

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide limited government – This bill deletes the prohibition on state subsidy of retiree health insurance premiums.

B. EFFECT OF PROPOSED CHANGES:

State Employee Health Benefits - Background

The State of Florida provides a comprehensive array of workplace benefits to its employees and their spouses and dependents, including health insurance benefits.¹ Chapter 110, F.S., provides the statutory authority for the implementation of health insurance and prescription drug coverage for all enrollees. Enrollees include all state officers and employees, retired state officers and employees, surviving spouses of deceased state officers and employees, as well as all state university officers and employees, retired state university officers and employees, and surviving spouses of deceased state university officers and employees.² The state group insurance program includes a number of approved provider organizations that an enrollee may select from for health insurance coverage. The Division of State Group Insurance (DSGI) at the Department of Management Services (DMS) is responsible for the administration of the state group insurance program.³

Under the DSGI structure, an employee's overall health insurance plan is structured so the premium is paid by two entities – the employer and the employee.⁴ Costs associated with the State Group Health Insurance Program are funded through the State Employees' Group Health Self-Insurance Trust Fund. Projected shortfalls are addressed through adjustments to benefit attributes, premium increases, loans from the State Treasury and legislatively approved General Revenue cash infusions.⁵

Upon retirement, a retiree may, if he or she chooses, continue membership in his or her plan in the state group insurance program. In order to continue membership, a retiree must pay for the employer portion of the premium, thus paying the entire premium. Certain allowances are made for firefighters, law enforcement, correctional, and correctional probation officers injured or killed in the line of duty.⁶ There are approximately 33,600 retirees and surviving spouses with health insurance coverage under the state group insurance program.⁷

Retiree Health Insurance Subsidy Program

The retiree Health Insurance Subsidy (HIS) Program assists retired members of state-administered retirement systems, such as the Florida Retirement System, in paying the costs of health insurance.⁸ Currently, the law provides that eligible retirees and beneficiaries receive a monthly pension benefit

¹ Section 110.123(3), F.S.

² Section 110.123(1)(b), F.S.

³ Section 110.123(3) and (5), F.S.

⁴ See generally s. 110.123(4), F.S. Some employees, for example the staff of the Legislature, do not pay an employee portion. The employer pays the employee premium as an additional benefit of employment. *The Tallahassee Democrat* recently opined that this benefit is granted "in exchange for having no job security" (See *Will legislators change employee insurance?* Bill Cotterell, *The Tallahassee Democrat*, Aug. 21, 2006).

⁵ Department of Management Services HB 341 (2007) Substantive Bill Analysis at 1 (Feb. 26, 2007) (on file with the department and Government Efficiency & Accountability Council) [hereafter referred to as DMS Analysis].

⁶ Section 110.123(4)(e), F.S. (The employer must cover the entirety of the health insurance premiums of the beneficiaries, their spouses, and dependent children).

⁷ DMS Analysis at 1.

⁸ Section 112.363(1), F.S.

calculated as \$5 per year of creditable service with a minimum benefit of \$30 per month and a maximum benefit of \$150 per month.⁹ This pension benefit is payable upon DMS certification that the retiree is covered in a health insurance plan.¹⁰ The amount of the monthly subsidy is not contingent upon the retiree's health insurance premium cost, but rather the retiree's accrued benefit. Contributions from Florida Retirement System employers of 1.11 percent for current employees' gross compensation per pay period fund the benefit.¹¹ If this funding is insufficient to pay full benefits to all participants, "the benefits may be reduced or canceled at any time."¹² This benefit is not considered a state contribution toward the cost of retiree state group insurance program premiums because it is an earned pension that assists retirees in paying for their health insurance, regardless of health insurance provider.

Prohibition of State Contribution Toward Cost of Retiree State Group Insurance Program Premiums

Section 110.123(4)(e), F.S., explicitly prohibits the state from contributing toward the premiums of retirees participating in the state group insurance program. This statutory prohibition not only applies to a member's primary health insurance, but also any program offered by the State Group Insurance Program, including supplemental health plans, dental plans, life insurance plans, or any other offerings developed by the DSGI. For example, since retirees are responsible for 100 percent of the life insurance premium,¹³ a \$10.5 million appropriation in the FY 06-07 budget for the State Employees Life Insurance Trust Fund would have violated s. 110.123(4)(e), F.S.; this appropriation was vetoed by Governor Bush.¹⁴

Due to increased healthcare costs, premiums for the state plan have increased. To avoid increasing the insurance costs of active employees, the 2006 Legislature increased the employer portion of the premium¹⁵ to subsidize the increase in the premiums, benefiting active employees by maintaining the current employee premium level for another year. Retirees, however, saw a sizable increase in their premiums, since they pay both the employee and employer portions of their premium upon retirement.

Proposed Changes

This bill allows for the contribution of state funds toward the cost of benefit premiums available to retirees and/or surviving spouses under the State Group Insurance Program by deleting the provision in s. 110.123(4)(e), F.S., prohibiting said contribution. Thus, the bill allows the Legislature to appropriate funds to subsidize retirees' State Group Insurance Program premiums.

C. SECTION DIRECTORY:

Section 1 amends s. 110.123, F.S., deleting the provision prohibiting the state from contributing to any part of the state group insurance program premium made for retirees or surviving spouses.

Section 2 provides an effective date of July 1, 2007.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

⁹ Section 112.363(3), F.S.

¹⁰ Section 112.363(2)(d), F.S. (coverage need not be from a participant in the state group insurance program).

¹¹ Section 112.363(8), F.S.

¹² Section 112.363(5), F.S.

¹³ DMS Analysis at 1.

¹⁴ Final Veto Message, May 25, 2006, *MyFlorida.Com website*

<http://elderaffairs.state.fl.us/Legis/Governor_s_Line_Item_Veto_Message_2.pdf> (visited Feb. 28, 2007).

¹⁵ Ch. 2006-25, Part 6, L.O.F.

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

This bill does not appear to have a direct economic impact on the private sector.

D. FISCAL COMMENTS:

This bill does not have a fiscal impact; however, removing this prohibition will allow the Legislature to appropriate funds toward the cost of benefit premiums available to retirees and/or surviving spouses under the State Group Insurance Program, at its discretion.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not appear to require counties or municipalities to spend funds or to take an action requiring the expenditure of funds. This bill does not appear to reduce the percentage of a state tax shared with counties or municipalities. This bill does not appear to reduce the authority that municipalities have to raise revenues.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

This bill does not create, modify, or eliminate rulemaking authority.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

D. STATEMENT OF THE SPONSOR

No statement submitted.

IV. AMENDMENTS/COUNCIL SUBSTITUTE CHANGES

None.