NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Monday and Tuesday, November 3-4, 2003
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Karen K. Krebsbach, Chairman, called the meeting to order at 1:00 p.m. on Monday, November 3, 2003.

Members present: Senators Karen K. Krebsbach, Richard Brown, Ralph L. Kilzer; Representatives Bill Amerman, Al Carlson, Wayne W. Tieman, Francis J. Wald

Members absent: Senator Carolyn Nelson; Representative Mike Grosz

Others present: See Appendix A

At the request of Chairman Krebsbach, Mr. John D. Olsrud, Director, Legislative Council, reviewed the *Supplementary Rules of Operation and Procedure of the North Dakota Legislative Council*.

At the request of Chairman Krebsbach, committee counsel reviewed a memorandum entitled *Employee Benefits Programs Committee - Background Memorandum* describing the statutory duties and past procedures of the Employee Benefits Programs Committee. He said the committee was established in response to difficulties experienced in past legislative sessions resulting from inadequate prior study of the actuarial impacts of proposed legislative changes in retirement programs. He reviewed the statutory authority of the committee, procedures for solicitation and review of retirement proposals, additional committee responsibilities, and actuarial services retained by the committee in the past. He also distributed copies of the June 2003 *Retirement Today*, June 2003 *Report Card*, and October 2003 *Your Vested Interest* newsletters, copies of which are on file in the Legislative Council office. He also distributed copies of the *Teachers' Fund for Retirement Member Handbook* which became effective August 1, 2003. A copy of the handbook is on file in the Legislative Council office.

It was moved by Senator Brown, seconded by Representative Wald, and carried on a roll call vote that the committee only accept legislative proposals affecting retirement programs that are submitted to the committee by legislators and state agencies with the bill introduction privilege, that the proposals be in bill draft form, and that the proposals must be submitted to the committee prior to April 1, 2004. Senators Krebsbach and Brown and Representatives Amerman, Carlson, Tieman, and Wald voted "aye." No negative votes were cast.

OVERVIEW AND VALUATIONS OF RETIREMENT, INSURANCE, AND RETIREE HEALTH INSURANCE PROGRAMS

Mr. Steve Cochrane, Executive Director, Retirement and Investment Office, presented an overview of the state's investment program. A copy of the screens used by Mr. Cochrane in his PowerPoint presentation is attached as Appendix B. His presentation included a program review of the State Investment Board, the Retirement and Investment Office, and the funds managed by the State Investment Board.

Mr. Cochrane said the actual return of pension trust assets for the fiscal year ending June 30, 2003, was 3.85 percent. However, he said, based upon fund sponsor data statistics compiled by Callan Associates for the period ending June 30, 2003, the domestic equity asset class performed in the top 21 percent of those in the Callan data base. He said the domestic fixed income portion ranked in the top 5 percent, the international equity portion was in the top 22 percent, the international fixed income portion was in the top 48 percent, the real estate portion was in the top 22 percent, and the cash portion was in the top 17 percent. Thus, he said, although an actual investment return of 3.85 percent is lower than one would like, it is still better than 81 percent of other plan sponsors monitored by Callan Associates. He said the net return for the Teachers' Fund for Retirement was 2.28 percent and the net return for the Public Employees Retirement System during this period was 5.46 percent. He said the reason the Teachers' Fund for Retirement's performance lagged behind that of the Public Employees Retirement System is due to the different asset allocations employed by the two funds.

Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office, presented an overview of the Teachers' Fund for Retirement. A copy of the screens used by Ms. Kopp in her PowerPoint presentation is attached as Appendix C. She discussed the history and structure of the Teachers' Fund for

Retirement, the goals of the Teachers' Fund for Retirement, a summary of plan improvements made since 1979, and a summary of the Teachers' Fund for Retirement plan.

In response to a question from Representative Wald, Ms. Kopp said that except for a small amount of the pension benefit accrued before 1983-84 on which taxes were paid, the tax on retirement benefits is due when benefits are received by the beneficiary.

In response to a further question from Representative Wald, Ms. Kopp said approximately 20 school districts do not participate in the federal Social Security system.

Mr. Chris Conradi, Enrolled Actuary and Senior Consultant, Gabriel, Roeder, Smith and Company, Dallas, Texas, presented the July 1, 2003, actuarial valuation of the Teachers' Fund for Retirement. A copy of the actuarial valuation is on file in the Legislative Council office and a copy of the screens used by Mr. Conradi in his PowerPoint presentation is attached as Appendix D. He said the actuarial valuation was prepared as of June 30, 2003, using member data, financial data, benefit and contribution provisions, and actuarial assumptions and methods. He said the purposes of an actuarial valuation are to measure actuarial liabilities, determine the adequacy of current statutory contribution levels, provide other information for Governmental Accounting Standards Board (GASB) No. 25 and comprehensive annual financial reporting requirements, explain changes in the actuarial condition of the fund, track changes over time, and warn about possible future problems and issues. He said the actuarial asset losses from fiscal years 2001, 2002, and 2003 had a significant impact on the fund. He said the margin of the Teachers' Fund for Retirement is -1.19 percent. He said the negative margin is expected to increase significantly in the future. He said the funded ratio has decreased to 85.1 percent and this trend is expected to continue until deferred asset losses are entirely recognized. The funding period, he said, is now 43.6 years but is expected to become infinity next year. He said active membership decreased for the second consecutive year. Finally, he said, no changes to actuarial assumptions or methods or benefit or contribution structures that affected liabilities or costs were made.

Mr. Conradi said the number of active members decreased by 15 from the previous actuarial valuation, from 9,931 to 9,916. He said payroll for members active on June 30, 2003, increased 5.7 percent from $348.1 million to $367.9 million. He said payroll has increased an average of 3.5 percent per year over the last 10 years. He said average pay for active members increased 5.9 percent, from $35,052 to $37,105. He said the average age of active members is 44.8 years, compared to 44.5 years last year and 42.2 years 10 years ago. He said the average years of service is 14.6, compared to 14.4 last year and 13.2 years 10 years ago. He said there are 1,276 inactive, vested members and there are 233 inactive nonvested members. He said the number of retirees increased by 123 from the most recent actuarial valuation, from 5,054 to 5,177, a 2.4 percent increase. He said the number of retirees has grown an average of 2.2 percent per year over the last 10 years. The average annual retiree benefit is $14,439, he said, and there are 1.9 active members for each retiree. However, he said, this ratio is slowly decreasing as it was 2.3 members for each retiree 10 years ago.

Mr. Conradi said the fair market value of assets increased from $1.165 billion to $1.175 billion. He said 67 percent of the assets of the fund are allocated to equities, 9 percent to real estate, and 24 percent to cash and fixed income assets. He said total contributions to the Teachers' Fund for Retirement in fiscal year 2002 were $60.2 million and total distributions, which are composed of benefit payments, refunds, and administrative expenses, were $74.8 million. Therefore, he said, net external cashflow of the system was a negative $14.6 million or -1.2 percent of market value of assets at the end of the year. However, he said, a negative net external cashflow is a characteristic of a mature pension plan and is no cause for concern.

Concerning the assets of the Teachers' Fund for Retirement, Mr. Conradi said return on the market value of assets was approximately 2.1 percent in fiscal year 2003. He said this compares to -8.6 percent in fiscal year 2002. However, he said, the 2.1 percent return was still almost 6 percent below the actuarially assumed rate of return of 8 percent. He said the average return for the last 10 years has been 6.5 percent, which is below the 8 percent assumed investment return.

Mr. Conradi said there were no changes made to the actuarial assumptions or methods for the Teachers' Fund for Retirement. He said Gabriel, Roeder, Smith and Company has been monitoring assumed investment return rates and that currently, based on consensus capital market assumptions and the Teachers' Fund for Retirement asset allocation policy, the 8 percent assumed rate of return is still reasonable. However, he noted, investment consulting firms have significantly lowered their expected return assumptions, especially for equities.

Concerning the actuarial results of the July 1, 2003, actuarial valuation of the Teachers' Fund for Retirement, Mr. Conradi said unfunded actuarial accrued liability of the fund increased from $132.3 million to $251.9 million. He said the funded ratio, the actuarial assets divided by the actuarial accrued liability, decreased from 91.6 percent to 85.1 percent. Using the market value of assets, he said, the funded ratio is 69.5 percent. He said the margin decreased from 1.66 percent to -1.19 percent. He said the funding period based on the 7.75 percent employer contribution rate is now 43.6 years. He said the actuarial losses were due to investment return and increased liabilities due to salary increases. Looking to the future, he said, more of the deferred losses from fiscal years 2001, 2002, and 2003 will be recognized in the actuarial value of assets. He said this will further increase the unfunded actuarial accrued liability and it will further decrease the funded ratio and the margin. If this occurs, he said, there will be reporting consequences. He said the fund's fiscal year 2004 financial report will show that the actual contributions received are only 87 percent of the calculated annual required contributions and bond rating agencies may become concerned. Concerning projected funded ratios and margins, he said, assuming an 8 percent annual market return for all future years and a 1 percent annual decrease in active membership, the margin in 2004 is projected to be -3.93 percent and the margin in 2018 is projected to be -15.79 percent. Concerning projected funded ratios and margins in future years assuming a 9.29 percent annual market return for all future years and a 1 percent annual decrease in active membership, the available margin in 2004 will be -3.86 percent and the available margin in 2018 will be -5.71 percent.

In response to a question from Representative Wald, Mr. Conradi said the 8 percent annual assumed rate of return is the most common assumption or median assumption used by large public pension plans. He said he chose the 9.29 percent rate of return for one projection because it was the median return from the last asset liability study that was done in 2000.

In response to a further question from Representative Wald, Mr. Conradi said the recent increases in teachers' compensation made by the Legislative Assembly are included in the actuarial results of the Teachers' Fund for Retirement.

Chairman Krebsbach called on Mr. Sparb Collins, Executive Director, Public Employees Retirement System, who presented an overview of the Public Employees Retirement System. A copy of the screens used in his PowerPoint presentation is attached as Appendix E. He reviewed the structure of the Public Employees Retirement System Board; retirement, group insurance, flexcomp, and employee assistance programs; and the goals and objectives of the Public Employees Retirement System.

In response to a question from Representative Carlson, Mr. Collins said the growth in the number of participants in the Public Employees Retirement System is due to additional employers coming into the system rather than an increase in state full-time equivalent positions.

Mr. John Garrett, ASA, MAAA, and Vice President, The Segal Company, Englewood, Colorado, presented the July 1, 2003, actuarial valuations of the Public Employees Retirement System main system, judges' retirement fund, National Guard retirement fund, Highway Patrolmen's retirement fund, and the retiree health benefits fund. A copy of the screens used in his PowerPoint presentation is attached as Appendix F, and copies of the actuarial valuations are on file in the Legislative Council office.

Mr. Garrett said concerning highlights of the actuarial valuation of the Public Employees Retirement System funds, the judges', National Guard, and retiree health insurance credit funds have positive contribution margins while the main system and the Highway Patrolmen's retirement fund have negative contribution margins. He said the funded ratio is above 100 percent for the judges' and National Guard systems but below 100 percent for the main system, retiree health insurance credit fund, and the Highway Patrolmen's retirement fund. He said the ratio of the actuarial value of assets to the market value of assets for the Public Employees Retirement System and the Highway Patrolmen's retirement system combined has decreased from 109.8 percent to 106.7 percent. He said the actuarial value of assets exceeds the market value of assets by $76 million. He said the National Guard plan has 12 active members, six members having recently returned to active status after serving in the military. He said the employer contribution requirement for this fund increased from 0.00 percent to 2.76 percent of payroll but still remains below the contribution rate of 8.33 percent of payroll. He said salaries for continuing actives in the Public Employees Retirement System increased 4.9 percent, creating an actuarial gain. Other than the investment experience loss, he said, there were no other significant gains or losses. He said the estimated cost impact of the portability enhancement provision (PEP) program is approximately .03 percent of payroll. Finally, he said, for the main system the normal cost is in excess of the statutory contribution rate. He said the contribution margin for the main system is -1.39 percent, the contribution margin for the judges' retirement system is 2.42 percent, and the contribution margin for the National Guard retirement system is 5.57 percent. He said the contribution margin for the retiree health insurance credit fund is .02 percent and the contribution margin for the Highway Patrolmen's retirement system is -.26 percent.

Mr. Garrett said that assuming a market return after fiscal year 2004 of 8 percent, the margin on June 30, 2004, will be -2.4 percent and the margin on June 30, 2008, will be -4.1 percent if the market return for fiscal year 2004 is 10 percent. If the market return for fiscal year 2004 is 8 percent, he said, the margin on June 30, 2004, will be -2.4 percent and the available margin on June 30, 2008, will be -4.4 percent. If the market return for fiscal year 2004 is zero, he said, the available margin on June 30, 2004, will be -2.7 percent and -5.6 percent on June 30, 2008. If the market return for fiscal year 2004 is -8 percent, he said, the available margin on June 30, 2004, will be

-2.9 percent and the available margin on June 30, 2008, will be -6.9 percent. He said if the market return for fiscal year 2004 is -10 percent, the available margin on June 30, 2004, will be -3.0 percent and -7.2 percent on June 30, 2008. Concerning projected contribution margins assuming an 8 percent annual market value return for fiscal year 2004 and each year thereafter, he said, the margin in 2004 will be -2.4 percent and the margin in 2018 will be -4.9 percent. If the annual market value return for fiscal year 2004 and each year thereafter is 10.3 percent, he said, the available margin in 2004 will be -2.4 percent and the available margin in 2018 will be +2.0 percent.

In response to a question from Representative Wald, Mr. Garrett said he is aware of at least one state, Nevada, that increased the employer contribution in its last legislative session. He said Nevada increased the employer contribution by 1.5 percent in reaction to the funding of that system.

In response to a question from Representative Wald, Mr. Garrett said the 10.3 percent annual market value return used in the second projection is based on the expectation of the fund's investment consultants based on the asset allocation of the Public Employees Retirement System fund.

In response to a question from Representative Wald, Mr. Collins agreed that in addition to increasing employer contributions, another method to improve funding of the system would be to reduce benefits. However, he cautioned, benefits may only be reduced prospectively, as accrued, vested, or earned benefits could not be reduced.

Chairman Krebsbach recessed the meeting at 4:45 p.m. on Monday, November 3, 2003, and reconvened the meeting at 8:30 a.m. on Tuesday, November 4, 2003.

RECRUITMENT AND RETENTION BONUS PROGRAMS

Ms. Laurie Sterioti Hammeren, Director, Human Resource Management Services, Office of Management and Budget, reviewed the recruitment and retention bonus programs of state agencies. A copy of her written testimony is attached as Appendix G. She also distributed a schedule of bonus participants by agency for May 2001 through October 2003, a copy of which is attached as Appendix H, and the retention recruitment bonus policy of state agencies, a copy of which is attached as Appendix I.

In response to a question from Representative Wald, Ms. Sterioti Hammeren said an example of a referral bonus is a monetary award paid to a current employee who recruits an employee to his or her agency.

In response to a question from Representative Carlson, Ms. Sterioti Hammeren said the recruitment and retention bonuses are paid from an agency's salary and wages line item from money saved through rollups, vacancies, and turnover.

Ms. Ardy Pfaff, Director, Human Resources, Information Technology Department, reviewed the recruitment and retention bonus program employed by the Information Technology Department. A copy of her written comments is attached as Appendix J.

Mr. Tom D. Freier, Deputy Director, Department of Transportation, reviewed the recruitment bonus program employed by the Department of Transportation. A copy of his written comments is attached as Appendix K.

Mr. Dean Mattern, Director, Human Resources Division, Department of Human Services, reviewed the recruitment and retention program employed by the Department of Human Services. A copy of his written comments is attached as Appendix L.

Ms. Linda Houfek, Director, Human Resources Division, Department of Corrections and Rehabilitation, reviewed the recruitment and retention bonus policy employed by the Department of Corrections and Rehabilitation. A copy of her written comments is attached as Appendix M.

Major Neil Johnson, Commander, Administrative Services Division, Highway Patrol, reviewed the Highway Patrol's recruitment and retention pilot program. A copy of his written comments is attached as Appendix N.

Ms. Gayle Ciavarella, Director, Human Resources Division, Bank of North Dakota, reviewed the Bank's recruitment and retention bonus program. A copy of her written comments is attached as Appendix O.

In response to a question from Representative Amerman, Ms. Ciavarella said if a Bank employee accepts a retention bonus, the employee must sign an agreement to remain with the Bank for at least one year.

In response to a question from Representative Wald, Mr. Freier said the Department of Transportation does not utilize referral bonuses.

HEALTH INSURANCE STUDY

At the request of Chairman Krebsbach, committee counsel presented a background memorandum entitled *Public Employee Health Insurance Benefits Study* relating to the study of public employee health insurance benefits, including options for providing health insurance for state employees, availability of other health insurance plans, single versus family coverage, employee contributions, and unitization of premium rates for budgeting purposes.

Ms. Chris Runge, Executive Director, North Dakota Public Employees Association, addressed the committee. She distributed a packet of material concerning the importation of prescription drugs from Canada. A copy of this material is on file in the Legislative Council office. She said the committee should explore allowing the retirement board or members of the uniform group insurance program to purchase prescription drugs from Canadian pharmacies. She said if this were allowed, it may result in significant cost-savings to the health insurance program and its participants.

Mr. Collins presented an overview of the Public Employees Retirement System health program. A copy of the screens used in his power point presentation is attached as Appendix P. He also distributed a schedule of health plan member cost-sharing for 2003, a copy of which is attached as Appendix Q. He reviewed changes to the group insurance program made by the 58th Legislative Assembly, reviewed how the 2003-05 health insurance rate was developed, reviewed the design of the health insurance plan, and discussed health plan issues and future rates. He said that from the early 1960s until the early 1990s, health insurance premiums increased at an accelerated pace. During the early to mid-1990s, he said, health insurance costs leveled off but have recently begun to increase again. He said the average out-of-pocket cost-sharing, including deductibles, coinsurance, and copayments, for the active contracts in the health plan has increased from $572.44 in 1992-93 to $753.44 in 2002-03. He said the health plan appropriation has increased from 1.80 percent of total appropriations in 1991-93 to 2.15 percent of total appropriations in 2003-05. He said almost one-half of the increase in 2003-05 health rates was due to provider fee increases. Thus, he said, even if the increase in utilization is slowed, a large portion of the increase is generated by providers.

Mr. Collins said with the withdrawal of PrimeCare, MedCenter One, and Greater Plains Clinic, the exclusive provider organization option is no longer available in western North Dakota and is restricted to eastern North Dakota. Concerning 2005-07 planning projections, he said, if health insurance rates increase 10 percent, the premium will be $559.32 and require $16 million in additional money to fund. Using a 15 percent trend rate, he said, the premium will be $640.88, requiring an increase of $25.2 million in total additional funds. Concerning utilization, he said, 20 percent of members consume 80 percent of the money spent for health care. To address this issue, he said, the Public Employees Retirement System has hired a full-time case manager to institute a prenatal plus program, smoking cessation program, and wellness program. He said the system is developing an employer-based wellness program pursuant to legislative authorization. The other area of rapid increase in health care costs, he said, is the cost of prescription drugs. He said initiatives in this area are developing rapidly as Iowa plans to procure drugs from Canada, Minnesota is exploring the importation of drugs from Canada, and Illinois has proposed establishing a drug importation program for state employees and retirees. He said the retirement board has placed this issue on its agenda for its next meeting and will report back to the committee.

Mr. Rod St. Aubyn, Director, Government Relations, Blue Cross Blue Shield of North Dakota, Fargo, presented information concerning perspectives on health insurance costs, trends, and plan designs in North Dakota prepared by Ms. Janine Weideman, Vice President, Actuarial and Membership, Blue Cross Blue Shield of North Dakota, Fargo. A copy of the screens used in his PowerPoint presentation is attached as Appendix R. He said Ms. Weideman was unable to attend the meeting due to adverse weather conditions and he was making the presentation on her behalf. He said health care comprises 14.8 percent of the gross domestic product and is expected to rise to 17.7 percent by 2012. He said factors driving health care costs include inflation; drugs, medical devices, and other medical advances; rising provider expenses; government mandates and regulation; increased consumer demand; litigation and risk management expenses; and other miscellaneous costs. He said a greater percentage of each health care dollar is being spent on prescription drugs and the percentage of each health care dollar consumed by institutions is decreasing. He said the percentage of health care dollars consumed by professional services is remaining steady. He said the 2003 rate for the average Select Choice 250 family premium plan is $594 and the rate for this plan is projected to be $653 in 2004. Thus, he said, the Public Employees Retirement System rate is lower than the average Select Choice 250 family premium rate. He said Blue Cross Blue Shield of North Dakota is noting an incremental increase in the cost share across products, an increase in the most popular deductible from $100 to $200, and a trend toward a $500 deductible. Finally, he said, the member cost share as a percentage of the allowed cost has increased from 14.9 percent in 1991 to 20 percent in 2002.

Mr. Patrick L. Pechacek, CEBS Director, Deloitte Touche Tohmatsu, Minneapolis, Minnesota, discussed perspectives on health insurance costs, trends, and plan designs in other states. A copy of the screens used in his PowerPoint presentation is attached as Appendix S. He said managing rapidly rising health care costs is the No. 1 human resource issue for virtually every employer. He said health care benefits continue to be a very visible benefit to employees and their families and employers are struggling to balance the provision of meaningful benefits while managing costs. He said traditional market solutions do not allow for such a balance. He said there are several factors driving the increase in health care costs. He said these include increasing utilization, a backlash to managed care, an aging workforce, increasing costs of prescription drugs, increasing government regulation and legislation, increasing input costs, consolidation of providers which reduces leverage with health care providers, and increasing use of electronic tools and technology. He said the marketplace is “hanging onto” managed care, even though it is no longer controlling costs as it did in the past decade. Generally, he said, employers are making incremental benefit and contribution changes that have at best a one-time impact on this trend. He said although the overall trend may be flattening, incentives are not aligned to fix the problem. He said employers are focusing on several common cost-management tactics. He said these revolve around plan design, administration and vendor management, employee contributions, and increased communication and education. He said changes in plan design include adding or increasing copayments for selected services, varying copayments or employee contributions by unit cost of provider, changing the prescription drug benefit or reviewing pharmacy benefits, narrowing the preferred provider network to provide incentives to utilize cost-efficient providers, moving from choice of plans at point of enrollment to choice of providers-benefits at point of service, reviewing disease and demand management programs for effectiveness, creating custom networks by contracting with care systems, and basing out-of-network payments on in-network discounts. He said administration and vendor management tactics include comparing health plan provider contracts; evaluating provider discounts; decreasing or consolidating the number of vendors by market; benchmarking plans, costs, and contributions for competitiveness, and alignment with strategy; and creating planwide medical data bases. He said some employers have introduced or increased employee cost-sharing, encouraged employees to enroll in low-cost options, and employed risk-adjusted employee contributions to reflect the true cost of services. Concerning communication and education tactics, he said, employers have streamlined the benefits communications delivery model, promoted consumer empowerment and responsibility via increased education, involved participants in health care decisions, and promoted e-health encounters. However, he said, plan design changes continue to be the most prevalent way to manage costs.

Mr. Pechacek said one method to control the increase in health care costs is to utilize consumer-driven health care. He said the underlying assumption of this tactic is that as employees are exposed to the real cost of services through increased financial responsibility, long-term health care costs and demand decreases. He said consumer-driven health care plans are employer-sponsored health benefit programs that educate employees as to the true cost of medical services, hold employees more responsible for medical purchase decisions, require a more educated health care consumer, and will, as health care consumers become financially responsible for more of the real cost of health care services, reduce both demand and long-term health expenses. He said consumer-driven health care plans were developed in the late 1990s and promoted by a small number of health industry companies. He said by January 2003 most major managed care and health insurance companies had developed consumer-driven plan options or had announced the intention to do so by January 2004. In summary, he said, current budget deficits are forcing tough decisions with plan design modifications, introducing increased cost-sharing for participants as a prevalent theme, and the introduction or increase of employee contributions. In general, he said, public sector employers have been slower to adopt or move toward consumer-driven health care models than private sector employers. However, he said, trends are similar when comparing large public and private sector organizations.

Mr. Pechacek reviewed the public employee group insurance programs of Minnesota, Wisconsin, Iowa, Alaska, and Illinois. He said the State of Minnesota is the largest employer in that state. Prior to 2002, he said, the Minnesota state employee group insurance program utilized a managed competition model. He said under this model, the plan was self-insured with five health plan options. He said the low-cost "carrier" by county determined the basis for the employer contribution. He said the plan had a level "playing field" with standardized, uniform benefits for all plans; a common single-family premium ratio; and a primary care physician access-delivery model. He said under this plan, health plans and administrators were held financially accountable for plan results. Effective January 1, 2002, he said, Minnesota implemented a tiered network model--the Minnesota Advantage Health Plan. He said the goals of this plan are to introduce additional cost-sharing; stabilize premium contributions; offer choice of provider flexibility to align incentives and encourage employees to use cost-effective providers and to introduce accountability through the selection of providers; align health plan administrator incentives; reengage the health care provider community in managing costs; and to hold the employer cost increase below 10 percent. He said the attributes of the Minnesota Advantage Health Plan include grouping of health care providers into provider groups or care systems under which each group has its own referral and hospital admission provisions and employees and dependents can choose their own provider group. He said provider groups are arranged into tiers or levels based on an analysis of historical risk-adjusted claims experience. He said the initial plan had three cost levels, but in 2004 the number of cost levels will be expanded to four. He said the single and family premium for all cost-benefit levels is the same. He said this system allows consumers to choose, while being held accountable for that choice. He said the higher use of cost-effective providers reduces plan costs and increases competition. He said cost-sharing is based on the health care providers used, which differentiate copays, deductibles, and coinsurance. He said the cost-sharing message is reinforced every time the participant receives health care services and the system has the potential for long-term sustainable reform.

Mr. Pechacek said the State of Wisconsin has 99,200 employees and retirees. Prior to 2004, he said, the Wisconsin Department of Employee Trust Funds utilized a managed competition model. Under this model, he said, there were two self-insured plan options. He said there were approximately 18 fully insured health maintenance organizations (HMOs) with uniform benefits for all HMOs. However, he said, the HMOs were required to bid annually against one another with contributions based on the low-cost carrier by county. He said the state would pay 105 percent of the low-cost plan by county. Historically, he said, 94 percent of employees were enrolled in HMOs, with 5 percent in the standard plan and 1 percent in the state maintenance plan. Effective January 1, 2004, he said, the Wisconsin state group health insurance program will offer a standard plan with one self-insured preferred provider option, a state maintenance plan for those who do not have access to a Tier 1 HMO, and approximately 16 HMO-managed care options. Other significant changes that will be implemented, he said, will be the grouping of health plans into three different cost tiers or levels based on risk-adjusted experience. He said meaningful employee contributions are being introduced and are based on the health plan tier that the member selects. He said pharmacy benefits for all plans have been carved out and will be handled by a single pharmacy benefit manager/drug card program.

Mr. Pechacek said the State of Iowa offers several health plan options to its employees. He said there are two indemnity plans administered by Wellmark Blue Cross Blue Shield; two preferred provider options administered by Wellmark Blue Cross Blue Shield; and six different managed care organization options. He said the recently concluded Iowa bargaining session resulted in premium increases ranging from 3.8 percent to 12.5 percent for managed care organizations and approximately 15 percent for indemnity and preferred provider option plans. He said Iowa increased the office visit copay to $15 for the Program 3 Plus and Iowa Select plan options and added same and opposite sex domestic partner coverage for AFSCME, AFSCME judicial, PPME, and noncontract employees. He said the State of Iowa provides employer-paid dental, life insurance, and long-term disability insurance benefits.

Mr. Pechacek said Alaska employs a flexible benefits approach to health insurance for its public employees. Although far away geographically, he said, Alaska is actually very similar to North Dakota in that it has 14,000 state employees, is a rural state, and has two major population centers. He said the Alaska Division of Retirement and Benefits offers a choice of three traditional indemnity plans that are self-insured and administered by Aetna. He said the lowest cost plan does not require an employee contribution for single or family coverage and the state contributes in the form of a benefit credit. He said employees pay the differential between the state benefit credit and the option selected, with employees allowed to purchase other plan benefits as well. Similar to North Dakota, he said, Alaska continues to utilize a composite premium for all coverage types and continues to modify cost-sharing provisions on an incremental basis to align with the state contribution. In sum, he said, Alaska essentially employs a defined contribution approach.

Mr. Pechacek said the State of Illinois offers several different types of health plan options. He said the Illinois Bureau of Benefits offers eight different managed care plans, a triple-option preferred provider option type plan with open access to the plan, and a traditional indemnity plan. He said the Illinois plan requires monthly employee contributions based on salary with employee contributions increasing with higher salary amounts. He said the managed care plans have the lowest contribution amounts with contributions for family or dependent coverage based on the plan and are in addition to the employee contribution amount. He said Illinois also contributes toward the cost of other plans, including dental, vision, life insurance, and a rebate of up to $200 per person per year toward the cost of an approved smoking cessation program.

In summary, Mr. Pechacek said currently North Dakota has little or no competition with respect to health plans. He said competition among health care providers is limited to the eastern portion of the state with the exclusive provider organization network diminishing. Finally, he said, increased employee cost-sharing provisions have been made through plan design changes every two years.

In response to a question from Representative Carlson, Mr. Pechacek said Deloitte Touche is forecasting annual 13 to 15 percent increases in health care costs.

In response to a question from Representative Wald, Mr. St. Aubyn said as a result of a letter ruling by the federal Food and Drug Administration, Blue Cross Blue Shield North Dakota has curtailed its reimbursement of prescription drugs purchased in Canada.

In response to a question from Representative Amerman, Chairman Krebsbach said the issue of the importation of Canadian prescription drugs is within the purview of the committee and the issue will be discussed by the retirement board at its upcoming meeting. She requested that representatives of the Public Employees Retirement System report to the committee at a future meeting on the retirement board's discussion relating to the importation of Canadian prescription drugs.

In response to a question from Representative Krebsbach, Mr. Collins said in addition to reporting on the retirement board's actions concerning prescription drugs, the Public Employees Retirement System will report on health insurance cost trends and plan design issues.

In response to a question from Representative Krebsbach, Mr. Collins said the Public Employees Retirement System will provide information on the cost of eliminating all deductibles for state employees.

In response to a question from Representative Wald, Mr. Collins said the Public Employees Retirement System will provide a schedule of benefits and deductibles, including information on a schedule whereby the state would pay 100 percent of medical costs for a $1,000 deductible, 90 percent of costs for a $500 deductible, and 80 percent of costs for a $250 deductible.

In response to a question from Senator Kilzer, Mr. Collins said the Public Employees Retirement System will provide additional information on drug discounts and total out-of-pocket expenses incurred by health plan members.

No further business appearing, Chairman Krebsbach adjourned the meeting at 12:30 p.m.

Jeffrey N. Nelson
Committee Counsel

ATTACH:19