HOUSE OF REPRESENTATIVES
FINAL BILL ANALYSIS

BILL #:	HB 5007	**FINAL HOUSE FLOOR ACTION:**	
SUBJECT/SHORT TITLE	Florida Retirement System	72 **Y's**	37 **N's**
SPONSOR(S):	Government Accountability Committee; Caldwell	**GOVERNOR'S ACTION:**	Approved
COMPANION BILLS:	SB 7022		

SUMMARY ANALYSIS

HB 5007 passed the House on May 8, 2017, as SB 7022.

State Group Insurance Program (program)
The bill requires the Department of Management Services (DMS), by July 1, 2018, to determine and recommend premium rates that reflect the differences in costs to the program for each health maintenance organization and preferred provider organization plan option for the 2019 plan year. For the 2018 plan year, DMS must calculate alternative premium rates for plan options and report the rates to the Governor and the Legislature for informational purposes only. Beginning with plan year 2018, DMS may procure and offer additional types of health care products and services to program enrollees, must implement a bundled services program and reference pricing progam, and procure an independent benefits consultant to assist in making the changes required by the bill. For plan year 2020 and therafter, DMS must offer four coverage levels under the program that reflect different actuarial value of benefits at each level. The bill establishes opportunities for program enrollees to make affirmative choices about their health coverage and share in the savings that result from those choices. The bill appropriates $507,546 in nonrecurring trust funds and $151,216 in recurring trust funds and 2 FTEs to DMS to implement the administrative functions necessary to implement this part of the bill.

Florida Retirement System (FRS)
Effective July 1, 2017, the bill authorizes renewed membership in the investment plan for retirees of the investment plan and certain optional retirement programs; closes the Senior Management Service Optional Annuity Program to new participants; and expands the survivor benefit for members of the Special Risk Class to provide that such benefits are retroactive to July 1, 2002. The bill also establishes a survivor benefit for all other membership classes of the investment plan who are killed in the line of duty and provides that the benefit is retroactive to July 1, 2002. Effective January 1, 2018, the bill changes the default from the pension plan to the investment plan for members who do not affirmatively choose a plan, except for members in the Special Risk Class, and extends the timeframe to make a plan selection. The bill revises the employer contribution rates for the FRS.

Based on the results of special actuarial studies, the benefit changes proposed by the bill will have a significant impact to the state and local governments: $5.5 million in General Revenue and $2.5 million in trust funds; and $9.3 million to local governments. The application of the rates recommended in the 2016 Actuarial Valuation of the FRS, will have a significant negative fiscal impact to the state and local governments: $85.5 million in General Revenue (state, district school boards, state colleges, and universities) and $11.4 million in trust funds; and $44.3 million to local governments.

State Employee Pay
The bill provides pay adjustments to state employees and officers for the 2017-2018 fiscal year. Employees in select job classes are provided specific pay increases, and all other state employees receive $1,400 if their salary is under $40,000 and $1,000 if their salary is over $40,000. The bill appropriates $109.7 million from the General Revenue Fund and $73.4 million from various state trust funds to implement the salary increases.

The bill was approved by the Governor on June 14, 2017, ch. 2017-88, L.O.F., and will become effective on July 1, 2017, except as otherwise expressly provided in the act.

I. SUBSTANTIVE INFORMATION

A. EFFECT OF CHANGES:

State Group Insurance Program

Background

The State Group Insurance Program (state program or program) is created by s. 110.123, F.S., and is administered by the Division of State Group Insurance (DSGI) within the Department of Management Services (DMS or department). The state program is an optional benefit for all state employees including all state agencies, state universities, the court system, and the Legislature. The program includes health, life, dental, vision, disability, and other supplemental insurance benefits.

The health insurance benefit for active employees has premium rates for single, spouse program,[1] or family coverage regardless of plan selection. The state contributed approximately 92 percent toward the total annual premium for active employees for a total of $1.80 billion out of a total premium of $1.95 billion for active employees during fiscal year (FY) 2016-17.[2] Retirees and COBRA participants contributed an additional $233.3 million in premiums, with $158.9 million more in other revenue for a total of $2.34 billion in total revenues.[3]

Cafeteria Plans

A cafeteria plan is a plan that offers flexible benefits under Section 125 of the Internal Revenue Code. Employees choose from a "menu" of benefits. The plan can provide a number of selections, including medical, accident, disability, vision, dental, and group term life insurance. It can reimburse actual medical expenses or pay children's day care expenses.

A cafeteria plan reduces both the employer's and employee's tax burden. Contributions by the employer are not subject to the employer social security contribution. Contributions made by the employee are not subject to federal income or social security taxes.

The employer chooses the range of benefits it wishes to offer in a cafeteria plan. The plan can be a simple premium-only plan where only health insurance is offered. Full flex plans, which offer a wide variety of benefits and choices, are more often offered by large employers and allow for more consumer-directed consumption of benefits. In some full flex plans, the employee is offered the choice between receiving additional compensation in lieu of benefits.

The state program qualifies as a cafeteria plan[4] even though it offers relatively narrow health plan options compared to other cafeteria plans.

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[1] The spouse program provides discounted rates for family coverage when both spouses work for the state.
[2] Florida Legislature, Office of Economic and Demographic Research, Self-Insurance Estimating Conference, *State Employees' Group Health Self-Insurance Trust Fund- Report on the Financial Outlook for Fiscal Years Ending June 30, 2017 through June 30, 2022*, adopted December 9, 2016, page 6, available at http://edr.state.fl.us/Content/conferences/healthinsurance/HealthInsuranceOutlook.pdf.
[3] *Id*.
[4] 26 U.S.C. sec. 125 requires that a cafeteria plan allow its members to choose between two or more benefits "consisting of cash and qualified benefits." The proposed regulations define "cash" to include a "salary reduction arrangement" whereby salary is deducted pre-tax to pay the employee's share of the insurance premium. Since the state program allows a "salary reduction arrangement," the program qualifies as a cafeteria plan. 26 C.F.R. ss. 1.125-1, et seq.

Health Plan Options

The program provides limited options for employees to choose as their health plan. The preferred provider organization (PPO) plan is the statewide, self-insured health plan administered by Florida Blue, whose current contract is for the 2015 through 2018 plan years. The administrator is responsible for processing health claims, providing access to a Preferred Provider Care Network, and managing customer service, utilization review, and case management functions. The standard health maintenance organization (HMO) plan is an insurance arrangement in which the state has contracted with multiple statewide and regional HMOs.[5]

Prior to the 2011 plan year, the participating HMOs were fully insured; in other words, the HMOs assumed all financial risk for the covered benefits. During the 2010 session, the Legislature enacted s. 110.12302, F.S., which directed DMS to require costing options for both fully insured and self-insured plan designs as part of the department's solicitation for HMO contracts for the 2012 plan year and beyond. The department included these costing options in its invitation to negotiate[6] to HMOs for contracts for plans years beginning January 1, 2012. The department entered into contracts for the 2012 and 2013 plan years with two HMOs with a fully insured plan design and four with a self-insured plan design. The contracts with the HMOs had been renewed for the 2015 plan year.[7]

Additionally, the program offers two high-deductible health plans (HDHP[8]) with health savings accounts (HSAs).[9] The Health Investor PPO Plan is the statewide HDHP with an integrated HSA. It is also administered by Florida Blue. The Health Investor HMO Plan is an HDHP with an integrated HSA in which the state has contracted with multiple state and regional HMOs. Both have an individual deductible of $1,300 for individual and $2,600 for family for network providers.[10] The state makes a $500 per year contribution to the HSA for single coverage and a $1,000 per year contribution for family coverage. The employee may make additional annual contributions[11] to a limit of $3,400 for single coverage and $6,750 for family coverage. Both the employer and employee contributions are not subject to federal income tax on the employee’s income. Unused funds roll over automatically every year. An HSA is owned by the employee and is portable.

The following charts illustrate the benefit design of each of the plan choices:

	HMO Standard	PPO Standard	
	Network Only	Network	Out-of-Network

[5] The HMOs include Aetna, AvMed, Capital Health Plan, Florida Health Care Plans and UnitedHealthcare.
[6] ITN NO.: DMS 10/11-011
[7] After extending the existing HMO contracts for the 2016 and 2017 plan years, DMS is currently procuring HMOs for the next contract period and expects to complete the procurement process and award contracts to the HMOs during or after the 2017 Regular Legislative Session.
[8] High-deductible health plans with linked HSAs are also called consumer-directed health plans (CDHP) because costs of health care are more visible to the enrollee.
[9] 26 U.S.C. sec. 223; To qualify as a high-deductible plan, the annual deductible must be at least $1,300 for single plans and $2,600 for family coverage, but annual out-of-pocket expenses cannot exceed $6,550 for individual and $13,100 for family coverage. These amounts are adjusted annually by the IRS.
[10] Internal Revenue Service, *Revenue Procedure 2016-28*, April 29, 2016 (setting contribution limits for 2017 calendar year) available at https://www.irs.gov/pub/irs-drop/rp-16-28.pdf (last viewed February 10, 2017).
[11] *Id*.; The IRS annually sets the contribution limit as adjusted by inflation.

Deductible	None	$250 | $500 Single | Family	$750 | $1,500 Single | Family
Primary Care	$20 copayment	$15 copayment	40% of out-of-network allowance plus the amount between the charge and the allowance
Specialist	$40 copayment	$25 copayment	
Urgent Care	$25 copayment	$25 copayment	
Emergency Room	$100 copayment	$100 copayment	
Hospital Stay	$250 copayment	20% after $250 copayment	40% after $500 copayment plus the amount between the charge and the allowance
Generic | Preferred | Non-Preferred Prescriptions	$7 | $30 | $50 Retail $14 | $60 | $100 Mail Order	$7 | $30 | $50 Retail $14 | $60 | $100 Mail Order	Pay in full, file claim
Out-of-Pocket Maximum	$1,500 | $3,000 Single | Family	$2,500 | $5,000 (coinsurance only) Single | Family	

	PPO and HMO Health Investor	
	Network	Out-of-Network (PPO Only)
Deductible	$1,300 | $2,600 Single | Family	$2,500 | $5,000 Single | Family
Primary Care	After meeting deductible, 20% of network allowed amount	After meeting deductible, 40% of out-of-network allowance plus the amount between the charge and the allowance
Specialist		
Urgent Care		After meeting deductible, 20% of out-of-network allowance
Emergency Room		
Hospital Stay		After meeting deductible, 40% after $1,000 copayment plus the amount between the charge and the allowance
Generic | Preferred | Non-Preferred Prescriptions	After meeting deductible , 30% | 30% | 50% Retail and Mail Order	Pay in full, file claim
Out-of-Pocket Maximum	$3,000 | $6,000 (coinsurance only) Single | Family	$7,500 | $15,000 (coinsurance only) Single | Family

Flexible Spending Accounts

Currently, the state program offers flexible spending accounts (FSAs)[12] as an optional benefit for employees. The FSA is funded though pre-tax payroll deductions from the employee's salary.[13] The funds can be used to pay for medical expenses that are not covered by the employees' health plan. Prior to 2013, there was no limit on the contribution to an FSA; however, it is now limited to $2,600[14] and subsequently adjusted for inflation. Unlike an HSA, an FSA is a "use it or lose it" arrangement.[15] If the employee does not annually use the contributions to the FSA, the contributions are forfeited.

Health Reimbursement Arrangements

Health reimbursement arrangements (HRAs) are defined contribution benefits established by an employer for its employees. Each year, an employer determines a specified amount, or a defined contribution benefit, of pre-tax dollars to assist employees with medical expenses. The employer can determine minimum and maximum contribution amounts; there are no federal limits. Typically associated with an HDHP, an HRA is entirely funded by the employer and provides tax-free reimbursements to employees for medical expenses.[16] Unlike an FSA, an HRA is not a "use it or lose it" arrangement, but the employer may cap the rollover amount. The state program does not currently offer HRAs. The following chart shows the distinctions between FSAs, HSAs, and HRAs.

	FSA	HSA	HRA
Who funds the account?	Employee and employer (optional)	Employee, employer, and other individuals	Employer
How is it funded?	Employee payroll deduction; employer direct contribution - money is held by employer in "fund"	Cash contributions to bank account owned by employee	Employer pays up to promised amount
Account Owner	Employer	Employee	Employer
Contribution Limits	$2,600 annually	Single - $3,400 Family - $6,750 Over 55 - additional $1,000 for single coverage	Set by employer
Rollover of Funds?	Up to $500 (federal law)	Yes	Yes, as determined by employer
Medical Expenses Allowed	IRC 213(d) expenses[17]	IRC 213(d) expenses	Post-tax health insurance premiums and IRC 213(d) expenses
High Deductible Health Plan Required?	No	Yes Minimum deductible: Single - $1,300 Family - $2,600 Max out-of-pocket: Single - $6,550 Family - $13,100	No

[12] Section 125 I.R.C.; *see IRS Publication 969* (2014), available at https://www.irs.gov/pub/irs-pdf/p969.pdf (last viewed February 10, 2017).
[13] Employers are also allowed to contribute to FSAs.
[14] Internal Revenue Service, *Revenue Procedure 2016-55*, October 25, 2016 (setting contribution limit for 2017 calendar year) available at https://www.irs.gov/pub/irs-drop/rp-16-55.pdf (last viewed February 10, 2017).
[15] Beginning in 2013, an employee may carryover up to $500 into the next calendar year.
[16] An HRA can only be used for qualified medical expenses defined under s. 213(d), I.R.C., including health insurance and long-term care insurance.
[17] Section 213(d), I.R.C., permits the deduction of expenses paid for medical care of the taxpayer, his or her spouse, or a dependent. Medical care includes amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease; transportation necessary for medical care; qualified long-term care services; and health insurance or long-term care insurance.

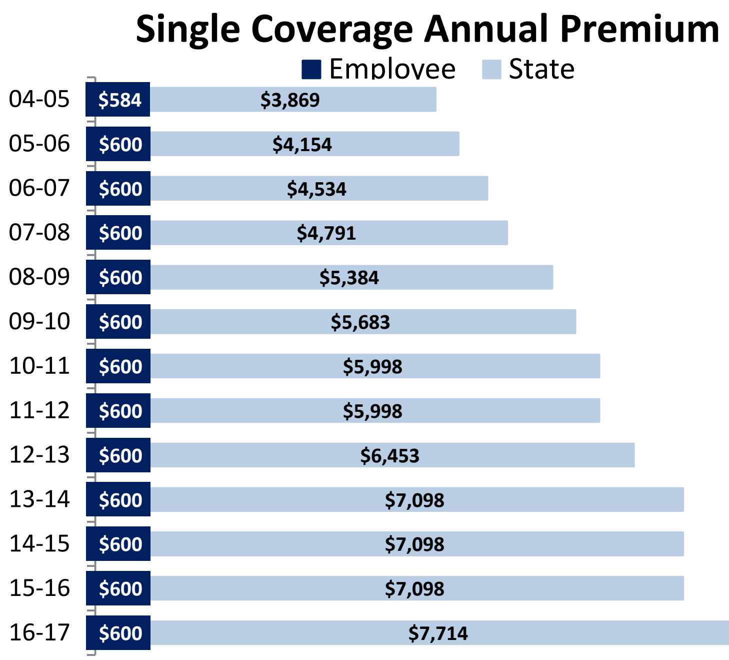
Employer and Employee Contributions

The state program is considered employer-sponsored since the state contracts with providers and contributes a substantial amount on behalf of the employee toward the cost of the insurance premium. The state's employer contribution is part of a state employee's overall compensation. The state program is a defined-benefit program. In a defined-contribution program, the employer pays a set amount toward the monthly premium and the employee pays the remainder. The following chart shows the monthly contributions[18] of the state and the employee to the employee health insurance premium.

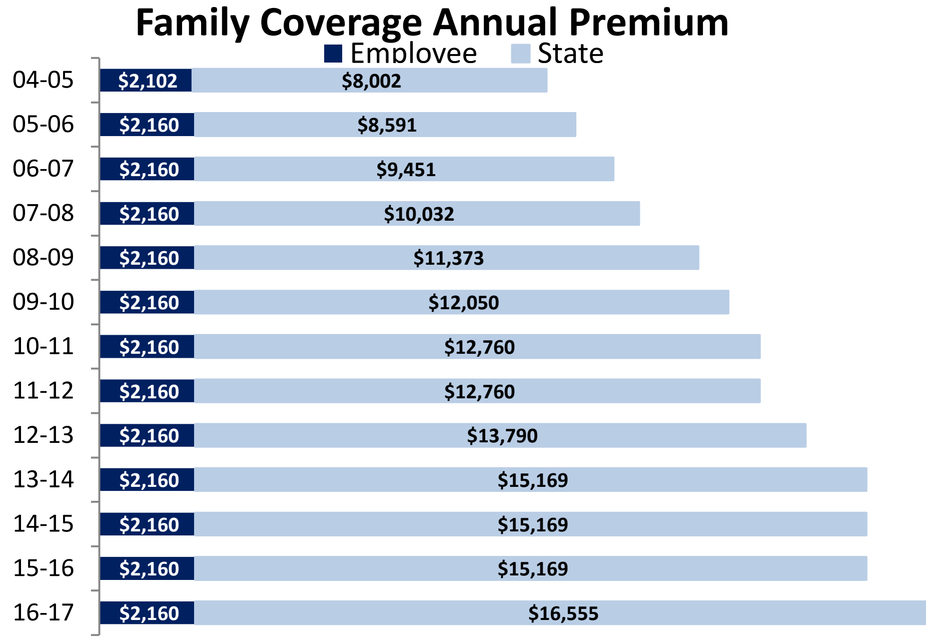
Subscriber Category	Coverage Type	PPO and HMO Standard			PPO and HMO Health Investor		
		Employer	Enrollee	Total	Employer*	Enrollee	Total
Career Service/ OPS	Single	$642.84	$50.00	$692.84	$642.84	$15.00	$657.84
	Family	$1,379.60	$180.00	$1,559.60	$1,379.60	$64.30	$1,443.90
	Spouse	$1,529.60	$30.00	$1,559.60	$1,413.92	$30.00	$1,443.92
"Payalls" (SES/SMS)	Single	$684.50	$8.34	$692.84	$549.50	$8.34	$657.84
	Family	$1,529.60	$30.00	$1,559.60	$1,413.90	$30.00	$1,443.90

*Includes employer tax-free HSA contribution: $41.66 and $83.33 per month ($500 and $1,000 annually) for single and family, respectively.

The state program is projected to spend $2.34 billion in FY 2016-2017 in health benefit costs.[19] The aggregate annual growth in spending for the state program during the current fiscal year is 6.2 percent.[20] Annual growth is forecasted to rise to more than 11 percent in future fiscal years.[21] The state has absorbed almost all of the cost of the increase and employee contributions have remained the same for the last nine years as illustrated by the following charts.[22]



[18] DMS, State Employees' Group Health Self-Insurance Trust Fund, *Premium Rate Table Effective January 2017 for February 2017 Coverage*, available at http://mybenefits.myflorida.com/content/download/130052/808071/DSGI_-_Premium_Table_Effective_January_2017_for_February_2017_Coverage.pdf (last viewed February 8, 2017).
[19] *Supra*, FN 2 at page 4.
[20] Department of Management Services, *Overview of the State Group Health Insurance Program*, presentation to the Health and Human Services Committee on February 14, 2017, slide 5 (on file with Health and Human Services Committee staff).
[21] *Supra*, FN 2 at page 3.
[22] *Supra*, FN 20 at slide 15.



Plan Enrollment

The state program has 366,080 covered lives and 173,761 policyholders.[23] Currently, 51.4 percent of enrollees who chose the standard plan selected an HMO while 48.6 percent chose the PPO.[24] Only 1.9 percent of enrollees chose either HDHP. [25] During the open enrollment period for 2015, PPO enrollment increased slightly, by 0.05 percent, and HMO enrollment decreased by 0.46 percent.[26] Open Enrollment trends forecasted from FY 2016-17 through 2020-21 show an average annual decrease in PPO plan enrollment of 0.5 percent and an average increase in HMO plan enrollment of 2.5 percent.[27]

Employer Sponsored Insurance Trends

In 2010, DSGI contracted with Mercer Consulting to prepare a Benchmarking Report[28] (report) for the state. The report compares Florida's program to the programs of other large employers,[29] both in the public and private sectors. The report found that the State of Florida contributes a higher percentage of the premium to employee health benefits than other states and private employers. At the time, Florida paid 84 percent of the monthly premium for a family PPO plan, but the average for large national employers was 69 percent. This results in Florida state employees paying less in monthly premiums than other states' employees and private employees. For example, the monthly premium for a family PPO plan for a Florida state employee is $180 and in 2011, the average premium for large national employers was $361.

Today, the monthly premium for a family PPO plan for a Florida state employee is still $180; however, the state now pays 88 percent of the premium[30] and the benchmark premium for large national

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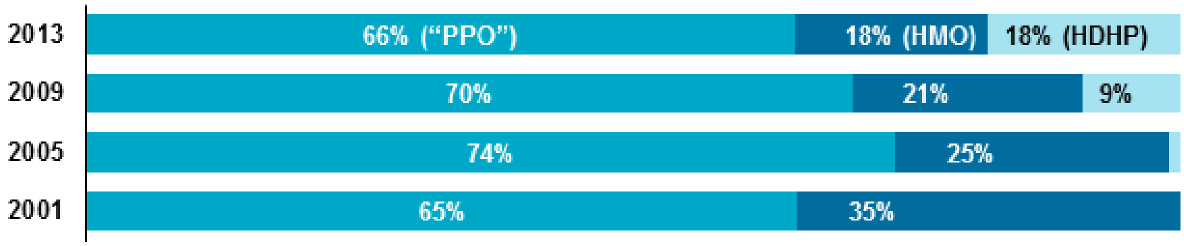
[23] *Id*. at slide 7.
[24] *Supra*, FN 2 at page 1.
[25] *Supra*, FN 21 at slides 8-9.
[26] Florida Legislature, Office of Economic and Demographic Research, Self-Insurance Estimating Conference, State Employees' Group Health Self-Insurance Trust Fund, *Report on the Financial Outlook*, March 9, 2015, page 1, available at http://edr.state.fl.us/Content/conferences/healthinsurance/archives/150309healthins.pdf (last viewed February 10, 2017).
[27] *Supra*, FN 23.
[28] Mercer Consulting, *State of Florida Benchmarking Report*, March 24, 2011, available at: http://www.dms.myflorida.com/content/download/81475/468865/version/1/file/2010+Small+Employer+Benchmarking+Report+for+State+of+Florida.pdf.
[29] For the purpose of the report, "large employers" had 500 or more employees.
[30] The state contributes 92 percent of the premium for the individual PPO plan.

employers ranges from $270 to $391 with the company paying 71 percent to 79 percent of the premium.[31]

The national trend among large employer health plans is increasing enrollment in high-deductible health plans (HDHP) and declining enrollment in HMOs as illustrated in the following chart.[32]



Mercer’s latest survey reveals that nearly three in 10 employees were enrolled in an HDHP in 2016.[33]

The state program’s trend is the reverse of the national trend in HMO, PPO, and HDHP because of the HMO’s high actuarial value and no difference in premiums between the HMO and PPO. The actuarial value (AV) measures the percentage of expected medical costs that a health plan will cover and is generally considered a measure of the health plan’s generosity. The state program’s standard HMO as an AV of 93 percent, the standard PPO has an AV of 86 percent, and the HDHP has an AV of 80 percent.[34] Accordingly, enrollees in the state program gravitate toward the high value, low cost HMO because they experience no price difference between the plans.

Employee Choice

The FY 2011-2012 General Appropriations Act directed DMS to develop a report of plan alternatives and options for the state program. DMS contracted with Buck Consultants which released its report[35] on September 29, 2011. The report concludes:

> The state’s current approach to its health plan is best described as paternalistic, whereby the state serves as the architect/custodian of the plan, providing generous benefits and allowing employees to be passive and perhaps even entitled, with little concern about costs. Historically prevalent among large and governmental employers, this approach is rapidly being replaced by initiatives that focus on increasing and improving consumerism behaviors. In the consumerism approach the employer and employees maintain shared accountability, with the employer providing a supportive environment, partnering with employees and enabling them to make informed decisions, considering costs and outcomes of the health care services they seek and receive.

In a presentation before the Health and Human Services Committee on January 16, 2014, Mercer Health & Benefits reported that the state program is behind other large employers in key survey trends.[36] The state program has plans with lower employee premiums and higher benefits than industry

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[31] *Market-Based Framework for Health Plan Program Changes*, Mercer Health & Benefits, presentation to the Health and Human Services Committee on January 16, 2014, at slide 18.
[32] *Id*. at slide 6.
[33] Mercer, *Mercer survey: Health benefit cost growth slows to 2.4% in 2016 as enrollment in high-deductible plans climbs*, October 26, 2016, available at https://www.mercer.com/newsroom/national-survey-of-employer-sponsored-health-plans-2016.html (last viewed February 8, 2017).
[34] *Supra*, FN 31 at slide 20.
[35] Buck Consultants, *Strategic Health Plan Options for the State of Florida* (September 29, 2011), available at: http://www.dms.myflorida.com/content/download/81468/468856/version/1/file/Strategic+Health+Plan+Options+for+the+State+of+Florida+9-30-11+-+Final.pdf (last viewed on February 8, 2017).
[36] *Supra*, FN 31 at slide 5.

benchmarks.[37] There is virtually no enrollment in HDHPs versus significant growth nationally.[38] Florida's plan costs and annual trend increase are higher than national survey data.[39] State employees have little real choice among health plan options since there is only a 4 percent difference in the "richness of the benefits" between the HMO and PPO, and the price is the same.[40] Consequently, 99 percent of enrollees chose the HMO or PPO with little to no incentive to choose the HDHP.[41]

Effect of the Bill

Premium Adjustments

Current law provides that "the state contribution toward the cost of any plan in the state group insurance program shall be uniform with respect to all state employees . . . participating in the same coverage tier[42] in the same plan."[43] Since there is a 4 percent difference in the actuarial value between the HMO and the PPO, the state currently pays more from the State Employees' Group Health Self-Insurance Trust Fund (Trust Fund) for the HMO benefits. However, each year the Legislature sets uniform premium amounts in the General Appropriations Act for state paid premiums. The premiums are deposited into the Trust Fund and used to pay the expenses of the state program.

The bill directs DMS to calculate alternative premium rates for each HMO and PPO product offered in the program for the 2018 plan year. The alternative premium rates must be based on the actual differences in medical and pharmaceutical benefits offered under each product. DMS must report the alternative rates, for informational purposes only, to the Governor, the President of the Senate, and the Speaker of the House of Representatives by October 1, 2017. For the 2019 plan year, DMS must determine and recommend the premium rates for each HMO and PPO product by July 1, 2018, reflecting the actual differences in medical and pharmaceutical coverage offered by each product. Again, the premium rates must be reported to the Governor and the Legislature; however, these rates will be implemented and charged to enrollees in the plan for the 2019 plan year.

Additional Benefits

Many state employees enroll in products offered by the state program other than health insurance, as indicated by the following chart.

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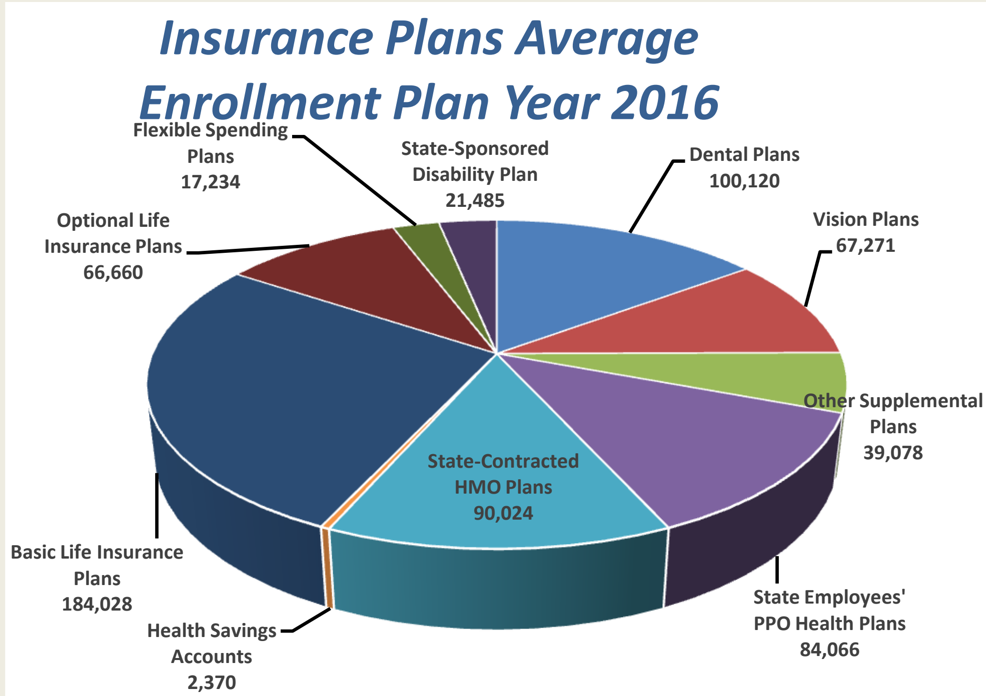
[37] *Id.*
[38] *Id.*
[39] *Supra*, FN 31 at slide 6.
[40] Foster and Foster, *Actuarial Value Contribution Analysis*, March 20, 2015, at page 3.
[41] *Supra*, FN 31 at slide 9.
[42] The coverage tier is either individual or family.
[43] Section 110.123(3)(f), F.S.



The bill allows DMS to contract for additional products to be included in the state program:

- Prepaid limited health service organizations as authorized under part I of chapter 636.
- Discount medical plan organizations as authorized under part II of chapter 636.
- Prepaid health clinic service providers licensed under part II of chapter 641.
- Health care providers, including hospitals and other licensed health facilities, health care clinics, licensed health professionals, and other licensed health care providers, who sell service contracts and arrangements for a specified amount and type of health services.
- Provider organizations, including service networks, group practices, professional associations, and other incorporated organizations of providers, who sell service contracts and arrangements for a specified amount and type of health services.
- Entities that provide specific health services in accordance with applicable state law and sell service contracts and arrangements for a specified amount and type of health services.
- Entities that provide health services or treatments through a bidding process.
- Entities that provide health services or treatments through bundling or aggregating the health services or treatments.
- Entities that provide other innovative and cost-effective health service delivery methods.

The bill also directs DMS to contract with at least one entity that provides comprehensive pricing and inclusive services for surgery and other medical procedures. These bundled services will be another option for state employees. The entity will be required to have procedures and evidence-based standards to assure only high quality health care providers are included. Assistance must be provided to the enrollee in accessing care and in the coordination of the care. The bundled services must provide cost savings to the state program and the enrollee, which will be shared by the state and the enrollee. The cost savings payable to an enrollee can be paid:

- To the enrollee's FSA;
- To the enrollee's HSA;
- To the enrollee's HRA; or
- To the enrollee as additional health plan reimbursements not exceeding the amount of the enrollee's out-of-pocket medical expenses.

The selected entity must provide an educational campaign for employees to learn about the offered services.

By January 15 of each year, DMS must report to the Governor, the President of the Senate, and the Speaker of the House of Representatives on the participation level and cost-savings to both the enrollee and the state resulting from the contract.

Price Transparency and Cost Savings Sharing Program

The costs of health care procedures are often unknown and unknowable to consumers and can vary dramatically among providers.[44] For example, the average Medicare expenditure for surgery, hospitalization, and recovery ranges from $16,500 to $33,000 across geographic areas for lower extremity joint replacement, which includes hips and knees.[45]

The California Public Employees' Retirement System (CalPERS), the second largest benefits program in the country started a "reference pricing" initiative in 2011. CalPERS set a threshold of $30,000 for hospital payments for both for inpatient hip and knee replacements and designated certain hospitals where enrollees could get care at or below that price. If enrollees had surgery at designated hospitals, they paid only their plans' typical deductible and coinsurance up to the out-of-pocket maximum. Patients could go to other in-network hospitals for care but were responsible for both the typical cost sharing and all allowed amounts exceeding the $30,000 threshold, which were not subject to an out-of-pocket maximum. The initiative reportedly resulted in $2.8 million savings for CalPERS and $300,000 in savings for enrollees in 2011 without sacrificing quality.[46]

The bill directs DMS to contract with at least one entity that provides online health care price and quality information, including the average price paid for health care services and providers by county. The contract requires the entity to allow enrollees to shop for health care using the information provided to select higher quality, lower cost services and providers. The contract also requires the entity to identify any savings realized between what the enrollee pays for a service or provider and the average price paid for the same service or provider. The bill provides for the enrollee and state to share any savings generated by the enrollee's choice of providers. The amount payable to the employee can be paid:

- To the employee's FSA;
- To the employee's HSA;
- To the employee's HRA; or
- To the employee as additional health plan reimbursements not exceeding the amount of the enrollee's out-of-pocket medical expenses.

By January 1 of 2019, 2020, and 2021, the department must report to the Governor, the President of the Senate, and the Speaker of the House of Representatives on the participation level, the amount paid to enrollees, and cost-savings to both the enrollees and the state resulting from the price transparency pilot project.

[44] *How to Bring the Price of Health Care Into the Open*, The Wall Street Journal, Melinda Beck, February 23, 2014, available at: http://online.wsj.com/news/articles/SB10001424052702303650204579375242842086688?mod=trending_now_5 (last viewed on February 8, 2017). *Does Knowing Medical Prices Save Money? CalPERS Experiment Says Yes*, Kaiser Health News, Ankita Rao, December 6, 2013, available at: http://capsules.kaiserhealthnews.org/index.php/2013/12/does-knowing-medical-prices-save-money-calpers-experiment-says-yes/ (last viewed on February 8, 2017).

[45] U.S. Department of Health and Human Services, Centers for Medicaid and Medicare Services, *Comprehensive Care for Joint Replacement Model*, available at https://innovation.cms.gov/initiatives/cjr (last viewed February 10, 2017).

[46] *The Potential of Reference Pricing to Generate Health Care Savings: Lessons from a California Pioneer*, Center for Studying Health System Change, Amanda E. Lechner, Rebecca Gourevitch, Paul B. Ginsburg, Research Brief No. 30, December 2013, available at: http://www.hschange.org/CONTENT/1397/ (last viewed on February 8, 2017).

Additional Benefit Choices

Beginning in the 2020 plan year, the bill provides that state employees will have health plan choices at four different benefit levels. These levels are:

- Platinum Level (at least 90 percent AV)
- Gold Level (at least 80 percent AV)
- Silver Level (at least 70 percent AV)
- Bronze Level (at least 60 percent AV)

The state will make a defined contribution for each employee toward the cost of purchasing a health plan. The employee will have the following options:

- Use the entire employer contribution to pay for health insurance and pay any additional premium if the cost of the plan exceeds the employer contribution.
- Use part of the employer contribution to pay for health insurance and have the balance credited to an FSA.
- Use part of the employer contribution to pay for health insurance and have the balance credited to an HSA.
- Use part of the employer contribution to pay for health insurance and use the balance to purchase additional benefits offered through the state group insurance program.
- Use part of the employer contribution to pay for health insurance and have the balance used to increase the employee's pay.[47]

The state currently pays 92 percent of the employee's premium for an individual plan and 88 percent for a family plan for a Platinum level plan (HMO) or a Gold level plan (PPO).

The following chart illustrates a hypothetical[48] example for a Career Service employee with a family plan and a defined contribution benchmarked using the current state contribution, current employee contribution, and the current plan cost:

Family Coverage	Current Plan 88% - 92% AV	80% AV Coverage	70% AV Coverage	60% AV Coverage
State Contribution	$16,555	$16,555	$16,555	$16,555
Plan Cost	$18,715	$14,972	$13,101	$11,229
Employee Contribution	$2,160	$0	$0	$0
Employee Receives	$0	$1,583	$3,454	$5,326

Under this hypothetical, the employee may choose the same value health plan as the employee has today and pay the same amount as today. Unlike today, the employee may also choose a different health plan and use the remainder toward other health benefits or receive additional salary.

Independent Benefits Consultant

The bill also directs DMS to competitively procure an independent benefits consultant (IBC). The IBC must not be or have a financial relationship in any HMO or insurer. Additionally, the IBC must have substantial experience in designing and administering benefit plans for large employers and public employers.

The IBC will assist DMS in developing a plan for the implementation of the new benefit levels in the state program. The plan must be submitted to the Governor, the President of the Senate, and the

[47] The employee must use part of the employer contribution to purchase health insurance. The employee may not receive pay in lieu of benefits.
[48] All examples must be hypothetical since the 2018 benefit structure and plan actuarial values cannot be known at this time.

Speaker of the House of Representatives no later than January 1, 2019, and include recommendations for:

- Employer and employee contribution policies.
- Steps necessary for maintaining or improving total employee compensation levels when the transition is initiated.
- An education strategy to inform employees on the additional choices available in the state program.

The ongoing duties of the IBC include:

- Providing assessments of trends in benefits and employer sponsored insurance that affect the state program.
- Conducting comprehensive analysis of the state program including available benefits, coverage options, and claims experience.
- Identifying and establishing appropriate adjustment procedures necessary to respond to any risk segmentation that may occur when increased choices are offered to employees.
- Assist the department with:
  - The submission of any necessary plan revisions for federal review.
  - Ensuring compliance with applicable federal and state regulations.
  - Monitoring the adequacy of funding and reserves for the state self-insured plan.

The IBC will assist DMS in preparing recommendations for any modifications to the state program no later than January 1 of each year, which must be submitted to the Governor, the President of the Senate, and the Speaker of the House of Representatives.

Florida Retirement System

<u>Background</u>

The Florida Retirement System (FRS) was established in 1970 when the Legislature consolidated the Teachers' Retirement System, the State and County Officers and Employees' Retirement System, and the Highway Patrol Pension Fund. In 1972, the Judicial Retirement System was consolidated into the FRS, and in 2007, the Institute of Food and Agricultural Sciences Supplemental Retirement Program was consolidated under the Regular Class of the FRS as a closed group.[49]

The FRS is a multiple-employer, contributory plan[50] governed by the Florida Retirement System Act.[51] As of June 30, 2016, the FRS provides retirement income benefits to 630,350 active members,[52] 394,907 retired members and beneficiaries, and 29,602 members of the Deferred Retirement Option Program (DROP).[53] It is the primary retirement plan for employees of state and county government agencies, district school boards, state colleges, and universities. The FRS also serves as the retirement plan for participating employees of the 173 cities and 261 independent hospitals and special districts that have elected to join the system.[54]

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[49] *Florida Retirement System Pension Plan And Other State Administered Systems Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2016*, at 29. A copy of the report can be found online at: http://www.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports (last visited March 25, 2016) [hereinafter *Annual Report*].

[50] Prior to 1975, members of the FRS were required to make employee contributions of either 4 percent for Regular Class members or 6 percent for Special Risk Class members. Members were again required to contribute to the system after June 30, 2011.

[51] Chapter 121, F.S.

[52] As of June 30, 2016, the FRS Pension Plan, which is a defined benefit plan, had 515,916 members, and the investment plan, which is a defined contribution plan, had 114,434 members. *Annual Report*, *supra* note 1, at 120.

[53] *Id.*

[54] Florida Retirement System Participating Employers for Plan Year 2016-17, prepared by the Department of Management Services, Division of Retirement, Revised February 2017, at 8. A copy of the document can be found online at: https://www.rol.frs.state.fl.us/forms/part-emp.pdf (last visited March 25, 2017).

The membership of the FRS is divided into five membership classes:[55]

- Regular Class[56] consists of 549,389 members (87.16 percent of the membership);
- Special Risk Class[57] includes 70,695 members (11.21 percent);
- Special Risk Administrative Support Class[58] has 76 members (.01 percent);
- Elected Officers' Class[59] has 2,141 members (0.34 percent); and
- Senior Management Service Class[60] has 8,019 members (1.27 percent).

Each class is funded separately based upon the costs attributable to the members of that class.

Members of the FRS have two primary plan options available for participation:

- The pension plan, which is a defined benefit plan; and
- The investment plan, which is a defined contribution plan.

Certain members, as specified by law and position title, may, in lieu of FRS participation, participate in optional retirement plans.

FRS Investment Plan

In 2000, the Legislature created the Public Employee Optional Retirement Program (investment plan), a defined contribution plan offered to eligible employees as an alternative to the pension plan. The earliest that any member could participate in the investment plan was July 1, 2002.

The State Board of Administration (SBA) is primarily responsible for administering the investment plan.[61] The SBA is comprised of the Governor as chair, the Chief Financial Officer, and the Attorney General.[62]

A member vests immediately in all employee contributions paid to the investment plan.[63] With respect to the employer contributions, a member vests after completing one work year with an FRS employer.[64] Vested benefits are payable upon termination or death as a lump-sum distribution, direct rollover distribution, or periodic distribution.[65]

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[55] *Annual Report*, *supra* note 1, at 123.
[56] The Regular Class is for all members who are not assigned to another class. Section 121.021(12), F.S.
[57] The Special Risk Class is for members employed as law enforcement officers, firefighters, correctional officers, probation officers, paramedics, and emergency technicians, among others. Section 121.0515, F.S.
[58] The Special Risk Administrative Support Class is for a special risk member who moved or was reassigned to a nonspecial risk law enforcement, firefighting, correctional, or emergency medical care administrative support position with the same agency, or who is subsequently employed in such a position under the FRS. Section 121.0515(8), F.S.
[59] The Elected Officers' Class is for elected state and county officers, and for those elected municipal or special district officers whose governing body has chosen Elected Officers' Class participation for its elected officers. Section 121.052, F.S.
[60] The Senior Management Service Class is for members who fill senior management level positions assigned by law to the Senior Management Service Class or authorized by law as eligible for Senior Management Service designation. Section 121.055, F.S.
[61] Section 121.4501(8), F.S.
[62] Section 4(e), Art. IV, Fla. Const.
[63] Section 121.4501(6)(a), F.S.
[64] If a member terminates employment before vesting in the investment plan, the nonvested money is transferred from the member's account to the SBA for deposit and investment by the SBA in its suspense account for up to five years. If the member is not reemployed as an eligible employee within five years, any nonvested accumulations transferred from a member's account to the SBA's suspense account are forfeited. Section 121.4501(6)(b) – (d), F.S.
[65] Section 121.591, F.S.

Benefits under the investment plan accrue in individual member accounts funded by both employee and employer contributions and investment earnings. Benefits are provided through employee-directed investments offered by approved investment providers. The amount of money contributed to each member's account varies by class as follows:

Membership Class	Percentage of Gross Compensation*
Regular Class	6.30%
Special Risk Class	14.00%
Special Risk Administrative Support Class	7.95%
Elected Officers' Class • Justices and Judges • County Elected Officers • Others	 13.23% 11.34% 9.38%
Senior Management Service Class	7.67%

* Includes the three percent employee contribution.

FRS Pension Plan

The pension plan is a defined benefit plan that is administered by the secretary of DMS through the Division of Retirement (division).[66] Investment management is handled by the SBA.

Any member initially enrolled in the pension plan before July 1, 2011, vests in the pension plan after completing six years of service with an FRS employer.[67] For members initially enrolled on or after July 1, 2011, the member vests in the pension plan after eight years of creditable service.[68] A member vests immediately in all employee contributions paid to the pension plan.

Benefits payable under the pension plan are calculated based on years of service x accrual rate x average final compensation.[69] The accrual rate varies by class as follows:

Membership Class	Accrual Rate
Regular Class	1.60%, 1.63%, 1.65%, 1.68%[70]
Special Risk Class	3.00%
Special Risk Administrative Support Class	1.60%, 1.63%, 1.65%, 1.68%[71]
Elected Officers' Class • Justices and Judges • Others	 3.33% 3.00%
Senior Management Service Class	2.00%

For most members of the pension plan, normal retirement occurs at the earliest attainment of 30 years of service or age 62.[72] For members in the Special Risk and Special Risk Administrative Support Classes, normal retirement is the earliest of 25 years of service or age 55.[73] Members initially enrolled in the pension plan on or after July 1, 2011, must complete 33 years of service or attain age 65, and

[66] Section 121.025, F.S.
[67] Section 121.021(45)(a), F.S.
[68] Section 121.021(45)(b), F.S.
[69] Section 121.091, F.S.
[70] Section 121.091(1)(a)1., F.S.
[71] Section 121.0515(8)(a), F.S.
[72] Section 121.021(29)(a)1., F.S.
[73] Section 121.021(29)(b)1., F.S.

members in the Special Risk and Special Risk Administrative Support Classes must complete 30 years of service or attain age 60.[74]

Default and Second Election

A new member has until the last business day of the fifth month following the member's month of hire to make a plan selection. If the member fails to make a selection, the member defaults to participation in the pension plan.[75]

After the initial election or default election to participate in either the pension plan or investment plan, a member has one opportunity, at the member's discretion and prior to termination or retirement, to choose to move from the pension plan to the investment plan or from the investment plan to the pension plan.[76]

Disability Benefits

Disability retirement benefits are provided for both in-line-of-duty disability and regular disability. Pension plan disability retirement benefits, which apply for investment plan members who qualify for disability,[77] compensate a member who is disabled in the line of duty up to 65 percent of the average monthly compensation as of the disability retirement date for Special Risk Class members. Other members may receive up to 42 percent of the member's average monthly compensation for disability retirement benefits. If a disability occurs other than in the line of duty, the monthly benefit may not be less than 25 percent of the average monthly compensation as of the disability retirement date. A member who qualifies for disability while enrolled in the investment plan may apply for benefits as if the employee were a member of the pension plan. If approved for retirement disability benefits, the member is transferred to the pension plan.[78]

Death or Survivor Benefits

If the member is terminated by reason of death prior to becoming vested in the FRS, the member's beneficiary is only entitled to the member's accumulated contributions.[79] Under the pension plan, if the member is vested at the time of his or her death, the member's joint annuitant[80] is entitled to receive the optional form[81] of payment for the annuitant's lifetime.[82] If the designated beneficiary does not qualify as a joint annuitant, the member's beneficiary is only entitled to the return of the member's personal contributions, if any.[83] If the member dies in the line of duty, the surviving spouse of the member is entitled to receive a monthly benefit equal to one-half of the monthly salary being received by the member at the time of death for the rest of the surviving spouse's lifetime.[84] If there is no surviving spouse or the surviving spouse dies, the member's children under 18 years of age and unmarried may receive the benefits until the youngest child's 18th birthday. In general, members in the

[74] Section 121.021(29)(a)2. and (b)2., F.S.
[75] Section 121.4501(4), F.S.
[76] Section 121.4501(4)(g), F.S.
[77] *See* s. 121.4501(16), F.S.
[78] Section 121.091(4)(f), F.S.
[79] For purposes of disbursement of benefits, a member is considered retired as of the date of the death.
[80] A joint annuitant is considered to be the member's spouse, natural or legally adopted child who is either under age 25 or is physically or mentally disabled and incapable of self-support (regardless of age), or any person who is financially dependent upon the member for one-half or more of his or her support and is the member's parent, grandparent, or person for whom the member is the legal guardian. Section 121.021(28), F.S.
[81] Under the pension plan, a member has a choice of payment options. If the member dies prior to retirement, the member's joint annuitant is entitled to select either to receive the member's contributions or a reduced monthly benefit payment for life.
[82] Section 121.091(7)(b)1., F.S.
[83] Section 121.091(7)(b)2., F.S.
[84] Section 121.091(7)(d)1., F.S. If the surviving spouse dies, or if the member is not married, the monthly payment that would have otherwise gone to the surviving spouse must be paid for the use and benefit of the member's child or children who are under 18 years of age and unmarried until the 18th birthday of the member's youngest child. Section 121.091(7)(d)2. and 3., F.S.

investment plan are not entitled to these death benefits; instead, the member's beneficiary is entitled to the balance of the member's investment plan account, provided the member has met the one-year vesting requirement.[85]

In 2016, the Legislature increased survivor benefits for Special Risk Class members of the pension plan killed in the line of duty on or after July 1, 2013.[86] Rather than receiving a monthly benefit equal to one-half of the member's monthly salary at the time of death, the member's spouse and children are eligible to receive a monthly payment equal to the member's total monthly salary at the time of death. At the same time, the Legislature created a new survivor benefit for Special Risk Class members of the investment plan killed in the line of duty on or after July 1, 2013.[87] As a result, the spouses and children of such members receive the same survivor benefits provided to Special Risk Class members of the pension plan, including the new increased benefit. In addition, for Special Risk Class members of the investment plan or pension plan killed in the line of duty on or after July 1, 2013, survivor benefits may be extended to the 25th birthday of an unmarried child enrolled as a full time student if there is no surviving spouse or the surviving spouse dies.[88]

DROP

All membership classes in the FRS Pension Plan may participate in DROP, which allows a member to retire without terminating employment; a member who enters DROP may extend employment for an additional five years.[89] While in DROP, the member's retirement benefits accumulate and earn interest compounded monthly.[90]

Members in the FRS Investment Plan may not participate in DROP; investment plan members are considered retired from the FRS when the member takes a distribution from his or her account.[91]

Employment after Retirement

Section 121.091, F.S., governs the payment of benefits under the FRS. It requires a member of the FRS to terminate employment to begin receiving benefits or begin participation in DROP to defer and accrue those benefits until termination from DROP. Termination occurs when a member ceases all employment relationships with her or his FRS employer.[92] Termination is void if any FRS-participating employer reemploys a member during a specified period of time.[93]

Subsection 121.091(9), F.S., governs employment after retirement. It allows reemployment of FRS retirees by a non-FRS employer and authorizes those retirees to continue receiving retirement benefits.[94]

Before July 1, 2010, an FRS retiree was allowed to be reemployed by an FRS employer provided certain requirements were met. A member was allowed to be reemployed by an FRS employer one calendar month after retiring or after the member's DROP termination date. If the retiree was reemployed during months two through 12 after retiring or terminating DROP, the retiree was not authorized to receive her or his pension benefit until month 13. However, a retiree was authorized to be

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[85] *See* s. 121.591(3)(b), F.S.
[86] Chapter 2016-213, L.O.F.; codified in ss. 121.091 and 121.591, F.S.
[87] *Id.*
[88] *Id.*
[89] Section 121.091(13)(a) and (b), F.S. Instructional personnel may extend employment for an additional eight years under certain circumstances.
[90] If DROP participation began prior to July 1, 2011, the effective annual interest rate was 6.5 percent. On or after July 1, 2011, the annual interest rate for DROP is 1.3 percent.
[91] *See* s. 121.4501(2)(k) and (4)(f), F.S.
[92] Section 121.021(39)(a), F.S.
[93] *Id.*
[94] Section 121.091(9)(a), F.S.

reemployed as instructional personnel on an annual contractual basis after one calendar month without having her or his retirement benefits disrupted.[95]

A member who retires on or after July 1, 2010, may not be reemployed by an FRS employer until month seven after retiring or after the member's DROP termination date. If the retiree is reemployed during months seven through 12 after retiring or terminating DROP, the retiree may not receive her or his pension benefit until month 13.[96] The reemployment exception for retirees reemployed as instructional personnel no longer applies to members who retire and are reemployed on or after July 1, 2010.

Renewed Membership

Retirees of the FRS Pension Plan or the FRS Investment Plan who were initially re-employed in covered employment by June 30, 2010, renewed their membership in the FRS (the member could choose to participate in either the pension plan or the investment plan) or other state-administered retirement system and earn service credit toward a subsequent retirement benefit. Renewed members are not eligible to participate in DROP or the Special Risk Class, and are not eligible for disability retirement. However, the surviving spouse and dependent child of a renewed member may qualify for survivor benefits.[97]

Currently, retirees initially reemployed in a regularly established position on or after July 1, 2010, are not eligible for renewed membership and do not earn creditable service toward a subsequent retirement benefit.[98] This restriction from renewed membership includes retirees of the FRS Pension Plan and the FRS Investment Plan, as well as members of an optional retirement program.

Optional Retirement Programs

Eligible employees may choose to participate in one of three retirement programs instead of participating in the FRS:

- Members of the Senior Management Service Class may elect to enroll in the Senior Management Service Optional Annuity Program;[99]
- Members in specified positions in the State University System may elect to enroll in the State University System Optional Retirement Program;[100] and
- Members of a Florida College System institution may elect to enroll in the State Community College System Optional Retirement Program.[101]

Contribution Rates

FRS employers are responsible for contributing a set percentage of the member's monthly compensation to the division to be distributed into the FRS Contributions Clearing Trust Fund. The employer contribution rate is a blended contribution rate set by statute, which is the same percentage

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[95] Section 121.091(9)(b), F.S.
[96] Section 121.091(9)(c), F.S.
[97] Section 121.122(1), F.S.
[98] Section 121.122(2), F.S.
[99] The Senior Management Service Optional Annuity Program (SMSOAP) was established in 1986 for members of the Senior Management Service Class. Employees in eligible positions may irrevocably elect to participate in the SMSOAP rather than the FRS. Section 121.055(6), F.S.
[100] Eligible participants of the State University System Optional Retirement Program (SUSORP) are automatically enrolled in the SUSORP. However, the member must execute a contract with a SUSORP provider within the first 90 days of employment or the employee will default into the pension plan. If the employee decides to remain in the SUSORP, the decision is irrevocable and the member must remain in the SUSORP as long as the member remains in a SUSORP-eligible position. Section 121.35, F.S.
[101] If the member is eligible for participation in a State Community College System Optional Retirement Program, the member must elect to participate in the program within 90 days of employment. Unlike the other optional programs, an employee who elects to participate in this optional retirement program has one opportunity to transfer to the FRS. Section 1012.875, F.S.

regardless of whether the member participates in the pension plan or the investment plan.[102] The rate is determined annually based on an actuarial study by DMS that calculates the necessary level of funding to support all of the benefit obligations under both FRS retirement plans.

The following are the current employer contribution rates for each class and subclass:[103]

Membership Class	Normal Costs	Unfunded Actuarial Liability
Regular Class	2.97%	2.83%
Special Risk Class	11.80%	8.92%
Special Risk Administrative Support Class	3.87%	22.47%
Elected Officers' Class • Legislators, Governor, Lt. Governor, Cabinet Officers, State Attorneys, Public Defenders • Justices and Judges • County Officers	6.63% 11.68% 8.55%	33.75% 23.30% 32.20%
Senior Management Service Class	4.38%	15.67%
DROP	4.23%	7.10%

Regardless of employee class (excluding DROP), all employees contribute 3 percent of their compensation towards retirement.[104]

After employer and employee contributions are placed into the FRS Contributions Clearing Trust Fund, the allocations under the investment plan are transferred to third-party administrators to be placed in the employee's individual investment accounts, whereas contributions under the pension plan are transferred into the FRS Trust Fund.[105]

Effect of the Bill

Renewed Membership

Effective July 1, 2017, the bill allows for renewed membership for certain former participants of the investment plan, Senior Management Service Optional Annuity Program, State University System Optional Retirement Program (SUSORP), or State Community College System Optional Retirement Program (SCCSORP). Such renewed member will be a renewed member of the appropriate membership class in the investment plan, unless employed in a position eligible for participation in the SUSORP or the SCCSORP, in which case the retiree will become a renewed member of the SUSORP or the SCCSORP, as applicable. To be eligible for renewed membership, the member must have retired from one of the four specified plans and must be employed in a regularly established position with a covered employer on or after July 1, 2017.

A renewed member may not qualify for disability retirement benefits and must satisfy the vesting requirements of the specific plan. The bill prohibits certain funds from being paid into the renewed member's account for any employment in a regularly established position with a covered employer from July 1, 2010, through June 30, 2017. A renewed member who is not receiving the maximum health insurance subsidy is entitled to earn additional credit toward the subsidy.

[102] Section 121.70(1), F.S.
[103] Section 121.71(4), F.S.
[104] Section 121.71(3), F.S.
[105] *See* ss. 121.4503 and 121.72(1), F.S.

Line-of-Duty Death Benefits

Effective July 1, 2017, the bill expands the survivor benefit for members of the Special Risk Class. Specifically, it provides that such survivor benefits are retroactive to July 1, 2002.

Effective July 1, 2017, the bill also establishes a survivor benefit for all other membership classes of the investment plan for members who are killed in the line of duty since 2002, which is when members were first allowed to participate in the investment plan. The survivor benefits are the same as those currently provided for other membership classes of the pension plan, which is a monthly payment equal to one-half of the member's salary at the time of death. To receive the benefit, the spouse and children must elect to transfer the balance of the member's investment plan account to the survivor benefit account of the FRS Trust Fund. The line-of-duty death benefits supersede any other distribution that may have been provided by the member's designation of beneficiary. For a member killed in the line of duty on or after July 1, 2002, but before July 1, 2017, the initial monthly benefit payable on or after July 1, 2017, will be equal to one-half the member's salary at the time of death, except that it will be:

- Actuarially reduced by the amount of the investment plan payout, if a payout was issued; and
- After the actuarial reduction, increased by the applicable cost-of-living adjustment that would have been payable if the survivor benefit payment had begun the month following the member's death. On each July 1 after the initial payment, the benefit will be increased by the applicable cost-of-living adjustment.

Senior Management Service Optional Annuity Program

The bill closes the SMSOAP to new participants effective July 1, 2017. Currently, fewer than 30 members participate in this optional retirement program.

Default

For members initially enrolled in the FRS on or after January 1, 2018, the bill changes the default from the pension plan to the investment plan, except for members enrolled in the Special Risk Class. The bill extends the period to make the initial selection by an additional three months. As such, a new member enrolled on or after January 1, 2018, will have nine months to make an initial selection rather than six months. Thus, if the member does not make a selection within nine months, the member will default to the investment plan instead of the pension plan. A member enrolled in the Special Risk Class who fails to make a slection will default to the pension plan. The bill maintains the member's second election option.

Uniform Rates

The bill adjusts the uniform rates for the required employer contribution for each membership class and subclass of the FRS for both retirement plans, effective July 1, 2017. It also adjusts the required employer contribution rates for each membership class and subclass of the FRS necessary to address the plan's unfunded actuarial liability.

Allocations for Member Line-of-Duty Death Benefits

The bill adjusts the allocations from the FRS Contributions Clearing Trust Fund to provide line-of-duty death benefits for members of the investment plan and to offset the costs of administering line-of-duty death benefit coverage, effective July 1, 2017.

Important State Interest

The bill declares that it fulfills an important state interest. It provides that a proper and legitimate state purpose is served by the bill, which includes providing benefits that are managed, administered, and funded in an actuarially sound manner.

State Employees and Officers – Pay Adjustments

Effect of the Bill

The bill provides pay adjustments, effective October 1, 2017, unless otherwise noted, to state employees and officers for the 2017-2018 FY as follows:

Description	GR	TF
Across the Board Pay Increase Provides a $1,400 salary increase for employees making $40,000 or less, and a $1,000 increase for those making over $40,000.	$ 45,100,000	$60,900,000
Law Enforcement Officers Provides a 5 percent salary increase to sworn officers covered by the Police Benevolent Association and select other law enforcement job classes.	$ 3,200,000	$ 9,500,000
Correctional Officers Increases the minimum salaries of Correctional Officer, Sergeant, Lieutenant and Captain job classes with a minimum increase of $2,500.	$ 42,200,000	$ 1,500,000
Department of Legal Affairs Increases the starting salaries of attorneys to $43,900, provides a $6,000 increase to Assistant Attorney General job classes, and provides a $3,000 increase to select higher level attorney job classes.	$ 800,000	$ 1,400,000
Judges, Elected Public Defenders & State Attorneys Increases the salaries for Judges, State Attorneys, Public Defenders, by 10 percent. Criminal Conflict and Civil Regional Counsels and members of certain Commissions receive the across-the-board increase.	$ 15,800,000	$ -
Guardian Ad Litem Increases the salaries for certain Child Advocacy job classes by $5,000 and by $3,000 for Program Attorney job classes.	$ 2,500,000	$ -
Department of Veterans' Affairs Provides a $2,080 for Certified Nurse Assistants and Therapy Aides in the Department of Veterans' Affairs, effective July 1, 2017.	Paid from current Agency Funds	
Department of Highway Safety and Motor Vehicles Authorizes the Department to increase the minimum salaries of law enforcement officers from $33,977 to $36,223.	Paid from current Agency Funds	
Total Cost of Salary Increases	**$ 109,600,000**	**$73,300,000**

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

   See FISCAL COMMENTS.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

   None.

2. Expenditures:

   See FISCAL COMMENTS.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The state employee group insurance portion of the bill will provide additional opportunities for private companies to contract to provide services to the state and its employees.

D. FISCAL COMMENTS:

State Employee Group Insurance Program

The bill appropriates $507,546 in nonrecurring trust funds and $151,216 in recurring trust funds and two FTEs to DMS to implement the administrative functions necessary for the state employee group insurance program provisions of the bill. The positions and recurring funds are provided primarily for the implementation and continued administration of the price transparency program, the administration of certain medical and surgical services provided for in the bill, and the implementation of communication and education components of the bill. The nonrecurring funds are provided to procure consulting services, conduct actuarial analysis, provide procurement support, assist in the development of the premium tiers and the reference pricing program, and assist in the development of communication and education tools to provide employees with the means to make well-informed and educated choices.

The provision requiring DMS to determine and propose employee premium rates that reflect the actuarial benefit difference between the HMO, PPO, and HDHPs for plan year 2019, if implemented, will be cost neutral to the state. Employees will generally have a choice between richer benefits and lower premiums.

DMS has previously indicated that the fiscal impact of the development of the tiered premium structure in plan year 2020 is indeterminate. The cost or savings to the state will be dependent on the specifics of the premium and cost-sharing arrangement ultimately established by the Legislature in implementing the tiered structure. The tiers and premium structure can be designed to be cost-neutral to the state.

State Employees and Officers – Pay Adjustments

The bill appropriates $109.7 million from the General Revenue Fund and $73.4 million from trust funds to implement the salary increases provided therein. *See* the chart on page 22 for further explanation of the specific salary increases being provided and the associated fiscal.

FRS

The fiscal impact of the provisions related to funding the FRS are illustrated in the following table:

Cost (millions $)	Fully Fund the FRS: UAL and Normal Costs		Implement FRS Changes (SB 7022): UAL and Normal Costs		Total: UAL and Normal Costs	
Entities Funded by the State [1]	GR	TF	GR	TF	GR	TF
State	15.4	11.4	3.3	2.3	18.7	13.7
County School Boards	54.1	-	3.5	-	57.6	-
State Universities	11.1	-	0.5	-	11.6	-
State Colleges	4.9	-	0.4	-	5.3	-
Totals	***85.5***	***11.4***	***7.7***	***2.3***	***93.2***	***13.7***

Other Entities not Funded by the State	Fully Fund the FRS	Implement FRS Changes (SB 7022)	Total
Counties	39.2	8.5	47.7
Municipalities/Special Districts/Other	7.7	1.0	8.7
Grand Totals	143.8	19.5	163.3

[1] Funds are provided in the respective areas of the General Appropriations Act.

State Employees and Officers – Pay Adjustments

The bill appropriates $109.7 million from the General Revenue Fund and $73.4 million from trust funds to implement the salary increases. *See* the chart on page 21 for further explanation and details of the specific salary increases and the associated cost.