HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 157 State Group Insurance Programs
SPONSOR(S): Sansom; Stargel; Troutman
TIED BILLS: none **IDEN./SIM. BILLS:** SB 426

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) State Administration		Bond	Everhart
2) Local Affairs			
3) Local Government & Veterans' Affairs			
4) Education Appropriations			
5) Appropriations			

SUMMARY ANALYSIS

The state operates the State Group Health Insurance Plan, a self-insured plan offered to state employees as a pre-tax benefit. In 2001, the legislature provided that the governing body of a small county, small municipality, or a district school board in a small county, may join the State Group Insurance Program. To date, no qualifying local government has decided to join the State Group Health Insurance Plan.

This bill would allow any local school board to joint the State Group Health Insurance Program.

Without any change in premiums or benefits, it is estimated that the State Group Health Insurance Program will show a deficit of $936 per plan participant in FY 2003-2004. If local school boards are allowed to join the State Group Health Insurance Program on the same terms, and at the same rates, as a state agency employer; the negative fiscal impact for this bill next year could be $268.2 million. See Fiscal Comments herein.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

1. Reduce government?	Yes[]	No[x]	N/A[]
2. Lower taxes?	Yes[]	No[]	N/A[x]
3. Expand individual freedom?	Yes[]	No[]	N/A[x]
4. Increase personal responsibility?	Yes[]	No[]	N/A[x]
5. Empower families?	Yes[]	No[]	N/A[x]

For any principle that received a “no” above, please explain:

This bill has the potential to increase state responsibilities by shifting a private function (health insurance purchased on the open market) to a state governmental function.

B. EFFECT OF PROPOSED CHANGES:

Background

Section 110.123, F.S., affords 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 with one of six regionally available health maintenance organizations (HMO). The PPO is managed through Blue Cross and Blue Shield of Florida under a contract with the Division of State Group Insurance in the Department of Management Services (DMS). The State of Florida provides a uniform premium contribution for both plan types and for active and retired employees alike.

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

In 2001, s. 110.1228, F.S., was created to allow small municipalities, small counties, and small district school boards, to join the State Group Health Insurance Plan. To join, they must submit a $500 application fee and an ordinance or resolution from the governing authority ratifying the application. Prior to application, the unit of government must have solicited at least two competitive proposals, one for health insurance and prescription drug coverage in the local community and the other for a community pricing of the state coverage plan. The applicant jurisdiction must agree to enroll for a minimum of three years, pay the DMS a monthly administrative fee of $2.61 per enrollee, and provide a written one-year prior notice of membership withdrawal. A terminated participant may not reapply for readmission for two years.

Multi-employer benefit plans are ordinarily subject to the Department of Insurance (Financial Services) compliance review of s. 624.437, F.S. A legal memorandum dated February 10, 2000, from the Division of State Group Insurance discussed the issues associated with the expansion of the state group to non-state entities. Multi-employer benefit plans are authorized under Title 26 United States Code, the Internal Revenue Code, although sponsoring parties are subject to possible disqualification of their tax-exempt status if violations are found.

In late 1999, representatives of small cities in Florida mailed letters to 400 cities with a population less than 20,000. Twenty-eight cities expressed an interest in joining the state health plan with twenty-six of these entities passing separate resolutions of support. That same year the Small School District

Consortium surveyed its membership (population of 75,000 or less) regarding a like interest. Some eighty-five percent of their respondents expressed support for plan participation. To date, however, no currently eligible unit of local government authorized under s. 110.1228, F.S., has applied for participation.

The State Group Health Insurance Program currently has 166,376 participants.[1] Local school boards currently employ 286,513 persons statewide.[2]

Effect of Bill

This bill removes the size limitation on school boards that may participate in the State Group Health Insurance Program. By this bill, any district school board may participate in the program starting January 1, 2004.

C. SECTION DIRECTORY:

Section 1 amends s. 110.1228, F.S., to allow any school board to join the State Group Health Insurance Program.

Section 2 provides an effective date of the bill of July 1, 2003, with participation by any local school board electing to join the State Group Health Insurance Program to commence no earlier than January 1, 2004.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   See Fiscal Comments.

2. Expenditures:

   See Fiscal Comments.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   See Fiscal Comments.

2. Expenditures:

   See Fiscal Comments.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Existing health provider entities or HMOs currently providing insurance benefit services to the applicant units of government could experience a loss of business and potential local provider access in the service area. To the extent that the business itself is of marginal profitability, the existing provider may decide to exit the community in its entirety. In that circumstance the ability of a unit of local government to secure replacement coverage, even at any price, may be limited should the local school board desire to return to the private insurance market.

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[1] Department of Management Services analysis of HB 157, dated February 3, 2003.
[2] As of Fall 2002. From Statistical Brief 2003-15B, by the Florida Department of Education.

As further discussed below, the relative shift in expense or increase in coverage may have an additional effect on carriers offering supplemental insurance products. 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 charges; and second, the existence of federal pre-tax medical reimbursement accounts to shelter the full cost of co-payments and deductibles may also work counter to supplemental plan choice. There can be no assurance that any individual employee will view this structural alternative with the same perspective. Insurance coverage choices are highly sensitive to personal economics, ownership, and values.

D. FISCAL COMMENTS:

The Department of Management Services (DMS) would have the opportunity to structure the program any way it sees fit. The actuarial study for the 2001 legislation proposed that the small counties, small cities, and district school boards be consolidated into a separate risk pool to avoid any impact on the solvency of the State Group Health Insurance Program, and to premiums charged to plan participants. Were the DMS to combine state and local participants into one risk pool, contrary to the recommendation in the actuarial study, it is possible state employees could experience increased premiums over time, although the actuarial study found that the local population as a whole was not riskier (i.e., more unhealthy) than the currently enrolled state employees.

On December 1, 2000, the DMS issued its actuarial study of the original proposal allowing smaller local governments to join the State Group Health Insurance Plan. The consulting firm of William M. Mercer, Inc., made nine findings and recommendations on the proposal. The report concluded that the inclusion of additional covered lives from the participating local government employers would present adverse health risks, and would add an additional $52 million in total costs. At least 70 percent local participation would be required, with a minimum of 1250-1500 covered lives, to avoid an onset of adverse selection bias. The report determined that an additional premium increase for local government participants for the then 2002 plan year to be as follows. Listed below for comparison purposes are the 2003 state employee group insurance rates which themselves are more than 30 percent higher than the initial Mercer estimates.

	PPO	HMO
Proposed (Local Only)		
Active-Single	$ 301.33	$ 251.30
Active-Family	$ 535.02	$ 566.74
Retirees>Age 65	$ 419.12	$ 211.37
State Employees (2002)		
Active-Single	$ 223.82	$ 223.82
Active-Family	$ 507.80	$ 507.80
Retiree>Age 65	$ 223.82	$ 507.80
State Employees (1/1/2003)		
Active-Single	$ 290.82	$ 290.82
Active-Family	$ 659.86	$ 659.86

At the February 25, 2003 State Employee Health Insurance Estimating Conference, the DMS indicated it expected an anticipated deficit in the State Group Health Insurance Plan of $135 million during FY 2003-2004. The deficit is expected to increase to $324 million in FY 2004-2005. Successive premium increases of 16 percent in each year would be required to eliminate that deficit assuming no other plan changes and existing enrollment and utilization patterns. Under that assumption the above numbers for the respective plan years would be adjusted upward to $ 337.35 and $ 391.33 for individual coverage and $ 765.44 and $ 887.91 for family coverage.

The Department of Management Services is unable to determine the cost of this bill without an actuarial study. They note too that the department is outsourcing all human relations functions starting this summer, including management of the State Group Health Insurance Program. This bill may also create agency internal administrative expense, underwriting and actuarial risk, federal tax liability, and human resource vendor impacts that cannot be estimated at this time.[3]

Without any change in premiums or benefits, it is estimated that the State Group Health Insurance Program will show a deficit of $936 per plan participant in FY 2003-2004. If local school boards are allowed to join the State Group Health Insurance Program on the same terms, and at the same rates, as a state agency employer; the negative fiscal impact for this bill next year could be $268.2 million.[4]

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision: Not applicable.

2. Other: None.

B. RULE-MAKING AUTHORITY: None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

See fiscal comments herein.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

Not applicable.

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[3] Department of Management Services analysis of HB 157, dated February 3, 2003.
[4] $936 x 286,513