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) Governmental Operations Committee	7 Y, 0 N	Brazzell	Everhart
2) Local Government Council		Nelson	Hamby
3) Fiscal Council			
4) State Administration Council			
5)			

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 three percent beginning January 1, 2007. To fund the increased benefit, the bill increases the contribution paid by employers by 0.44 percent to 1.56 percent of gross compensation per pay period.

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.

The bill appears to meet the criteria for a mandate under the provisions of s. 18 (a), art. VII, of the State Constitution, but also appears to meet the requirements for effectively binding affected counties and municipalities by containing the required statement that the bill fulfills an important state interest and applies to all persons similarly situated. See, Comments.

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 purchase 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 beneficiaries[1] receive a benefit of $5 per year of creditable service, with a minimum benefit of $30 and a maximum benefit of $150.[2] The Legislature last increased this benefit in 1999. Contributions from Florida Retirement System (FRS) employers of 1.11 percent 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), F.S., 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 annual cost-of-living increase of three percent beginning January 1, 2007. To fund the increased

---

[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 also are 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), F.S., for certain survivors of Teachers' Retirement System members; under s. 250.22,F.S., for Florida National Guard officers and enlistees; under 110.1232, F.S., 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.

benefit, the bill increases the contribution paid by employers by 0.45 percent to 1.56 percent 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 three percent 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 percent 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 s. 18(a), art. VII, of the State 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:

Drafting Issues

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

Other Comments

The Division of Retirement has provided the following observations:

The Health Insurance Subsidy (HIS) is not actuarially prefunded, but funded on a pay-as-you-go basis. The contributions that are paid into the Retiree Health Insurance Trust Fund result in a few months' reserve in benefits. Based on a projection chart prepared containing current assumptions (such as the predicted number of HIS benefit recipients, and trust fund earnings), and using the $2 per month HIS benefit increase and 1.56 percent employer contribution rate proposed by the bill, the increase in the payout of benefits in the first six months of the bill's effective date (January 1, 2006 through December 31, 2006) would be approximately $56.7 million. During this same six-month period, FRS employers would pay an additional $54.1 million in contributions to fund the higher benefit. The second year's increase in benefits payout would be even more because the payment increase will cover a 12-month period and the bill provides for the three percent COLA to be included effective January 1, 2007.

These changes would result in an immediate decrease in the benefit reserve to only four months. According to our projection methods, the benefit reserve would be less than one month by October 2009.

Items for Consideration:

- Page 2, lines 32-35 of HB 781 contains this phrase, "The health insurance subsidy amount payable to any person receiving the retiree health insurance subsidy payment on January 1, 2005, shall not be reduced solely by operation of this subparagraph." This phrase should be amended to contain the date of January 1, 2006, to correspond to the bill's effective date for the first benefit increase proposed by this bill.
- Any employer contribution rate changes should be effective at the beginning of a fiscal year (for example: July 1, 2005) when all other FRS rate changes take effect to allow employers to plan

for these expenses. As currently stated, the contribution rate increase proposed in the bill would become effective January 1, 2006.

- If the language of the bill is amended so that the contribution rate increase for the HIS is effective July 1, 2005, but the actual increase in the subsidy payments remains effective January 1, 2006, the contributions received during the months prior to the increase would improve the reserve beyond the four-month period currently projected in the Retiree Health Insurance Trust Fund with a 1.56 percent contribution rate.
- Because the HIS Trust Fund is funded on a pay-as-you-go basis, the funding of this program would have to be reviewed annually because of the automatic annual three percent COLA provided for in this bill, and could result in more regular increases in the HIS contribution rate. A more fiscally conservative approach than the automatic annual three percent COLA this bill proposes would be to consider any future increases individually based on the HIS Trust Fund's performance, the financial climate of the time the increase is being considered, the ability of FRS employers to bear an increase in HIS contribution rates, etc.
- The Governmental Accounting Standards Board (GASB) has issued an exposure draft on post-employment benefits that will require the state to begin disclosing the long-term liabilities of the HIS program by fiscal year 2007. While the HIS program is funded on a pay-as-you-go basis and, by law, if insufficient funding for the current benefit level is available benefits may be reduced or eliminated, it is covered by this GASB requirement. Any increase in HIS benefits will have a substantial impact on the disclosed long-term liabilities of this program.
- The projection module used to estimate the reserve life of the HIS Trust Fund is based upon recent retirement trends and retirees applying to receive the HIS benefit. If state or local governments offer incentives to encourage members to retire sooner and in greater numbers than anticipated, the balance in the HIS Trust Fund would deplete sooner requiring a rate increase sooner or a reduction in benefits to match available funding.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

None.