

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 1881 (PCB SA 03-21) State Group Health Insurance Plan
SPONSOR(S): State Administration; Mack
TIED BILLS: none **IDEN./SIM. BILLS:** CS/SB 1006

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>State Administration</u>	<u>4 Y, 1 N</u>	<u>Bond</u>	<u>Everhart</u>
2) _____	_____	_____	_____
3) _____	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

SUMMARY ANALYSIS

The state operates the state group health insurance plan as a pre-tax benefit for current and retired employees. This bill implements statutory changes to allow the state group plan to offer additional plan choices, provide for wellness benefits, and eliminate the provision requiring that qualifying HMO's must be included in the state group health insurance plan. This bill makes statutory changes to the state group health insurance plan that would allow additional funding options in the General Appropriations Act.

This bill, if implemented through changes to the state group health insurance plan expected to be in the General Appropriations Act, appears to have the effect of reducing the expected \$158.5 million dollar deficit in the state group health insurance plan for FY 2003-2004 by \$70 million. If other expected fiscal changes are made, there remains a \$34 million shortfall in the state group health insurance plan for FY 2003-2004 even if this bill is adopted. This bill does not appear to have a fiscal impact on local government.

This document does not reflect the intent or official position of the bill sponsor or House of Representatives.

STORAGE NAME: h1881.sa.doc
DATE: April 16, 2003

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

- | | | | |
|--------------------------------------|-----------------------------------------|-----------------------------|-----------------------------------------|
| 1. Reduce government? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. Lower taxes? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. Expand individual freedom? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 5. Empower families? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

For any principle that received a "no" above, please explain: Not applicable.

B. EFFECT OF PROPOSED CHANGES:

Background

The state operates the state group health insurance plan as a pre-tax benefit for current and retired employees. Chapter 110, F.S., provides the statutory authority for the implementation of health insurance and prescription drug coverage for officers, employees and their dependents of State of Florida agencies. Employees and retirees may choose between a self-insured indemnity plan, called a preferred provider organization (PPO), and one of several approved health maintenance organizations. Sections 110.123 and 110.12315, F.S., describe the coverage available and specify the minimum complement of benefits each approved provider must offer.

Chapter 216, F.S., contains a procedure for the periodic estimation of revenues and expenses for state employee health insurance. The health insurance estimating conference annually reviews the income and claims experience of the self-insurance fund in an attempt to forecast the utilization demands and the legislative funding requirements for the succeeding coverage period. The plan is administered by the Division of State Group Insurance in the Department of Management Services. The PPO Plan provides universal access to employees in all Florida counties. Provider contracts with health maintenance organizations are negotiated separately and are available in only thirty-eight counties. Over the past few years, several legislative and consultant reports¹ have documented the precarious state of the finances of the indemnity plan. Among the common findings reported among all of the studies have been:

- A benefit structure more generous than that provided peer government or large private employers;
- Co-payment and deductible provisions well below market levels;
- Significant price subsidies for retirees, dually employed spouses, and families with many children;
- Employer-pay-all provisions for exempt and managerial personnel;
- The depletion of indemnity plan reserves as a consequence of a failed management experience with a prior third-party administrator;
- Cost sharing arrangements based upon a percentage of the subsidized price and not the full cost of the product; and

¹ Buck Consultants, *Actuarial Report on Plan and Funding Design Alternatives*, January 29, 2002; Florida Senate, *Improved Choices for and Long-Term Financial Security of State Employee Health Insurance, Interim Project Report 2003-129*, January 2003; Office of Program Policy Analysis and Government Accountability, *Special Review: Options to Redesign State Employee Health Insurance Benefits Presented*, Report No. 01-021, March 2001; Mercer Human Resource Consulting, *State of Florida Employees' Group Health Insurance Program, Report on Program and Funding Design Alternatives*, March 2003.

- The relative absence of wellness or preventive care measures.

These plan attributes co-exist in an employment marketplace also characterized by the following significant changes:

- A leveling in hiring by state government agencies resulting in the attrition of profit centers of new, younger hires who do not make claims;
- A progressive increase in retiree-claimants due to the retirement of the “baby-boomer” generation;
- The greater use of contract vendors in lieu of direct government provision of service delivery;
- The continued government emphasis of benefit compensation as opposed to higher emphasis in the private sector on salary compensation; and
- Annual medical cost inflation several times greater than wage growth.

The cumulative effect of these plan and societal changes has been to limit revenue growth and accelerate the claims potential for employee benefits. State employee health insurance provides an annual open enrollment period in which individuals can annually change coverage and, to some, extent, engage in adverse selection, or the expansion of coverage choices at greater employer but lesser employee exposure.

The principal employee workplace benefits are contained in ch. 110, F.S. (insurance), and ch. 121, F.S. (retirement). Both chapters contain descriptive and prescriptive provisions: they describe the nature of the benefits and prescribe the precise method of funding. These provisions are then converted into dollar amounts through the estimating conference process and, then, ultimately into payroll amounts that are included in the agency legislative budget request. Section 8 of the General Appropriations Act is the location in which salary and benefit provisions are funded. The FY 2003-2004 Governor’s Recommended Budget did not contain any provisions for funding of the consensus deficit, noted below.

The fiscal outlook for the state group health insurance plan can only be described as bleak. For FY 2002-2003, the plan anticipates an operating loss of \$41.0 million and an ending cash balance of \$24.5 million. Under the current structure, the plan anticipates FY 2003-2004 revenues of \$991.1 million and expenses of \$1,149.6 million, creating an operating loss of \$158.5 million. The cash shortfall is expected to commence sometime in July 2003. To maintain solvency in the plan, without changes in benefits or structure, would require a 16% premium increase commencing July 1, 2003. Without plan change or premium increases, the expected operating loss for FY 2004-2005 is \$324.1 million.

Effect of Bill

This bill makes statutory changes that would allow additional funding options regarding the state group health insurance plan. Specifically, the changes would allow the plan to offer additional plan choices and to provide for wellness benefits. Changes would also eliminate the provision requiring that qualifying HMO’s must be included in the state group health insurance plan.

This bill also provides for maintaining state university system employees in all of the state pre-tax benefit programs, notwithstanding the recent changes to university governance.

C. SECTION DIRECTORY:

Section 1 amends s. 110.123, F.S., regarding the state group insurance program.

Section 2 amends s. 110.161, F.S., and Section 3 amends 1001.74, F.S., to specify that state university system employees can retain their participation in state employee pretax benefit programs notwithstanding the reorganization of the university system.

Section 4 provides an effective date of July 1, 2003.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None. By itself, this bill has no fiscal impact. See fiscal comments.

2. Expenditures:

None. By itself, this bill has no fiscal impact. See fiscal comments.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues: None.

2. Expenditures: None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR: None.

D. FISCAL COMMENTS:

This bill only makes statutory changes to the state group health insurance plan that would allow additional flexibility in structuring that plan in the General Appropriations Act. The Department of Management Services represents that the statutory changes made by this bill, together with related suggestions as to plan changes, appear to have the effect of reducing the expected \$158.5 million dollar deficit in the state group health insurance plan for FY 2003-2004 by \$70 million. If other expected fiscal changes are made, there remains a \$34 million shortfall in the state group health insurance plan for FY 2003-2004 even if this bill is adopted.

This bill implements plan changes suggested by the March 2003 Report on Program Funding Design Alternatives prepared by Mercer Human Resource Consulting.

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: None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

None.