

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

2154

2007 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2154

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2154**

Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **January 17, 2007**

Recorder Job Number: **1322**

Committee Clerk Signature



Minutes:

**Jim Poolman – ND Insurance Dept. *In Favor***

**TESTIMONY # 1** Goes over the testimony on how to make the health insurance market more competitive. Shows chart. How can we attract more players?

**S Potter:** BC/ BS is a monopoly, what's wrong with that?

**J Poolman:** We regulate premiums associated with major carrier of ND. Approaching single care. When you have 90% of the market share making healthcare decision. Consumer wants a choice [3:25-11:22m]

**S Klein:** Does this open the flood gates?

**J Poolman:** We are looking for ways of competition

**S Klein:** Do you have a comfort level?

**J Poolman:** [12:30 explains]

**S Potter:** BC/BS attempting to try to control health care products. How will that get done?

**J Poolman:** They see themselves at buying... [13:28m]

**S Potter:** BC/BS is dominant, what's wrong with that?

**J Poolman:** [14:14m] In a small group market 4-5 maybe 6 carriers, writing business, but not actively marketing business.

**S Klein:** Won't this allow cherry picking?

**J Poolman:** No, the market place has changed to consolidation.

**S Andrist:** Isn't it possible to get insurance for a small organization. Felt there is no alternative

**J Poolman:** New company, Medica has set up provider agreements. Cover 5-6,000 lives.

Minot Hospital, Williston Hospital. They can market to set up subscribers' facilities.

**S Heitkamp:** What's wrong with BC/BS? Am I paying too much?

**J Poolman:** It is in the eye of the beholder. May be potentially paying too much. People in ND are paying less than in the surrounding states.

**S Heitkamp:** [examples 18:50m] [wife works in Minnesota and makes \$5 more per hour in MN than in ND

**J Poolman:** Benefits are higher in MN

**S Wanzek:** So the company can accumulate; loss ration [19:50m has whole story] Do you have lower premiums.

**J Poolman:** they can be adjusted [20:25m]

**S Wanzek:** Can you put it into the market where they could compete.

**J Poolman:** We would need to track the loss ratios.

**S Potter:** Would like an answer to S. Heitkamp question because of size and efficiency or non-profit premiums are only too high because the claims are too high.

**J Poolman:** the reserve levels are too high [22:35m]

**S Potter:** May be a monopoly, but they are efficient.

**J Poolman:** this will create \_\_\_ [23:30m]

**S Andrist:** Because of size, we know what the loss ratio is going to be, 100 policy holders [24:24m]

**J Poolman:** One reason why ND policy holders why they got a check back is because the losses are as severe as anticipated by BC/BS. That's called an "underwriting gain" and is added to the reserves. I had no authority to give that money back, I had to use the Bully Pulpit to get there.

**S Hacker:** Are specific industry providers "specialized" insurance companies, would we be able to attract some of those?

**J Poolman:** There are some that would market to auto dealers, home builders, there is the opportunity to make them more competitive.

**Q?**

**Michael L Fix – Director of the Life and Health Division and Actuary – *In Favor***

**TESTIMONY # 2** [29:27m explains how the model was developed]

Covers the loss ration with an explanation. The benefits are related to premiums. Rate increases are reviewed. Explained how Prime Index works.

**Q?**

**S Potter:** How can a company get a smaller company plan.

**M Fix:** In the level of benefits. BC has a good expense ratio and level of profit margin .

**S Potter:** I thought it was 75%

**M Fix:** [34:00m] lists the numbers. There are impediment ratios for companies

**S Wanzek:** Does this allow lower loss ratios? Doesn't that affect BC/BS

**M Fix:** They have a formidable competitor. BC has 87% loss ratio.

**S Potter:** But not a hospital indemnity policies or accidental death and disabilities.

**M Fix:** In the last part of section 37.2 we refer to some of the product lines,

**S Potter:** So you made a determination that it applied to sentence one of the law but not to the last sentence fo the law.

**S Heitkamp:** Was that the genesis of the bill? When they came in and you had to reject it, or is this on its way before all that?

**M Fix:** This was before that. Talked about previous sessions.

**S Heitkamp:** Something to stimulate competition here.

**M Fix:** One of the things we found when canvassing some of the companies.

**S Wanzek:** Trying to understand, if we allow for a lower loss ratio, is that also include BC/BS? Aren't they going to be able to compete under that same lost ratio?

**M Fix:** BC/BS has a favorable expense position and they're going to be a formidable competitor for any company. When they're coming in with an 87% or 90% ratio – they're paying out that percentage of the premium, a company coming in has to compete with that.

**S Heitkamp:** It doesn't matter to them?.....

**AMMENDMENT by Michael Fix**

[36:37M] What you have before you changes section 37.2.

Want to take out 37.2 and put into 37.3 which is a small or into 37.4 which is more appropriate for clarification.

*Need submission of Amendment.*

**S Klein:** You can submit....

**Constance Hotland – American Family - *In Favor***

Pat Ward works with Connie. Was voicing her support. [38:07m]

**Dan \_\_\_\_\_ - Blue Cross/Blue Shield – *In Opposition***

[starts 39:02m]

Claims it doesn't affect BC/BS. Loss ratios fluctuate 95% - 85% lowest.

You give us a buck and we'll give you 95 cents or 85 cents on the dollar in healthcare.

What the commissioner is asking you to do is reduce that, you give someone else the buck.

You're only going to be guaranteed 70%. In some cases that will be 55 cents on the dollar.

We established this law in 1993 under the notion something needed to be done in guaranteeing returns on health insurance. Healthy carry the sick. Insurance depends on large numbers. Have 450,000 lives we take care of. Signa – 9 million members. We are a guppy. Every market has dominant players. Compared companies. Choices are price sensitive. Competition will not bring lower premiums. As long as the playing field is level, we're willing to play.

[44:05m] Explains competitors and what they can support.

[45:00m] Local response to members of every state. Try to call the president or another company, you can't get them.

[47:24m] Compare prices

[48:55m] Shall we be reducing the number of services or enhancing the number of services?

Should we reduce or enhance profits? This bill enhances profits.

**TESTIMONY # 3** SB 2154 See Stephanie

[50:50m] These are the rules. Page 8, [reads from page 8] How far do you go?

We feel this bill is poor public policy. The public has a right to know what you're doing. Why would you allow a higher profit margin for insurers?

**S Potter:** BC/BS, we need to answer S Wanzek his question about, will this also affect BC/BS.

You are regulated additionally to this. Correct, on your reserve levels?

**Dan:** We've had some good years and had underwriting gains. We're willing to accept being the 100 lb. gorilla in being able to do that. [53:50m]

**S Hacker:** Why in the world would if I was a business Dan, would go into buying something because I'm losing ground? Why does Medicare now own Dakota clinic? Why did they buy that? Did they buy because they're losing?

**Dan:** Because it was there and empty. They changed the role and mission at the hospital. BC of Minnesota built Innovis, abandoning Dakota.

**S Hacker:** Have a tough time believing that margins are getting tighter. [58:50m]

There is a new clinic starting in Grand Forks. Who would say that the cities couldn't support another hospital? [1:00:50m]

**Dan:** I don't know if GF can support another hospital.

**S Behm:** Who owns BC/BS?

**Dan:** The members

**S Heitkamp:** What if you had it for 2 years to see if it supplied some competition? New hospital in Oaks, Breckenridge, not everyone has given up on small town hospitals. Role of the hospital is different. Health care is changing. Why don't we see what's going to happen. Some things I agree with you, some things I don't.

**Dan:** That's your prerogative, I don't think much is going to happen.

**S Heitkamp:** So for 2 years we can take the competition away from you, so it's "all or nothing" on the table.

**S Potter:** You're not here because you fear the competition [1:03:26] As your competition, would you tell them what the confusion is?

**Dan:** Consumers are not going to know. We can get the costs down if we take away their benefits.

**S Wanzek:** [1:05:04m explains example] Maybe should give little, might be compelling interest. We might be willing to accept something as a consumer that is a little less efficient. By lowering loss ratio, that lower the premium, or raise the premium. Which interest is most important.

**Dan:** The company – where they want to make their margins.



**S Wanzek:** [another example]

**Dan:** You need to know what you're doing in lessening requirements.

**S Heitkamp:** Rules change, see it as a jump at competition. [Reviews the "cherry picking" reference 1:08:59m] See it as a "jump start" for competition.

**Dan:** No, there are different rules for the group market.

**S Hacker:** End result is the affect on the consumers. You're trying to protect the consumers, right?

**Dan:** The assumption that this is a consumer bill, is wrong, it's an insurance bill. You're lessening consumer protection

**S Hacker:** You said the benefits would be less to the customer.

**Dan:** Not from us. Cheaper products means less benefits

**S Hacker:** Consumers won't know about this [refer to example 1:11:49m]. Do you really believe people are not going to check it out, being informed buyers.

**Dan:** Our job is to inform more and more. They need to know exactly what they're buying.

**S Hacker:** You said it drives the difference between price and benefits and that's what the consumer will look at. So if they're not able to provide the same quality as BC/BS is and they're in an informed buyer, then why would they every buy competition insurance? Wouldn't they just stick with BC/BS?

**Dan:** It doesn't affect us. There is just less consumer protection.

**S Potter:** [1:10:31m] If there was an amendment to inform the consumer on loss ratios?

If Mr. Fix would write up something, and every insurance policy had a stamp on it that said, this has a 80%/85%/90%/45% loss ratio. Do you think that would have the effect of informing the public. How would BC/BS survive

**S Heitkamp:** Has BC been bashful about putting that out? The loss ratio.

**Dan:** We're proud of our loss ratio.

**S Heitkamp:** That hasn't been out there in the public.

**Dan:** It's not something that people want. It's "under the radar".

**S Heitkamp:** I do not consider myself the most informed insurance buyer, but I did know that your ratio was very good. You're saying that competition isn't always good. You said competition isn't always the answer.

**Dan:** The declining population has more to do with choices than competition. We don't need more schools, more hospitals.

**S Heitkamp:** Breckenridge is a better hospital because of Oaks. There's got to be a buck in competition.

**S Potter:** A lower loss ratio is an inferior policy to one that has a higher loss ratio. It seems to me there are 2 categories that will be buying the policy that is inferior.

1. Employer who is attempting to lower his costs
2. Uninformed consumer

**Dan:**

That's a fair assessment.

**Q? more Opposition. CLOSE**

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2154 B**

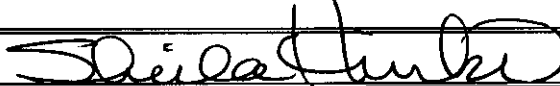
Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **January 23, 2007**

Recorder Job Number: **1695**

Committee Clerk Signature



Minutes:

**Dan** \_\_\_\_\_

Simple process that we have now, how much did we spend in health care, how much did we spend in industry and what kind of reserves or profits did you set aside.

If anyone is having any difficulty meeting the existing guidelines or complying with their calculations, etc.

There is a question in our mind as to whether if you can comply. What we're asking, is that if the committee be willing to review the loss ratios by 5% in each category and leave the present process in place and we'll go home happy, I guess.

**S Klein:** So what we've done...

**Dan:** these are not council approved amendments, but tried to remove the language by applying the national association insurance commissioner guidelines, the final rates for individual health insurance funds.

**S Hacker:** Did we ever receive what those guidelines are?

**Dan:** I think they are in the testimony.

**S Klein:** We have the amendments and we have some information, at least we've heard what he's got in mind, and we'll try to work on this tomorrow.

**Meeting Adjourned.**

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2154 C**

Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **January 30, 2007**

Recorder Job Number: **2282**

Committee Clerk Signature



Minutes:

**S Hacker:** They're always changing and since they're always changing, I had them change the percentages down, the original percentages were not less than 75% and the amendment moves that to 65% and the second one, individual policy holder , not less than 55%. Remove all the following language referencing the Association of Insurance Commissioners.

**S Klein:** Any discussion? The two changes from BC amendment was striking the model language, and then lowering the percentages down to 65% and 55%. Essentially 10%

**S Potter:** The BC amendments do the same thing as removing the commissioner's NEIC but they lower it by 5% in each category, correct. I oppose the amendment and I oppose the bill. Need to bring down further.

**S Klein:** Have you run this by the commissioner?

**S Hacker:** Yes

**S Heitkamp:** Who offered these amendments?

**S Hacker:** I did.

**S Heitkamp:** So these amendments go BEYOND what the insurance commissioner had?

**S Hacker:** Brings them down...

**S Heitkamp:** Even further.

**S Hacker:** It gives them more flexibility the way I understood it. Kind of is a compromise when you drop it down. We can go back to those % if we need to.

**S Klein:** Have you run these by the commissioner?

**S Hacker:** Nope, well, yes I did, and he said yes.

**S Klein:** He was also OK with slashing the percentages.

**S Heitkamp:** We had the opportunity to hear from S Hacker who said he's talked to the commissioner who said he's ok with it. The Blues were against the bill. Is it inappropriate to ask Mr. Ulmers, who's in the room, whether he's agreeable to the amendment?

**S Klein:** I would allow that.

**Dan Ulmer – Blue Cross:**

Thanks for asking. Not too fired up about going 10 points on the group plan, but 65, we'd certainly settle for. Better than what we have now.

**S Hacker:** The group plan.

**D Ulmer:** Group now is at 75%. Individual at 65%. What you're saying is you move group to 65% and individual to 55%. I prefer to see the group at 70%, but we'd be happy with whatever you do here. It's a better process, we understand the process.

**S Heitkamp:** If you go to the proposed amendments, Page 1 line 10, replaces 70 with 65, if you overstrike that part of the amendment, if you just overstrike that and leave everything else in, now you've got something that they can both compromise on to work in the House. I'd so move. We're not taking it from 70 to 65, that's the only change we're not making in the amendments.

**S Potter:** I'd second the motion for purposes of discussion.

**S Heitkamp:** [Reviews the amendment suggestion as above.]

The commissioner spoke of 70 in the first place, not 65%. If he wants the language back in of the model, he can debate that in the house.

**S Potter:** This is an improvement. It is cleaning it up. I'm still against the bill.

**S Heitkamp:** I think we're doing something right, in a couple years we'll know. People in

**Motion to move amendment – S Heitkamp**

**Second: S Potter**

**Vote for amendment passed 6 – 0 – 1**

**S Potter:** I think S Heitkamp is on the wrong side of this one. This is not good public policy as the Blues testified, they weren't testifying about their own profits and losses since they don't have either one. They were testifying about the good public policy. It's consumer protection to have loss ratios at a higher standard. It's a myth that you can bring competition into the health insurance industry by lowering the standards, and somehow come up with a better system, it's a mistake.

**S Heitkamp:** I don't know whether or not the good senator from Bismarck is right or wrong, but what I know in a couple years we will know. People in ND are comfortable with what they have. Sometimes BC becomes a comfort zone. We're trying to stimulate competition. It is unfair to BC? No. They already meet and far exceed this. That explains what a good job BC does. Will there be cherry picking? Don't know, that has S Potter most concerned.

**S Potter:** Not concerned about BC/BS. Concern is for purpose not for intelligent consumer. My concern is competition through confusion.

**S Heitkamp:** What makes 75% the number. Right now we don't have a lot of competition.

**S Wanzek:** I have faith in the market. The most efficient will rise to the top. We don't give consumers enough credit. I support the bill and we should get a report in a few years on its progress.

**S Behm:** The business that does the best job will have the most business.

**S Potter:** The way that you judge the efficiency ;you judge your companies is by the loss ratio. We're saying that they don't have to be as efficient.

**Motion to Do Pass as Amended**

**Motion by Heitkamp**

**Second by Hacker**

**Vote for Do Pass As Amended Passed 5 – 1 – 0**

**Carrier: S. Heitkamp**



January 30, 2007

*[Handwritten Signature]*  
1-31-07

PROPOSED AMENDMENTS TO SENATE BILL NO. 2154

Page 1, line 11, remove the overstrike over "~~not less than~~", after "~~sixty-five~~" insert "fifty-five",  
remove the overstrike over "~~percent of premium received~~", and remove "an"

Page 1, remove lines 12 and 13

Page 1, line 14, remove "commissioners Model Act No. 134, adopted July 2000"

Renumber accordingly

Date: 1-30-07

Roll Call Vote: 1

**2007 SENATE STANDING COMMITTEE ROLL CALL VOTES**

BILL/RESOLUTION NO. 2154

Senate INDUSTRY BUSINESS & LABOR Committee

Check here for Conference Committee

Legislative Council Amendment Number Amendment

Action Taken \_\_\_\_\_

Motion Made By Heitkamp Seconded By Potter

Senators	Yes	No	Senators	Yes	No
Chairman Jerry Klein	✓		Senator Arthur Behm	✓	
Vice Chair Nicholas Hacker	✓		Senator Joel Heitkamp	✓	
Senator John Andrist	NP		Senator Tracy Potter	✓	
Senator Terry Wanzek	✓				

Total Yes 6 No 0

Absent 1

Floor Assignment \_\_\_\_\_

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

Date: 1-<sup>30</sup>~~23~~-07

Roll Call Vote: 2

### 2007 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2154

Senate INDUSTRY BUSINESS & LABOR Committee

Check here for Conference Committee

Legislative Council Amendment Number DPAA

Action Taken \_\_\_\_\_

Motion Made By Heitkamp Seconded By Hacker

Senators	Yes	No	Senators	Yes	No
Chairman Klein, Jerry	✓		Senator Behm, Arthur	✓	
Senator Hacker, Nick VC	✓		Senator Heitkamp, Joel	✓	
Senator Andrist, John	NO		Senator Potter, Tracy		✓
Senator Wanzek, Terry	✓				

Total Yes 5 No 1

Absent \_\_\_\_\_

Floor Assignment Heitkamp

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

**REPORT OF STANDING COMMITTEE**

**SB 2154: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (5 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING). SB 2154 was placed on the Sixth order on the calendar.

Page 1, line 11, remove the overstrike over "~~not less than~~", after "~~sixty-five~~" insert "fifty-five", remove the overstrike over "~~percent of premium received~~", and remove "an"

Page 1, remove lines 12 and 13

Page 1, line 14, remove "commissioners Model Act No. 134, adopted July 2000"

Renumber accordingly

2007 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2154

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2154

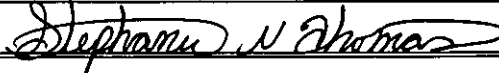
House Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: February 26, 2007

Recorder Job Number: 3831

Committee Clerk Signature



Minutes:

**Chair Keiser** opened the hearing on SB 2154.

**Jim Poolman, ND Insurance Commissioner:** See written testimony #1. SB 2154 is almost like a do over, or a repeat. SB 2154 has to do with loss ratios that are set by state law, in relationship to the amount of dollars paid out in group for the individual health insurance benefits. You have passed out very similar legislation that you have heard in front of this committee before, and the bottom line of SB 2154 is that it reduces the loss ratios to 70% on group insurance, and 55% on individual policy holders. You have passed out one that is actually a little bit more aggressive than this particular bill, and that bill is HB 1222, which reduces it actually to 65% on group policy holders, and 55% on individual policy holders. The arguments don't change any, in the fact that we're trying to build a better health insurance environment for the people of ND. We're trying to create more choices for consumers across the state, and this bill I think is one of the options for you to be able to do that. Obviously, HB 1222 has gone over to the Senate side, and we hope that this bill will stay alive to be able to continue to debate on what should happen in ND health insurance marketplace.

**Dan Ulmer, Blue Cross Blue Shield:** Opposed to SB 2154. See written testimony #2.

**Rep. Kasper:** Do you agree, or disagree that when a health insurance policy is sold, it doesn't matter what the company name is, when it's sold there's a period of time called the lag from when the effective date is, such as in January 1 to when claims start being realized. That might be 2, 3, 4, 5 months down the road, and that's called a lag, and I know that you're aware of that. Do you agree that there is a lag when the new policy is sold?

**Dan:** Not in all policies.

**Rep. Kasper:** Percentage wise if you had 100% of policies sold in the January 1, the percentage of it that would have a lag where claims would not be incurred until sometime in the future, it could be not even that whole year, is that correct?

**Dan:** That's all calculated on the rate. What you're supposed to be able to do is put into the rate at which you perceive your loss ratios going to be for the whole year. So, if you're a new policy in town, you may have less of a loss ratio, but actuarially you're supposed to calculate that in your rate when you hand it in to the Insurance Commissioner.

**Rep. Kasper:** Let's say an insurance company sold a policy on January 1, then on December 31 on that policy there were no claims. What should the insurance company do?

**Dan:** The likelihood of that happening is pretty small. With one policy you're probably not going to stay in business very long, because you don't have enough groups to cover the cost when you do get hit.

**Rep. Keiser:** Let's say that a firm comes in and aggressively and selectively markets, and gets a relative 100 groups in, and they're militantly healthy, and so, they collect their premium, and what happens if they don't pay benefits?

**Dan:** What you're talking about is positive selection, so you can get a really good group, and you go a whole year, and you don't have any claims. In some states, they'll require you if you have a 75% loss ratio, that you'll have to meet that by spending down. They'll essentially fine

you, and in some states they have it go to the children's health insurance bond, or some other public fund saying that you need to come into compliance. I'm not sure what would happen in ND if you came in with less than 75% loss ratio.

**Rep. Kasper:** There could be a rate reduction the following year.

**Dan:** Possibly. More and likely the commissioner would probably come to them and say you're underneath the loss ratio standard, we need to work something out, and that's basically the part in the bill that says that those will be set by rule.

**Rep. Kasper:** So, if there were a rate reduction that would be beneficial to the consumer?

**Dan:** It certainly would be.

**Rep. Dosch:** In your testimony, you indicated that this bill is good for insurance companies, but it's not a good deal for insurance customers. By it being good for insurance companies, it's going to encourage other companies to come into the state, and competition we all know is good pretty much in any industry, and competition typically will result in the reduction of rates. So, if this bill encourages other companies to come here and creates additional competition, ultimately isn't it going to be better for the consumer?

**Dan:** I guess time will tell. I could see the boat leaving the bay.

**Rep. Boe:** Do you have any idea how long this has been set at 75%?

**Dan:** 1993 or 1995 session.

**Rep. Clark:** You testified that your loss ratio is 90%. Is the loss ratio for other companies in the marketplace public knowledge?

**Dan:** Yes, it should be available in the Insurance Department.

**John Risch, United Transportation Union Railroad Workers across ND:** Opposed to SB 2154. Clearly this allows insurance companies to retain more of the premium, and less being spent on healthcare dollars. The idea that somehow that would reduce rates in the long run is



less than believable, and not assuredly something that would take place. We think it would be better that if anything it be payments to healthcare to the increase as a percentage, rather than increase.

Hearing closed.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2154

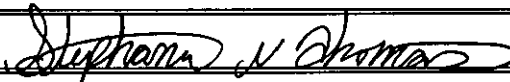
House Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: February 26, 2007

Recorder Job Number: 3899

Committee Clerk Signature



Minutes:

**Chair Keiser** opened the hearing on SB 2154. As you recall we had HB 1222, which had a 55% group, and 55% individual loss ratio. SB 2154 had a 70% for group, and 55% for individual.

**Rep. Kasper:** I move to amend SB 2154 on line 10 cross off 70 and put 65.

**Rep. Vigesaa:** Second.

**Rep. Kasper:** This makes this bill identical to HB 1222, and so they pass it over there, we pass it over here, we have the same thing, and if it changes over there then we go to conference committee.

**Rep. Thorpe:** In remembering the testimony from Dan Ulmer, they work on 90%, and presently without changing this we're at 65, and now they want to change it to 55. I personally don't feel very comfortable with it, and I'll oppose the bill.

**Rep. Zaiser:** I'm not in support of reducing that. I don't think that the competition is going to be improved that much, and we're allowing insurance companies to provide less for healthcare, and I'm going to oppose the amendment, as well as the bill.

**Roll call vote was taken, amendment adopted.**

**Rep. Kasper:** I move a do pass, as amended.

Page 2  
House Industry, Business and Labor Committee  
Bill/Resolution No. SB 2154  
Hearing Date: February 26, 2007

**Rep. Clark:** Second.

**Roll call vote was taken. 10 Yeas, 4 Nays, 0 Absent, Carrier: Rep. Dosch**

Hearing closed.

78251.0201  
Title.0300

Adopted by the Industry, Business and Labor  
Committee

February 26, 2007

**House Amendments to Engrossed SB 2154 (78251.0201) - Industry, Business and  
Labor Committee 02/28/2007**

Page 1, line 10, replace "seventy" with "sixty-five"

Renumber accordingly

Date: 2-26-07  
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2154

House Industry Business & Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Motion amend line 10 Replace 70 with 65

Motion Made By Rep Kasper Seconded By Rep. Vigesaa

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Rep. Amerman		X
Vice Chairman Johnson	X		Rep. Boe	X	
Rep. Clark	X		Rep. Gruchalla	X	
Rep. Dietrich	X		Rep. Thorpe	X	
Rep. Dosch	X		Rep. Zaiser		X
Rep. Kasper	X				
Rep. Nottestad	X				
Rep. Ruby	X				
Rep. Vigesaa	X				

Total Yes 12 No 2

Absent 0

Floor Assignment Rep. Dosch

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

Date: 2-26-07  
Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. SB 2154

House Industry Business & Labor Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do pass, as amended.

Motion Made By Rep Kasper Seconded By Rep Clark

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Rep. Amerman		X
Vice Chairman Johnson	X		Rep. Boe		X
Rep. Clark	X		Rep. Gruchalla	X	
Rep. Dietrich	X		Rep. Thorpe		X
Rep. Dosch	X		Rep. Zaiser		X
Rep. Kasper	X				
Rep. Nottestad	X				
Rep. Ruby	X				
Rep. Vigesaa	X				

Total Yes 10 No 4

Absent 0

Floor Assignment Rep. Dosch

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

**REPORT OF STANDING COMMITTEE**

SB 2154, as engrossed: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (10 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). Engrossed SB 2154 was placed on the Sixth order on the calendar.

Page 1, line 10, replace "seventy" with "sixty-five"

Renumber accordingly

2007 SENATE INDUSTRY, BUSINESS AND LABOR

CONFERENCE COMMITTEE

SB 2154



# 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2154 Conference Committee**

Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **March 29, 2007**

Recorder Job Number: **5618**

Committee Clerk Signature



*Relating to Loss Ratios:*

2154

All members present: Chairman Klein R, S Wanzek R, S Heitkamp D

Rep. Dosch R, Rep. Kasper R, Rep. Thorpe D

**S Klein:** Senate version started at 70%, had language we took out, House has changed one word.

**Rep. Dosch:** Yes.

**S Klein:** In our deliberations, we felt 70% is fair and seem to have the parties, did accept that we would go to that level.

**R Dosch:** In our sessions, we felt that if you wanted make a real change, go to 65%.

**S Klein:** The Senate has already killed the 65%.

**Rep Kasper:** We killed a 70%.

**S Heitkamp:** I think that the argument, in 2 years, we're going to know where we're at with 70% a few years from now.

**S Klein:** I agree, at least we give an opportunity; we can then address it again.

Rep. Kasper, you had a bill in the House and worked on this one.

**Rep. Kasper:** If you make a 5% move to try to impact the market and get more businesses in ND, you don't make a difference. New companies will have trouble with loss payment.

We need to make a difference more than 5%. 70% is better than nothing, 65% may bring more competition in.

**S Klein:** Rep Kasper, in this regard, I'm sure you've looked at other states, we are solid in one company. What have other states done?

**Rep. Kasper:** You're assuming too much, I've just looked at ND and if you have competition in ND, give citizens more choice. I am licensed in life and health insurance, and there is little choice, multiple choices always better than limited choices. That is why we went to 65%.

**S Klein:** The company is 90% and has a tremendous share of the market. Will that create that competition, will it hurt in the long run?

**Rep. Kasper:** Market based on competition and choice. When you have a 90% dominance, nothing to do with the fact that the company is not a good citizen or business. Maybe we could have better competition. Until we try something different, we won't know. Can we offer more choices to the people of the state and maybe have better competition, maybe there will be better pricing down the road.

**Rep. Thorpe:** What happens if this bill went through at 65 and then there were companies that came in and got started and 2-4 years we decide we need to be at 70? What does that do to the companies. They'll feel like we threw them some crumbs and now we're going to go back.

**Rep. Kasper:** If that did occur, the insurance market would see if at that time, there needs to be changes made. We have no changes to be made, there is no competition there. If we make it a bigger step, until it occurs, we don't know.

**Rep. Thorpe:** I'm struggling, if we go to 65% and some companies come in, I don't know if that's in the best interest of the public, they only have to pay back 65% of what they pay in the premium. To me it doesn't look like as good of deal as 70%.

**Rep. Kasper:** In the insurance industry, if it is property and casualty, health insurance, generally it's not life insurance, there is not an actuarial, when a company starts doing business of next year and writes policies, there is a lag period before claims start coming in and when they underwrite the product, there wouldn't be as many claims starting out. You get to the point you cannot meet the payout benefits, they don't want to take up the chance. If you're over priced, you won't maintain.

**S Wanzek:** Not being familiar with the business, why would lowering the loss ratio create competition, maybe in the initial phase, the problem is, what if we allowed a loss ratio for an initial phase? The only way you could lower the loss ratios is reduce benefits or increase premiums.

**S Heitkamp:** I can understand that you're writing life policies, sign up all 6 of us, 6 months we're all alive. In health benefits, there has to be a law of average, doesn't matter who your carrier is, in 6 months you'll have to go see the doctor. I'm not sure it's connecting with me in the common sense side of it. If we hang on it in the Senate, in 2 years we can change. Do we have a problem? What about 40 or up to 55? We may attract more. I'd rather go slow than go fast.

**S Klein:** *Requested that Mike Fix from insurance take the podium*

I asked about a trial period, we don't see that in code, why would or wouldn't that work?

**Mike Fix:** When you have a loss ratio requirement, it is a lifetime loss ratio. If there is a system that said you HAVE to have higher ratio in the earlier, you may have to have it later.

**S Wanzek:** You do take into account the lag time. I struggle with the loss ratios would be beneficial to the customers. I believe in the end, is the one with the most efficient service is going to win out anyway. When a new company comes in, do you take that into account?

**Mike Fix:** Whether new or existing company, large or small, they have to show their loss ratio requirement at 75%, if they can demonstrate when they come in they will have to compete with a company that pays out with a company much higher percentage.

**S Klein:** More informational questions for Mike?

**Rep. Dosch:** I think this is all about reducing the barriers of entry into the market. I'm a small business guy, and I just got our billing as a small business and it went up 14%. We can't sustain these increases, one of the things is affordable insurance, when you're taking 14% increases. I see it as lowering the barriers of entry and bringing in more competition and business and helps stabilize insurance rates, then we've done a lot of good for a lot of people.

**S Klein:** May need some time.

ADJOURN

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **SB 2154 Conference Committee B**

Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: **April 2, 2007**

Recorder Job Number: **5666**

Committee Clerk Signature



*Relating to Loss Ratios:*

SB 2154

Chairman Klein, S Wanzek, S Heitkamp

Representatives Dosch, Kasper, Thorpe

**S Klein:** The question was how other states, what loss ratio percentages do they have? SD 70, Montana has none, and asked if THEY have a lot more competition. Blue Cross is the # 2 provider in Montana. We asked how the rates compare to us, and we are the lowest in the 3 states around us. Committee, in my prospective, we would like to continue the 70% level set by Senate committee.

**S Heitkamp:** If this goes up to the floor on your prospective, with a 65%, do you think it will pass on the Senate?

**S Klein:** In my observation, we would lose it completely.

**S Heitkamp:** You know I had a member who worked at 70% and has at a 65%.

**S Klein:** Maybe he could be on the conference committee, maybe not the right thing to do.

**R Dosch:** Based on the additional information you have, with the understanding that at 70% Blue Cross wouldn't try to squash the deal, vs. 65% they would actively be trying to defeat it.

It is my feelings that if we have somewhat of an assurance on that, with that understanding with them, I think I would be willing to...

**S Klein:** When the Senate went to this place, I know BC was not pleased. I know it doesn't affect them to the degree. Competition? Maybe if we lived in a more popular area, it's the numbers, we only deal with 600,000 folks and don't get that competition.

**S Wanzek:** You can be assured, if we remove the House amendments, we wouldn't see the bill.

**R Kasper:** In the spirit of trying to get something on the bill and see what the marketplace will do in the next 2 years with a reduction, your observations, we should accede to your amendments.

**R Dosch:** I would be so included.

**Motion from R Dosch to recede from the House Amendments**

**Second R Kasper**

**S Klein:** We understand how hard your worked on this bill and had another bill. You wanted to make sure something passed, and you got it to some degree.

**R Kasper:** Jim Poolman asked me to help with another bill. Between you and he, I'm proud to be on the bill.

**Roll call *House receded to the House amendments* – 6-0-0 Passed**

**ADJOURNED**

Date: Thurs. March 29, 2007  
10:30 AM

Roll Call Vote: 1 Apr. 2 '07

**2007 SENATE STANDING COMMITTEE ROLL CALL VOTES**

BILL/RESOLUTION NO. SB 2154

Senate INDUSTRY BUSINESS & LABOR SB 2154 Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken House Recedes from House Amendments

Motion Made By Rep Kasper Dosch Seconded By Rep Kasper

Senate Senators IBL	Yes	No	House Senators IBL	Yes	No
Chairman Klein, Jerry R	✓		Rep. Dosch, Mark R	✓	
Senator Wanzek, Terry R	✓		Rep. Kasper, Jim R,	✓	
Senator Heitkamp, Joel D	✓		Rep. Thorpe, Elwood D	✓	

Total Yes 6 No 0

Absent 0

Floor Assignment \_\_\_\_\_

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

REPORT OF CONFERENCE COMMITTEE  
(ACCEDE/RECEDE)

THURS.

Bill Number 2154 (, as (re)engrossed):

Date: 3-29-07  
10:30 AM

Your Conference Committee \_\_\_\_\_

For the Senate:

For the House:

CHAIRMAN KLEIN	R. DOSCH
S WANZEK	R KASPER
S HEITKAMP	R THORDE

recommends that the (SENATE/HOUSE) (ACCEDE to) (RECEDE from)

the (Senate/House) amendments on (SJ/HJ) page(s) 883

\_\_\_\_\_ and place \_\_\_\_\_ on the Seventh order.

\_\_\_\_\_, adopt (further) amendments as follows, and place \_\_\_\_\_ on the Seventh order:

having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

((Re)Engrossed) 2154 was placed on the Seventh order of business on the calendar.

DATE: \_\_\_\_\_

HOUSE CARRIER: \_\_\_\_\_

SENATE CARRIER: \_\_\_\_\_

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: \_\_\_\_\_

SECONDED BY: \_\_\_\_\_

VOTE COUNT: 6 YES 0 NO 0 ABSENT



**REPORT OF CONFERENCE COMMITTEE**

**SB 2154, as engrossed:** Your conference committee (Sens. Klein, Wanzek, Heitkamp and Reps. Dosch, Kasper, Thorpe) recommends that the **HOUSE RECEDE** from the House amendments on SJ page 883 and place SB 2154 on the Seventh order.

Engrossed SB 2154 was placed on the Seventh order of business on the calendar.

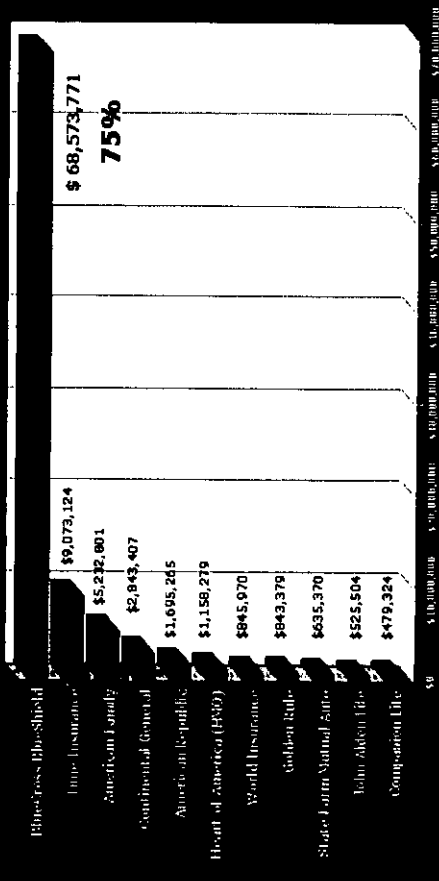
2007 TESTIMONY

SB 2154

Year ending December, 2005

# Earned Premium – Major Medical

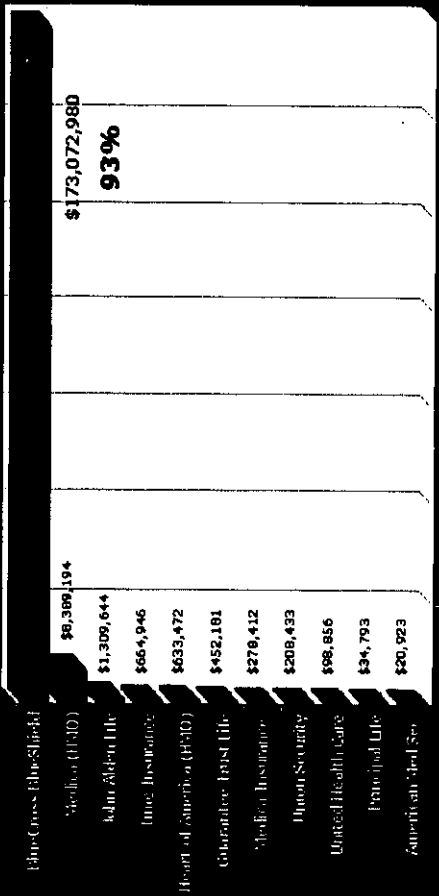
## Individual



Year ending December, 2005

# Earned Premium – Major Medical

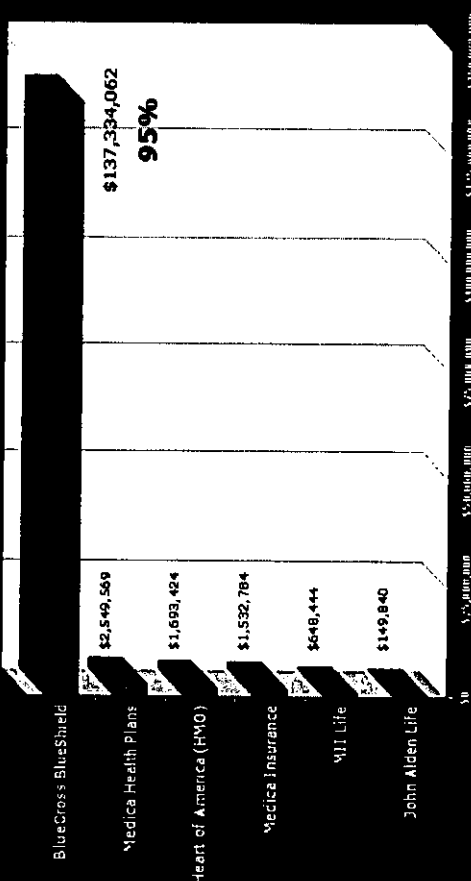
## Small Group



Year ending December, 2005

# Earned Premium – Major Medical

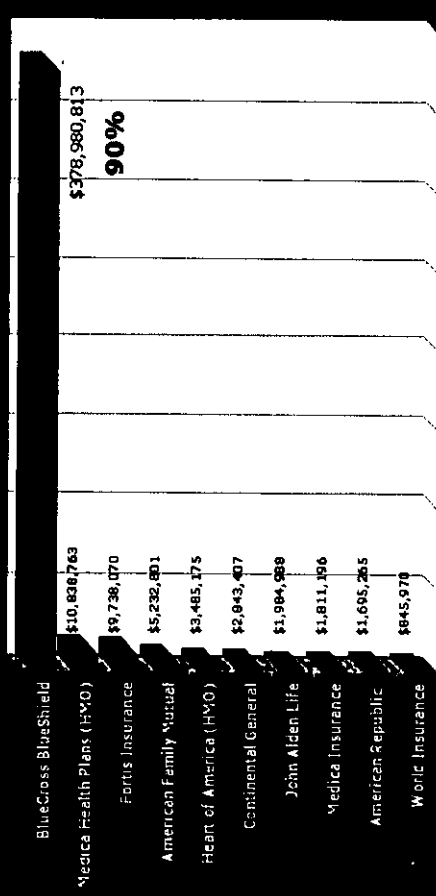
## Large Group



Year ending December, 2005

# Earned Premium – Major Medical

## Total



2154 #1

**SENATE BILL NO. 2154**

**Presented by: Michael L. Fix  
Director of the Life and Health Division and Actuary  
North Dakota Insurance Department**

**Before: Senate Industry, Business and Labor Committee  
Senator Jerry Klein, Chairman**

**Date: January 17, 2007**

**TESTIMONY**

Mr. Chairman and members of the committee:

Section 26.1-36-37.2 provides for minimum loss ratio requirements of 75% for group health insurance policies and 65% for individual health insurance policies, for policies that provide hospital, surgical, medical or major medical benefits.

These percentages are minimums, and have the effect of requiring that a minimum percentage of the premiums will be paid as benefits. The portion of the premium not paid out as benefits is available to cover expenses and provide profit.

The percentages are "over the lifetime of the policy", which may cover a period of 20 years or more. The pattern of benefits paid in relation to premiums paid typically is not level; less benefits in relation to premiums are paid in the early durations of a policy, more benefits are paid in later durations. It is the "projected lifetime loss ratio" that must satisfy the minimum requirement.

Section 26.1-36-37.2 was adopted in 1993 (and modified in 1995 to clarify the intent that the 75%/65% minimum loss ratio requirement did not apply to products offering limited-type benefits). No changes to the current statute have been made since 1995. The health insurance market, however, has changed significantly since 1993.

For smaller premium health insurance products, a fixed minimum loss ratio requirement does not provide sufficient margin to cover expenses and provide profits unless the company has a large number of policies over which to spread fixed overhead costs (25%-35% of a small premium will not cover expenses).

For larger premium health insurance products, a fixed minimum loss ratio requirement provides adequate margin (and maybe more than adequate margin) to cover expenses and provide profits.

Companies with significant numbers of policies (and/or market share) are able to be successful and competitive with fixed minimum loss ratio requirements for both smaller and larger premium health insurance policies.

A fixed minimum loss ratio requirement for all premium sizes, as is done in current statute, can discourage companies from offering lower premium plans of health insurance in North Dakota and could increase the number of uninsured or underinsured.

New companies may be hesitant to enter the market in North Dakota with current minimum loss ratio requirements.

Current minimum loss ratio requirements in other states tend to be slightly lower than North Dakota's, depending on the type of health insurance benefits provided. In addition, minimum loss ratio requirements are reduced, on a formula basis, for lower premium health insurance plans; and increased, also on a formula basis, for higher premium health insurance plans. Twenty-eight states have adopted this more current minimum loss ratio requirement.

Chairman Klein and Senate IBL committee members- re: SB 2154

We respectfully request that SB2154 be amended to remove the abdication of legislative prerogative section allowing the insurance commissioner to use the NAIC 'Guidelines For Filing of Rates For Individual Health Insurance Forms' when establishing loss ratios for health care plans.

I quoted our actuary in my previous testimony "The NAIC guidelines are an overly complicated method of lowering individual health insurance policies loss ratios to somewhere between 55% and 60%. It would be much simpler to cut the current requirements by 5%."

Although we think lowering the existing loss ratio requirements is bad public policy it is also our sense that the majority of the Senate IBL committee would like to concur with the insurance commissioner's side of the story that says these new guidelines will entice new companies to enter the marketplace and thereby increase competition in the health insurance market.

We believe that implementing an entirely new way of calculating loss ratios will only fog up the process of calculating them and create an unequal playing field that may well depend on political whims rather than facts.

The present system for calculating loss ratios is simple and works well (i.e. we report how much premium we collected, how much we paid in health care claims, how much we spent administering those claims, and how much profit or reserves we set aside). The present system is clear cut and not complicated by new formulas that establish untested flexible guidelines that end up having the force and effect of law.

In the guidelines drafting note on page 8: "The individuals who drafted these guidelines recognized that the guidelines would be applicable to the wide range of products marketed by a diversity of methods under the general title 'individual health insurance'. For this reason, they decided it would be inappropriate to establish rigid rules or inflexible standards. It should be recognized, therefore, that the guidelines are intended to be only guidelines and they must be interpreted and applied flexibly".

To us this means the legislature is changing a law that no health insurance company is presently having difficulty calculating or complying with and replacing it with complex guidelines that are to be flexibly applied. In our mind this allows any commissioner from here forward latitude that would allow her/him to base findings on feelings rather than facts.

Therefore we request that if the committee wishes to reduce loss ratios it remove the NAIC guideline portion of the bill and cut the existing law by 5% in each category (individual and group) thus leaving the present process

#3

2154

of calculating loss ratios in place. The result would be that group health plans would be held to 70% and individual health plans 60%.

One of BCBSND's most salient features is that around \$.90 out of every premium dollar is returned to our members in health care. Therefore we strongly believe that guaranteeing North Dakota's citizens a return of only \$.60 or \$.70 on their health care insurance dollar will not make North Dakota's health care system healthier.

The goal of health insurance should be to cover the costs of health care not enhance corporate profits by reducing loss ratios. Allowing companies to increase administrative costs does not help achieve this end.

Thanks for your consideration.

  
Dan Ulmer

AVP Government Relations BCBSND

#3  
2154

Suggested amendments to SB 2154—

On line 11—remove the overstrike ‘not less than sixty five percent of premium received’

On line 11- remove the word ‘an’

On line 11- overstrike the word ‘five’

On line 12 remove the words ‘amount determined by applying the national association of insurance commissioners guidelines

On line 13 remove the words ‘for filing of rates for individual health insurance forms, national association of insurance

On line 14 remove the words ‘commissioners Model Act No. 134, adopted July 2000.’

And re-number accordingly

#3  
2154



**SENATE BILL NO. 2154**

**Presented by:** Jim Poolman  
Commissioner  
North Dakota Insurance Department

**Before:** House Industry, Business and Labor Committee  
Representative George Keiser, Chairman

**Date:** February 26, 2007

**TESTIMONY**

Mr. Chairman and members of the committee:

Section 26.1-36-37.2 provides for minimum loss ratio requirements of 75% for group health insurance policies and 65% for individual health insurance policies, for policies that provide hospital, surgical, medical or major medical benefits.

These percentages are minimums, and have the effect of requiring that a minimum percentage of the premiums will be paid as benefits. The portion of the premium not paid out as benefits is available to cover expenses and provide profit.

The percentages are "over the lifetime of the policy", which may cover a period of 20 years or more. The pattern of benefits paid in relation to premiums paid typically is not level; less benefits in relation to premiums are paid in the early durations of a policy, more benefits are paid in later durations. It is the "projected lifetime loss ratio" that must satisfy the minimum requirement.

Section 26.1-36-37.2 was adopted in 1993 (and modified in 1995 to clarify the intent that the 75%/65% minimum loss ratio requirement did not apply to products offering limited-type benefits). No changes to the current statute have been made since 1995. The health insurance market, however, has changed significantly since 1993.

For smaller premium health insurance products, a fixed minimum loss ratio requirement does not provide sufficient margin to cover expenses and provide profits unless the company has a large number of policies over which to spread fixed overhead costs (25%-35% of a small premium will not cover expenses).

For larger premium health insurance products, a fixed minimum loss ratio requirement provides adequate margin (and maybe more than adequate margin) to cover expenses and provide profits.

Companies with significant numbers of policies (and/or market share) are able to be successful and competitive with fixed minimum loss ratio requirements for both smaller and larger premium health insurance policies.

A fixed minimum loss ratio requirement for all premium sizes, as is done in current statute, can discourage companies from offering lower premium plans of health insurance in North Dakota and could increase the number of uninsured or underinsured.

New companies may be hesitant to enter the market in North Dakota with current minimum loss ratio requirements.

SB2154

This bill may be a good idea for insurance companies but it's not a good deal for insurance consumers.

Loss ratios are one of the few ways consumers can tell whether or not they're getting a good deal on their premium dollars. Present law states that for every dollar a consumer spends in premium at least 75 cents (65 cents in the individual market) must go to cover actual health care costs.

This bill proposes to allow insurance companies to move 5 to 10 cents from every dollar they presently expend on health care into their company profits.

At BCBSND our loss ratio usually hovers around 90%. So when our members give us a buck we give them 90 cents back in healthcare. So although this bill won't effect us we do believe that someone needs to speak out on behalf of North Dakota's healthcare consumers.

It is our considered opinion that, despite what the advocates of this bill say, this maneuver will not increase competition. However it will allow existing companies to extract additional profits and lower what they have to spend on actual health care claims. We don't believe this is good public policy and therefore oppose the bill.

*Handwritten signature:*  
Alyssa Cline  
BCBSND