

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.)

Prepared By: Banking and Insurance Committee

BILL: SB 822

SPONSOR: Senator Crist

SUBJECT: State Group Insurance Plan

DATE: March 14, 2005

REVISED: 3/16/05

| | ANALYST | STAFF DIRECTOR | REFERENCE | ACTION |
|----|---------|----------------|-----------|------------------|
| 1. | Wilson | Wilson | GO | Fav/2 amendments |
| 2. | Knudson | Deffenbaugh | BI | Fav |
| 3. | | | WM | |
| 4. | | | | |
| 5. | | | | |
| 6. | | | | |

Please see last section for Summary of Amendments

- Technical amendments were recommended
- Amendments were recommended
- Significant amendments were recommended

I. Summary:

The bill recognizes TRICARE, the health and medical health insurance program for dependent and retiree coverage of retired military personnel, as an approved component of the state employee group health insurance program. The recognition of TRICARE is expected to result in \$1.6 million in net revenue to the State Employees Group Health Self-Insurance Trust Fund for fiscal year 2005-06 and \$2.7 million in net revenue for fiscal year 2006-07.

This bill amends section 110.123 of the Florida Statutes.

II. Present Situation:

State Employee Health Care

The State of Florida sponsors an employer-paid retirement system which permits state employees to select health insurance, a deferred compensation plan, and one of three pension plans. Chapter 110, F.S., provides the statutory authority for the implementation of health insurance and prescription drug coverage for state employees, officers and their dependents. Employees and retirees may choose between a self-insured indemnity plan called a preferred provider organization (PPO) or an approved health management organization (HMO). Sections 110.123

and 110.12315, F.S., describe the coverage available and specify the minimum complement of benefits each approved provider must offer.

A state employee may select health insurance coverage from a number of approved provider organizations. The state-sponsored preferred provider organization provides universal access in all of Florida's 67 counties. As an alternative, the employee may choose to enroll in one of several managed care plans offered by participating HMOs pre-approved by the Division of State Group Insurance in the Department of Management Services. In counties not served by an HMO, this option is unavailable to state employees. The 2004 General Appropriations Act authorized an additional health insurance option.¹ State employees eligible for health insurance coverage due to prior United States Military Service may enroll with a TRICARE supplemental provider in lieu of other coverage.

TRICARE

TRICARE is the health insurance program for eligible active and retired military personnel and their covered dependents established by the Department of Defense and authorized in Title 10 United States Code, Section 1097. It consists of a managed care plan (TRICARE Prime), a preferred provider plan (TRICARE Extra), and an indemnity plan (TRICARE Standard). The latter was formerly known as CHAMPUS.² Active duty personnel are required to join TRICARE Prime, and their families may also join. The program features no enrollment fees, deductible or co-pays. Most treatment is done at military facilities and is augmented by in-network providers. TRICARE Standard is a fee for service arrangement whereby the patient may see any TRICARE authorized provider but must also pay a yearly deductible and co-pays. Military retirees, retiree family members, and survivors under 65 years of age are all eligible under TRICARE Standard.

Persons who are eligible for TRICARE Standard or Prime are often eligible to purchase TRICARE supplemental coverage. TRICARE supplemental coverage reimburses employees for prescription drug co-pays, the outpatient deductible amount for outpatient hospital services, reimburses the daily subsistence fee for inpatient military hospital care, reimburses the cost share for inpatient civilian hospital care, and provides additional mental health treatment coverage. Additionally, there is no pre-existing condition limitation under the TRICARE supplemental plan.

The 2004 General Appropriations Act contains an authorization for the DMS to contract with a TRICARE vendor to offer TRICARE supplemental coverage to eligible state employees in lieu of a state HMO or PPO plan. Because the General Appropriations Act is a self-repealing act of the Legislature, the authorization for TRICARE contained in the chapter law will expire on July 1, 2005. Thus, TRICARE will cease to be an option for state employees who are retired military unless a similar provision is enacted in the subsequent General Appropriations Act or codified in the Florida Statutes.

Through January 2005, the Department of Management Services reported 87 enrollees selecting individual coverage at \$60 a month and 454 enrollees were selecting family coverage (one or

¹ Section 8, Chapter 2004-268, Laws of Florida.

² Civilian Health and Medical Program of the Uniformed Services.

more) at \$160 month. When an employee selects TRICARE supplemental coverage, he or she realizes a large personal savings. The employee is automatically enrolled in TRICARE Standard as retired military free of charge, and TRICARE supplemental coverage is paid for by the state employer in lieu of a state HMO or PPO plan. This results in substantial premium savings for the state employee, as well as additional revenue for the State Employees Group Health Self-Insurance Trust Fund. (See Economic Impact and Fiscal Note of analysis for details).

Supplemental Insurance Coverage

Supplemental insurance is designed to provide coverage for certain treatments that are not included in a health insurance policy, or to provide additional benefits to those already offered in a health insurance policy. The State currently offers active employees the opportunity to purchase from private insurers various supplemental insurance plans and to have the premium payments for such plans to be deducted from the employee's pay on a pre-tax basis. Unlike the State sponsored PPO or HMO plans, the State does not contribute to any portion of the premium for supplemental insurance. Some of the various supplemental insurance products available to State employees in Florida include vision insurance, dental insurance, supplemental hospitalization insurance, cancer and cancer/intensive care insurance, and accident and accident disability insurance.

The Department of Management Services has authority to establish a comprehensive package of insurance benefits that may include supplemental insurance products. The DMS has authority to issue a request for proposal or invitation to negotiate to various health insurance providers interested in participating in the state group insurance plan, including supplemental insurers. After it receives all proposals back from the private insurers, the DMS may enter into contract negotiations with insurance providers that have submitted bids or negotiate a specially designed benefit package. Certain supplemental insurance providers who provided supplemental coverage³ as of May 30, 1991 may be included by the DMS in the supplemental insurance benefit plan that it establishes without going through the request for proposal process of submitting a bid and negotiating a contract or benefit package.

III. Effect of Proposed Changes:

Section 1. The bill amends s. 110.123, F.S., to specify that TRICARE is an approved product for inclusion in the state employee group health insurance program.

Section 2. The bill takes effect upon becoming law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

³ See s. 110.123(3)(h)8., F.S. The supplemental coverage must qualify for pretax benefit treatment pursuant to s. 125 of the Internal Revenue Code of 1986, and 5,500 or more state employees must currently be enrolled in the supplemental coverage program for the coverage to be included in the supplemental insurance benefit plan without going through the bidding and negotiation processes.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

For those state health plan enrollees who pay premiums, monthly state health insurance premiums for the 2005 plan (calendar) year are \$48.68 for single coverage and \$175.14 for family coverage. However, employees do not have to pay this premium when electing TRICARE supplemental coverage. There is a clear financial advantage for state employees to select TRICARE supplemental since such employees would save \$584.16 per year on single coverage and \$2101.68 per year on family coverage.

State employees who are exempt from paying state health insurance premiums would have an incentive to select TRICARE supplemental because of the coverage it affords. In terms of benefits there is a distinct advantage to the TRICARE supplemental for the employee. TRICARE supplemental has unlimited lifetime benefit maximums and no restrictions on pre-existing conditions.

C. Government Sector Impact:

The State Employees Group Health Self-Insurance Trust Fund estimates that a surplus of payments from state employers whose employees select TRICARE supplemental coverage will result in \$1.6 million in net revenue to the trust fund for fiscal year 2005-06 and \$2.7 million in net revenue for fiscal year 2006-07. The surplus occurs because TRICARE supplemental coverage costs \$60 per employee or \$160 for an employee electing family coverage. When a state employer (i.e. an agency) pays for its employee's health plan (HMO or PPO), it is required to pay \$322.44 per month for individual coverage and \$666.84 per month for family coverage. This amount is paid into the State Employees Group Health Self-Insurance Trust Fund regardless of the fact that TRICARE supplemental coverage costs far less. Because the DMS is able to use TRICARE supplemental coverage in lieu of a state HMO or PPO plan, the State Employee Group Health Self-Insurance Trust Fund is able to keep \$262.44 each month per state employee who has single TRICARE supplemental coverage or \$506.84 each month per state employee who has family TRICARE supplemental coverage.

VI. Technical Deficiencies:

The bill uses the term TRICARE but does not further define it. There are eleven other corporations and partnerships registered with the Department of State, Division of Corporations that use a variation of this term, many of which are in the health care business. An amendment specifically cross-referencing the provisions of the United States Code authorizing the program, (barcode 072072) was voted upon favorably by the Governmental Oversight and Productivity Committee.

VII. Related Issues:

The TRICARE membership has an older age profile such that persons choosing this option make a positive selection bias to the state group plans. This actuarial experience will take some time to calculate, but it in principle, reduces the cost pressure on the state plans as its residual membership profile reduces the natural increase in claims frequency and intensity that accompany the aging process.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

VIII. Summary of Amendments:

Barcode 072072 by Governmental Oversight and Productivity:

Provides a reference to the United States Code that authorizes the TRICARE program in federal law.

Barcode 041606 by Governmental Oversight and Productivity:

Provides that the Department of Management Services must include vendors currently providing service in the supplemental insurance benefit plan established by the department, regardless of the fact the vendor has not participated in a request for proposal, submitted bids, negotiated a contract, or negotiated a specially designed benefit package. The exemption from the bidding process is only available to insurers who offered or provided supplemental coverage as of May 30, 1991, when such coverage is eligible for pretax benefit treatment and 5,500 or more State employees currently are enrolled for coverage. Currently, the DMS has discretion regarding whether to include a supplemental insurer who meets these criteria.

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