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: SB 426

SPONSOR: Senator Clary

SUBJECT: State Group Insurance Programs

DATE: February 26, 2003 REVISED: ____ ____ ____ ____

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

I. Summary:

The bill permits all district school boards to enroll in the employee group health insurance and prescription drug programs available to State of Florida officers and employees.

This bill amends section 110.1228, Florida Statutes.

II. Present Situation:

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) 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. The incidence of premium contributions varies with retirees paying the full costs less a health insurance premium subsidy authorized in s. 112.363, F.S. Participants in the Deferred Retirement Option Program authorized under s. 121.091(13), F.S., receive the active employee premium rate. Jointly employed spouses receive premium-free coverage and some 20,000 officers and employees in civil service-exempt positions also receive employer-paid coverage. There are an estimated 109,000 average enrollees in the PPO program for FY 2003 with an additional 57,000 selecting HMO coverage. Florida law precludes insurance coverage for any employee paid from casual labor, or Other Personal Services appropriations categories.

The 2001 Legislature expanded the membership provisions of the state group insurance statutes by passage of ch. 2001-285, Laws of Florida. The creation of s. 110.1228, F.S., permitted small municipalities, counties and district school boards to voluntarily enroll in the state group insurance plan following submission of a $500 application fee and an ordinance or resolution from the governing authority ratifying the application. Prior to application, the unit of government must solicit 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.

A failure of a participating unit of local government to make the required premium contributions authorizes the DMS to request the Department of Revenue or the Department of Banking and Finance (Financial Services) to withhold the distribution of intergovernmental non-debt service funds.

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 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.

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.

To date, no currently eligible unit of local government authorized under s. 110.1228, F.S., has applied for participation.

III. Effect of Proposed Changes:

Section 1. Section 110.1228, F.S., is amended to extend the authorization for inclusion in the state employee group health insurance plan to all district school boards rather than just to those that qualify based upon small population or eligibility for a sparsity supplement in the Florida Educational Finance Program.

Section 2. The act is effective July 1, 2003, and applies to enrollment participation effective January 1, 2004.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

Participation is voluntary and contractual with the participating unit of local government.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

Each participating unit of government must pay an initial $500 application fee.

B. Private Sector Impact:

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 it desire to serve the state group plan with notice of its termination. The consultant report referenced below indicated that HMO availability was less than that for PPOs at the time of its survey. As of 2003 the State of Florida approved HMOs serve 38 of Florida's 67 counties.

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.

C. Government Sector Impact:

There are several instances in which this proposal may act as an incentive or disincentive to employers and employees. For local government units with minimal employee insurance coverage the relatively generous provisions of the state plans would prove attractive to the employee. The public employer would realize an advantage only to the extent that its total premium expense, and associated indirect administrative overhead, is less than its current expense. Each group will have to determine whether the benefit is worth the price, in terms of total premiums and the incidence of payment, or cost, in terms of assumed expense.

The Mercer report did not provide information upon which to make a judgment as to which choice would be more advantageous to employer or employee. In some locales availability may assume a greater value than affordability while in others the reverse would be the case.

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

There may be additional financial effects whose magnitude cannot be estimated at present. This item is discussed, below, in further detail.

VI. Technical Deficiencies:

None.

VII. Related Issues:

On December 1, 2000, the DMS issued its actuarial study of the original proposal as advanced by Senate Bill 414 from the 2000 Legislature. The consulting firm of William M. Mercer, Incorporated 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 plan deficit of $135 million during FY 2004. The deficit was expected to increase to $324 million in FY 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.

State officers, some civil service exempt personnel and their employed spouses receive health and life insurance coverage without premium expense. That cost is fully borne by the employer as a workplace benefit. Retirees from the Florida Retirement System also are eligible to receive a monthly insurance premium subsidy of $5 per month per year of service, not to exceed $150. That premium subsidy is funded through a separate payroll assessment made of participating pension plan employers. A typical retiree receives a monthly premium subsidy of about $100. The average initial monthly pension benefit in FY 2001 for a retiree under that plan was $907 before taxes.

In Senate interim report 2003-129 a number of factors were cited for the progressive deterioration of the financial stability of the state employees' health insurance program. Chief among them were a flattening of new hiring resulting in a loss of otherwise healthy new participants; overall health care cost increases; multiple premium subsidies that concentrated on price stability but ignored cost increases; and an aging workforce with increasing claims frequency and intensity.

In its analysis of the impact of this bill dated February 11, 2003, the Department of Management services "strongly recommended a comprehensive feasibility study be done" prior to implementation with a report submitted to the Legislature by January 1, 2004. The impact assessment also noted possible agency internal administrative expense, underwriting and actuarial risk, federal tax liability, and human resource vendor impacts although it could give no precise estimate of their magnitude.

VIII. Amendments:

None.