TESTIMONY OF SCOTT MILLER

House Bill 1155 – Subsidized Insurance Premiums for Certain Pre-Medicare Retirees

Good Morning, my name is Scott Miller. I am the Executive Director of the North Dakota Public Employees Retirement System, or NDPERS. I am here to testify in a neutral position regarding House Bill 1155.

House Bill 1155 would require the NDPERS Board to re-open access to the subsidized pre-Medicare retiree health insurance plan for individuals who have 25 or more years of service and retire under a Voluntary Separation Incentive Program (VSIP). The premium charged to those individuals is a subsidized premium, which means it is not reflective of the claims for that group of individuals, but is instead merely a multiple of the premium for an active member or family. If these individuals were required to pay a premium that reflects average claims for pre-Medicare retirees, we estimate that the premiums would be between $340 and $360 per month higher. The costs to the plan that are not being paid by the subsidized premium paid by these individuals will be reflected in future increases to our health plan premiums.

We also do not know how many people are eligible or may become eligible. The State has only had two VSIPs, and we understand there will be 80 individuals from those VSIPs that would be eligible when this bill becomes effective. However, we do not know if any of our 150 participating political subdivisions have had a VSIP since 2015, or what they may do in the future. We also do not know if or when the State might have another VSIP. Since this bill is not limited to State retirees and does not restrict the definition of a VSIP, we cannot make a guess as to how many people may ultimately be eligible for this subsidized premium coverage.

The impact of this bill will also be reflected in what the state reports in its Comprehensive Annual Financial Report, or CAFR, for an “Other Post-Employment Benefit” liability or “OPEB” liability. “Other Post-Employment Benefits” are those benefits paid to an employee once they have retired, other than retirement benefits. An OPEB liability is the difference between what an employee receives and what the employer has set aside to pay for those benefits. Neither the State nor its political subdivisions have set aside money to pay for the subsidy being granted to these individuals pursuant to this bill. As such, people who are eligible to take advantage of this opportunity create an “OPEB liability” for the State and its political subdivisions. That OPEB liability must be stated in the CAFR.

Prior to 2015, when the Legislative Assembly stopped allowing new retirees to participate in the subsidized pre-Medicare retiree health plan, the State's OPEB liability was over $64 million. Many of those pre-Medicare retirees gradually aged into being "Medicare retirees". As a result, our OPEB liability is now less than $4 million – low enough that the State no longer has to report the liability on its books. Since the state no longer has that requirement, we do not have a contract with an actuary that can analyze this bill to determine what the new OPEB liability might look like if this bill is passed. We doubt it would immediately rise to the $64 million mark, but it will certainly result in an increase, and potentially an increase that will need to be reported on the respective CAFRs. We would need to issue a Request for Proposals to hire an actuary to conduct that analysis in the future, which in the past cost over $7,500 per analysis.

Please recall, the Legislative Assembly closed the subsidized premium plan to new entrants other than retired members of the Legislative Assembly in order to gain control of the State's OPEB liability. At that time, the Legislative Assembly specifically prohibited new retirees from being granted a subsidy for their health plan premiums. This bill would reverse that for an unknown number of retirees from both the past and the future. We cannot estimate how many people to whom this will apply, the effect the passage of this bill will have on that OPEB liability, or the impact to future active employee premiums.

Also note this bill only applies to those retirees with over 25 years of experience who participate in the voluntary VSIP program. The former State employees who retired under a VSIP in the past were well-counseled on the effects of their decision on their ability to participate in our health plan. Further, this bill does not allow people who retire in any other manner to participate in the subsidized plan, even if their entire careers were with the State of North Dakota for much longer than the 25 years in this bill.

Mr. Chairman, that concludes my testimony.