

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: SB 1712

SPONSOR: Senator Campbell

SUBJECT: State Group Insurance

DATE: March 31, 2000 REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<u>Favorable</u>
2.	_____	_____	<u>FP</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

**I. Summary:**

The bill conducts a limited open enrollment period for retired state officers and employees to participate in the state group insurance program.

This bill amends section 110.123, Florida Statutes.

**II. Present Situation:**

The Division of State Group Insurance in the Department of Management Services is the entity responsible for the contract management of health, dental, and supplemental insurance programs for state employees. It manages an indemnity health and drug plan, oversees several contract vendors in its managed care plans, and provides pre-tax medical and dependent day care accounts for all participating subscribers. Each year it conducts an annual open enrollment during which active state employees may change their benefit selections.

State agencies are compulsory members of the Florida Retirement System (FRS), a defined benefit, multi-employer pension plan. That pension system permits each of its participants to receive a health insurance subsidy of five dollars per month per year of service, not to exceed \$150 a month, at their retirement. This amount can be used at the discretion of the retiree but is ostensibly provided to defray the cost of insurance premiums when active employment ceases. At retirement state employees receive a one-time choice of continuing employer-sponsored group health and life insurance coverage at full premium cost. This monthly amount is \$223.82 for individuals and \$507.80 for family coverage, less the above-mentioned health insurance subsidy. Prescription drug coverage is a bundled feature of this choice with the same cost-sharing as is provided active employees.

**III. Effect of Proposed Changes:**

**Section 1.** The bill sets an open enrollment period of 90 days beginning July 1, 2000, during which time retired state officers and employees may elect health and life insurance coverage in effect at the time of their retirement.

**Section 2.** The bill is effective upon becoming a law.

**IV. Constitutional Issues:****A. Municipality/County Mandates Restrictions:**

None. The bill applies to retired state employee only.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**V. Economic Impact and Fiscal Note:****A. Tax/Fee Issues:**

Retired state employees would incur full premium costs as a result of their enrollment and would be governed by the same plan benefits and limitations as active employees.

**B. Private Sector Impact:**

Individuals electing enrollment will incur full group premium payment less the health insurance subsidy. Life insurance coverage will increase from \$1,500 to \$10,000.

**C. Government Sector Impact:**

Because the enrollment period is limited to a subset of employees who are retirees and, presumably, without equivalent or any health insurance coverage, the phenomenon of adverse selection presents itself. In adverse selection the cost of the benefit expansion exceeds its subscription revenue. In this instance it is affected even more by the fact that the enrollees are older and statistically will make more frequent and expensive claims upon the plan.

The division estimates that some 19,200 retirees would be affected by this bill. The current indemnity plan is completing its second year of a financial turnaround in which it sustained some \$300 million in losses due to contractual and vendor performance shortcomings.

The Division of State Group Insurance anticipates the following fiscal impact from the bill:

### **Fiscal Effect of SB 1712 on Health Insurance Trust Funds**

<b>Feature</b>	<b>Recurring Cost</b>	<b>Non-Recurring Cost</b>	<b>Total Cost</b>
Health	\$ 3.6 million	\$ 200,000	\$3.8 million
Life	\$ 5-10 million		\$5-10 million

In subsequent years the division estimates that there will be additional upward cost pressure placed on premiums charged due to the anticipated high claims experience of this group.

While not discussed by the division, there may be some mitigating effects. The average FRS participant begins receiving pension benefits at age 61, or four years removed from first Medicare eligibility. Premiums for the state group health plan decline when coordinated with Medicare. However, the division could not receive any premium relief for those retirees less than age 65 or those above this age who have not yet applied for Medicare benefits.

On March 6, 2000, the division reported a proposal for the improvement of benefits provided in the state group health plan relative to those provided among other large health care purchasers. The proposed changes would add \$14.8 million in costs and produce \$18.1 million in savings on an annualized basis. A summary of its findings is provided below:

### **State Group Health Insurance Plan Revenues and Expenses, FY 2000-01, Net of Benefit Changes**

<b>Item</b>	<b>Financial Outlook Feb. 2000</b>	<b>Adjusted Outlook Both</b>	<b>Adjusted Outlook Medical</b>	<b>Adjusted Outlook Drug</b>
Beginning Balance	\$ 109.5	\$ 109.5	\$ 109.5	\$109.5
Revenues	\$ 754.9	\$ 754.9	\$ 754.9	\$ 754.9
Cash Available	\$ 864.4	\$ 864.4	\$ 864.4	\$ 864.4
Expenses	\$ 761.5	\$ 759.1	\$ 766.4	\$ 754.2
Expenses over Revenue	(\$6.6)	(\$4.2)	(\$11.5)	\$ .7
Ending Cash Balance	\$ 102.9	\$105.3	\$ 98.0	\$ 110.2

The division suggests that a multi-year open enrollment with medical underwriting may address some of the retirees concerns and alleviate some of the near-term fiscal consequences associated with the selection adversity.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Amendments:**

None.

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This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

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