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10/21/03
Date

2003 SENATE INDUSTRY, BUSINESS AND LABOR
SB 2281

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2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2281

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 1-28-03

Tape Number	Side A	Side B	Meter #
1	xxxx		3700
Committee Clerk Signature			

Minutes: Chairman Mutch opened the hearing on SB 2281. All Senators present. SB 2281 relates to small employer health benefit plans.

Testimony in support of SB 2281

Dan Ulmer, of Blue Cross Blue Shield, spoke in support of the bill. See testimony.

He states that this bill asks the legislature to make a policy decision that significantly effects the small group health insurance market. The basic choice is whether or not to adversely-select in the individual or the group market. The small group employer market is our largest group rating pool. Small groups are composed of groups from 2 to 50 people. Anything above that is considered a large group.

The problem here is that individual coverage is cheaper for some young people even when offset by the contribution some employers make. The young healthy folks would prefer to opt out of group coverage based on price.

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Senate Industry, Business and Labor Committee
Bill/Resolution Number 2281
Hearing Date 1-28-03

SB 2281 would disallow counting individual coverage as previous qualifying coverage and force employees receiving contributions into the small group market and thus protect it from further adverse-selection.

No questions from the committee.

Janine Weideman, Vice President of Actuarial and Membership Services for Blue Cross Blue Shield of North Dakota and a member of the American Academy of Actuaries, spoke in support of SB 2281. See attached testimony.

Senator Klein: Is this already a problem or are you anticipating a problem, I would assume that if it were a real problem out there, that the room would be filled with these groups of people saying there IS a problem.

Janine: We are aware that it is becoming a problem right now, we hear some of the marketing representatives say that. Premium rates in the group market are increasing more than the individual market.

Senator Nething: So an employer with 10 employees would have to have 7 on the policy in order to be considered.

Janine: Basically 70%. *end tape 1 side A, continue on tape 1, side B.*

Senator Nething: So some of these people's spouse's would not be covered?

Janine: They wouldn't have to participate. She gives examples in a chart, see attached chart.

Senator Krebsbach: How many small group policies are there in the state?

Janine: 9053 group(1-9 people), 14486 (10-50) people; totaling just over 23000 contracts with about double the members, about 45000 members.

Senator Klein: Will those numbers get smaller with the passage of this bill?

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Hearing Date 1-28-03

Janine: I think it will provide stability, so I think it will increase the enrollment.

Senator Mutch: It seems to me that it will help.

Senator Nething: I think it will help to keep the group policy instead of taking the money and going somewhere else.

No further questions from the committee

Testimony in opposition to SB 2281

Vance Magnuson, Senior Form and Rate Analyst for the North Dakota Insurance Department, spoke in opposition to the bill. He stated that an all small employers who apply for insurance with an insurance company CANNOT be denied insurance coverage. He then list the problems with the proposed legislative change. See attached testimony (meter no.835, tape 1, side B)

Senator Klein: Have you had a lot of complaint calls from these groups?

Magnuson: No we have not.

Senator Nething: When you have younger people going out of the group, the elderly will have to pay more, so where does it end?

Magnuson: I don't think this piece of legislature will be the answer to that problem.

Senator Krebsbach: In a situation where people opt out, are they purchasing BCBS policies, or are they going to someone else completely?

Magnuson: Other than BCBS there are four other companies writing individual plans.

Michael Fix, Director of the Life and Health of the Actuary Insurance Department, spoke in opposition to this bill. He stated that when healthy people opt out of the pool, the cost for the more sickly people goes up. So nobody in the group will be able to afford it.

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Hearing Date 1-28-03

He states that it is a question is affordability vs. access to coverage. Affordability is the most important.

No further questions from the committee.

Hearing closed. No action taken.

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10/21/03

2003 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 2281

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 02-04-03

Tape Number	Side A	Side B	Meter #
2	XXXX		3900
Committee Clerk Signature <i>Lisa Van Berkum</i>			

Minutes: Chairman Mutch opened committee discussion on SB 2281. Senator Heitkamp was absent. SB 2281 relates to small employer health benefit plans.

There was brief discussion among committee members.

Senator Klein moved a DO PASS. Senator Nething seconded.

Roll Call Vote: 6 yes. 0 no. 1 absent.

Carrier: Senator Nething.

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Date: 2-4-03
Roll Call Vote #: 1

2003 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2281

Senate IBL Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken DO PASS

Motion Made By Klein Seconded By Nothing

Senators	Yes	No	Senators	Yes	No
7- Sen. Duane Mutch, Chairman	X		Sen. Michael Every <u>5</u>	X	
6- Sen. Jerry Klein, Vice Chairman	X		Sen. Joel Heitkamp <u>4</u>	A	
2- Sen. Duane Espgaard	X				
3- Sen. Karen Krebsbach	X				
Sen. Dave Nething	X				

Total (Yes) 6 No 0

Absent 1

Floor Assignment Nothing

If the vote is on an amendment, briefly indicate intent:

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10/21/03
Date

REPORT OF STANDING COMMITTEE (410)
February 5, 2003 3:39 p.m.

Module No: SR-22-1789
Carrier: Nothing
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2281: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends DO PASS (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2281 was placed on the Eleventh order on the calendar.

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2003 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2281

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2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2281

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date March 12, 2003

Tape Number	Side A	Side B	Meter #
1	x		39.5-end
1		x	0.0-end
2	x		0.0-9.8
Committee Clerk Signature <i>Judith Hammer</i>			

Minutes: Chairman Keiser opened the hearing on SB 2281.

Senator Nething, District 12, introduced SB 2281 and testified in its support. (See attached #1)

The intent of this bill is to deal with the qualifying existing coverage, such as spouse or Medicare, to exclude individual health plans which include the younger healthier employees. The result will keep the balance of healthy and not-so-healthy in order to keep costs lower for the employer. If this legislation is not passed, there will be an adverse effect on small employer group premiums and increasing affordability problems for both employers and employees.

Dan Ulmer, Blue Cross Blue Shield North Dakota, appeared to testify in support of SB 2281

(See attached #2)

Rep. Froseth: Is there a discrepancy in here, Senator Nething said "any contribution by an employer towards the plan". But you say, the employer must pay 50%. Please clarify that for me.

Ulmer: Presently, if there is employer contribution on an individual application, there's a space on our form for this, if the person checks yes, we don't issue a policy.

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Bill/Resolution Number SB 2281

Hearing Date March 12, 2003

Rep. Froseth: Contribution towards health insurance, not contribution of payment premium in the plan.

Ulmer: That's the different between group and individual.

Chairman Keiser: So let's summarize this. Currently law says you have to guarantee issue of a group policy. A small group plan can be 2-50 persons. However, the group has to meet criteria. There has to be 70% participation. At present, if I have 10 people, one is on Medicare but still working, and two of them are insured through their spouse, now my group number is 7. So five people have to participate in order to get the policy. I can exclude people who are on an individual policy, and that leads to adverse selection. Those folks step out, I have to meet 70%. I can have five young people working in my 7 or less, they go out to the individual market. Then I have only 2 people, that's 100% participation now. So you're asking that we still allow spouses to be excluded, federal plans can still be excluded but if we have them in a group plan, people who are in the individual market, they can't be excluded in the 70% computation.

Rep. Ruby: Is this trying to address the problem that sometimes happens when employers set up a benefit package that has a certain dollar amount set aside for health benefits, and they take that anywhere they want? Is that what you're getting at here?

Janine Weideman, Vice-president of Actuarial & Membership Services for BCBS of ND:

That is one of the issues that we are attempting to address with this legislation. Affordability has become a big issue in the small group market, employers are concerned about their level of contribution. If they fix it at a certain dollar amount, we still require a 50% contribution. That must be towards the health plan but they cannot use direct or indirect contributions. Indirect is

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House Industry, Business and Labor Committee

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Hearing Date March 12, 2003

hard to monitor. If it's an increase in salary versus a designated contribution toward a benefit, is that indirect contribution or not? It's really salary.

Rep Froseth: Is there a formula to determine health and unhealthy?

Weideman: There are varying degrees of healthy and unhealthy. Depending on the size of the group, we look at past medical history, claims history, experience. (See attached #3 &4)

Rep Froseth: So a young and healthy person would pay more in a small group plan than in an individual plan with the same company?

Weideman: That's correct. The goal of keeping the young and healthy in the group market, the individual market's intent is to make coverage available to those who don't have employer coverage. It becomes an issue of affordability.

Rep. Klein: If an employee's spouse has coverage, that employee doesn't have to be included in his employer's small group plan but he is considered part of the 70%?

Weideman: That's correct. He can waive off.

Rep. Kasper: What share of the marketplace does BCBS insure in the state of North Dakota?

What percentage of the citizens of our state do they insure?

Weideman: 70-80%.

Rep. Kasper: When is it enough, percentage wise, in our state, where you can comfortably say we have enough of the marketplace to share the risk and we do not need to attempt to put the small private companies, or people who are low wage earners and can't afford high premiums where they have to be forced into the BCBS plan?

Weideman: This is not an insurance carrier issue, it is an affordability issue for small employers.

BCBS has a significant share of the market and so if there is adverse selection, we react by

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Hearing Date March 12, 2003

raising the rates. Premiums have to cover claims and administrative expenses. We are trying to maintain affordability in the small group market. It is hard for smaller carriers to spread their risks.

Rep. Keiser: There is the perception of invulnerability in young people, I see this in my own company. Premiums raise each year, some young people drop out, they just want their cash. Do you think this might create the risk that we can't meet the 75%, not because they are taking individual coverage but because they are choosing to be uninsured? So the entire plan might lose out?

Weideman: That is certainly a concern. That's one of the reason why we have to use appropriate underwriting requirements. To minimize such a possibility.

Rep. Keiser: I think Rep. Ruby was referring earlier to the medical savings account. The legislature thought that was a great idea. Putting funds into an account, avoiding tax liabilities and applying those dollars to health care and in some cases to insurance premium payments. From a policy standpoint, it's tough to say that someone has put money in an account and now he can't go out and choose to buy the least expensive plan. How do we deal with that?

Weideman: BCBS believes the best way to insure the most employees or members affordably is through group policies. We have to have parameters in place to make sure the employers' rates are affordable. 20% of members generate 80% of the claims costs.

Rep. Dosch: How do you determine the premiums? By age, health conditions, demographics?

What emphasis do you put on the age factor versus the health factor?

Weideman: We can't use gender by law. It's complex and varies from group to group. We calculate a standard rate for the small group market based on claims experience, health questions.

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Hearing Date March 12, 2003

Rep. Thorpe: We discuss all these insurance policies in relation to dollars taken in and dollars going out. Insurance companies make their profits off investments from premium dollars, right?

At what rate is there a break even point for an insurance company? There has to be a level that you maintain.

It varies by insurance carrier. BCBS administrative fee is 8% plus the premium tax and conversion. So 88-90% is the benchmark. We target a 1% underwriting fee to maintain reserves.

Rep. Kasper: In the law of Actuarial Science, if you have 80% of the market, 15% that are not adversely selecting against the group because they have coverage elsewhere, that leaves 5%. So is 95 out of 100 % considered adverse selection?

Weideman: It depends on the size of the group.

Rep. Kasper: How about 600,000?

Weideman: I would consider that for any time the individual can select against an insurance plan or carrier, there is adverse selection. With 600,000 that would not be, you could spread that risk over the remaining individuals.

Rep. Kasper: In North Dakota, the way BCBS rates statewide, wouldn't it be wise for BCBS to develop a community rate for the entire state. So regardless of where you lived in the state, the entire population would be placed in one pool that would even out the rate across the state and allow a fair premium for all citizens?

Weideman: Every carrier has to make decisions as to how far to go to do pure social rating versus financial equity.

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Chairman Kaiser: What will happen, if young people can continue to self select and adversely select themselves out of the pool, is we'll continue with three bands but they will move up a notch. Small group pool will be negatively affected as a whole, is that the argument?

Weideman: Yes, that is it. The young individual may get short term relief on their rates.

Protecting the small group market will provide longer term stability.

Rep. Froese: If 30% of an employer's workers opt out of the small group policy, how do you know it is the young healthy ones that are opting? Does the employer have to submit a complete roster of his employees?

Weideman: That's a requirement of small group law, we must obtain a list of eligible and copies of waivers of those who opt out.

Rep. Kasper: The way I see this is that it is a bill to protect adverse selection for BCBS, not the small group market in general. This will reduce competition and choice in the marketplace for lower income employees. Employees who make \$7 per hour and a single monthly premium is \$230, they can't afford insurance. They could go to the private marketplace with higher deductibles and bear the risk and have some coverage.

Weideman: This is not an insurance issue, nor is it solely a BCBS issue, to be protected against adverse selection. Yes, we have a large market share, we can react to adverse selection by increasing premiums. This is a problem for employers and the workforce of North Dakota.

Vance Magnuson, Senior Form and Rate Analyst for the North Dakota Insurance

Department, testified in opposition to SB 2281 and urged a Do Not Pass. (See attached # 5)

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He stated that the extent of the problem involves cost shifting and the impact of that on certain groups. The end result could very well be that more employers will be denied coverage.

Employees would then seek coverage on their own, without the guaranteed issue requirement, and then quite possibly, be denied coverage due to their health status.

Chairman Kelser: Is there a potential for adverse selection to occur with young people who opt out? If there is adverse selection in any plan, should we maintain guarantee issue? On the one hand, if you can show us adverse selection, too bad. We still have to have it. If we allow adverse selection, should we, as a policy, say, we're allowing adverse selection, so now we have to back away from guarantee issue.

Magnuson: Yes, on a case by case basis. Even if the employer pays 50% of the premium, it might be cheaper for an employee to purchase individual coverage. However, after considering the after tax cost, you could leverage another 20% on top of what that premium would be on the individual market. There may be adverse selection, we haven't had complaints from employers or employees. We haven't seen any specific examples, theoretical examples of what might occur, yes, but we haven't had instances yet.

Rep. Klein: On line 10, *shall* to was changed to *may*, interpret that for me. Would you not have to consider those employees that have qualifying coverage when it goes from shall to may?

Magnuson: That's a drafting provision put in by Legislative Council. I don't read it any differently.

Rep. Kasper: Getting to adverse selection from your perspective: We have this group of potential insureds, 70 % are insured in the plan, 30% are insured in another plan for whatever

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reason. Would you consider that adverse selection, in light of the fact that there has been no coercion to not have coverage, they just chose to be covered elsewhere?

Magnuson: I guess not.

Rep. Kasper: When people are covered in health insurance, wherever they are covered, we shouldn't look at that as adverse selection. Where adverse selection occurs is where someone chooses not to get coverage for whatever reason, now we are potentially adversely selecting against a group. Am I correct?

Magnuson: Adverse selection is in the eye of the beholder. It depends. It could be the employer is adversely selected against because premiums may increase. It could be that the insurance company feels adversely selected because they aren't getting the entire piece of pie. The individual, if coverage isn't issued, it's not really adverse selection, but he might be adversely impacted by having to seek individual coverage in the marketplace.

Chairman Kelser: I'm surprised by your answers. Adverse selection is a fairly well known concept. Let's compare this to auto insurance. If people with perfect driving records are moving from out of a state plan into one little plan, then the big plans are going to take a huge hit because the good customers have left and only the bad risks remain. That's adverse selection. Talking about health care, it's not whether 100 per cent have coverage in one place or another, it's if we get a concentration of either high or low risk. It's not that broad a definition, is it? It has an adverse effect, that's a different thing. Adverse selection is when choices are made to move and create inequities based on important factors.

Magnuson: You can have adverse selection as far as individuals collecting coverages and that is why this bill is being introduced.

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Hearing Date March 12, 2003

Chairman Kelser: I'm referring to Rep. Kasper's definition. Having 100% coverage doesn't mean for a group of employees, wherever they're covered doesn't mean that adverse selection is eliminated from occurring in that group. Is that correct?

Magnuson: Yes.

Chairman Kelser: You don't want to get rid of guaranteed issue. What about, from a policy standpoint, the 4-1 ratio on the bands or increasing the number of bands? Where is the Insurance Department on that issue?

Magnuson: I don't know. It's mandated now, 4-1 is the law for the group market. For the individual market it's 5-1. We have one carrier, Heart of America, the HMO in Rugby, that has a pure community rate, one rate for all groups. To be fair, it should be changed for all players. The Department hasn't taken a stand, one way or another, on going to a community rating or on changing the bands.

Chairman Kelser: It seems to me that's one of the dilemmas. In the group markets, you have to insure them. Then we place limits. There can only be 3 bands and the ratio is 4-1. For the individual market, you can have 5 bands and I don't know what the ratio is there. That allows for great pricing opportunities. It used to be, if an employer had a healthy group, he could get a low rate. That is no longer so because I'm forced from 5 to 3 bands. That's an unlevel playing field.

Magnuson: Yes, rates can vary from 4-1, and there are other deviations. Carriers can rate 120% of the index rate or 80 % of that. They can deviate 50%, or 20% up or down, plus or minus. That is for that class. There might be other classes as well. I think, in our state, carriers are dealing with only one class of business.

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Rep. Froseth: There are winners and losers in this. The losers are the young and healthy, the winners are the older and those with health problems. Overall, the effect to the employer group policies, it might end up being a winner, as far as lower premium rates and a more secure policy for the employees.

Magnuson: Theoretically, yes, if individuals were required to be covered under employer group policies. It won't necessarily change individual employee behavior or decisions. The intent may not be achieved. This bill might do nothing. The intent may be to keep young healthy people in the plans but this bill doesn't do it. This bill is an imposition on the employer.

Rep. Thorpe: Are there predetermined deductibles in group policies?

Magnuson: Yes.

Chuck Johnson, General Counsel for the Insurance Department, testified to provide a disclaimer that neither he nor Mr. Magnuson have the authority to speak for the Commissioner of North Dakota Insurance Department. He stated that he doesn't think that SB 2281 will prevent adverse selection. Individuals can still opt out and go to a different plan or buy individual coverage. This bill might result in pressure being placed on individuals by fellow employees to participate in group health plan. This is an economic issue for individuals. The adverse impact of SB 2281 is that it removes the option for employers to decide for themselves and their employees whether or not they wish to participate in the small group market.

As there was no one else present to testify either in support of or in opposition to SB 2281, the hearing was closed.

2003 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2281

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date March 18, 2003

Tape Number	Side A	Side B	Meter #
1	x		35.1-end
1		x	0.0-5.0
Committee Clerk Signature <i>Judith Hammer</i>			

Minutes: Chairman Keiser called for committee work on SB 2281.

Dan Ulmer, BCBS, distributed some examples of small group insurance scenarios to illustrate how adverse selection may occur. (See attached #1)

Rep. Ekstrom moved a Do Pass.

Rep. Zaiser seconded the motion.

Rep. Severson stated that he thinks this particular bill, that allows young and/or healthy employees to leave would certain jeopardize the policy he maintains for his employees.

Ultimately, rather than pay insurance premiums for them, he would give them an allowance to find their own insurance. Then we'd be right back where politicians would be saying, we have so many uninsured people. I think the group plan is good and I'd like this protection and I'd like to see this pass.

Rep. Zaiser stated that as director of a small nonprofit organization he remembers the struggle to qualify for a group plan because young and healthy employees opted out. This is a critical long

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term issue for our state. I agree with Rep. Severson, that if this doesn't pass, we're setting a policy that's detrimental to the old and infirm. This is a policy issue beyond just this legislation. It would appear that BCBS has a monopoly in the marketplace, I don't think that's the issue here, though.

Rep. Kasper stated that regardless of whether or not SB 2281 passes, a bigger problem is not addressed here. That is the affordability of the insurance premium for the individual employee whether it is for an individual or a family policy. A monthly premium that costs \$318 for a single person is too expensive for an employer and a wage earner in this state. What is happening here is that employees are uninsured. That drives the 70% down. And ultimately, the group is forced to be withdrawn. And that creates even more uninsured. I am not speaking against this bill. I worked with the BCBS people and the ND Department of Insurance trying to resolve the issues within it, I think this whole small group situation should be addressed in a study resolution. I supposed there is not enough time to do another bill but could we add to this, could we request a study resolution for the interim?

Chairman Kelser: I've had the same thought but let's don't suggest a study resolution here. We might go to Leadership and request a delayed bill for a study resolution that stands on its own merits. The implications of this bill are huge. If we don't pass this, it will lead to further deterioration of the small group market. But even if we do pass it, my young employees, those invulnerable youth, will rather buy a new car than pay health insurance premiums. When you can't buy the less expensive policy, now you are not going to have coverage at all. But if we force them into the group, and that is too expensive, they won't buy the coverage and that jeopardizes the whole group. On the other hand, if we force them in, then I guarantee you that the

Deanna D. L. Smith
Operator's Signature

12/21/03
Date

Page 3

House Industry, Business and Labor Committee

Bill/Resolution Number SB 2281

Hearing Date March 18, 2003

group will become unavailable for everybody. This is a big enough issue and I think Leadership will support a delayed bill for a study resolution on this topic.

Rep. Klein: I don't know how many of you were here when we instituted the small group plan but that was a tough battle. If we didn't do that, I'd venture to say that the amount of people we'd have insured in this state would be considerably less. We can't let small group insurance go by the wayside over a period of time.

Chairman Keiser: We need to address the other issues that have been raised in the hearing: guaranteed issue, the philosophy of guaranteed issue and whether that is something we want. We can't dictate that insurance companies have to allow guaranteed issue but we can allow the good ones to slip out through adverse selection on the bottom. That is unreasonable as a policy.

Rep. Kasper stated for the record that even though he derives his livelihood in the insurance industry, he has no ulterior motives regarding this particular bill. He does not have any clients to whom he has sold single group health insurance policies. He maintains a health policy for his college son. He derives no income from the outcome of this legislation.

Rep. Tieman: I am also in the insurance industry but my specialty is life insurance only. For the record, I will derive no income from the outcome of SB 2281.

Rep. Thorpe: I am in support of this bill. In my work experience, fifteen years ago, we had an employee meeting regarding our company health policy. The healthy ones agreed to pay a little more premium so that those fellow workers with preexisting conditions could have affordable insurance. We did that gladly, for our fellow workers and for our employer.

Results of the roll call vote were: 12-0-2.

Rep. Froseth will carry this on the floor.

Date: 3/18/03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2281

House INDUSTRY BUSINESS & LABOR Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Ekstrom Seconded By Zaiser

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	✓		Boe		
Vice-Chair Severson	✓		Ekstrom	✓	
Dosch	✓		Thorpe	✓	
Froeth	✓		Zaiser	✓	
Johnson	✓				
Kasper	✓				
Klein	✓				
Nottestad	✓				
Ruby	✓				
Tieman	✓				

Total (Yes) 12 No 0

Absent 2

Floor Assignment Froeth

If the vote is on an amendment, briefly indicate intent:

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Operator's Signature Deanna Waller Date 10/21/03

REPORT OF STANDING COMMITTEE (410)
March 18, 2003 11:56 a.m.

Module No: HR-48-5021
Carrier: Froese
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2281: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends DO PASS (12 YEAS, NAYS, 2 ABSENT AND NOT VOTING). SB 2281 was placed on the Fourteenth order on the calendar.

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12/21/03
Date

2003 TESTIMONY

SB 2281

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10/21/03
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Testimony—2003—Dan Ulmer- BCBSND

Mr Chairman

Introduction
to SB 2281

This bill asks the legislature to make a policy decision that significantly effects the small group health insurance market. The choice is rather simple but the implications or ripple effects are fairly complex. The basic choice is whether or not to adversely-select in the individual or the group market.

To understand the concept of adverse-selection one needs to appreciate that the price of health insurance is directly tied to maintaining more healthy than sick people in any given insurance rating pool. The more healthy the less cost to the pool, the more sick the more cost. Folks not needing healthcare today are paying for the sick folks who are. In reality the term health insurance is a misnomer it should be called illness insurance because it's designed to pay for our needs when we're ill...and we all get ill.

Beginning in 1991, and for the following few sessions, the legislature reformed how insurance is delivered and paid for in the small employer group market by creating something called 'guarantee issue'...all comers, no matter what their health status, were guaranteed access to the small employer group market. As well, rating bands were established in an attempt to somewhat equalize the rates. At the same time 'gender rating' was prohibited, which reduced most of the industry to rating by age (which makes sense because as we age we need more care, when we're young we don't need as much).

The rating bands were devised after much discussion about the concept of community rating. Community rating comes in a variety of options. Pure community rating is when everyone, regardless of age or anything else, pays the same premium. After much debate the legislature settled on a modified community rating process in hopes of limiting wild swings in rates and rationally determining how costs should be spread in any given group or pool.

The small group employer market is our largest group rating pool. Small groups are composed of groups from 2 to 50 (large groups are anything above that). By law companies can determine or impose participation and contribution requirements that it enforces across all its small group products.

In Blue Cross' case we impose a 50% employer contribution and a 70% participation rate. To determine the participation rate spouses or employees having other qualifying group coverage are opted out from determining the number of employees that must sign onto the group before the company will offer coverage.

At the same time the rules are supposed to prohibit employees from purchasing individual coverage if their premium comes from an employers contribution. All employer contributions are supposed to go for group coverage...not individual coverage (individual coverage is not guarantee issue, nor are there rate bands in this market, and individuals can be denied coverage).

The problem here is that individual coverage is cheaper for some young people even when offset by the contribution some employers make. Thus the young healthy folks would prefer to opt out of group coverage based on price. This changes in the market as they age; in short order premiums increase rapidly, coverage gets too expensive, and at that point they want to get back into the small group market.

When young healthy employees opt out of a group or risk pool the costs to those remaining rises significantly as the group/pool is then left with the older and sicker folks. This bill then asks the legislature to set the policy here. Are you going to protect the small employer pools or the individual market? It's not an easy choice, but your choice will have a ripple effect in either market.

We have had a number of examples here, probably the most noted are some schools that provide teachers a set amount of benefit dollars and let them purchase health insurance wherever they can. The young teachers like this and the old ones don't. We've also had other groups whose employers make contributions to both the group and individual. The rules indicate that any employee receiving an employer contribution for health insurance is supposed to come into the small group market, yet employers allow employees to opt-out and buy individual coverage.

Sb2281 would disallow counting individual coverage as previous qualifying coverage and force employees receiving contributions into the small group market and thus protect it from further adverse-selection.

Deanne Waller
Operator's Signature

10/21/03
Date

— Opposition —

**TESTIMONY BEFORE THE SENATE INDUSTRY, BUSINESS & LABOR
COMMITTEE**

REGARDING SENATE BILL 2281

JANUARY 28, 2003

Mr. Chairman and members of the Senate IBL Committee. My name is Vance Magnuson, Senior Form and Rate Analyst for the North Dakota Insurance Department. I am appearing before you in opposition to SB 2281.

Small employer health insurance coverage is available to all North Dakota small employers (employers with 2-50 eligible employees) on a guaranteed issue basis. Guaranteed issue means that an employer who applies for coverage with an insurance company cannot be denied insurance coverage. However, an employer group must meet the insurer's minimum contribution and minimum participation underwriting requirements. For example Blue Cross Blue Shield of North Dakota requires employers to contribute a minimum of at least 50% of the cost for employee single health plan coverage. A minimum participation requirement of 70% is also required for employees that must be covered before the insurance coverage will be issued.

Problems with Proposed Legislative Change

1. The intent of North Dakota's small employer law was to increase the availability of small employer coverage. This bill has the opposite effect of increasing the insurer's participation requirement by eliminating employees with individual health coverage from being counted when computing the number of employees who must apply for insurance coverage. Please refer to the attached example A
2. Other than a potential problem presented by BCBSND, the Insurance Department has not received any employer or employee complaints pertaining to this issue. The Department has also requested specific examples of potential underwriting anti-selection pertaining to this issue from BCBSND, but have not been provided any.
3. The proposed change could result in employees with individual coverage being "coerced" to drop their coverage and elect group coverage which they do not want or need. See example B

Dennis D. Wall
Operator's Signature

10/21/03
Date

4. Individual health benefits are not defined under current law. Does this mean individual also includes CHAND? Does this mean association membership coverage written on either a group or individual basis?
5. What is the extent of the proposed problem? And have all other options been explored thoroughly without making it more difficult for employers to obtain group health insurance?

On behalf of the North Dakota Insurance Department, I would urge the Committee not to pass this legislative change due to the potential negative ramifications it may have on small employers and employees. Thank you for time and consideration. I would be happy to answer any questions the Committee may have.

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Date

EXAMPLE A

Employer group with 20 eligible employees

A minimum 70% participation is required by insurer

8 of these individuals have Qualifying Previous Coverage – 2 of these have Individual coverage

Under current law, 70% of 12 employees or 9 (8.4) employees have to elect group coverage

Under the proposed law 70% of 14 employees or 10 (9.8) employees need to elect group coverage.

EXAMPLE B

Employees with individual coverage may include a dependent spouse of a self-employed person or an individual covered by CHAND. These employees may be required to drop their individual coverage and elect group coverage in order for the employer group to meet the min. participation level.

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Deanna D. [Signature]
Operator's Signature

10/21/03
Date

Testimony-SB2281

Mr. Chairman, Members of the Committee. Good morning. My name is Janine Weideman and I am the Vice President of Actuarial and Membership Services for BlueCross BlueShield of North Dakota and a member of the American Academy of Actuaries.

This bill asks the legislature to amend the provisions of small employer health benefit plans related to the application of minimum participation requirements. In the group market, it's standard underwriting practice for insurers to require that a minimum number of employees participate in a group health plan in an effort to ensure that a balance of healthy and sick enroll. The most important factor to ensure a high percentage of employees will actually enroll is to have adequate employer contribution.

Currently, ND statute states that an insurer, in applying minimum participation requirements, may "not" consider employees or dependents that have "qualifying existing coverage" in determining whether the applicable percentage of participation is met. "Qualifying existing coverage" is defined in Section 26.1-36.3-06 and includes not only employer sponsored health plans but also includes Individual Health Plans.

This bill would revise the definition of "qualifying existing coverage" to exclude Individual Health Plans. In other words, an insurer would no longer count those employees that opt out because they have an Individual Health Plan when calculating the participation percentage. Those with employer sponsored plans (spousal coverage) and other types of plans as listed in the definition *would* be counted as participants.

Example: An employer has 6 eligible employees. BCBSND requires that 5/6 of the eligibles enroll in order to meet its participation requirements. Under the current regulations, 5 of the employees could opt out for an Individual Health Plan and the 1 remaining employee could enroll as a group of 1. Under this bill, employees that opt out for Individual coverage **would not** be counted as participants when calculating minimum participation requirements. Rather than 1 employee required, 5 would have to enroll in order to enroll as a group plan. This is just one simple illustration; there may be many other combinations of coverage allowed under a group plan.

If this bill is not passed, there will be an adverse effect on small employer group premiums and, as a result, an increasing affordability problem for ND employers and their employees. The reason---Individual Health Plans require enrollment based on medical underwriting. Those that opt out of the employer's plan will likely be the young and healthy if they can purchase an Individual plan at a lower rate. Those who are sick and cannot qualify for Individual coverage will enroll in the guaranteed issue group plan. This is what we refer to as adverse selection.

Deanna D. Smith
Operator's signature

10/21/03
Date

BCBSND develops its small employer group rates based on a modified community rating process. All small employers are rated in aggregate and the rates are then tiered for each individual employer group based on its composite demographics and health status. If the young and healthy opt off the group, the remaining employees will pay higher rates.

Under small employer health insurance regulations, a carrier cannot write an Individual Health Plan if there is any contribution by an employer toward that plan. Even so, some employees can purchase Individual Plans at a lower cost than through his/her employer, in effect, creating adverse selection against the employer sponsored group plan. This problem will escalate as premium rates increase, especially if the North Dakota small employer market is not protected from adverse selection. This bill asks the legislature to set the policy here and ensure the continued viability of our North Dakota employer based market. If small group rates become too high, not only will healthy individuals opt out of the market, but entire North Dakota employer groups may also leave the market.

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10/21/03
Date

TESTIMONY

SB 2281

Senator Dave Nething

House Industry, Business and Labor Committee

Rep. G. Keiser, Chairman

This bill relates to "small employer" health benefit plans. "Small employer" = a group of 2 to 50 employees.

Specifically it relates to the minimum number of employees who participate in the plan to make sure there is a balance of "healthy" and "not-so-healthy" in the group.

The prominent provider of health benefits require 70% of the employees must be in the plan. Also the employer must pay for at least 50%. The 70% is called the "participation rate". Not included in this if they have other coverage are:

- spouses having other coverage
- employees with other group coverage, ie, Medicare

All other employees must be in the group before coverage will be issued.

If too many remaining employees opt out and bring the number below 70%, no coverage. Also if too many of young and healthy opt out, the price for employer increases. Thus, need balance of "healthy" and "not-so-healthy".

SB 2281 revises the "qualifying existing coverage" such as spouse coverage or Medicare, to exclude "Individual Health Plans" which includes the younger, healthier employee. The result will keep the balance of "healthy and not-so-healthy" and keep the cost lower to the employer.

If this bill is not passed, there will be an adverse effect on small employer group premiums and, as a result, an increasing affordability problem for ND employers and their employees. The reason--Individual Health Plans require enrollment based on medical underwriting. Those that opt out of the employer's plan will likely be the young and healthy if they can purchase an Individual Plan at a lower rate. Those who are

TESTIMONY
SB 2281
Senator Dave Nething

not-so-healthy and cannot qualify for Individual coverage will enroll in the guaranteed issue group plan. This is what is referred to as adverse selection. If the young and healthy opt off the group, the remaining employees will pay higher rates.

Under small employer health insurance regulations, a carrier cannot write an Individual Health Plan if there is any contribution by an employer toward that plan. Even so, some employees can purchase Individual Plans at a lower cost than through his/her employer. This problem will escalate as premium rates increase, especially if the small group market is not protected from adverse selection.

This bill asks the legislature to set the policy to ensure the continued viability of the employer based market. If small group rates become too high, not only healthy individuals will opt out of the market, but a entire groups may also leave the market.

I will try to answer any questions you may have.

Deanne Waller
Operator's Signature

10/21/03
Date

Attached # 2

Testimony—2003—Dan Ulmer- BCBSND

Mr. Chairman

This bill (SB2281) asks the legislature to make a policy decision that significantly affects the small group health insurance market. The choice is rather simple but the implications or ripple effects are fairly complex. The basic choice is whether or not to adversely-select in the individual or the group market.

To understand the concept of adverse-selection one needs to appreciate that the price of health insurance is directly tied to maintaining more healthy than sick people in any given insurance rating pool. The more healthy the less cost to the pool, the more sick the more cost. Folks not needing healthcare today are paying for the sick folks who do. In reality the term health insurance is a misnomer it should be called illness insurance because it's designed to pay for our needs when we're ill...and we all get ill.

Beginning in 1991, and for the following few sessions, the legislature reformed how insurance is delivered and paid for in the small employer group market by creating something called 'guarantee issue'...all comers, no matter what their health status, were guaranteed access to the small employer group market. As well, rating bands were established in an attempt to somewhat equalize the rates. At the same time 'gender rating' was prohibited, which reduced most of the industry to rating by age (which makes sense because as we age we need more care, when we're young we don't need as much).

The rating bands were devised after much discussion about the concept of community rating. Community rating comes in a variety of options. Pure community rating is when everyone, regardless of age or anything else, pays the same premium. After much debate the legislature settled on a modified community rating bands in hopes of limiting wild swings in rates and rationally determining how costs should be spread in any given group or pool.

The small group employer market is our largest group rating pool. Small groups are composed of groups from 2 to 50 (large groups are anything above that). By law insurance companies can determine or impose participation and contribution requirements that it enforces across all its small group products.

In Blue Cross' case we impose a 50% employer contribution and a 70% participation rate. To determine the participation rate spouses or employees having other qualifying group coverage are opted out from determining the

Dan Ulmer
Operator's Signature

10/21/03
Date

number of employees that must sign onto the group before the company will offer coverage.

At the same time the rules are supposed to prohibit employees from purchasing individual coverage if their premium comes from an employers contribution. All employer contributions are supposed to go for group coverage...not individual coverage (individual coverage is not guarantee issue, nor are there rate bands in this market, and individuals can be denied coverage).

The problem here is that individual coverage is cheaper for some young people even when offset by the contribution some employers make. Thus the young healthy folks would prefer to opt out of group coverage based on price. This changes in the market as they age; in short order premiums increase rapidly, coverage gets too expensive, and at that point they want to get back into the small group market.

When young healthy employees opt out of a group or risk pool the costs to those remaining rises significantly as the group/pool is then left with the older and sicker folks. This bill then asks the legislature to set the policy here. Are you going to protect the small employer pools or the individual market? It's not an easy choice, but your choice will have a ripple effect in either market.

We have had a number of examples here, probably the most noted are some schools that provide teachers a set amount of benefit dollars and let them purchase health insurance wherever they can. The young teachers like this and the old ones don't. We've also had other groups whose employers make contributions to both the group and individual. The rules indicate that any employee receiving an employer contribution for health insurance is supposed to come into the small group market, yet employers allow employees to opt-out and buy individual coverage.

Sb2281 would disallow counting individual coverage as previous qualifying coverage and force employees receiving contributions into the small group market and thus protect it from further adverse-selection.

#3

Testimony - SB2281

Mr. Chairman, Members of the Committee.

Good morning.

My name is Janine Weideman and I am Vice President of Actuarial and Membership Services for BlueCross BlueShield of North Dakota and a member of the American Academy of Actuaries.

This bill asks the Legislature to amend the provisions of small employer health benefit plans related to the application of minimum participation requirements. In the group market, it is standard underwriting practice for insurers to require that a minimum number of employees participate in a group health plan in an effort to ensure that a balance of healthy and sick enroll. The most important factor to ensure a high enrollment percentage is adequate employer contribution.

Currently, North Dakota statute states that an insurer, in applying minimum participation requirements, may "not" consider employees or dependents that have "qualifying existing coverage" in determining whether the applicable percentage of participation is met. "Qualifying existing coverage" is defined in Section 26.1-36.3-06 and includes not only employer sponsored health plans but also includes Individual Health Plans.

This bill would revise the definition of "qualifying existing coverage" to *exclude* Individual Health Plans. In other words, an insurer would no longer count those employees that opt out because they have an Individual Health Plan when calculating the participation percentage. Those with employer sponsored plans (spousal coverage) and other types of plans as listed in the definition *would* be counted as participants.

Example: An employer has six eligible employees. BCBSND requires that 5/6 of the eligibles enroll in order to meet its participation requirements. Under the current regulations, five of the employees could opt out for an Individual Health Plan and the one remaining employee could enroll as a group of one. Under this bill, employees that opt out for Individual coverage *would not* be counted as participants when calculating minimum participation requirements. Rather than one employee required, five would have to enroll in order to enroll as a group plan. This is just one simple illustration; there may be many other combinations of coverage allowed under a group plan.

Deanne Ballantyne
Operator's Signature

10/21/03
Date

Pg 2 # 3

If this bill is not passed, there will be an adverse effect on small employer group premiums and, as a result, an increasing affordability problem for North Dakota employers and their employees. The reason: Individual Health Plans require enrollment based on medical underwriting. Those that opt out of the employer's plan will likely be the young and healthy if they can purchase an Individual plan at a lower rate. Those who are sick and cannot qualify for Individual coverage will enroll in the guaranteed issue group plan. This is what we refer to as adverse selection.

BCBSND develops its small employer group rates based on a modified community rating process. All small employers are rated in aggregate and the rates are then tiered for each individual employer group based on its composite demographics and health status. If the young and healthy opt out of the group, the remaining employees will pay higher rates.

Under small employer health insurance regulations, a carrier cannot write an Individual Health Plan if there is any contribution by an employer toward that plan. Even so, some employees can purchase Individual Plans at a lower cost than through his/her employer, in effect, creating adverse selection against the employer sponsored group plan. This problem will escalate as premium rates increase, especially if the North Dakota small employer market is not protected from adverse selection. If small group rates become too high, not only will healthy individuals opt out of the market, but entire North Dakota employer groups may also leave the market. This bill asks the Legislature to set policy that minimizes adverse selection in order to ensure the continued viability of our North Dakota employer based market.

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Operator's signature: Bob Smith Date: 10/21/03

Employer XYZ Scenario A

Age -	<30	30-39	40-44	45-49	50-54	55-59	60-64	Standard Risk	Standard CC250 w/ Rx
Single	1			1					\$ 250.60
SPD								4983	\$ 441.10
Family						1			\$ 651.50
Total Premium:									\$ 1,152.70

Employer Contribution toward Employee (EE) Coverage, 50% of Single: \$ 250.60
 50%
 Employer Contribution per covered employee: \$ 125.30

	Single	SPD	Family	Totals
Total Cost of Health Coverage:	\$ 250.60	\$ 441.10	\$ 651.50	
Employer Contribution:	\$ 125.30	\$ 125.30	\$ 125.30	\$ 375.90
Cost to EE:	\$ 125.30	\$ 315.80	\$ 526.20	
Number of EE's in each class:	2	0	1	
Total Cost to EE's	\$ 250.60	\$ -	\$ 526.20	\$ 776.80

Total Cost of Group Insurance Plan: \$ 1,152.70

Employer XYZ Scenario B

Single	1			\$ 283.70
SPD			4990	\$ 499.30
Family		1		\$ 737.50
Total Premium:				\$ 1,021.20

Employer Contribution toward Employee (EE) Coverage, 50% of Single: \$ 283.70
 50%
 Employer Contribution per covered employee: \$ 141.85

	Single	SPD	Family	Totals
Total Cost of Health Coverage:	\$ 283.70	\$ 499.30	\$ 737.50	
Employer Contribution:	\$ 141.85	\$ 141.85	\$ 141.85	\$ 283.70
Cost to EE:	\$ 141.85	\$ 357.45	\$ 595.65	
Number of EE's in each class:	1	0	1	
Total Cost to EE's	\$ 141.85	\$ -	\$ 595.65	\$ 737.50

Total Cost of Group Insurance Plan: \$ 1,021.20

Increased cost per covered EE:

	Single	SPD	Family	Totals
Increase in Employer Cost / Contribution @ 50%	\$ 16.55	\$ 16.55	\$ 16.55	\$ 33.10
Increase to EE Cost / Contribution:	\$ 16.55	\$ 41.65	\$ 69.45	\$ 86.00
Number of EE's in each class:	1	0	1	2
Total Increased Cost for remaining EE's:				\$ 119.10

Individual Coverage Under 30 Years of Age		
PC 250	PC 500	PC 1000
\$ 109.30	\$ 105.10	\$ 100.40
\$ 218.30	\$ 209.70	\$ 200.20
\$ 346.80	\$ 333.40	\$ 318.40

Bank Deposit Plan

Attachment 4

Comment:

As a result of the adverse selection by the younger employee who purchases individual coverage, the employer must increase his contribution \$33.10 (or \$16.55 per employee) and the participating employees must increase their contribution by a total of \$86.00 for an overall cost increase of \$119.10 to the remaining employer group. In addition, the younger employee who purchases comparable individual coverage must pay \$109.30 for a grand total of \$1,130.50 per month in premium. The resulting savings versus the employer group coverage is \$22.20 per month. However, the resulting adverse selection to the group plan may make the group health coverage unaffordable to the remaining employees.

45

**TESTIMONY BEFORE THE HOUSE INDUSTRY, BUSINESS & LABOR COMMITTEE
REGARDING SENATE BILL 2281**

March 12, 2003

Mr. Chairman and members of the House IBL Committee. My name is Vance Magnuson, Senior Form and Rate Analyst for the North Dakota Insurance Department. I am appearing before you in opposition to SB 2281.

Small employer health insurance coverage is available to all North Dakota small employers (employers with 2-50 eligible employees) on a guaranteed issue basis. Guaranteed issue means that an employer who applies for coverage with an insurance company cannot be denied insurance coverage. However, an employer group must meet the insurer's minimum contribution and minimum participation underwriting requirements. For example Blue Cross Blue Shield of North Dakota requires employers to contribute a minimum of at least 50% of the cost for employee single health plan coverage. A minimum participation requirement of 70% is also required for employees that must be covered before the insurance coverage will be issued.

Problems with Proposed Legislative Change

1. The proposed change will not necessarily achieve its intended goal since a more stringent requirement will be imposed on employer groups, but the employers may have little or no influence on what kind of health insurance an employee has or decides to purchase.
2. The intent of North Dakota's small employer law was to increase the availability of small employer coverage. This bill has the opposite effect of increasing the insurer's participation requirement by eliminating employees with individual health coverage from being counted when computing the number of employees who must apply for insurance coverage. Please refer to the attached example A
3. Other than a potential problem presented by BCBSND, the Insurance Department has not received any employer or employee complaints, or actual cases experienced by BCBSND pertaining to this issue.

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Dianne Waller
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12/21/03
Date

Pg 2 #5

4. The proposed change could result in employees with individual coverage being "coerced" to drop their coverage and elect group coverage which they do not want or need. See example B
5. Individual health benefits are not defined under current law. Does this mean individual also includes CHAND? Does this mean association membership coverage written on either a group or individual basis?
6. BCBSND currently has approximately 90% of the insured small employer group market in ND. Current law states "A small employer carrier may not increase any requirement for minimum employee participation or any requirement for minimum employer contribution applicable to a small employer at any time after the small employer has been accepted for coverage." Therefore, only new groups insured by companies will be impacted by the proposed change.
7. What is the extent of the proposed problem? And have all other options been explored thoroughly without making it more difficult for employers to obtain group health insurance?

On behalf of the North Dakota Insurance Department, I would urge the Committee not to pass this legislative change due to the potential negative ramifications it may have on small employers and employees. Thank you for your time and consideration. I would be happy to answer any questions the Committee may have.

P3 #5

EXAMPLE A

Employer group with 20 eligible employees

A minimum 70% participation is required by insurer

8 of these individuals have Qualifying Previous Coverage – 2 of these have Individual coverage

Under current law, 70% of 12 employees or 9 (8.4) employees have to elect group coverage

Under the proposed law 70% of 14 employees or 10 (9.8) employees need to elect group coverage.

EXAMPLE B

Employees with individual coverage may include a dependent spouse of a self-employed person or an individual covered by CHAND. These employees may feel compelled to drop their individual coverage and elect group coverage in order for the employer group to meet the min. participation level.

Pg 4 #5

29. "Producer" means insurance producer.
30. "Program" means the state small employer carrier reinsurance program created under section 26.1-36.3-07.
31. "Qualifying previous coverage" and "qualifying existing coverage" mean, with respect to an individual, health benefits or coverage provided under any of the following:
- a. A group health benefit plan;
 - b. A health benefit plan;
 - c. Medicare;
 - d. Medicaid;
 - e. Civilian health and medical program for uniformed services;
 - f. A medical care program of the Indian health service or of a tribal organization;
 - g. A state health benefit risk pool, including coverage issued under chapter 26.1-08;
 - h. A health plan offered under 5 U.S.C. 89;
 - i. A public health plan as defined in federal regulations; and
 - j. A health benefit plan under section 5(e) of the Peace Corps Act [Pub. L. 87-293; 75 Stat. 612; 22 U.S.C. 2504(e)].

The term "qualifying previous coverage" does not include coverage of benefits excepted from the definition of a "health benefit plan" under subsection 18.

32. "Rating period" means the calendar period for which premium rates established by a small employer carrier are assumed to be in effect.
33. "Reinsuring carrier" means a small employer carrier which reinsures individuals or groups with the program.
34. "Restricted network provision" means any provision of a health benefit plan that conditions the payment of benefits, in whole or in part, on the use of health care providers that have entered into a contractual arrangement with the carrier under chapters 26.1-17, 26.1-18, and 26.1-47 to provide health care services to covered individuals.
35. "Small employer" means, in connection with a group health plan with respect to a calendar and a plan year, an employer who employed an average of at least two but not more than fifty eligible employees on business days during the preceding calendar year and who employs at least two employees on the first day of the plan year.
36. "Small employer carrier" means any carrier that offers health benefit plans covering eligible employees of one or more small employers in this state.
37. "Standard health benefit plan" means a health benefit plan developed under section 26.1-36.3-08.

26.1-36.3-02. Applicability and scope.

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Operator's Signature

Deanna D. [Signature]

10/21/03

Date

Dan Ulmer

From: Pat Bellmore (Pat.Bellmore@nordian.com)
Sent: Monday, March 17, 2003 2:05 PM
To: Dan Ulmer
Cc: Rod St. Aubyn; Janine Weideman
Subject: Minimum Participation

Dan,

I was asked to forward a scenario of a Fargo group that is having problems with their health plan.

We have a Fargo group that is experiencing the same phenomenon that many small groups are struggling with:

This group is contributing 50% of a single rate towards their employees health plan. Their current rate is \$ 318 per month for single coverage. That leaves a \$159 per month cost to the employee. This group has 19 full-time employees and only 9 are left on the plan including the owner, of course. One of my Reps had told me about this situation a couple of weeks back and I thought it was indicative of the concerns that we all have. Over the years, this employer has lost several of his employees off of the plan. They came off the group and purchased individual coverage. This has been cheaper for those employees because they happened to be young and relatively healthy enough to qualify for individual coverage. Those that are left on the group are really struggling with the cost. Naturally, those that are left are either the older employees or those that have health problems or both. The owner is furious with his increases. Last year his premium went up over 15% and then this year it went up 24.9% again. The owner understands why this is happening and is regretful that he didn't do something to preserve his group. This is a smaller group so much of their rate development is based on demographics. This group is clearly on a collision course of spiraling costs as BCBSND continues to be left with a group where the healthy and/or young employees have been stripped out of the plan and left us with the higher risk individuals.

I am writing this not to point out some peculiar situation that I have stumbled across but a real example of a situation that we have seen repeatedly over and over throughout southeastern North Dakota. I know in talking with some of my colleagues from other parts of the state, these situations are even more prevalent for them. The future of financing healthcare is hinged on a carrier having both bad and good risks within it's insurance pools. This cuts to the most fundamental concept of insurance.

If you have any other questions on what we are seeing out in the marketplace, please let me know.

Thanks Dan.

Pat Bellmore
Fargo District Marketing
Blue Cross Blue Shield of ND

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3/17/2003

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Deanna Waller
Operator's signature

10/21/03
Date

Dan Ulmer

From: Rick Visina [Rick.Visina@nordian.com]
Sent: Monday, March 17, 2003 5:08 PM
To: Rod St. Aubyn
Co: Terry Price; Janine Weldeman; Dan Ulmer
Subject: HB 2281

Terry Price asked me to supply a few examples of the problems created without this bill.

A parts dealer in Minot with 9 employees is the most egregious example I can recall. He allowed the youngest members of his group to buy individual plans and even continued to give them the company contribution. Four of them took the individual plans and the rest stayed on the group. What we were left with was a group substantially older and sicker than normal.

The owner of an oil company has 2 sons in there 20's working full time. But only he and his 60-year-old partner are on the group. He pays the premium for his sons on individual plans by having the premium deducted from a company bank account.

A restaurant owner has an employee (29 years) working 40 hours per week, but only pays 50% of the single group premium. Since the owner is 63, the younger employee can buy an individual plan for less than 2/3's of the group rate even after taking into account, the company contribution.

If I can be of further assistance; please don't hesitate to call.

Thanks.....Rick

3/18/2003

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Deanna Wall
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12/21/03
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