



Appropriations Committee

Thursday, January 13, 2011
1:15 PM – 5:00 PM
212 Knott Building

Meeting Packet

Dean Cannon
Speaker

Denise Grimsley
Chair



The Florida House of Representatives

Appropriations Committee

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Meeting Agenda

Thursday, January 13, 2010
212 Knott Building
1:15 PM – 5:00 PM

- I. Call to order/Roll Call
- II. Opening Remarks by Chair Grimsley
- III. Staff Presentation on the Florida Retirement System
- IV. Staff Presentation on the State Employee Health Insurance Program
- V. Closing Remarks and Adjournment

Florida Retirement System

Florida House of Representatives

Appropriations Committee

January 13, 2011

Florida Retirement System

“At a Glance”

Florida Retirement System (FRS):

- Annual employer contributions \$3.4 billion
- Active participants 655,367
- Annuitants 304,337
- Funding ratio as of July 1, 2010 87.9 percent
- Market value of assets as of July 1, 2010 \$109.5 billion
- Projected annual contribution for state employees \$667.9 million

Topics of Discussion:

- Membership
- FRS plan options
- Costs, funding and impact to the budget
- Benefits
- Deferred Retirement Option Program

Florida Retirement System

- Established in 1970
- Provides retirement, disability and death benefits
- Funded through employer contributions and investment earnings
- Managed by the Department of Management Services and the State Board of Administration
- 655,367 active participants as of June 2010

Membership

Florida Retirement System

Participants

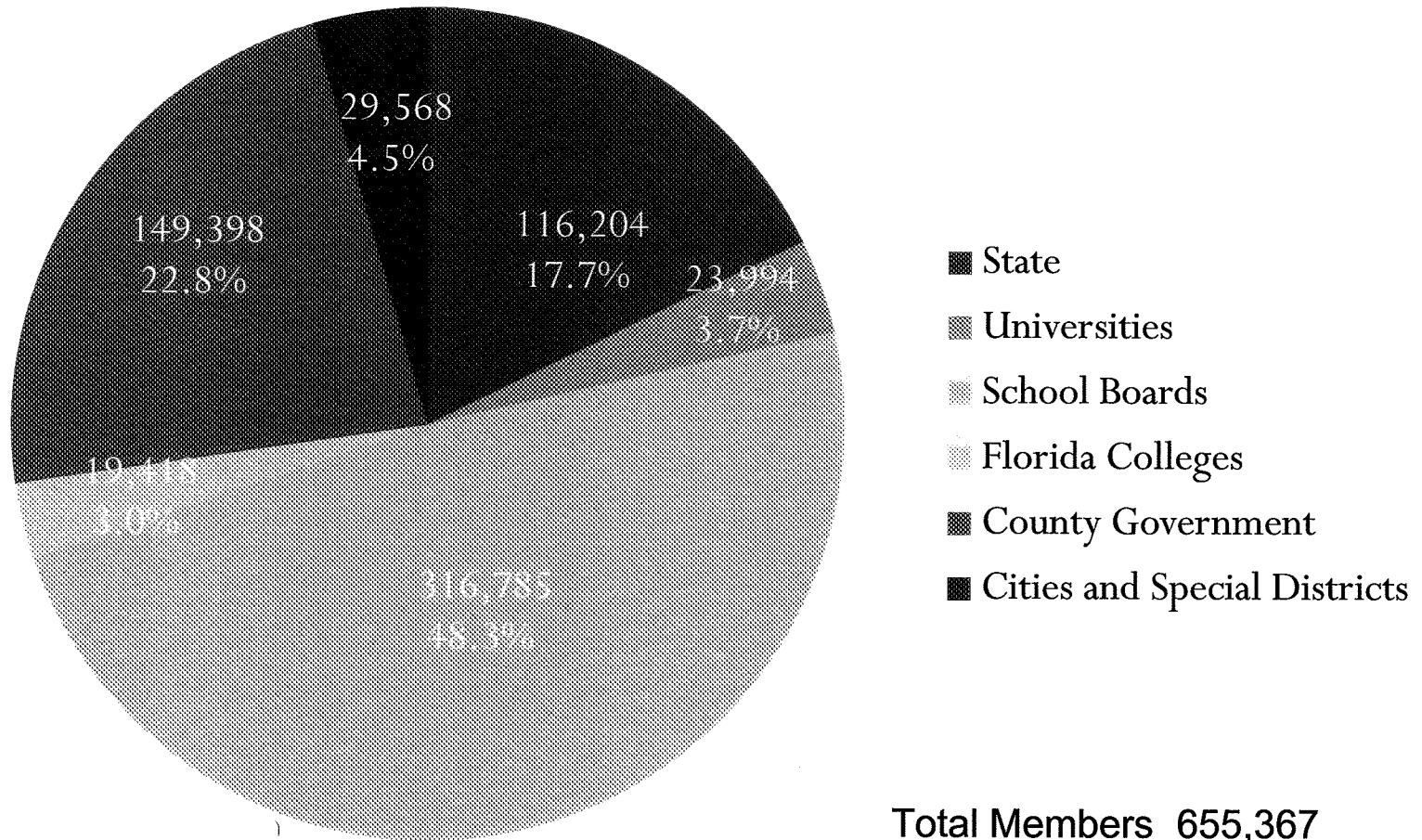
Required:

- State
- School boards
- County governments
- Universities
- Florida colleges (formerly community colleges)

Optional:

- Municipalities
- Special districts

Active Membership by Employer



Membership Plans

FLORIDA RETIREMENT SYSTEM

Two Plan Options

- DEFINED CONTRIBUTION PLAN

- ◆ Participants are guaranteed a certain level of contributions from their employers
- ◆ Participants select how contributions will be invested
- ◆ Participants bear the risk of their investment decisions
- ◆ 97,782 (14.9%) active members

- DEFINED BENEFIT PLAN

- ◆ Retirement benefit is a guaranteed formula-based payment that is funded by employer contributions
- ◆ Employer bears the investment risk
- ◆ 557,585 (85.1%) active members

Defined Contribution (DC) Plan

- Established by the 2000 Legislature to take effect in 2002
- State Board of Administration (SBA) is primarily responsible for administering the DC Plan
 - Comprised of the Governor as chair, Chief Financial Officer and Attorney General – commonly referred to as “Trustees”
 - Trustees delegate operational responsibilities to an Executive Director

DC Plan (cont.)

- SBA develops policy and procedures for selecting, evaluating and monitoring the performance of approved providers and investment products to which employees may direct retirement contributions
 - Investment options and products are considered based upon criteria established in law
- All benefits payable under DC Plan are paid to the individual participant's account
- Participants may rollover monies to and from qualified retirement plans

Defined Benefit (DB) Plan

- Division of Retirement in Department of Management Services administers DB Plan
- SBA invests DB Plan assets
 - ◆ Must follow fiduciary standards of care, subject to certain limitations, which are established in law
 - ◆ Current law provides a “legal list” of types of investments and percentages of the total fund that may be invested in each investment type
- Six-member Investment Advisory Council, appointed by the Trustees, provides independent oversight of the general objectives, policies and strategies for DB Plan investments

Legal Requirements

FLORIDA RETIREMENT SYSTEM

Actuarial Requirements

FLORIDA CONSTITUTION prohibits the state from providing any increased retirement benefits unless the state has made or concurrently makes provision for the funding of those benefits on a sound actuarial basis (Art. X, s. 14, Fla. Const.)

FLORIDA STATUTES implement the constitutional provision

- “Florida Protection of Public Employee Retirement Benefits Act” establishes minimum standards for the operation and funding of public employee retirement systems and plans in the State of Florida (ss. 112.60 – 112.67, F.S.)
- Section 121.031(3), F.S., requires an annual actuarial study of the FRS

Contractual Obligations

FLORIDA CONSTITUTION prohibits the passage of any law impairing the obligation of contracts (Art. I, s. 10, Fla. Const.)

FLORIDA STATUTES provide that the rights of members of the Florida Retirement System are of a contractual nature, entered into between the member and the state, and such rights are legally enforceable as valid contract rights and may not be abridged in any way [s. 121.011(3)(d), F.S.]

Funding Methodology

FLORIDA RETIREMENT SYSTEM

Definitions

NORMAL COST is the amount needed to fund future benefits allocated to the valuation year

AMORTIZATION OF THE UNFUNDED ACTUARIAL LIABILITY (UAL) is the annual cost to eliminate the UAL within the amortization period

Funding Methodology

- Actuarial valuation is performed annually on DB Plan
 - Determines the actuarial funding status of DB plan as well as proposes employer contribution rates sufficient to fund the normal cost of the plan and amortization of the UAL, if any
- Blended Rate Study is performed subsequent to the actuarial valuation which 'blends' the Normal Cost rates with the DC plan deposit rates to establish a uniform employer contribution rate

Funding Methodology (cont.)

- Rates are established annually in a conforming bill
- *If* the legislatively adopted rates change from the previous year, the Legislature provides an appropriation for state entities (positive or negative) in the Administered Funds section of the General Appropriations Act
- Appropriations made in Administered Funds are allocated to state agencies by the Executive Office of the Governor by adjusting the Salary and Benefits Appropriation Category through the budget amendment process
- Legislature typically adjusts appropriations to account for changes in rates for the following entities as well:
 - Universities
 - Florida colleges
 - School boards (FEFP)

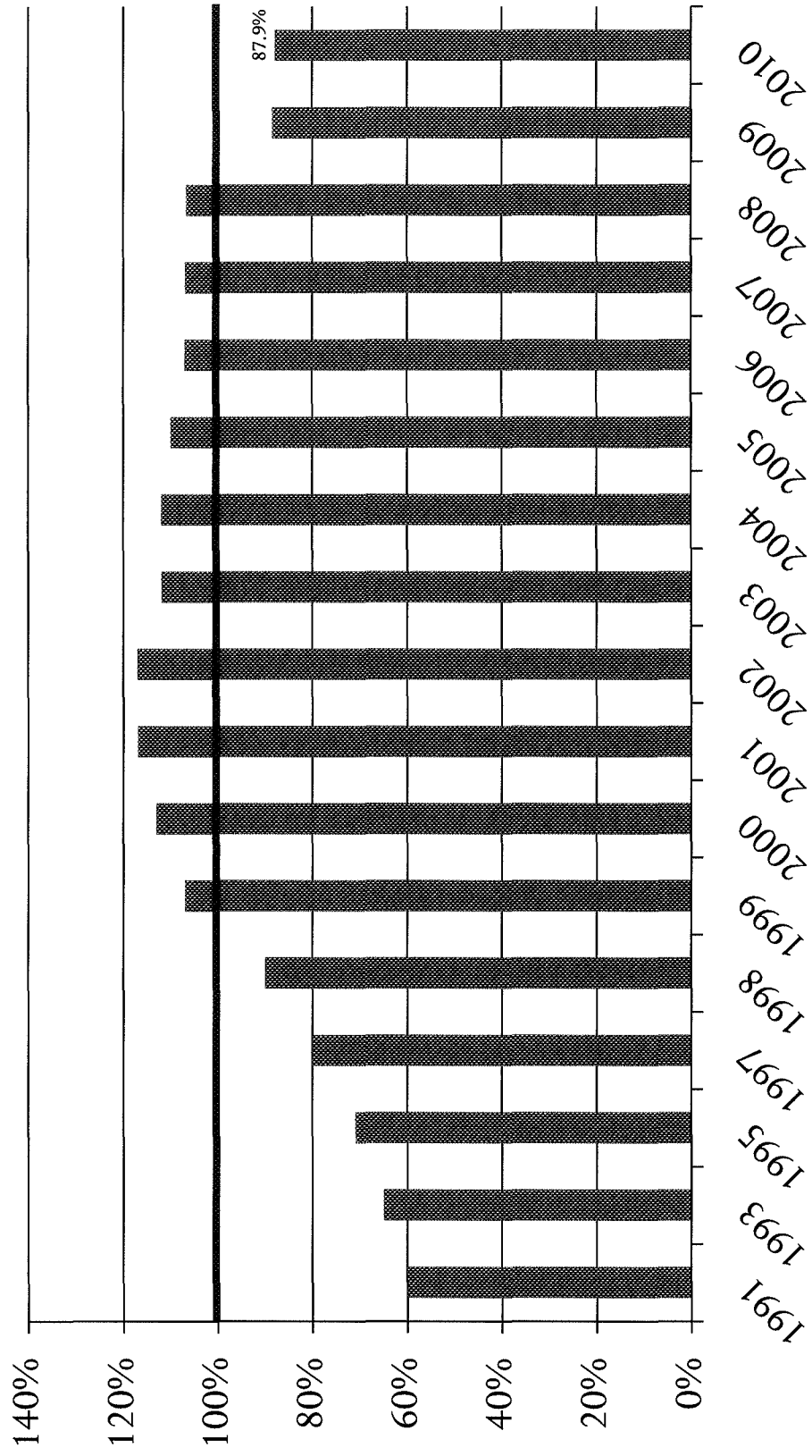
Actuarial Funding, DB Plan

FLORIDA RETIREMENT SYSTEM

Actuarial Funding Status

- As of July 1, 2010, DB Plan had an actuarial funding level of 87.9 percent
 - ◆ UAL of \$16.7 billion
 - ◆ Actuarial deficit is due to market declines in 2008 and 2009 and plan experience
- Historically, DB Plan has been rated one of the top three funded public retirement plans in the U.S.
 - ◆ As all retirement funds were affected similarly, Florida is expected to maintain a high ranking
- Industry experts consider an actuarial funding level of over 80.0 percent to be a well funded program
 - ◆ Most recent data regarding public pension plan funding indicates that over half of the states providing data have funding ratios below 80.0 percent

Historical Actuarial Funding Ratio



Employer Contributions and Funding Needs

FLORIDA RETIREMENT SYSTEM

Fiscal Year 2011-12

Projected Contributions, by Employer Group, Assuming Funding at Actuarial Normal Cost

Employer	Estimated Contribution Current Statutory Rates FY 2010-11	Projected Additional Funding Needs FY 2011-12	Projected Contribution Normal Blended Rates FY 2011-2012
State	\$659.4 million	\$8.6 million*	\$667.9 million
School boards	\$1,332.9 million	\$39.7 million*	\$1,372.6 million
Universities	\$120.9 million	\$4.0 million*	\$124.9 million
Florida colleges	\$92.6 million	\$2.5 million*	\$95.1 million
Counties	\$1,183.8 million	\$18.2 million	\$1,202.0 million
Participating cities/others	\$193.7 million	\$2.8 million	\$196.6 million
Total	\$3,583.2 million	\$54.8 million	\$3,659.1 million

* The State typically provides the additional funding needs for these entities. For FY 2011-2012, the total funding need for the State is \$50.7 million in GR and \$4.1 million in TF.

Fiscal Year 2011-12

Actuarially determined Annual Amortization of the UAL

Employer ¹	General Revenue	Trust Funds
State	\$101.7 million	\$93.2 million
School boards	\$308.5 million	
Universities	\$59.8 million	
Florida colleges	\$26.4 million	
Totals	\$496.3 million	\$93.2 million

¹ The state typically funds employer contribution rate changes for these employer groups.

Class Structure and Benefits

FLORIDA RETIREMENT SYSTEM

Class Structure

- REGULAR CLASS - Members who do not qualify for membership in other classes within the FRS
- SPECIAL RISK CLASS - Law enforcement officers, firefighters, correctional officers, correctional probation officers, paramedics, EMTs, certain professional health care workers within Department of Corrections and Department of Children and Family Services and certain forensic employees
- SPECIAL RISK ADMINISTRATIVE SUPPORT CLASS – Former special risk class members who are transferred or reassigned to an administrative support position in certain circumstances
- ELECTED OFFICERS' CLASS - Members who hold specified elective offices in either state or local government
- SENIOR MANAGEMENT SERVICE CLASS - Generally, high level executive and legal staff or as specifically provided in law

Employer Contribution Rates

Membership Class	Normal Cost Rates Defined Benefit Plan FY 2011-12	Defined Contribution Plan Rates	Employer Contribution 'Blended Rates' FY 2011-12
Regular Class	9.84%	9.25%	9.76%
Special Risk Class	22.34%	21.33%	22.20%
Senior Management Service Class	11.84%	11.21%	11.70
Elected Officers' Class:			
Leg-Atty-Cabinet	14.74%	13.81%	14.48%
Judges	19.42%	19.63%	19.43%
County/City	16.79%	16.61%	16.73%

DB Plan Benefit Summary

- Benefit Calculation:

- ◆ Years of Service X Accrual Rate X Average Final Compensation (AFC)
- ◆ 3 percent annual Cost of Living Adjustment is provided to retirees

Example*:

Class	Years of Service	Accrual Rate	Percentage Earned	AFC	Annual Benefit
Regular Class	30	1.60%	48.0%	40,000	19,000
Special Risk	25	3.00%	75.0%	40,000	30,000
Senior Management	30	2.00%	50.0%	40,000	20,000
Elected Officer - Judge	30	3.33%	100.0%	40,000	40,000
Elected Officer - Others	30	3.00%	90.0%	40,000	36,000

*Table reflects benefit calculated at Normal Retirement

Disability Benefits (minimum)

- Special Risk:

In-line-of-duty: 65 percent of AFC

Regular Disability: 25 percent of AFC

- Regular Class/Other Classes:

In-line-of-duty: 42 percent of AFC

Regular Disability: 25 percent of AFC

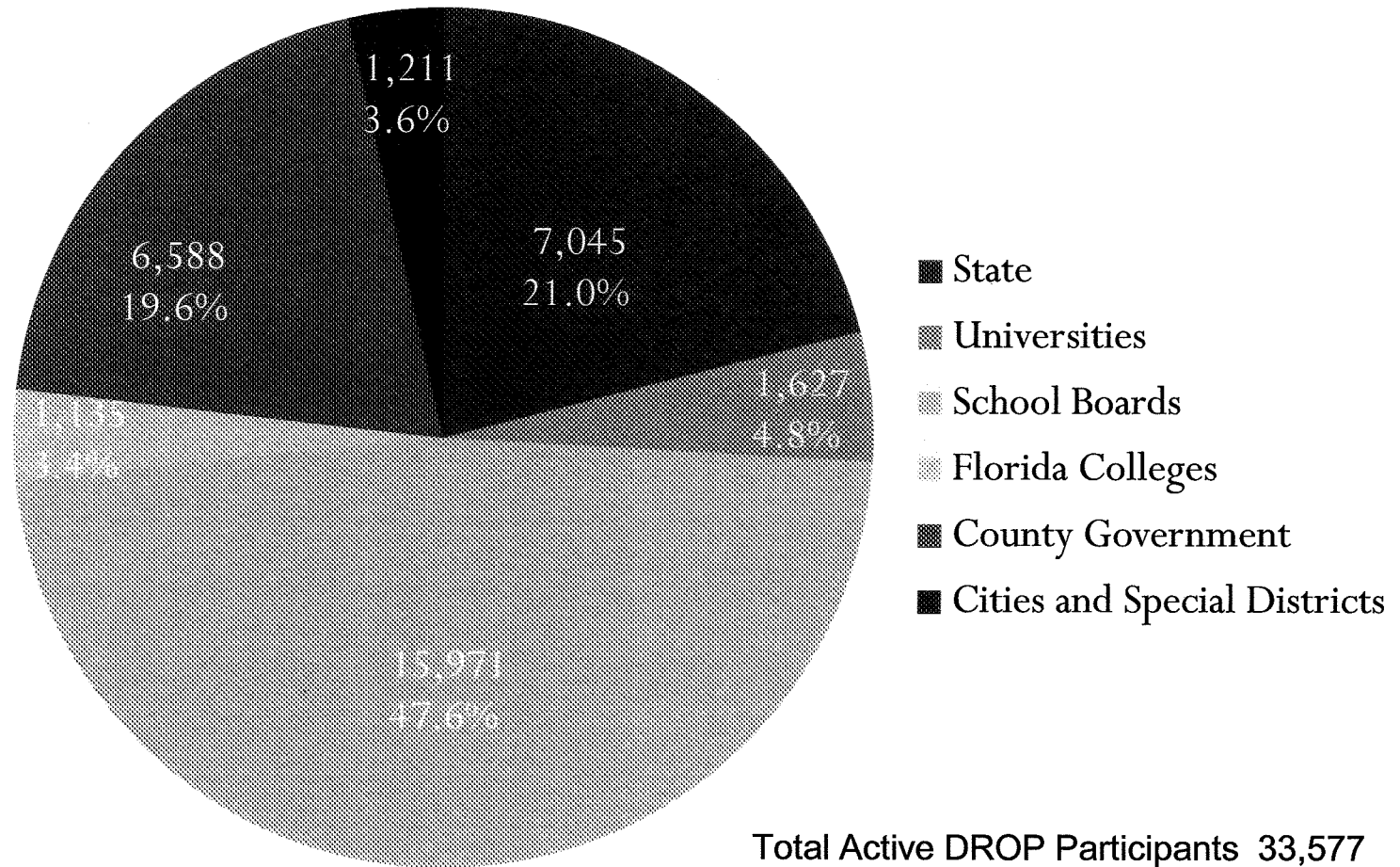
Deferred Retirement Option Program (DROP)

FLORIDA RETIREMENT SYSTEM

DROP

- Established in 1998
- Allows members to retire and continue working for up to:
 - ◆ 5 Years: Most members
 - ◆ 8 Years: K-12 Instructional Personnel
- Pension benefits accumulate in the FRS Trust Fund
 - ◆ Earn 6.5 percent interest, annually
 - ◆ Earn 3.0 percent Cost of Living Adjustment, annually
- Members must terminate FRS employment after completing DROP

Active DROP Participants by Employer



Legislative Changes

FLORIDA RETIREMENT SYSTEM

Effective July 1, 2010

- Members who retire or exit DROP:
 - Cannot be reemployed by an FRS employer within 6 months
 - No longer eligible to earn additional pension benefits
- DROP accounts for Elected Officials no longer earn interest when DROP participation ends, even if the term of office extends beyond the expiration date

**State Employees' Health
Insurance Program**

State Employees' Health
Insurance Program

January 13, 2011
House Appropriations Committee

State Employees' Health Insurance Program

"At a Glance"

The State Employees' Health Insurance Program:

- Is estimated to spend **\$2 billion** in FY 2011-12 in health benefit cost
- Total spend is growing on average **8.4%** per year
- Financed in large part by the state - **\$1.45 billion** in FY 2010-11
- State contributions represent approx. **14.5%** of the \$9.9 billion state and university employees' salary and benefit cost

Topics of Discussion:

- Plan offerings and designs
- Enrollment and trends
- Costs, funding, and impact to the budget
- Premium structure
- Plan Benchmarking
- Industry actions
- Related work in progress

Plan Offerings and Designs

Program Attributes

- **Employer-sponsored** health insurance whereby state entities make a substantial contribution toward the cost of coverage on behalf of its employees as part of their employee pay package
- **Cafeteria Plan** offered pursuant to Section 125 of the Internal Revenue Code which provides for tax savings for employees in that contributions made through payroll deductions are not subject to federal or social security taxes. The state saves on the employer portion of the social security tax.
- **Legislature** sets eligibility, funding, and benefit policies
- **Administered** by the Division of State Group Insurance, Department of Management Services, pursuant to s. 110.123, F.S.
- **State Employees' Health Self-Insurance Trust Fund** is the treasury account to record the collection of revenues and the disbursements for health benefit and administrative costs.
- **Plan Year** is on a calendar year basis

Plan Types

- **Self-insured Preferred Provider Organization plan (PPO)**
 - An insurance arrangement in which the state has assumed direct financial responsibility for the health benefit cost of enrollees' medical and prescription drug claims
- **Fully Insured Health Maintenance Organization plans (HMO)**
 - An insurance arrangement in which the state has contracted with HMOs to assume all financial responsibility for the health benefit cost of enrollees' medical and prescription drug claims
- **High Deductible Health Plan (HDHP) with an Integrated Health Savings Account (HSA)**
 - Commonly referred to as the Health Investor Health Plan
 - Self-insured and fully insured arrangements
 - Plan offers same level of medical and prescription drug coverage
 - Lower employee contributions with greater out-of-pocket costs
 - State contributes \$500/\$1,000 per year to an employee's HSA with single/family coverage

Plan Design Comparison – Plan Year 2011

(In Network)

Out-of-Pocket Cost		PPO	HMO	HDHP
Annual Deductible	Individual	\$250	N/A	\$1,250
	Family	\$500	N/A	\$2,500
Coinsurance		N/A	N/A	20%
Annual Out-of Pocket Max.	Individual	\$2,500	\$1,500	\$3,000
	Family	\$5,000	\$3,000	\$6,000
Doctor Office Visit Co-pay		\$15	\$20	20%
Specialist Office Visit Co-pay		\$25	\$40	20%
Urgent Care Co-pay		\$20	\$25	20%
Hospital Stay Co-pay		\$250 then Coinsurance	\$250	20%
Emergency Co-pay		\$100	\$100	20%
Preventive Care		Limited	More Options	More Options
Prescription Drugs/Mail Order	Generic	\$7/\$14	\$7/\$14	30%
	Preferred	\$30/\$60	\$30/\$60	30%
	Non-Preferred	\$50/\$100	\$50/\$100	50%
Lifetime Maximum		Unlimited	Unlimited	Unlimited

Enrollment and Trends

Program Enrollment

Optional for all permanent state employees including all state agencies, state universities, the court system, and the Legislature.

Avg. Enrollment (FY 2009-10)

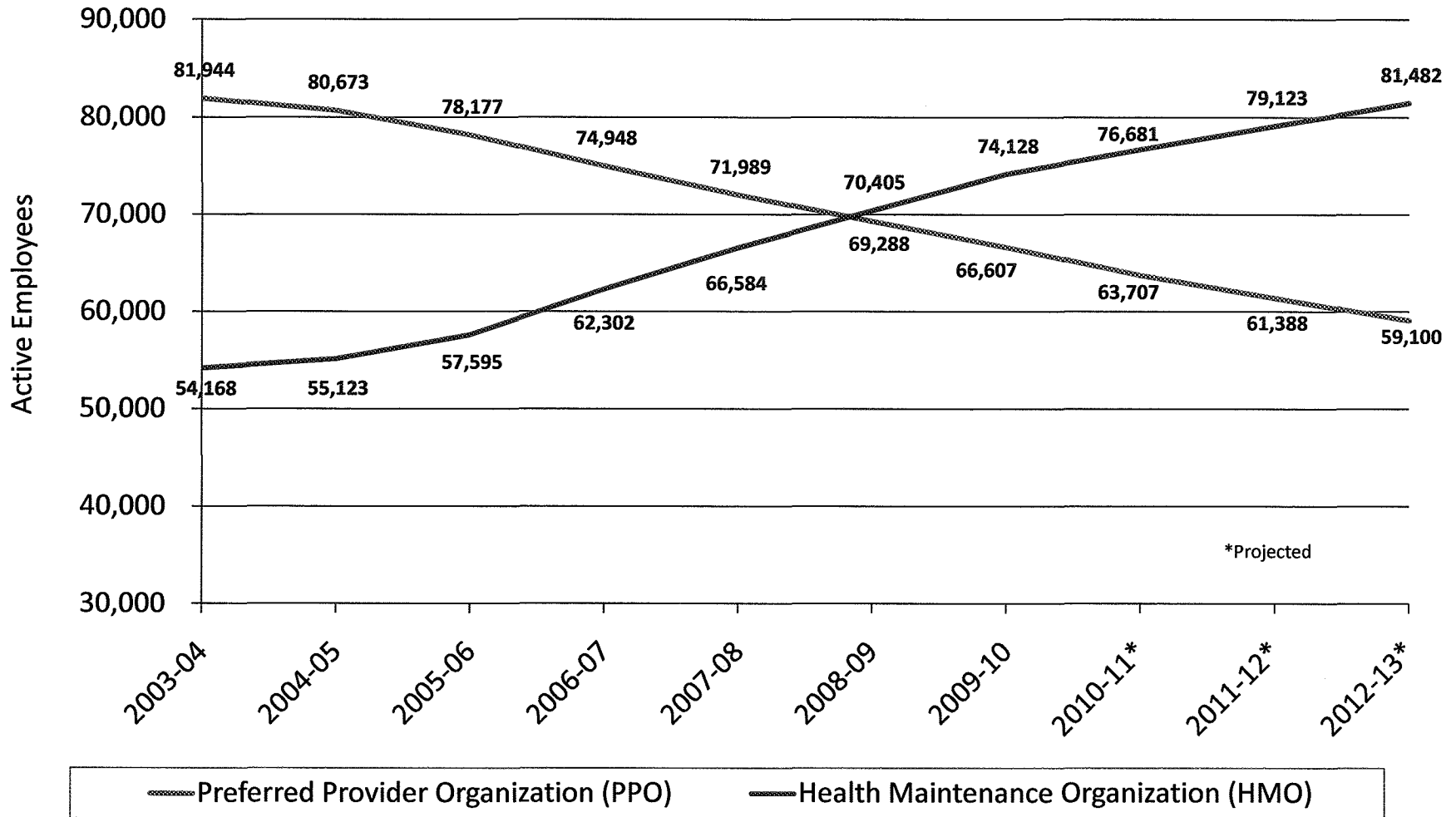
Category	Contract Count	Percent to Total	PPO Plan	HMO Plans	HDHP/HSA
Active	140,735	79.4%	65,786	73,694	1,255
COBRA	874	.5%	594	277	3
Early Retiree	7,913	4.5%	5,235	2,633	45
Medicare	27,675	15.6%	23,337	4,307	31
Total	177,197		94,952	80,911	1,334

COBRA: Consolidated Omnibus Budget Reconciliation Act

Total covered lives at fiscal year end: 374,764

Note: Approximately 18,600 employees are not enrolled in a state-offered health plan.

Comparison of HMO and PPO Plan Contracts - Active Employees Only -



Costs, Funding, and Impact to the Budget

Plan Funding

- Funded on a “pay-as-you-go” basis
- Two tier premium rates - single or family coverage regardless of plan selection
- State contributes approx. 90% toward the total annual premium for active employees - (\$1.45B out of total premium of \$1.61B for FY 2010-11)
- General Revenue dollars fund approximately 67% of the state’s total annual contribution - (\$971.5M for FY 2010-11)
- State trust fund dollars fund the remaining 33% of the state’s total annual contribution - (\$478.5M for FY 2010-11)
- Retirees pay 100% of the set premium
- Incidental revenue includes such items as medical claims refunds, prescription drug rebates, and investment earnings

Plan Budgeting

Self-Insurance Estimating Conference

- S. 216.136(9), F.S., requires Self-Insurance Estimating Conferences to develop official information on related program issues to aid in the state planning and budgeting process
- Three estimating conferences per year
- Conferees forecast trust fund cash flows and year-end balances for the current and next 3 fiscal years

Budgeting for State Entity Contributions

- State contributions are budgeted in each entities' 'Salaries & Benefits' appropriation category
- Changes to contributions and plan benefits are typically included in Section 8 (*Salaries and Benefits*) of the General Appropriations Act
- Added funding resulting from an increase in state contributions is made in a line item appropriation in Section 6 (*Administered Funds*) of the General Appropriations Act
- Appropriations made in Administered Funds are allocated to state entities by the Executive Office of the Governor by increasing the entities' 'Salaries & Benefits' appropriation category through development of the base budget and the budget amendment process¹²

Financial Forecast

Results of Revenue Estimating Conference - December 9, 2010
(In Millions)

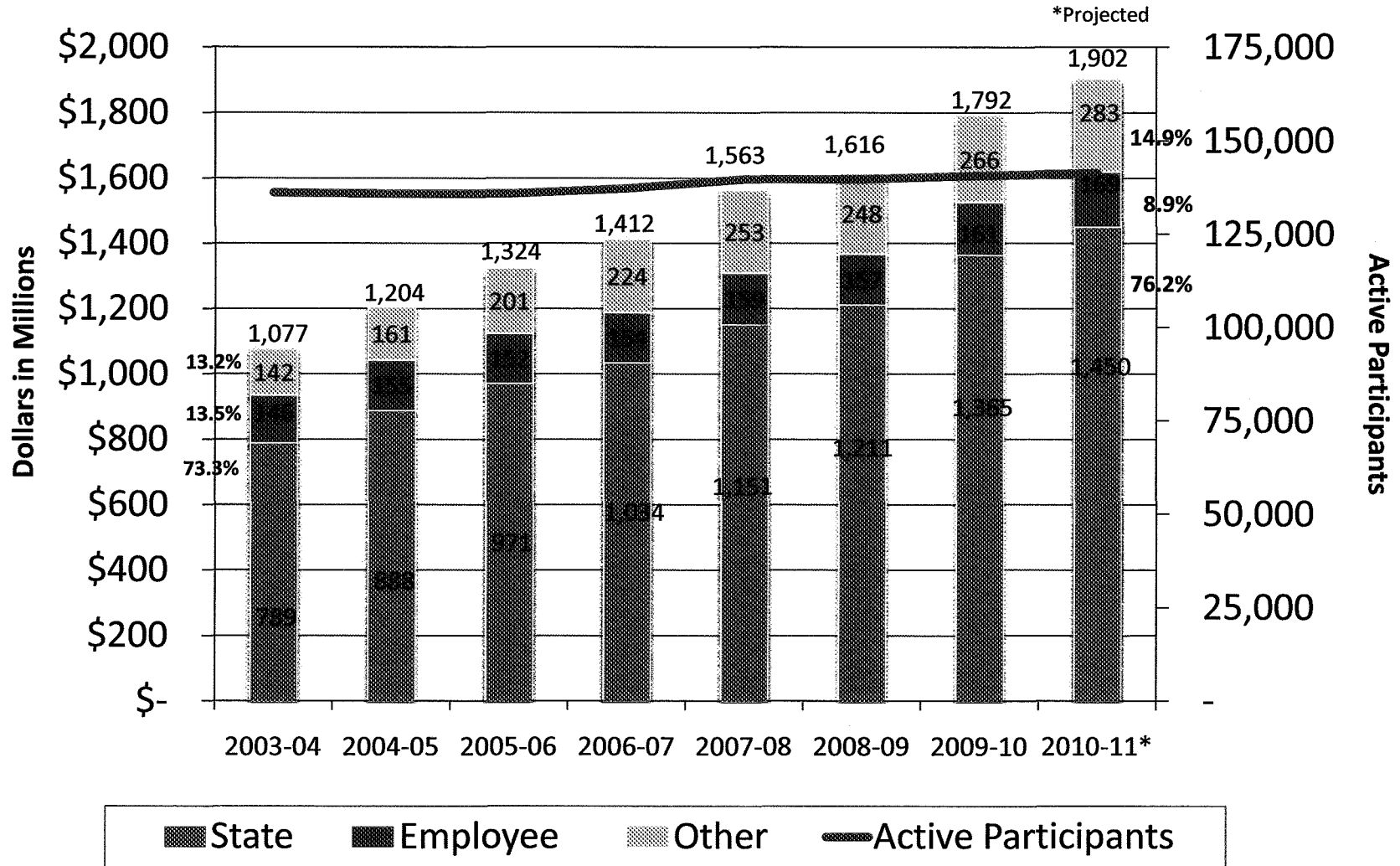
	Actual	----- Projected -----			
	2009-10	2010-11	2011-12	2012-13	2013-14*
Beginning Cash Balance	206.2	224.6	243.1	99.6	0.0
Revenues	1,792.0	1,901.8	1,901.6	1,959.1	2,081.4
Expenses	1,773.6	1,883.3	2,045.1	2,287.4	2,686.5
Operating Gain/(Loss)	18.4	18.5	(143.5)	(328.3)	(605.1)
Ending Cash Balance/(Deficit)	224.6	243.1	99.6	(228.7)	(605.1)

* Assumes no carry forward of negative cash balances from prior year.

State Contributions to Total Annual Premiums and Other Revenues

FY 2003-04 through FY 2010-11

FY 2010-11 Total Revenue: \$1.9B State Contributions: \$1.45B



Premium Structure

Monthly Premiums

Category	Coverage	Standard Plan PPO/HMO			Health Investor Health Plan PPO/HMO		
		Employer	Enrollee	Total	Employer*	Enrollee	Total
Career Service	Single	499.80	50.00	549.80	499.80	15.00	514.80
	Family	1,063.34	180.00	1,243.34	1,063.34	64.30	1,127.64
	Spouse	1,243.32	30.00	1,273.32	1,097.64	30.00	1,127.64
SES/SMS/EOG LEG/Lottery	Single	541.46	8.34	549.80	506.46	8.34	514.80
	Family	1,213.34	30.00	1,243.34	1,097.64	30.00	1,127.64
COBRA	Single		534.09	534.09		455.90	455.90
	Family		1,207.82	1,207.82		1,004.81	1,004.81
Early Retirees	Single		549.80	549.80		473.12	473.12
	Family		1,243.34	1,243.34		1,044.32	1,044.32
Medicare Retirees	One Eligible		305.82	305.82		230.52	230.52
	Family		881.80	881.80		722.16	722.16
	Two Eligible		611.64	611.64		461.04	461.04

*Includes employer tax-free HSA contribution - \$500 per year for single coverage and \$1,000 per year for family coverage.

Employee Enhanced Premium Arrangements

- **Spouse Program**

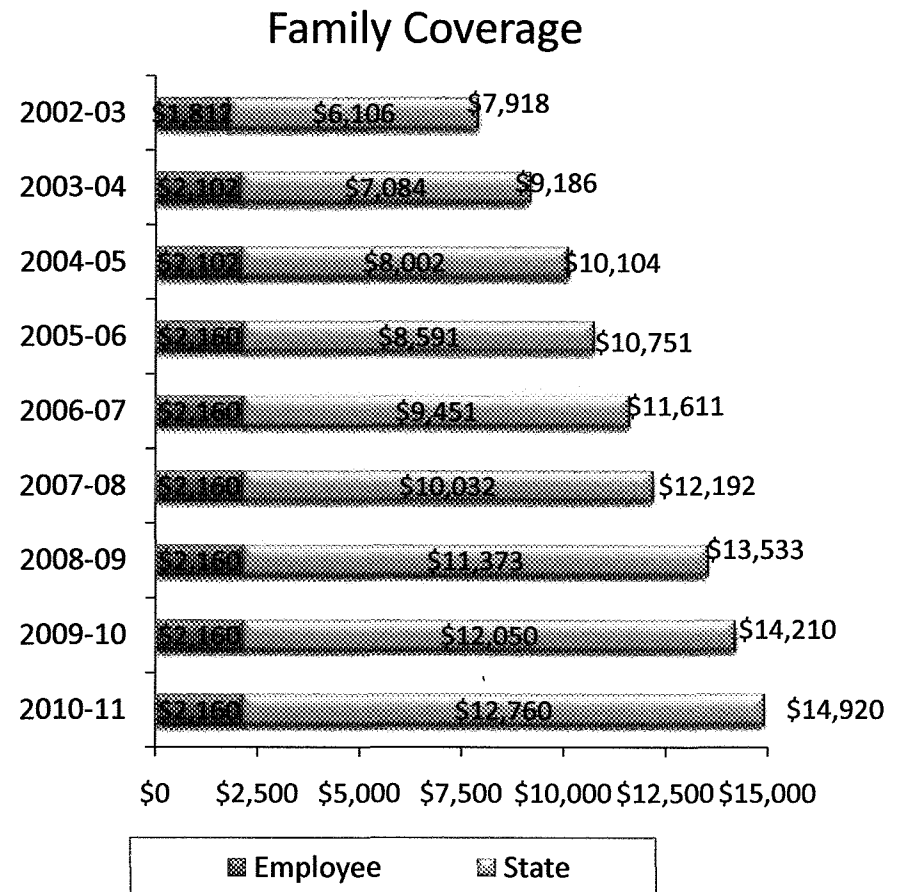
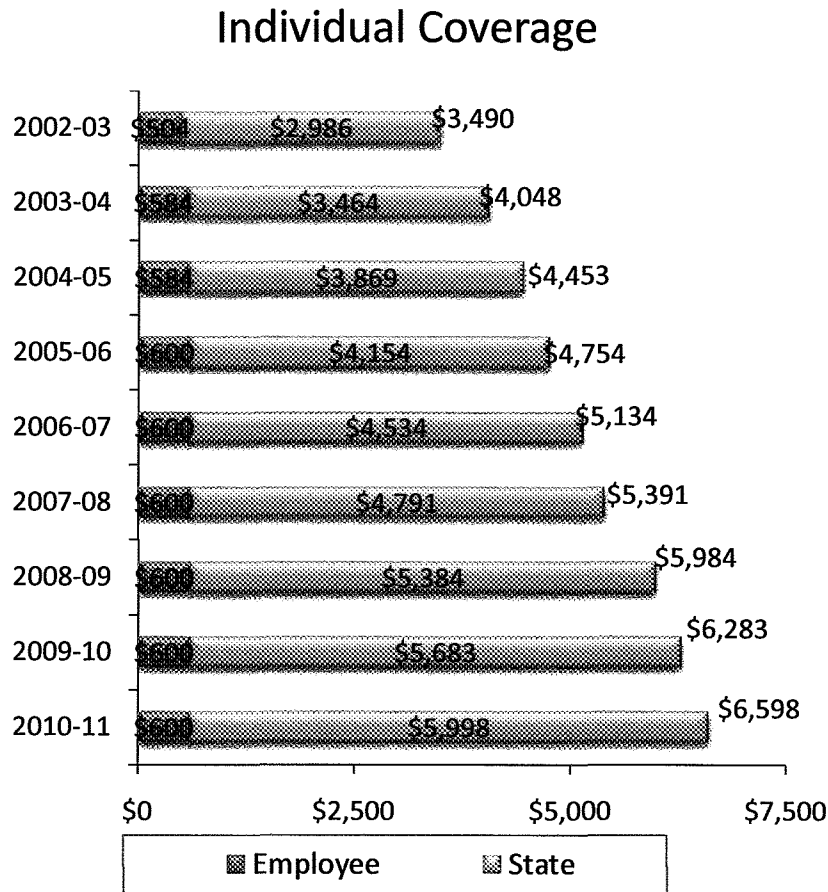
- When a married couple are both active state employees in the Career Service pay plan, both are eligible for a reduced monthly premium. Each spouse pays \$15 per month.
- Enrollment: 13,556 employees
- Cost to Program: \$14.6M - \$18.5M per year

- **Non-Career Service Employees**

- Employees in pay plans including Selected Exempt Services, Senior Management Services, the Executive Office of the Governor, the Legislature, and the Florida Lottery pay a reduced monthly premium. Each employee pays \$8.34/\$30.00 for single/family coverage.
- Enrollment: 25,937 employees
- Cost to Program: \$36.8M per year

Note: These two groups of employees were not required to make any contributions toward health insurance coverage prior to policy changes in employee contribution rates resulting from the 2010 Legislative Session.

Employee and State Contributions to Total Annual Premiums - Individual and Family Coverage - Career Service Employees Only



Plan Benchmarking

Plan Benchmarking

- The most recent benchmarking study comparing the state health program to large employer-sponsored health programs in both the private and public sector was performed in 2007 and is considered to dated for equitable comparisons
- However, the study at that time indicated that the state's health program offered lower employee contributions, and in general appeared to have richer benefits than the surveyed entities
- An updated study is being performed by contracted benefits consultants for the Division of State Group Insurance and should be available before or during the 2011 Legislative Session

Industry Actions

Industry Actions

To Reduce Health Benefit Spend or Employer Cost

Cost Sharing

- Increase employee contribution share
- Establish defined employer contributions for current plan design
- Eliminate special premium arrangements
- Increase employee out-of-pocket costs
- Increase annual out-of-pocket maximums
- Reduce scope of covered services

Structural Changes

- Self insure HMO offerings
- Eliminate costly plans
- Implement consumer driven health plans
- Redesign plan offerings and create defined employer contributions
- Centralize pharmacy benefits services
- Intensify focus on prevention and disease management
- Adjust premiums and/or benefits for healthy life styles
- Change Third-Party Administrators and/or Pharmacy Benefits Managers
- Renegotiate existing carrier contracts

Related Work in Progress

Related Work in Progress

- **Office of Program Policy Analysis and Government Accountability (OPPAGA)**
 - Examining other states' strategies for reducing government employee health insurance costs to identify options that have been successful in other states and may be feasible in Florida
 - Report will be completed for the 2011 Legislative Session
- **Department of Management Services**
 - Best value recommendation due to the Legislature no later than February 1st on costing options for fully insured and self-insured plan designs for HMO services pursuant to s. 110.12302, F.S.
 - Contracted benefit consultants will be reporting on a benchmarking study and contribution strategies for the 2011 Legislative Session