SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

BILL: CS/SB 1172

SPONSOR: Governmental Oversight and Productivity Committee, Senator Mitchell and others

SUBJECT: State Group Health Insurance

DATE: March 21, 2001 REVISED: _____ _____ _____ _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Wilson	Wilson	GO	Favorable/CS
2.			CA	
3.			AGG	
4.			AP	
5.				
6.				

I. Summary:

The committee substitute permits small municipalities, small counties, and district school boards in small counties to enroll in the health insurance and prescription drug programs available to officers and employees of the State of Florida.

This committee substitute creates section 110.1228, Florida Statutes.

II. Present Situation:

Section 110.123, F.S., gives officers and employees of agencies of the State of Florida the opportunity to receive health insurance and prescription drug coverage through enrollment in a self-insured, preferred provider organization (PPO) or a health maintenance organization (HMO). Participation is voluntary during the customary annual open enrollment period or upon employment. The PPO is self-insured and managed by Blue Cross and Blue Shield of Florida under a contract with the Division of State Group Insurance in the Department of Management Services. Several HMOs are selected by the division to offer their products in other coverage areas around the state. Each coverage choice has its own features and limitations but all have a base benefit package. The State of Florida provides a uniform premium contribution for both plan types although the incidence of premiums charged varies between management and non-management positions. Additionally, a jointly employed spousal benefit frees both members from any premium costs. For the fiscal year ending 2000 about 95,000 employees were enrolled in the PPO with another 67,000 selecting the HMO option. Some 375,000 employees in established positions, retirees and dependents received coverage under these plans. There is no state-provided insurance coverage for persons in part-time, seasonal, or casual labor employment, although they are enrolled in other programs sanctioned by federal law such as Social Security and Deferred Compensation.

During the 20 year period from 1979 through 1999 premiums for family coverage increased from $69.96 to $507.80. About three-quarters of the premium is paid by the employer with the remainder assumed by the participating employee but pre-tax sheltered. The nominal prescription drug co-payments for the PPO are $10, $20, and $35, respectively, for the three tiers of drug categories ranging from generic through preferred brand. A coordinated mail-order prescription drug benefit provides for up to a 90-day supply of refillable medication with a one-time co-payment of $52.50 per issuance.

The California Public Employees' Retirement System (CALPERS) is a multi-employer pension plan that provides health insurance and prescription drug coverage in addition to its nominal pension benefit. While it is the largest plan of its kind, with 1,258 employer members, one million employees and annual premiums of $1.7 billion, it is by no means the only one. The National Conference of State legislatures reports that 15 states permit local governments to enroll in a state employee health benefit plan.

Section 112.08, F. S. authorizes units of local government to provide funds for payment of premiums for a variety of health, accident, and legal expense insurance for their officers and employees. These local governments must competitively bid these purchases and procure them on the basis of such bids. As an alternative the local governments may self-insure, subject to approval based upon their actuarial soundness by the State Department of Insurance.

Many smaller units of local government have expressed their concerns that such coverage may be neither affordable or available. In late 1999, representatives of small cities in Florida mailed 400 letters to cities with a population of less than 20,000. Twenty-eight cities expressed interest in joining the state health insurance plan with twenty-six of these units passing resolutions of support. That same year, the Small School District Consortium surveyed their membership (population of 75,000 or less) regarding their interest. Some eighty-five percent of their respondents indicated their support for plan participation.

Multi-employer benefit plans are subject to the compliance provisions of the Department of Insurance pursuant to s. 624.437, F.S. In this case enrollment of two or more employers for the purchase and delivery of health insurance coverage would require the issuance of a certificate of authority. Because of existing restrictions on such arrangements, an amendment to the insurance code, or an exemption from its applicability, may be required. A legal memorandum dated February 10, 2000 from the Division of State Group Insurance discussed the issues associated with this expansion. Additionally, in order to effect compliance with the Internal Revenue Code, Title 26 U.S.C., employer sponsored cafeteria plans tax-sheltering premium contributions may not include local government participants. The Internal Revenue Code permits sponsoring employers, such as the State of Florida, to apply for authorization to establish a multi-employer cafeteria plan, in much the same fashion as the multi-employer Florida Retirement System.

III. Effect of Proposed Changes:

Section 1. Section 110.1228, F.S., is created to define the membership components: a district school board or a county with a population of 100,000 or less and a small municipality as one with a population of 12,500 or less.

The respective entities may apply for participation in the state group insurance benefit program with the submission of a $500 application fee and an ordinance or resolution of the governing authority ratifying the application. Prior to application the units of local government must solicit competitive proposals for health insurance and prescription drug plan coverage in the local community and another proposal request for a a pricing of the state plan if offered in the local community. As required conditions for participation, the applicant must agree to enroll for a minimum of three years, pay the Department of Management services a monthly administrative fee initially set at $2.61 per enrollee, and provide a written one-year prior notice of membership termination. A terminated participant may not reapply for admission for the succeeding two years. A failure of a participating local government to make required payments sufficient for full reimbursement of costs authorizes the Department of Management Services to request the Department of Revenue or Department of Banking and Finance to withhold funds distributed to the unit of local government for transfer to the trust fund created for the insurance program. The provisions of the existing insurance code, ss. 624.436-624.446, F.S., do not apply to the state group insurance program or to this section.

The Department of Management Services is given rule-making authority.

Section 2. The committee substitute provides a declaration of important state interest pursuant to s.18 of Art.VII, State Constitution.

Section 3. The committee substitute is effective upon becoming a law but applies prospectively to the insurance plan years beginning January 1, 2003.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Participation is voluntary and contractual. The important state interest declaration was added to the committee substitute in light of the mandatory solicitation of competitive proposals by the units of local government as a prerequisite to application.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

Each unit of local government making application shall pay an initial $500 fee.

B. Private Sector Impact:

Existing health insurers or HMOs that provide coverage to the named small units of local government could experience membership erosion and the associated loss of local provider access in that geographic area. To the extent that the business is of marginal utility or profitability today, the existing provider may decide to exit the community in its entirety. Should the local government terminate its participation in the state insurance program there may be no successor provider in the host community. It is likely that this circumstance will affect one or more of the Medicare and traditional HMOs that have exited many small communities in Florida in the past two years. The consultant report referenced below indicated HMO availability among only 72 percent of responding local government with that number increasing to 99 percent for a PPO arrangement.

As discussed below, the relative shift in expense or increase in coverage will have an additional effect on supplemental insurance carriers. This will be felt in two ways: first, the provision of more generous, state-provided coverage may lessen the need for additional, employee-paid hospital expense or specific illness insurance and its associated agent commissions; and second, the existence of pre-tax (FICA and withholding tax) benefit programs that permits reimbursement for out-of-pocket expense as part of the DMS package of state employee benefits could work against supplemental choice. There can be no assurance that any individual employee will view the alternative offered by this committee substitute with the same perspective. Insurance coverage is highly sensitive to personal economics, ownership, and values.

C. Government Sector Impact:

There are several instances in which the committee substitute may act as an incentive or disincentive to employers and employees. For units of local government within minimal employee coverage the relatively generous provisions of the state PPO plan would prove advantageous to the employee. The public employer would realize an advantage only to the extent that its total premium expense is less than it is currently paying. Each group will have to determine whether the extra benefit is worth the price, in terms of premiums, or cost, in terms of assumed expense.

Public employers have unique cost-sharing arrangements with their plans. Each local government employer will have to examine the trade-off between benefits and costs as they are distributed across their budgets to determine the relative advantages of this committee substitute. Depending upon the scale of the reduced out-of-pocket expenses, on behalf of employees, or the increased premium charge, as it affects employers, there could be wide variations in financial impact. As discussed below, the surveyed local government plans tended to have higher deductibles and larger co-payments, thus making the state plan anywhere from 2 percent to 5 percent more generous.

The Mercer report, referred to below, does not provide enough information to make a determination on which locales would find this option more economically advantageous to the employer or to the employee. In some locales availability may assume greater importance than affordability.

Each unit of local government will incur costs in the proposal solicitation process but there can be no precise estimates made as to their magnitude. Generally, they will involve advertising and public notice and, for units with contract legal counsel, additional billable hours for document review and preparation.

VI. Technical Deficiencies:

None.

VII. Related Issues:

On December 1, 2000, the DMS issued its actuarial study of this proposal as advocated by Senate Bill 414 from the 2000 Legislature. The consulting firm of William M. Mercer, Incorporated made nine findings and recommendations each on the proposal. The report concluded that while the overall inclusion of additional covered lives from participating local government employers would not present adverse health risks, that is, they are neither more or less healthy than current experience, it would add an additional $52 million in total costs. At least 70 percent of local employer participation, with a minimum of 1250-1500 covered lives, would be required to offset an adverse selection consequence.

The Mercer Report recommended that there be a separate accounting of premium contributions and an additional dedicated five-person staff accompanying any implementation of this proposal. Furthermore, exemption from the state insurance code MEWA requirements and the establishment of a monthly employee-assessment of $2.61 would be essential. The report determined that an additional premium increase for local government participants for the 2002 plan year would be as follows:

	PPO	**HMO**
Proposed (Local Only)		
Active-Single	$301.33	$251.30
Active-Family	$535.02	$566.74
Retirees>Age 65	$419.12	$211.37
Current (State Employees)		
Active-Single	$223.82	$223.82
Active-Family	$507.80	$507.80
Retiree>Age 65	$223.82	$507.80

State officers and employees and their spouses receive reduced premium or no-cost coverage under varying circumstances of employment. As retirees and members of the Florida Retirement System they are also eligible for a monthly premium contribution of $5 per year of service, not to exceed $150. This latter benefit would be unavailable to local government members not already a part of that retirement plan.

It is unclear from the text of the bill whether a participating local government will have to alter the cost sharing arrangements of its current practice. There may be labor consequences should the current policy or labor agreement under which it operates specifies a premium sharing agreement different from that produced by this bill. Among many local employers free employee insurance is a standard feature with spousal and family benefits provided at additional employee cost. This arrangement is quite different from practice of the State of Florida in which the standard cost-sharing arrangement has the public employer bearing 75% of the premium cost with the remainder borne by the employee in a pre-tax benefit program. The bill would appear to give participating employers considerable latitude to alter their cost sharing policies as the bill requires only that the gross costs be paid the State of Florida.

VIII. Amendments:

None.