

SOLVENCY OF THE STATE EMPLOYEE HEALTH INSURANCE TRUST FUND

January 2025



INTRODUCTION

The state of Florida offers a comprehensive suite of health benefits through the State Group Insurance Program (SGIP). SGIP benefits are available to current and former eligible state employees, their spouses and surviving spouses, dependents, retirees, and COBRA¹ participants.

The Florida State Employees' Group Health Self-Insurance Trust Fund ("Trust Fund") is a self-insured health insurance plan managed by the Department of Management Services that pays for health insurance claims (e.g., health, dental, vision, etc.) filed by state employees and their dependents and retirees. Like the Florida Retirement System, the SGIP is a defined-benefit program, in which the employee pays a fixed amount toward the monthly premium and the state pays the remainder.

Pursuant to s.216.136(9), Florida Statutes, the Self-Insurance Estimating Conference ("Conference") is required to "develop such official information on self-insurance related issues as the conference determines is needed by the state planning and budgeting system." The Conference, which is made up of professional staff from the Executive Office of the Governor, House of Representatives, Senate, and Office of Economic and Demographic Research, adopts periodic financial outlooks for the Trust Fund, the most recent of which covers the fiscal years ending June 30, 2024 through June 30, 2029.²

Florida TaxWatch undertakes this independent research project to better understand the Trust Fund's financial outlook going forward; identify factors that may threaten the Trust Fund's solvency; and to make recommendations to ensure the financial solvency of the Trust Fund.

FINANCIAL OUTLOOK: FY 2024 THROUGH FY 2029

JANUARY 10, 2024 OUTLOOK

The financial outlook adopted by the Conference on January 10, 2024 builds on the financial data (e.g., enrollment, revenue, and expenses) contained in the prior (August 2023) outlook. The Conference began FY 2023-24 with an estimated cash balance of \$574.1 million. Revenues (combined premium contributions) were estimated at \$3.085 billion and expenses (claims) were estimated at \$3.336 billion. When expenses are subtracted from revenues, the result is an operating loss of \$250.4 million. When this operating loss is deducted from the estimated cash balance, the net result is an ending cash balance of \$323.7 million.³ With projected assets exceeding projected liabilities, the Trust Fund is projected to remain solvent through the end of FY 2023-24.

The current fiscal year (FY 2024-25) begins with an estimated cash balance of \$323.7 million. Revenues (combined premium contributions) are projected to decrease to an estimated at \$3.024 billion while expenses are projected to increase to an estimated \$3.595 billion. When expenses are subtracted from revenues, the result is an operating loss of **(\$570.8 million)** for FY 2024-25. When this operating loss is deducted from the estimated beginning cash balance, the net result is an ending cash balance of **(\$247.1 million)**.⁴

Each of the four remaining fiscal years (FY 2025-26 through FY 2028-29) begins with an assumption that there is no carry forward of a negative cash balance so, as shown in Table 1, each new fiscal year begins with a beginning cash balance of \$0. The projected increases in expenses going forward outpace the projected increases in revenues, resulting in operating losses ranging from **(\$770.8 million)** in FY 2025-26 to **(\$1.523 billion)** in FY 2028-29.

1 The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) is a law passed by the U.S. Congress on a reconciliation basis and signed by President Ronald Reagan that, among other things, mandates an insurance program which gives some employees the ability to continue health insurance coverage after leaving employment.

2 Department of Management Services, "State Employees' Group Health Self Insurance Trust Fund Report on Financial Outlook for the Fiscal Years Ending June 30, 2024 Through June 30, 2029," August 7, 2024.

3 \$574.1 million + \$3.085 billion - \$3.336 billion = \$323.7 million (rounded).

4 \$323.7 million + \$3.024 billion - \$3.595 billion = **(\$247.1 million)** (rounded).

TABLE 1.

Trust Fund Financial Outlook: FY 2023-24 Through FY 2024-29 (\$ Millions)						
	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate	FY 2027-28 Estimate	FY 2028-29 Estimate
Beginning Cash Balance	\$574.1	\$323.7	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenues	\$3,085.1	\$3,024.2	\$3,065.4	\$3,114.3	\$3,172.7	\$3,242.9
Total Expenses	\$3,335.5	\$3,595.0	\$3,836.2	\$4,142.0	\$4,427.7	\$4,765.8
Operating Gain/(Loss)	(\$250.4)	(\$570.8)	(\$770.8)	(\$1,009.7)	(\$1,255.0)	(\$1,522.9)
Ending Cash Balance	\$323.7	(\$247.1)	(\$770.8)	(\$1,009.7)	(\$1,255.0)	(\$1,522.9)
Source: January 10, 2024 Financial Outlook						

AUGUST 7, 2024 FINANCIAL OUTLOOK

The Conference met in August 2024 to update the prior outlook (see Table 2). The updated current fiscal year (FY 2024-25) begins with an estimated cash balance of \$652.7 million, an increase of \$329 million compared to the prior outlook. This increase is due primarily to a \$350 million appropriation by the legislature to offset the projected negative cash balance at the end of FY 2023-24.⁵ With projected assets exceeding projected liabilities, the Trust Fund is projected to remain solvent through the end of FY 2024-25.

Revenues (combined premium contributions) are projected to increase from FY 2023-24 to FY 2024-25 and each year thereafter, due largely to the addition of 706 new subscribers in FY 2023-24 and the possible addition of 11,218 new subscribers from the 28 Florida College System (FCS) institutions during the last six months of the fiscal year.⁶ The number of new enrollees from the FCS on an annual basis beginning in FY 2025-26 is estimated at 21,047.⁷

⁵ Section 290 of the FY 2024-25 General Appropriations Act authorizes the Chief Financial Officer to transfer \$350 million from the General Revenue Fund to the State Employees Group Health Self-Insurance Trust Fund for FY 2024-15.

⁶ Supra, see footnote 2.

⁷ Ibid.

⁸ Ibid.

Expenses are projected to increase to \$3.904 billion in FY 2024-25 and each year thereafter. The projected increases in expenses going forward outpace the projected increases in revenues, resulting in operating losses ranging from (\$646.1 million) in FY 2025-26 to (\$1.552 billion) in FY 2028-29.

TABLE 2.

Trust Fund Financial Outlook: FY 2023-24 Through FY 2024-29 (\$ Millions)						
	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate	FY 2027-28 Estimate	FY 2028-29 Estimate
Beginning Cash Balance	\$574.1	\$302.7	\$224.2	\$0.0	\$0.0	\$0.0
Total Revenues	\$3,135.5	\$3,475.5	\$3,863.0	\$3,950.1	\$4,042.6	\$4,156.1
Total Expenses	\$3,406.9	\$3,904.0	\$4,509.1	\$4,851.7	\$5,262.2	\$5,707.6
Operating Gain/(Loss)	(\$271.4)	(\$428.5)	(\$646.1)	(\$901.6)	(\$1,219.6)	(\$1,551.5)
Ending Cash Balance	\$323.7	\$224.2	(\$421.9)	(\$901.6)	(\$1,219.6)	(\$1,551.5)
Source: August 7, 2024 Financial Outlook						

LONG-RANGE FINANCIAL OUTLOOK

Although the Trust Fund is projected to remain solvent through the end of FY 2024-25, the ending cash balance for FY 2025-26 is projected to be (\$421.9 million), increasing to (\$1.551 billion) by the end of FY 2028-29.⁸ Based upon recent history, one would expect the legislature to appropriate sufficient general revenue funds going forward to maintain the Trust Fund's solvency through the end of FY 2028-29.

This practice has been made easier over the past few years due to significant budget surpluses. In response to the COVID-19 pandemic, Florida received tens of billions of dollars through six federal

stimulus acts. This money provided the state with an unprecedented opportunity to improve Florida and fund programs and infrastructure that have had long-standing backlogs with few previous opportunities to adequately address.⁹ This also allowed the ending balance (cash reserves) of General Revenue funds to grow to more than \$7 billion at the end of FY2021-22.¹⁰

As the COVID-19 pandemic began to wane in 2021, Florida businesses began to fully reopen and consumers began to spend at pre-pandemic levels. State revenue collections began to rise sharply, and Florida found itself flush with cash. In fact, General Revenue collections exceeded expectations every month for almost four years (47 months). For the last seven months of FY 2023-24, General Revenue collections exceeded the previous estimate (January 2024) by \$1.086 billion.¹¹

The Legislative Budget Commission recently adopted the constitutionally required *Long-Range Financial Outlook*, (“*Outlook*”) an annual comparison of projected revenues and expenses for the next three fiscal years. The three previous Outlooks projected substantial surpluses in each of the three years in the forecast horizon; however, nothing (good) lasts forever.

The current *Outlook* concludes that General Revenue collections will continue to exceed the need for increased spending, with a projected budget surplus for FY 2025-26 of \$2.1 billion. The Outlook also includes a caution that, if the legislature continues its current spending course, deficits of \$2.8 billion are projected for FY 2026-27 and \$6.9 billion for FY 2027-28. Waiting until the projected deficits materialize to take action will result in the need for more severe budget cuts.¹²

LOOKING AHEAD

In its June 2016 Final Report, the constitutionally mandated Government Efficiency Task Force recommended that the legislature contribute a set amount or percent toward the annual health insurance premiums of state employees that is consistent with that paid by other large public and private employers. This cost shift would result in significant savings for the state.

This recommendation was based in part on a 2010 benchmarking report by Mercer Consulting, which compared Florida’s state health insurance program to other large (500 or more employees) private and public sector programs. Mercer found that the state contributed a higher percentage of the annual health insurance premium than other states and private employers.¹³

Table 3 shows the annual State Group Insurance Program premium rates paid by state employees for individual and family Preferred Provider Option (PPO) and Health Maintenance Organization (HMO) plans for the past 20 years (FY 2005-06 to FY 2024-25). The annual premiums paid by the employee for both single coverage (\$600) and family coverage (\$2,160) have not changed over this period; however, the total cost of both single and family coverage plans has more than doubled from FY 2005-06 to FY 2024-25, with the state bearing the additional costs.

As shown in Table 4, the state’s share of the total cost has increased from 87.4 percent to 94.4 percent for single coverage, and from 79.9 percent to 91.1 percent for family coverage. The final average enrollment for FY 2023-24 reflects 171,009 subscribers—48.9 percent (83,623) were enrolled in single coverage and 51.1 percent (87,386) were enrolled in family coverage.¹⁴

To better understand the potential for cost savings, Florida TaxWatch asks the question “*what if the state’s share of insurance premiums was more in line with the share paid by other states and large companies?*” using the 2010 benchmarking report by Mercer Consulting as a guide.

9 Florida TaxWatch, “Navigating Federal Pandemic Relief: Following Billions in Stimulus Dollars, Where Do We Go From Here?” October 13, 2021.

10 Ibid.

11 Florida TaxWatch, “Florida Revenue Estimators Increase Forecast for the Ninth Consecutive Time, Adding \$2 Billion to State Coffers,” August 22, 2024.

12 Florida TaxWatch, “Florida’s Budget Outlook: Is the Party Over? Long-Range Financial Outlook Forecasts Coming Budget Deficits,” October 3, 2024.

13 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>.

14 Supra, see footnote 2.

TABLE 3.

State Group Insurance Program Change in Premiums						
Year	Single Coverage			Family Coverage		
	Employee	State	Total	Employee	State	Total
2005-06	\$600	\$4,154	\$4,754	\$2,160	\$8,591	\$10,751
2006-07	\$600	\$4,534	\$5,134	\$2,160	\$9,451	\$11,611
2007-08	\$600	\$4,791	\$5,391	\$2,160	\$10,032	\$12,192
2008-09	\$600	\$5,384	\$5,984	\$2,160	\$11,373	\$13,533
2009-10	\$600	\$5,683	\$6,283	\$2,160	\$12,050	\$14,210
2010-11	\$600	\$5,998	\$6,598	\$2,160	\$12,760	\$14,920
2011-12	\$600	\$5,998	\$6,598	\$2,160	\$12,760	\$14,920
2012-13	\$600	\$6,453	\$7,053	\$2,160	\$13,788	\$15,948
2013-14	\$600	\$7,098	\$7,698	\$2,160	\$15,168	\$17,328
2014-15	\$600	\$7,098	\$7,698	\$2,160	\$15,168	\$17,328
2015-16	\$600	\$7,098	\$7,698	\$2,160	\$15,168	\$17,328
2016-17	\$600	\$7,774	\$8,374	\$2,160	\$16,555	\$18,715
2017-18	\$600	\$7,774	\$8,374	\$2,160	\$16,555	\$18,715
2018-19	\$600	\$8,213	\$8,813	\$2,160	\$17,678	\$20,138
2019-20	\$600	\$8,566	\$9,166	\$2,160	\$18,472	\$20,632
2020-21	\$600	\$9,162	\$9,762	\$2,160	\$19,813	\$21,973
2021-22	\$600	\$9,162	\$9,762	\$2,160	\$19,813	\$21,973
2022-23	\$600	\$9,162	\$9,762	\$2,160	\$19,813	\$21,973
2023-24	\$600	\$9,762	\$9,762	\$2,160	\$19,813	\$21,973
2024-25	\$600	\$10,138	\$10,738	\$2,160	\$22,010	\$24,170
Source: State Group Insurance Program Premium Rate Tables						

For FY 2023-24, the total premium payments for the 83,623 subscribers who were enrolled in single coverage was approximately \$816.3 million.¹⁵ The state's share (93.9 percent) was approximately \$766.5 million.¹⁶ If the state's share was more in line with the percentage (e.g., 75 percent) paid by other states and large private employers, as identified in the 2010 Mercer study, the state's share would decrease from \$766.5 million to \$612.2 million, an estimated savings of \$154.3 million. This savings would be passed on to the subscriber, whose monthly premium would increase from \$50 to approximately \$203.

¹⁵ 83,623 X \$9,762 = \$816,327,726.

¹⁶ \$816,327,726 X 93.9 percent = \$766,531,735.

TABLE 4.

State Group Insurance Program Change in Percentage Paid by Employer						
Year	Single Coverage			Family Coverage		
	Employee	State	Total	Employee	State	Total
2005-06	12.6%	87.4%	100.0%	20.1%	79.9%	100.0%
2006-07	11.7%	88.3%	100.0%	18.6%	81.4%	100.0%
2007-08	10.9%	89.1%	100.0%	17.7%	82.3%	100.0%
2008-09	10.1%	89.9%	100.0%	16.0%	84.0%	100.0%
2009-10	9.5%	90.5%	100.0%	15.2%	84.8%	100.0%
2010-11	9.1%	90.9%	100.0%	14.5%	85.5%	100.0%
2011-12	9.1%	90.9%	100.0%	14.5%	85.5%	100.0%
2012-13	8.5%	91.5%	100.0%	13.5%	86.5%	100.0%
2013-14	7.8%	92.2%	100.0%	12.5%	87.5%	100.0%
2014-15	7.8%	92.2%	100.0%	12.5%	87.5%	100.0%
2015-16	7.8%	92.2%	100.0%	12.5%	87.5%	100.0%
2016-17	7.2%	92.8%	100.0%	11.5%	88.5%	100.0%
2017-18	7.2%	92.8%	100.0%	11.5%	88.5%	100.0%
2018-19	6.8%	93.2%	100.0%	10.9%	89.1%	100.0%
2019-20	6.5%	93.5%	100.0%	10.5%	89.5%	100.0%
2020-21	6.1%	93.9%	100.0%	9.8%	90.2%	100.0%
2021-22	6.1%	93.9%	100.0%	9.8%	90.2%	100.0%
2022-23	6.1%	93.9%	100.0%	9.8%	90.2%	100.0%
2023-24	6.1%	93.9%	100.0%	9.8%	90.2%	100.0%
2024-25	5.6%	94.4%	100.0%	8.9%	91.1%	100.0%
Source: State Group Insurance Program Premium Rate Tables						

Using the same methodology for the 87,386 subscribers who have family coverage, reducing the state's share of the premiums from 91.1 percent to 75 percent would save the state an estimated \$291.9 million. This savings would be passed on to the subscriber, whose monthly premium would increase from \$180 to approximately \$458.

All told, reducing the state's share of insurance premiums to be more in line with the share paid by other states and large companies would save the state about \$446 million annually.

The Government Efficiency Task Force also recommended that the legislature establish employee contribution rates that reflect the actuarial benefit differences between the existing health plans. This will bring employee premiums and plan benefits more in line with industry benchmarks.

For FY 2023-24, the state offered and managed four health plans for employees, retirees, and eligible dependents. Each plan provides comprehensive major medical and prescription drug coverage, preventive care benefits, and wellness programs.

- Standard Preferred Provider Organization (PPO)—provides both in-network and out-of-network coverage. Members must pay a deductible, coinsurance, or copayments.
- High-Deductible PPO—works like the Standard PPO; however, members pay a lower monthly premium and a higher deductible. Once the deductible is met, members pay coinsurance for all services and prescription drugs.
- Standard Health Maintenance Organization (HMO)—covers only in-network coverage, except for certain emergency situations. Members pay a lower premium and a copayment for in-network services provided and may be required to have a primary care provider.
- High-Deductible HMO—works like the Standard HMO, except the member has a deductible to meet before the plan pays for anything. Once the deductible is met, member pays coinsurance for all services provided and prescription drugs.¹⁷

The final average enrollment for FY 2023-24 was 171,009 subscribers. Of this total, approximately 48.0 percent were enrolled in the PPO plans, 50.5 percent were enrolled in the HMO plans, and 1.5 percent were enrolled in a Medicare Advantage Prescription Drug Plan.¹⁸

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. For a health plan with an AV of 85 percent, the subscriber would be expected to pay about 15 percent of the costs of covered services (out-of-pocket expenses).

The SGIP's Standard PPO Plan has an AV of 90.1 percent; the SGIP's High-Deductible PPO Plan has an AV of 83.2 percent; the SGIP's Standard HMO Plan has an AV of 97.0 percent; and the SGIP's High-Deductible HMO Plan has an AV of 86.1 percent.¹⁹

Many employees in the SGIP enroll in the low-cost, high-value Standard HMO health plan because of its high AV and because there is no difference in premiums between the Standard HMO and Standard PPO plans.

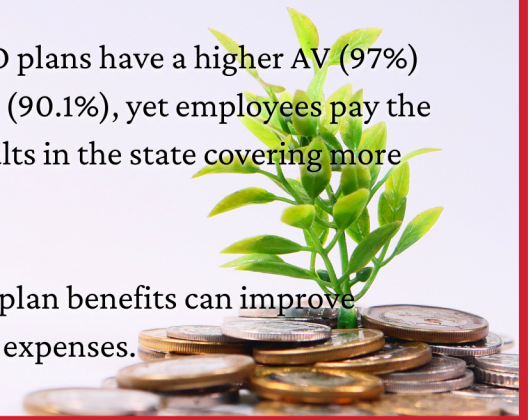
Because there is a 6.9 percent difference in the AV between the Standard HMO and Standard PPO plans, the state pays more for HMO benefits than for PPO benefits, even though the premiums are the same. A subscriber enrolled in single coverage under the Standard HMO health plan would, for example, pay a monthly premium of \$50 with the expectation of paying three percent of the costs of covered services out-of-pocket. A subscriber enrolled in single coverage under the Standard PPO health plan would, for the same \$50 monthly premium, expect to pay almost seven percent of the costs of covered services out-of-pocket.

Aligning Health Plan Costs with Benefits

The Government Efficiency Task Force recommends adjusting employee premiums to match the actuarial value (AV) of health plans.

Currently, Standard HMO plans have a higher AV (97%) than Standard PPO plans (90.1%), yet employees pay the same premium. This results in the state covering more HMO costs.

Aligning premiums with plan benefits can improve fairness and reduce state expenses.



¹⁷ Department of Management Services, "2024 Benefits Guide."

¹⁸ Supra, see footnote 2.

¹⁹ Florida Department of Management Services, "Comprehensive Fiscal Analysis of Adding Florida College System to State Group Insurance," December 1, 2023.

CONCLUSIONS AND RECOMMENDATIONS

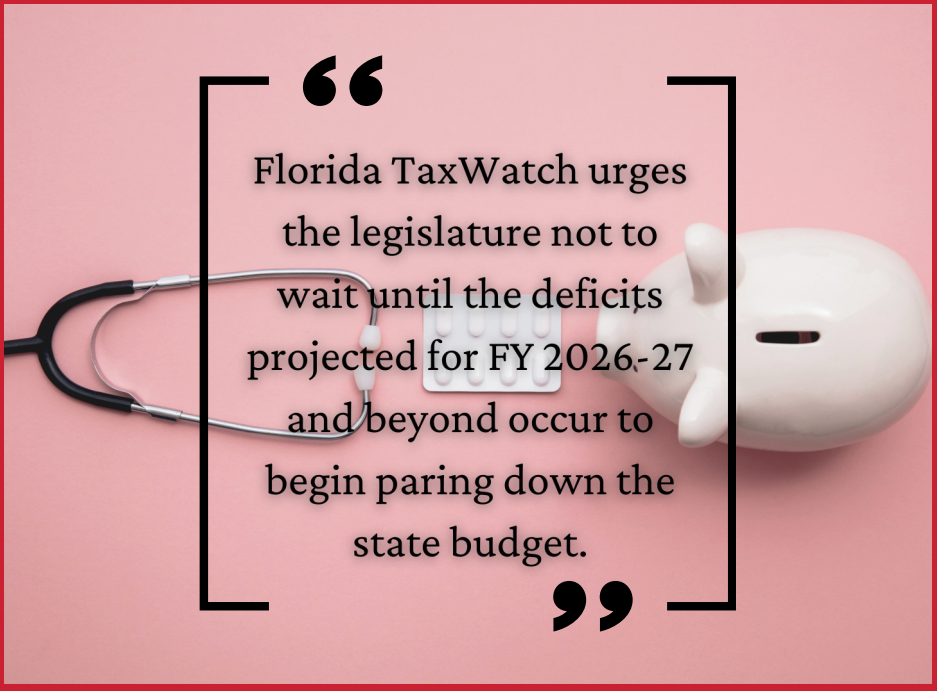
Two things are certain. First, over the past couple of decades, the cost of health insurance available through the SGIP has more than doubled. Second, the annual premiums paid by the subscriber for both single and family coverage have not changed over this period, leaving the state to bear the additional costs.

It will become increasingly more difficult to maintain the solvency of the Florida State Employees' Group Health Self-Insurance Trust Fund through a supplemental appropriation by the legislature, as is the current practice. For FY 2026-27, when the legislature is facing a projected \$2.8 billion budget deficit, maintaining the solvency of the Trust Fund will require an additional \$901.6 million.²⁰ The projected budget deficits (\$2.8 billion for FY 2026-27 and \$6.9 billion for FY 2027-28) will require the legislature to make some difficult choices, and waiting until the projected deficits materialize to take action will result in the need for more severe budget cuts.

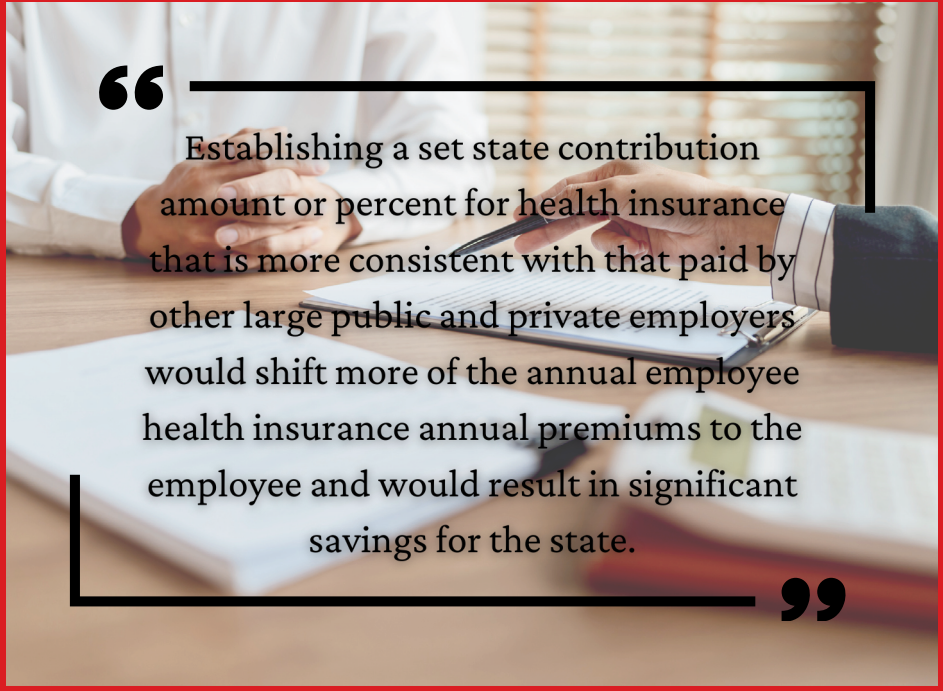
Although a budget surplus of \$2.1 billion is projected for FY 25-26,²¹ **Florida TaxWatch urges the legislature not to wait until the deficits projected for FY 2026-27 and beyond occur to begin paring down the state budget.**

Florida TaxWatch believes the recommendations contained in the Government Efficiency Task Force's June 2016 final report were good recommendations then, and they are good recommendations now.

Establishing a set state contribution amount or percent for health insurance that is more consistent with that paid by other large public and private employers would shift more of the annual employee health insurance annual premiums to the employee and would result in significant savings for the state.



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²⁰ Supra, see footnote 2.

²¹ Supra, see footnote 12.

ABOUT FLORIDA TAXWATCH

As an independent, nonpartisan, nonprofit taxpayer research institute and government watchdog, it is the mission of Florida TaxWatch to provide the taxpayers of Florida and public officials with high quality, independent research and analysis of issues related to state and local government taxation, expenditures, policies, and programs. Florida TaxWatch works to improve the productivity and accountability of Florida government. Its research recommends productivity enhancements and explains the statewide impact of fiscal and economic policies and practices on citizens and businesses.

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