78,296</b>	<b>\$41,449</b>

6/30/2010

# FRS Accrual Rates by Membership Class

Membership Class	Accrual Rates
<b>Regular Class</b>	1.60% - 1.68%
<b>Special Risk Class</b>	3.00%
<b>Senior Management Service Class</b>	2.00%
<b>Elected Officers' Class</b>	
Judges	3.33%
All Other Elected Officials	3.00%
<b>Special Risk Administrative Support Class</b>	1.60% - 1.68%

6/30/2010

## Deferred Retirement Option Program (DROP)

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- Established in 1998
- Allows members to retire and continue working for up to:
  - 5 Years: Most members
  - 8 Years: K – 12 Instructional Personnel
- Pension benefits accumulate in the FRS Trust Fund
  - Earn 6.5% interest, annually
  - Earn 3.0% cost of living adjustment, annually
- Members must terminate FRS employment after completing DROP

<b>DROP Participants as of June 30, 2010</b>	<b>DROP Payouts July 1, 2009 – June 30, 2010</b>
<b>33,577</b>	<b>\$672,820,378</b>

## Health Insurance Subsidy (HIS)

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- The HIS is a supplemental benefit program that provides monthly benefits to eligible FRS retirees and their surviving beneficiaries to help them cover some of the cost of health insurance coverage. The amount received is based on the member's length of service.
- Since July 1, 2001, the HIS has been \$5 per month for each year of creditable service, with a minimum HIS payment of \$30 per month and a maximum HIS payment of \$150 per month.

<b>HIS Recipients as of June 30, 2010</b>	<b>HIS Payments July 1, 2009 – June 30, 2010</b>
269,999	\$338,891,598



# Pension Plan Annuitants By System as of June 30, 2010

<u>System/Class</u>	<u>Count</u>	<u>Average Annual Benefit</u>
FRS – Regular Class	267,301	\$15,567
Special Risk Class	25,248	\$31,536
Senior Management Service Class	2,267	\$41,975
Elected Officers' Class	2,050	\$42,414
Special Risk Administrative Support Class	165	\$33,153
TRS	4,967	\$29,215
SCOERS	769	\$9,111
TRS-SB	571	\$1,882
IFAS	158	\$10,155
Highway Patrol	47	\$18,238
JRS	6	\$20,130
<u>General Revenue</u>		
National Guard	727	\$18,049
Noncontributory (112.05, F.S.)	51	\$14,324
Judicial Retirement	9	\$75,023
Teachers (238.171, F.S.)	1	\$2,105
<b>Total/Average</b>	<b>304,337</b>	<b>\$17,465</b>

# FRS Actuarial Requirements

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- FLORIDA CONSTITUTION prohibits the state from providing any increased retirement benefits unless the state has made or concurrently makes provisions for the funding of those benefits on a sound actuarial basis (Art. X, s. 14, Florida Constitution)
- FLORIDA STATUTES implement the constitutional provision
  - “Florida Protection of Public Employee Retirement Benefits Act” establishes minimum standards for the operation and funding of public employee retirement systems and plans in the State of Florida (ss. 112.60 – 112.67, F.S.)
  - Section 121.031(3), F.S., requires an annual actuarial study of the FRS

## Funding Methodology

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- Actuarial valuation is performed annually on Defined Benefit (DB or Pension) Plan
  - Valuation determines the actuarial funding status of the DB Plan, as well as proposes employer contribution rates sufficient to fund the Normal Cost of the plan and amortization of the Unfunded Actuarial Liability (UAL), if any
- Blended Rate Study is performed subsequent to the actuarial valuation which ‘blends’ the Normal Cost rates with the Defined Contribution (DC or Investment) Plan deposit rates to establish a uniform employer contribution rate

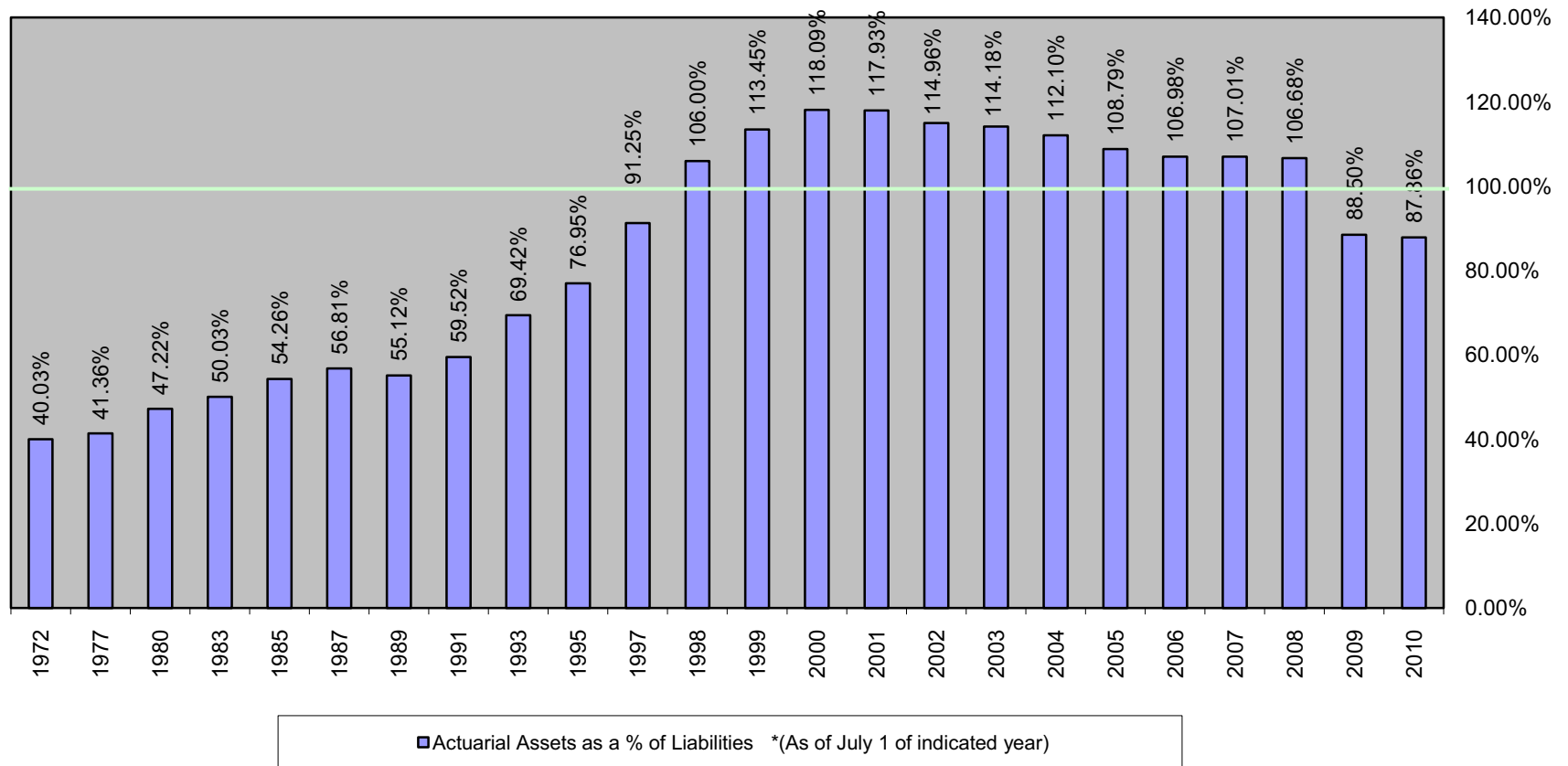
## Actuarial Funding Status

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- As of July 1, 2010, the DB Plan had an actuarial funding level of 87.9%
  - UAL of \$16.7 billion
  - Actuarial deficit is due to market declines in 2008 and 2009 and plan experience

# Historical Actuarial Funding Ratio

Actuarial Funding Status of the FRS Pension Plan\*  
July 1, 1972 through June 30, 2010



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# Governor's Recommendations on Pension Reform



# Structural Changes to the Florida Retirement System

- Implement Contributory System with employees contributing 5 percent of gross salary to the Florida Retirement System, effective July 1, 2011.
  - Pretax Basis
  - 100% vested in employee contribution on day one
  - Fully refundable to the employee when employee terminates from the FRS.
- Implement compulsory enrollment in defined contribution investment plan for all new Florida Retirement System members, effective July 1, 2011.



# Changes to FRS Pension Plan

- Revises the service accrual rates for service earned after July 1, 2011:
  - 2.0 percent for Special Risk Class members
  - 1.6 percent for all other classes (Regular, Senior Management Service, and Elected Officers)
- Closes the Deferred Optional Retirement Program (DROP) to new participation, effective July 1, 2011.
- Eliminates the cost of living adjustment (COLA) on retirement benefits for all service earned after July 1, 2011.
- Reduces Minimum Disability Retirement Benefits
  - Special Risk minimum in-line-of-duty disability is reduced from 65% to 50%
  - Minimum disability retirement benefits for judges retiring as disabled pursuant to the Constitution are reduced from two-thirds of salary to one-third of salary.





## Changes to FRS Investment Plan

- Retirement contributions into participant accounts will be 11.25 percent for Special Risk Class members
- Retirement contributions into participant accounts will be 9 percent for all other members
- Disability retirement program continues as currently structured (election to move back to pension plan). The state actuary will determine the level of contributions necessary to fund this benefit.



## Retiree Health Insurance Subsidy (HIS)

- No new service may be earned after July 1, 2011. Current retirees are unaffected (continue to receive the same level of HIS). Current FRS members will no longer earn additional credits but will retain service credits earned prior to July 1, 2011.



# Optional Retirement Plans

- The State University Optional Retirement Plan (SUSORP), the Community College Optional Retirement Plan (CCORP), and the Senior Management Optional Annuity Plan (SMSOAP), will be closed as of July 1, 2011.

Note: Participants in these plans will become compulsory members of the FRS investment plan (like all other new FRS enrollees). This means that these employees will begin contributing 5% of salary (like everyone else) and receiving 9% retirement contributions into the investment accounts (rather than the current 10.43% for ORP and 12.49% for OAP). Current participants will maintain their current optional retirement accounts.

