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: CS/SB 344

SPONSOR: Banking and Insurance Committee and Senator Forman

SUBJECT: Health Insurance

DATE: April 10, 2000 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Schmeling	Maclure	CM	Favorable
2.	Emrich	Deffenbaugh	BI	Favorable/CS
3.			FP	
4.				
5.				

I. Summary:

Committee Substitute for Senate Bill 344 creates the Premium Assistance Program within the Agency for Health Care Administration (AHCA) to assist small businesses with four or fewer employees in paying the cost of health insurance premiums for certain employees. The bill appropriates $10 million for fiscal year 2000-2001 to be provided to AHCA from moneys that the state receives in the tobacco settlement which is to be distributed to small businesses in each of the Community Health Purchasing Alliance (CHPA) districts. The bill provides for graduated premium subsidies of 75 percent the first year, 50 percent the second year, and 25 percent the third year for single-parent or two-parent family health coverage. Further, AHCA is authorized to adopt rules to implement the provisions of the bill.

The fiscal impact of the bill would be a total of $10 million for premium assistance subsidies for fiscal year 2000-200. However, the bill as drafted is designed to last at least three years and there is no provision made for ongoing sources of funding. The bill is also silent as to whether this is to be an ongoing Program or would assist only those businesses that are in the initial group. The Agency for Health Care Administration has estimated that three FTEs would be necessary to implement the Program although the bill does not appropriate any funds or authorize any positions.

This bill creates a yet unnumbered section of the Florida Statutes.

II. Present Situation:

The Small Group Market in Florida

The most recent unemployment compensation data (first quarter 1999) shows that of 431,250 total private sector employing units[1] in Florida, 208,124, or almost 50 percent, employed 1 to 4 individuals. During this time period, these employers employed 406,304 individuals, or 6.9 percent of all individuals employed.

Under s. 627.6699, F.S., small employer group carriers are required to offer a "standard" and "basic" policy to small employers. A small employer, in connection with a health benefit plan, is a person or entity actively engaged in business employing an average of at least 1, but not more than 50 employees. The "standard" policy is generally intended to be comparable to a major medical policy typically sold in the group market, with cost containment features intended to make the policy affordable. The "basic" policy places additional restrictions on the benefits and utilization of the policy, and may also impose additional cost containment measures. The law also specifies certain mandated benefits that apply to both the standard and basic policy.

The Senate Banking and Insurance Committee prepared an interim report, *Review of Florida's Health Insurance Laws Relating to Rates and Access to Coverage*, (Report No. 2000-04; August 1999). The report included information regarding the small group market in Florida. As of March 31, 1999, approximately 1.73 million persons were insured under small group policies in Florida, as compared to 1.71 mil. at the end of 1998, 1.6 mil. in 1997, 1.45 mil. in 1996, and 1.30 mil. in 1995. The number of small group carriers dropped from 116 carriers in 1997 to 90 carriers in 1998, but remained at 90 carriers in 1999.

The following table from the interim report shows the average annual rate increases for small group coverage in Florida for the 3-year period, 1995-1997, weighted for market share for the leading thirteen health insurers[2] representing 79.8 percent of the small group market and the six HMOs[3] representing 83.6 percent of the small group HMO market in 1997. These rate increases have been substantial, averaging over 17 percent a year for small group insurers and nearly 10 percent a year for small group HMOs.

---

[1] "Employing unit" means any individual or type of organization, including any partnership, association, trust, estate, joint-stock company, insurance company, or corporation, whether domestic or foreign; the receiver, trustee in bankruptcy, trustee, or successor of any of the foregoing; or the legal representative of a deceased person, which has or had in its employ one or more individuals performing services for it within this state (s. 443.036(20), F.S.).

[2] Blue Cross & Blue Shield of Florida (17.18% market share), Principal Mutual Life Insur. Co. (13.53%), John Alden Life Insur. Co. (12.46%), Humana Health Insur. Co. of Fla. (8.48%), United HealthCare Insur. Co. (7.41%), PFL Life Insur. Co. (2.01%), and Time Insur. Co. (1.84%).

[3] Health Options (18.39% market share), Humana Medical Plan (18.04 %), United HealthCare Plans of Fla. (15.13%), Principal Health Care of Fla. (13.9%), Prudential Health Care of Fla. (13.9%), and Neighborhood Health Partnership (4.2%).

Small Group Rates — Average Annual Rate Increase
Leading Florida Carriers (1995-1997)

Year	Small Group Insurance	Small Group HMO
1995	21.16%	9.03%
1996	17.18%	7.12%
1997	14.06%	11.50%
3-Year Cumulative Total	61.93%	30.23%
Average Annual Change	17.43%	9.20%

The following table shows the most current rate filings that had been approved by the Department of Insurance for small group insurers and small group HMOs, as of August 1, 1999, and the average premium per covered employee for a sample 10-life group developed by the department. Small group premiums are continuing to increase at significant levels. Unlike previous years, HMOs are experiencing rate increases comparable with health insurers.

Most Recent Florida Small Group Rate Filings
(Approved as of 8/1/99)

Company	Percentage Increase	Annual (& Monthly) Premium After Increase (Avg.)
Small Group Major Medical —Indemnity:		
Principal Life Ins. Co.	22.0%	$5,291 ($441)
Anthem Health and Life Ins. Co.	11.2%	$5,463 ($455)
Blue Cross/Blue Shield	14.6%	$4,953 ($413)
Aetna Life Ins. Co.	13.1%	$6,269 ($522)
Humana Health Ins. Co. of Fla.	12.0%	$5,189 ($432)
PM Group Life Ins. Co.	0.7%	$4,048 ($337)
Prudential Life Ins. Co.	14.0%	$3,587 ($299)
Anthem Health and Life Ins. Co.	11.8%	$5,173 ($431)
New England Life Ins. Co.	0.0%	$5,117 ($426)
Trustmark Ins. Co.	10.0%	$6,568 ($547)
Principal Life Ins. Co.	17.0%	$6,221 ($518)
United Wisconsin Ins. Co.	23.0%	$3,241 ($270)

Small Group HMO (Out of CHPA)		
HIP Health Plan of Florida	18.1%	$4,558 ($380)
Aetna US HealthCare	20.1%	$4,139 ($345)
Health Options	24.1%	$4,773 ($398)
Healthplan Southeast	8.3%	$4,155 ($346)
Well Care HMO	2.9%	$4,475 ($373)
Florida Health Care Plan	19.5%	$4,121 ($343)
Foundation HealthCare	14.7%	$3,522 ($294)
American Medical HealthCare	25.4%	$3,634 ($303)
Physicians HealthCare Plans	29.1%	$5,239 ($437)
Health First Health Plan	10.9%	$3,689 ($307)

Source: Department of Insurance

Community Health Purchasing Alliances

In 1993, the Florida Legislature established Community Health Purchasing Alliances (CHPAs) as state-chartered, nonprofit organizations intended to pool purchasers of health care together in organizations that broker health plans at the lowest price and enable consumers to make informed selections of health plans (ch. 93-129, L.O.F.; ss. 408.70-408.706, F.S.). CHPAs make available health insurance plans to small employers, as that term is defined in s. 627.6699, F.S., who have 1 to 50 employees, including sole proprietors and self-employed individuals.

The Agency for Health Care Administration (AHCA) is responsible for implementation and oversight of the statewide system of CHPAs, including technical and legal assistance, liaison functions, and designation of accountable health partnerships. In order for an insurance plan to be offered through the CHPA, the plan must qualify as an accountable health partnership (AHP), which must be formed by an insurer or health maintenance organization (HMO) authorized by the Department of Insurance. The law also authorizes CHPAs to provide coverage to Medicaid recipients and state employees, but that authority has never been exercised, as the Legislature has never taken the steps needed to fully implement this aspect of the law.

The law created eleven CHPAs, one for each of AHCA's eleven health service planning districts. However, there are now seven individual CHPAs, due to merger of certain districts. Each CHPA operates under the direction of an appointed 17-member board of directors. The original law that provided for appointment of members by designated public officials was repealed (due to a Sunset provision and failure of the Legislature to reenact). The repeal allows the boards, as nonprofit associations, to provide for appointment of board members in their articles of incorporation and bylaws. At this time, all of the CHPA boards' articles and bylaws continue to provide for appointment of members in the manner that was statutorily directed. The boards appoint executive directors who serve as the CHPAs' chief operating officers. In addition to the executive director, each CHPA employs from one to three full-time staff and all but one contract with a third-party administrator. Community health purchasing alliances act as clearing-houses for health insurance plans that qualify as AHPs. Community health purchasing alliances choose AHPs via requests for proposals. The CHPAs offer several benefit plans. Within these plans an individual can choose different types of coverage, such as an HMO or a preferred provider plan. All CHPA plans are sold through authorized insurance agents.

As of February 2000, approximately 35,000 persons (including employees and their dependents) were insured through the seven CHPAs, which represents about 13,000 small employer groups. This represents a drop from the 94,090 persons who were insured through CHPAs in December 1998. Only six insurance carriers remain as active AHPs in the CHPAs, and some of those are active only in certain districts. Eighteen carriers have discontinued their participation as AHPs in some or all of the CHPA districts.

On March 30, 2000, the Chair of the CHPA State Board of Directors announced that the seven remaining CHPAs would effectively phase out their operation during the next 5 months and transition group members to their respective insurance carriers. This is due in large part to the dramatic drop in enrollment and extensive financial problems experienced by CHPAs.
On August 25, 1997, the tobacco industry agreed to a settlement of at least $11.3 billion dollars from tobacco companies to Florida over the next 25 years for reimbursement of Medicaid expenses, punitive damages, and fraud. This settlement stemmed from the litigation of *State of Florida, et al., v. American Tobacco Company, et al.*, Civil Action No. 95-1466 AH (15th Cir. Ct.).

III. Effect of Proposed Changes:

Section 1. This bill creates the Premium Assistance Program (Program) within the Agency for Health Care Administration (AHCA) to assist small businesses in purchasing health insurance coverage for their employees. To be eligible for the Program, a small business must have four or fewer employees and must not have offered health insurance coverage to its employees or paid the health insurance premiums of its employees for the previous 6 months or longer. A small business is ineligible for the Program if the business discontinues health insurance coverage for its employees in an attempt to qualify for the Program.

The premium subsidy authorized by this bill must be provided for standard and basic health benefit plans, as defined in s. 627.6699, F.S. For single-parent or two-parent family contract coverage, a small business may receive a 75 percent subsidy of the cost of health insurance premiums for the first year, a 50 percent subsidy of the cost of health insurance premiums for the second year, and a 25 percent subsidy of the cost of health insurance premiums for the third year. A business is not required to maintain health insurance coverage after the subsidy ends. However, the bill is not clear whether the Program is to be ongoing or to benefit only the initial recipients. Finally, the bill authorizes AHCA to promulgate rules to implement the subsidy Program.

Moneys that the state receives in the tobacco settlement must be used to fund the Premium Assistance Program and will be distributed by AHCA according to the estimated number of small businesses in each CHPA district which do not offer health insurance for their employees.
Under the bill, funds must be distributed quarterly and monitored by AHCA. However, the subsidy distribution process in this bill is unclear. Additionally, as noted above under Present

Situation, CHPAs are phasing out their operation in the next several months. Therefore, the subsidy distribution process problems are further exacerbated.

Section 2. This bill appropriates the sum of $10 million to AHCA from the moneys that the state receives in the settlement of its tobacco lawsuit for the purpose of carrying out the provisions of this act during fiscal year 2000-2001. However, the bill as drafted is designed to last at least 3 years and there is no provision made for ongoing sources of funding. See discussion of fiscal impact of the bill below under Government Sector Impact.

Section 3. Provides that the act shall take effect upon becoming a law.

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:

The bill would provide assistance for the small business employer who has not been able to offer health care coverage for employees for the past 6 months or longer. It would allow a greater number of uninsured one-parent and two-parent households' access to adequate health care coverage. It is anticipated that the low initial expense and the gradual premium increase for the 3-year period would encourage small business owners to continue the coverage after the subsidy is discontinued.

C. Government Sector Impact:

To be eligible for the Program subsidy, employers must provide health insurance coverage for their employees. To calculate the recurring impact of the state subsidy to eligible families over the three year period, the Agency for Health Care Administration used the rates from various age groups for one-parent and two-parent family health benefit contracts and an average was calculated for an employee's health benefit policy. The trend factor, over a 3-

year period of time, was also included to obtain a final calculation. The estimates are as follows:

- ♦ The average cost, per month, for a one to two-parent family policy of a subsidy equal to 75 percent of premium would be $327 or $3,924 per year;
- ♦ A total of 2,548 families (statewide) could receive premium subsidies the first year of the projected 3-year program. These 2,548 policies/families would be subsidized at the 75 percent level the first year for an approximate total of $10 million; funded at the 50 percent level of premium assistance in the second year for a cost of $6,665,568; and, funded for the third year of assistance, at the 25 percent premium subsidy level, or $3,332,784.

Year 1 (FY 2000-01)	**Year 2 (FY 2001-02)**	**Year 3 (FY 2002-03)**
$10,000,000	**$6,665,568**	**$3,332,784**

Total 3-year subsidy: $19,998,352[4]

These figures are based on AHCA's knowledge of trend factors. These figures could vary considerably depending on the loss ratio history for carriers participating over the 3-year period. Distribution of the premium assistance subsidy would be distributed among the seven CHPA districts "according to the estimated number of small businesses in each (CHPA) district which do not offer health insurance to their employees."

The Agency for Health Care Administration (AHCA) estimates that it would also need three additional FTEs (two professional positions and one support position) at a total cost of $161, 947 for fiscal year 2000-01, to ensure proper management and monitoring of the Premium Assistance Program. However, the bill does not appropriate any funds for this purpose and, therefore, the $161,947 estimate is not subtracted from the cost estimates provided above.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

[4]The bill provides for $10 million for FY 2000-01, however, it is silent as to sources of funding in subsequent years although the amounts of such funding can be implied from the structure of the program the bill attempts to institute. With a fixed amount of money available in the first year, and that money representing subsidies equal to 75 percent of premium, funding amounts required for later years can be projected. The figures cited are the projected amounts necessary to continue to fund the program for all 3 years. The bill is silent as to whether the program is to be ongoing or is to only benefit the initial recipients.

VIII. Amendments:

None.

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