

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 781 Retiree Health Insurance Subsidy
SPONSOR(S): Allen and others
TIED BILLS: **IDEN./SIM. BILLS:** SB 2266

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Governmental Operations Committee</u>	<u>7 Y, 0 N</u>	<u>Brazzell</u>	<u>Everhart</u>
2) <u>Local Government Council</u>	<u></u>	<u></u>	<u></u>
3) <u>Fiscal Council</u>	<u></u>	<u></u>	<u></u>
4) <u>State Administration Council</u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

HB 781 increases from \$5 to \$7 per month for each year of service, beginning on January 1, 2006, the health insurance subsidy received by eligible retirees under the Florida Retirement System's defined benefit and defined contribution plans. It also provides for an annual cost-of-living increase in this benefit of 3% beginning January 1, 2007. To fund the increased benefit, the bill increases the contribution paid by employers by 0.44% to 1.56% of gross compensation per pay period beginning January 1, 2006.

HB 781 is estimated to result in increased expenditures of \$11.9 million in FY 2005-06 and \$24.6 million in FY 2006-07 for state government and \$42.2 million in FY 2005-06 and \$87.8 million in FY 2006-07 for local governments that participate in the Florida Retirement System (FRS).

The bill appears to meet the criteria for a mandate under the provisions of Article VII, Section 18(a) of the Florida Constitution, but also appears to meet the requirements for effectively binding affected counties and municipalities by containing the required statement regarding the bill's fulfilling an important state interest and applying to all persons similarly situated. See Comments section below.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Empower families: This bill provides additional funds to retirees and certain spouses and beneficiaries to enable them to acquire health insurance.

B. EFFECT OF PROPOSED CHANGES:

Current situation

Pursuant to s. 112.363(1), F.S., the purpose of the retiree health insurance subsidy program is to assist retired members of state-administered retirement systems in paying the costs of health insurance. Currently, the law provides that eligible retirees and beneficiaries¹ receive a benefit of \$5 per year of creditable service, with a minimum benefit of \$30 and a maximum benefit of \$150;² this amount is changed only by Legislative action. The Legislature last increased this benefit in 1999. Contributions from Florida Retirement System (FRS) employers of 1.11% for current employees' gross compensation per pay period currently fund the benefit. If this funding is insufficient to pay full benefits to all participants, s. 112.363(5) provides that "the benefits may be reduced or canceled at any time."

The monthly amount paid by retirees for health insurance under the State Group Health Insurance Program varies depending on the coverage selected, but ranges from about \$197 for a Medicare-eligible retiree electing single coverage to about \$841 for a non-Medicare eligible retiree electing family coverage.³ However, retirees receiving the health insurance subsidy are not required to purchase health insurance through the State Group Health Insurance Program. As of January 2005, of the approximately 60,000 state retirees, roughly 30,000 have their health insurance premium deducted from their retirement benefit.

The FRS covers not only state agencies, but also counties, including school boards; special districts; and those municipalities that have chosen to participate. There are a few other state-administered retirement systems that are no longer covering new members but have retired members receiving this benefit.

Proposed changes

HB 781 increases from \$5 to \$7 per month for each year of service beginning on January 1, 2006 the health insurance subsidy received by eligible retirees under the Florida Retirement System's defined benefit and defined contribution plans. The bill changes the minimum amount received from \$30 to \$42 (a \$12 monthly increase) and the maximum from \$150 to \$210 (a \$60 monthly increase); however, the bill grandfathers in beneficiaries whose benefit would otherwise be reduced. The bill provides for an

¹ To be eligible, a retiree must have retired under a state-administered retirement system, satisfied the vesting requirements for his or her class under the Florida Retirement System defined benefit program (regardless of whether the retiree retired under the defined contribution or defined contribution program) or retired due to disability, and have verified health insurance coverage. The survivors and beneficiaries of such individuals entitled to receive retirement benefits are also eligible; if there are multiple survivors and beneficiaries, the health insurance subsidy is split among them. Participants in the Senior Management Service Optional Annuity Program and the State University System Optional Retirement Program are not eligible for the health insurance subsidy; neither are recipients of benefits under s. 121.40, F.S., for cooperative extension personnel; under s. 218.07(16)(a), for certain survivors of Teachers' Retirement System members; under s. 250.22, for Florida National Guard officers and enlistees; under 110.1232, for persons who retired before January 1, 1976 (they receive full health coverage); or under any other special pension or relief act. See s. 112.363(2), F.S.

² Section 112.363(3)(e)2, F.S.

³ Information provided by the Division of State Group Insurance, Department of Management Services.

annual cost-of-living increase of 3% beginning January 1, 2007. To fund the increased benefit, the bill increases the contribution paid by employers by 0.45% to 1.56% of gross compensation per pay period beginning January 1, 2006.

C. SECTION DIRECTORY:

Section 1 amends s. 112.363, F.S., to provide for an increase in the Health Insurance Subsidy under certain conditions.

Section 2 provides a Legislative finding that this act fulfills an important state interest.

Section 3 provides an effective date of July 1, 2005.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

This bill does not create, modify, or eliminate a state revenue source.

2. Expenditures:

Under current law, projections indicate that the state will expend \$58.4 million in FY 2005-06 and \$60.8 million in FY 2006-07 for the health insurance subsidy. Under the bill's provisions, projections indicate that the state would expend \$70.3 million in FY 2005-06 and \$85.4 million in FY 2006-2007. This results in increased expenditures under the bill of \$11.9 million in FY 2005-06 and \$24.6 million in FY 2006-07.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

This bill does not create, modify, or eliminate a local revenue source.

2. Expenditures:

Under current law, projections indicate that local governments that participate in the FRS will expend \$208.3 million in FY 2005-06 and \$216.6 million in FY 2006-07 for the health insurance subsidy. Under the bill's provisions, projections indicate that these local governments would expend \$250.5 million in FY 2005-06 and \$304.4 million in FY 2006-2007. This results in projected increased expenditures under the bill for local governments that participate in the FRS of \$42.2 million in FY 2005-06 and \$87.8 million in FY 2006-07.⁴

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill will increase the state subsidy to help certain retirees covered under the Florida Retirement System pay for health insurance.

D. FISCAL COMMENTS:

The bill provides for a 3% cost-of-living increase in the benefit annually. However, if the gross compensation paid by Florida Retirement System employers does not increase enough to fund the benefit sufficiently based on a 1.56% contribution, either the Legislature will have to amend the law to increase the contribution rate or the benefits will have to decrease or cease altogether.

⁴ Information provided by the Division of Retirement, Department of Management Services.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill appears to meet the criteria for a mandate under the provisions of Article VII, Section 18(a) of the Florida Constitution. The bill results in an increase in expenditures by those local governments which are compulsory members of the Florida Retirement System by a projected \$42.2 million in FY 2005-06 and \$87.8 million in FY 2006-07. However, the bill appears to meet the requirements for effectively binding affected counties and municipalities by containing the required statement regarding the bill's fulfilling an important state interest and applying to all persons similarly situated.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

In recent years, adjustments to health insurance contribution rates have taken effect on July 1, when adjustments to other contributions rates are typically made. This reduces the administrative burden on state and local governments. However, an earlier effective date would increase the fiscal impact of this bill.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

None.