

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 105 CS Retiree Health Insurance Subsidy
SPONSOR(S): Allen and others
TIED BILLS: **IDEN./SIM. BILLS:** SB 442

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Governmental Operations Committee</u>	<u>6 Y, 0 N, w/CS</u>	<u>Brazzell/Mitchell</u>	<u>Williamson</u>
2) <u>Fiscal Council</u>	<u></u>	<u></u>	<u></u>
3) <u>State Administration Council</u>	<u></u>	<u></u>	<u></u>
4) <u></u>	<u></u>	<u></u>	<u></u>
5) <u></u>	<u></u>	<u></u>	<u></u>

SUMMARY ANALYSIS

HB 105 increases the health insurance subsidy received by eligible retirees under the Florida Retirement System's defined benefit and contribution plans from \$5 per month for each year of creditable service to \$6 per month for such service, effective January 1, 2007, and from \$6 to \$7 per month, effective January 1, 2008. To fund the benefit, the bill increases the contribution paid by employers from 1.11 percent of gross compensation per pay period to 1.75 percent, effective January 1, 2007.

The bill is expected to result in increased expenditures for state government of \$17.5 million for the six impacted months of FY 2006-2007, \$36.4 million in FY 2007-2008, and \$37.9 million in FY 2008-2009. The bill is expected to result in expenditures for local governments that participate in the Florida Retirement System of \$62.4 million for the six impacted months of FY 2006-2007, \$129.9 million in FY 2007-2008, and \$135.1 million in FY 2008-2009. The increase in the contribution paid by employers appears to be sufficient to cover these expenses and a six month reserve.

HB 105 appears to meet the criteria for a mandate under the provisions of section 18 (a), article 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.

The bill does not appear to create, modify, or eliminate rulemaking authority.

The bill takes effect upon becoming a law.

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:

Present Situation

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.¹ Currently, the law provides that eligible retirees and beneficiaries receive a monthly benefit of \$5 per year of creditable service, with a minimum benefit of \$30 and a maximum benefit of \$150. The Legislature last increased this benefit in 1999. Contributions from Florida Retirement System 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, section 112.363(5), Florida Statutes, 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 ranged from about \$197 for a Medicare-eligible retiree electing single coverage to about \$841 for a non-Medicare eligible retiree electing family coverage in 2005.² 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 Florida Retirement System 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 105 increases the health insurance subsidy received by eligible retirees under the Florida Retirement System's defined benefit and contribution plans from \$5 per month for each year of creditable service to \$6 per month for such service, effective January 1, 2007, and from \$6 to \$7 per month, effective January 1, 2008. The bill changes the minimum amount received from \$30 to \$36 (a \$6 monthly increase) and the maximum from \$150 to \$180 (a \$30 monthly increase), effective January 1, 2007, and further increases the minimum and maximum allowable payments to \$42 and \$210, respectively, on January 1, 2008; however, the bill grandfathers in beneficiaries whose benefit would otherwise be reduced.

To fund the benefit, the bill increases the contribution paid by employers from 1.11 percent of gross compensation per pay period to 1.75 percent, effective January 1, 2007.

¹ Fla. Stat. § 112.363(1) (2005)

² Div. of State Group Ins., Dep't of Mgmt. Serv. (2005).

C. SECTION DIRECTORY:

- Section 1: Amends section 112.363, Florida Statutes, to provide for increases in the health insurance subsidy.
- Section 2: Sets forth a legislative finding that this act fulfills an important state interest.
- Section 3: Provides an effective date of upon becoming law.

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. Rather, health insurance subsidy benefits are funded by employer contribution rates for employees of state government; this rate is increased to 1.75 percent of active gross member compensation for each pay period, effective January 1, 2007, and is expected to be sufficient to cover expenditures and fund the preferred six-month reserve.³

2. Expenditures:

The Department of Management Services estimates that the bill will result in increased expenditures of \$17.5 million in FY 2006-2007, \$36.4 million in FY 2007-2008, and \$37.9 million in FY 2008-2009 for state government.⁴

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

This bill does not create, modify or eliminate a local revenue source. Rather, health insurance subsidy benefits are funded by employer contribution rates for employees of participating local governments; this rate is increased to 1.75 percent of active gross member compensation for each pay period, effective January 1, 2007, and is expected to be sufficient to cover expenditures and fund the preferred six-month reserve.⁵

2. Expenditures:

The Department of Management Services estimates that the bill will result in increased expenditures of \$62.4 million in FY 2006-2007 (only six months of which are impacted), \$129.9 million in FY 2007-2008, and \$135.1 million in FY 2008-2009 for local governments that participate in the Florida Retirement System.⁶

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.

³ Fla. Dep't of Mgmt. Serv., SB 442 (2006) Staff Analysis (Nov. 3, 2006) (on file with dep't).

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

D. FISCAL COMMENTS:

Employer Contribution Rate

The Department of Management Services has indicated that the expenditures required by the bill, along with a six month reserve through June 2010, could be achieved with a 1.54% employer contribution rate rather than the 1.75% employer contribution rate provided by the bill.⁷

Reserve

The Department of Management Services noted the following fiscal impact regarding reserves:

There will be an increase in annual outflow in January 2007 (the effective date of the first proposed benefit increase) when the fund's reserve would dip to 6.2 months from December 2006's reserve of 7.0 months. A reserve of at least 6 months is important to give sufficient time to notify the Legislature if health insurance subsidy contribution rates must be increased and (also HIS recipients) if HIS benefits must be reduced or cancelled.⁸

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 section 18(a), article 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. 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:

At lines 39-42 and 83-86, the bill provides: "The health insurance subsidy amount payable to any person receiving the retiree health insurance subsidy payment on January 1, 2006, may not be reduced solely by operation of this paragraph." The Department of Management Services has indicated that changing this date to December 31, 2006 would better correspond with the first benefit increase proposed by the bill.⁹

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES

On January 25, 2006, the Governmental Operations Committee adopted an amendment which changes the increase for the contribution paid by employers to 1.75 percent, effective January 1, 2007. This is the same rate provided in the companion bill, SB 442, and is in lieu of two proposed increases to 1.22 percent, effective July 1, 2006, and 1.66 percent, effective July 1, 2007. The bill was reported favorably with committee substitute.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*