2013 GOVERNMENT AND VETERANS AFFAIRS

HB 1058

2013 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee
Fort Union Room, State Capitol

HB 1058
January 11, 2013
17108

☐ Conference Committee

Committee Clerk Signature	Carmen Hart

Explanation or reason for introduction of bill/resolution:

Benefit coverage for retired employees not eligible for Medicare

Minutes:

You may make reference to "attached testimony."

Chairman Jim Kasper opened the hearing on HB 1058.

Sparb Collins, Executive Director of the North Dakota Public Employees Retirement System (PERS), appeared and presented the attached testimony. **Attachment 1**. (End 11:19)

Rep. Vernon Laning You mentioned the bill would close the PERS health plan to pre-Medicare. I believe under the COBRA law you are still required to offer at least one year, are you not?

Sparb Collins The COBRA requirement is federal law and that would still remain in place. continue. Someone can get up to about 18 months and then under certain conditions, they can get extended coverage. PERS would continue to comply with that federal provision. The rate for that is different than the rate I showed you here for the pre-Medicare coverage. The rate for that is set at 102% underneath federal law so that is even lower. Today what happens is somebody can come off and they can get the 18 months stat and then they go on the pre-Medicare rate. This would close off that pre-Medicare provision.

Rep. Jason Dockter On the portability issue, let us say someone works until age 67 and they are past the age for Medicare. They can still use that money to buy like a Plan F with XYZ Company if they stay to age 67 and work for the state?

Sparb Collins Yes, that is correct. It would make it portable for not only the pre-Medicare, but the Medicare. This doesn't close the Medicare plan in PERS, but it does say that the people could now go if they want do a Plan F, if they want to do something else, or if they find different coverage somewhere. They would be free to take that credit anywhere. That is where that additional cost comes from. Today because that credit is limited to PERS, only about 70% use that credit. With this change in the portability feature, the actuary will now assume that 100% of the people would use that credit. That is why for the additional cost of that .14 to do it.

Rep. Ben Koppelman What is the advantage from the legislative perspective if that person uses those dollars to buy insurance elsewhere? Does that lower the risk to our fund? Is that actuarially shown in this or not?

Sparb Collins The advantage here in this bill is to the employer. It is two things. Number 1, underneath these accounting standards, you have to report this implicit subsidy on your financial statements. That implicit subsidy is because the rate for the pre-Medicare people is actually being charged on a statutory formula that isn't fully reflective of the actuarial rate. For example, the single rate right now is $640 based on that statutory calculation. The actuary might have come up and said the rate for this group really should have been $700. That difference is called the implicit subsidy. Underneath these rules, that has to be projected forward. You have to include not only the group there, but the other actives that will be going in. You have to report that on your financial statements as a disclosure like you have to do a pension liability. That is that $65 million. That would potentially go away, most of it. Retiring legislators have the option to continue on. That is not being eliminated here. That $65 million will continue to grow because the cost of your health insurance coverage grows. Secondly, that implicit subsidy to the extent that this group doesn't pay it. It gets prorated back into the overall group and it moves on to the active group. That is that $2.40 that was recently estimated by Blue Cross/Blue Shield that is allocated back to the active contracts to pick up that difference. As that group fades out, that would no longer be allocated back to the contracts. As we look to the future and I say that is a savings, that is a savings off an increase because health insurance costs never go down. They always go up.

Rep. Gary Paur Under Section 2.3, the credit portability, it appears to me that currently employees or retirees, since they aren't taking 100% advantage of this, they must have to prove that the money is going to a health insurance plan. Under this, it looks like if it is going to reach 100%, that requirement would disappear and it is just an increase in retirement pay basically.

Sparb Collins Today they only get that credit if they take the PERS health insurance coverage. The only way they can access that credit is to take our coverage. We offer pre-Medicare retirees one plan, and that plan has this rate. For $640 you can buy a single coverage underneath our plan from us or if you are a family, you would pay $1,280. If your credit was $125, we would reduce that $1,280 by $125 and bill you the rest. The reason why that was done back in 1989 was to try and draw into the plan a broader cross section of retirees that would be potentially healthier to reduce the risk pool. Underneath this bill, they can take that, and that's why, incidentally, we only have less than 100% using the plan. I was talking with a retiree who was a former PERS board member and they were pre-Medicare. They ended up going out into the marketplace and found a cheaper plan than ours. Both he and his wife were healthy. They ended up finding a plan with higher deductibles and the premium was lower so they took it. They are one of them that don't get the credit because they took this other coverage. The other thing we have in here that affects it--I use the example of $125 which is 25 years of service. We have a lot of people who leave that have five or ten years of service. When that credit is worth $30 to them, they may not use it. It is not as much of an enticement for them to take from our plan. Now with it portable, they can use it for their spouse's plan. That is why we are less than 100% now and why we would probably be at 100% in the future.

Rep. Gary Paur Are you going to track that these funds are used for insurance somehow?

Sparb Collins Yes. This will work kind of like the flex benefits program. You'll go out. You'll incur the expense. You'll send us a copy saying here's a copy of my premium payment, and we will send you a check. We have to do that, because this program operates on a pretax basis. If we were just reimbursing them cash, it would become a taxable situation.

Rep. Gail Mooney With reference to the $2.46 that we would be saving then ultimately in the 2015-17 biennium, when that implicit subsidy is paid--I am looking at the local level, the county, the city school districts--are those savings a direct savings to those local areas or is that actually a savings that we have in the state that we would then not have to pay to those local entities?

Sparb Collins This cost is sped back against the active contracts so if a political subdivision is participating in the PERS health insurance plan, their premium cost would be lower. They would get the benefit through the premium cost. Again if we look at this in 2015 and 2017 and our health insurance costs have gone up 13%, it will be saved within the overall increase. I don't want to leave an impression that health costs are going to be lower by 2%, because they are going to go up.

Rep. Gail Mooney It is based on your projections of today's figures that if it were to follow through, then we would see these types of savings given what inflation will do in two more years?

Sparb Collins Yes. In the fiscal note, we only assumed half of that $2.40, because this bill doesn't take effect until July 1 of 2015. Those people that are on the plan, you will note in the bill, we don't force them off the plan. It just says it is closed to new enrollments. If you are a retiree in the plan, you can continue in the plan. All our pre-Medicare retirees all come off the plan at age 65 anyway. In the normal course of a couple years, they are all going to flow out. This bill doesn't propose us going out and sending them a letter saying in 60 days from now, your coverage is gone. It would stay.

Rep. Steven Zaiser Given the rate of increase in inflation in healthcare over the last 20 years, I am just curious how are you extrapolating that out? What percentages are you using to extrapolate costs in the future?

Sparb Collins The actuary looked at this $2.40 and is basically a reflection of what it is today. I don't know that they inflated it as such. This is a Blue Cross/Blue Shield number. I think it is a conservative number. When we look at it, we come up a little bit higher.

Rep. Marie Strinden How will we account for inflation? What methods will we take to make this money more per year in the future?

Sparb Collins What is going to happen is when the actuary projects rate for 2015-2017, they just won't have this liability in there anymore. What happens when they do it today is that they look at the overall pool. They see the overall pools costs are going up by 13%. Then they know that should all be going up 13% for the overall pool. This group's costs are limited, so it can only go up by a lesser percent. The rest of the pools' costs are adjusted a little bit higher to reflect these. You just wouldn't have that calculation in the future, because this pool wouldn't be there, and that part wouldn't have to be limited and reflected back.

Rep. Marie Strinden When the $5 per year isn't enough, do you come back and ask us for $6 per year per service or whatever it would be?

Sparb Collins On the $5 retiree health credit, the only way to adjust is for you to take action. We would have to come back with a bill requesting that to occur. I think it was four years ago, based on a bill that was submitted by PERS, it went from $4.50 to $5. What we are finding of course over time is that $5 credit is buying less and less of the premium because the premium is going up and up. That might require, if it was to be done, an increase in the contributions from 1.14 to some other level.

Rep. Marie Strinden Does this have broad support from the public employees? Did this come from them?

Sparb Collins This bill was brought forward by the PERS Board. During the interim, we have to submit all of our bills to the Legislative Employee Benefits Committee. We submitted this bill last March. That committee held hearings on the bill. There was no testimony against the bill by the public employees. When the board developed the bill, there was no one that appeared before the board opposing the bill.

Rep. Karen Karls I am looking at an email from a state employee who is a little concerned that this will force those pre-Medicare retirees to go to the Obamacare exchanges. Is that the case? Are there other plans out there?

Sparb Collins This bill doesn't require them to go to the healthcare exchange. What this bill says is that we are no longer going to offer health insurance to them. Let me bring up a question that was asked during the interim. What if a retiree retires at age 63 and their spouse works at Basin Electric and they have health insurance through Basin Electric and they pay $100 a month for it, could they then use this health credit to be part of that plan? Yes, they could. Wherever you find health coverage, all you need to do is send us a copy of the bill showing you paid a premium, and we will send you the credit.

Rep. Karen Karls The other comment was because things are so uncertain as to what these healthcare exchanges will look like, there is some concern there.

Sparb Collins When we originally submitted this bill last year in March, this bill had an effective date on it of January 1, 2014. We had some observations from people that said the same thing. We changed the date to July 1, 2015 to make sure our assumptions are correct. If it is not correct, I will be standing before you in the 2015 session with some proposed amendments to this bill to make sure that we adjust this bill so that it meets those expectations. The other question you might ask is given that, why don't we just wait on the bill entirely until 2015? That certainly is an option. However, if we do wait, that implicit subsidy of $65 million won't be reduced until after it is passed. We can carry that for two more years, and we can deal with this bill when we are all confident of it, or we can pass it now, get the subsidy reduction, and deal with any amendments in the 2015 session. Between now and then, there will be no changes for those retirees. They continue to stay on the PERS. They continue to get the credit through PERS.

Rep. Ben Koppelman A $3.50 health credit in 1989 toward a premium of probably 10% of what they are now, maybe a little more, I think you said it was incentive to get healthier people onto the group to reduce the pool. When we are talking about people who are of retirement age prior to being Medicare eligible and they probably have 15, 20, or 25 years of experience, is that really a benefit to the pool? Are they typically healthy individuals at that age to where this is an encouragement both for them to stay still as well as good for the fund to have more healthy people in the fund?

Sparb Collins To the extent that we are drawing in a broader cross section of retirees, that is a benefit to the pool. Because that credit is buying down less of the premium today than it did in 1989, it is not as strong as an incentive as it used to be.

Rep. Ben Koppelman In your example where the individual went and bought private insurance and forewent the credit of whatever they were eligible for, that would suggest that they could buy health insurance most likely for less money even factoring in the credit. That is why they were motivated to do that. In that sense are we not encouraging people to go out of the pool?

Sparb Collins We are closing it. You are right. If we left the pre-Medicare group open and then made this credit portable, we would probably be losing these healthy people and keeping those that weren't as healthy. There won't be any adverse selection because they just won't be there anymore in that group. On the Medicare pool, we are not closing that. The Medicare pool has about 5,000 people in it. That pool, incidentally, is independently so there is no implicit subsidy. There is no crossover. That pool exists on its own. We have really competitive rates over there.

Chairman Jim Kasper Would you go through the fiscal note?

Sparb Collins You will notice on the 2013-2015 biennium, there is no fiscal cost. The reason why is the provisions of this bill wouldn't take effect on these retirees until 2015. That is why there is no savings shown for the state or the counties in 2013-2015. When this bill kicks in July 2015, that is where we see the $230,000 in general fund savings, $217,500 in other fund savings on the state side, and 67, 48, 37 on the school district side. What this is doing is taking that $2 and some cents that I mentioned earlier and we multiply it times the number of active contracts in each of these groups. We take half of it because we are saying all those retirees are going to kind of unwind in 2015, 16, 17, and 18. That is where we are coming up with that savings. When they renew, when the actuary comes up with premiums for 2015-2017, they aren't going to have as much of an implicit subsidy rollover. I also mentioned earlier that the $65 million that is on the state's financial statements does not show up as a savings and expenditure. It just shows as a financial liability on the statements.

Chairman Jim Kasper Would you explain how the state calculates the insurance premium with current employees? We have the unitized rate compared to the three tiered rate for the retirees.

Sparb Collins The premium rates for the active groups when we look at this, you saw the pre-Medicare group. That is based on a three tiered rate. The state uses a flat rate for purposes of its active employees. The state doesn't have a single rate, family rate, or a family of three or more rate. Because the state pays 100% of the premium, the state just pays a flat rate for every single contract. When you allocate the premiums back based on single and family, you are going to generate so much money off of the number of state contracts you have. It was just converted in about 1994 to a flat rate, because you are going to generate the same number of dollars basically off the state. It is easier for the state to budget. On our political subdivision side on the actives, that flat rate is converted to a single and family rate that they pay. This savings would flow back into those rate structures.

Chairman Jim Kasper Opening up the use of the funds to other benefits besides health insurance which are the amendments on page 2 and thereafter where we are allowing prescription drug coverage as well as dental, vision, and so on, that is not eligible to be used with the Medicare dollars but now we are going to offer that. Tell us why.

Sparb Collins That would be to the PERS dental and vision. When we came through the process, it was a suggestion that since we were going up to 100% assumption on it, maybe everybody wouldn't be able to use this for the health insurance, why don't we give them the option of allowing them to do it for dental or vision or one of those others. That is why it was added in.

Chairman Jim Kasper What we are assuring then is that every pre-Medicare retired employee is going to use the dollars in some way or another?

Sparb Collins And Medicare. This makes it portable for both the pre-Medicare and Medicare. Even though the actuary says 100%, I suspect we will probably get up to 99. If your credit is less, a smaller amount, you may not.

There was no opposition to HB 1058.

The hearing was closed on HB 1058.

2013 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee
Fort Union Room, State Capitol

HB 1058
January 17, 2013
17374

☐ Conference Committee

Committee Clerk Signature	Carmen Hart

Explanation or reason for introduction of bill/resolution:

Benefit coverage for retired employees not eligible for Medicare

Minutes:

You may make reference to "attached testimony."

Chairman Jim Kasper opened the session on HB 1058.

Vice Chair Randy Boehning We will be changing the effective date to July 1, 2015. Rep. Louser, if they are not able to opt in after retirement, they are allowed to opt in for the Medicare coverage under PERS. Correct?

Rep. Scott Louser Under PERS, yes.

Vice Chair Randy Boehning Once they retire they are not allowed to be in the PERS plan, but once they hit the retirement age of 65, they are able to opt in to the Medicare plan.

Rep. Marie Strinden You said something about the July 1, 2015 date, but I missed part of it. Are we changing that?

Vice Chair Randy Boehning It should be the same date of July 1, 2015.

Chairman Jim Kasper Remember it is the delayed effective date based upon whether or not the Affordable Care Act provisions might or might not change. If something changes, we will have the 2015 session to come in and look at it again. I think this is a bill that I think is good for the PERS plan. Remember we are going to be able to leave out the $65 million against the fund.

Vice Chair Randy Boehning It is good for retired employees. They can use that health credit which is a win win for everyone.

Rep. Ben Koppelman made a motion for a **Do Pass.**

Rep. Jason Dockter seconded the motion.

A roll call vote was taken and resulted in **DO PASS, 14-0.**

Vice Chair Randy Boehning is the carrier.

FISCAL NOTE
Requested by Legislative Council
12/20/2012

Bill/Resolution No.: HB 1058

1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$0	$0	$(230,100)	$(217,500)
Appropriations	$0	$0	$0	$0	$(230,100)	$(217,500)

1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties	$0	$0	$(67,000)
Cities	$0	$0	$(48,650)
School Districts	$0	$0	$(37,650)
Townships	$0	$0	$0

2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

This bill relates to eligible NDPERS retirees, in particular pre-medicare retirees. It does the following: 1. Closes the PERS Health Plan to pre-medicare retirees on July 1, 2015 (Section 1). 2. Makes the PERS Retiree Health Credit portable (Section 2 & 3).

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 closes the PERS Health Plan to pre-medicare retirees in 2015 and this will eliminate the implicit subsidy for this group by the active group. When all pre-medicare members are phased out of the health plan, the overall savings will be approximately $2.46 per contract per month. Assuming the number of pre-medicare retirees is 50% less in the 2015-17 biennium, we estimate a savings of $447,600 in state health premiums.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

See 2A

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name: Sparb Collins
Agency: NDPERS
Telephone: 701-328-3901
Date Prepared: 01/02/2013

Date: 1-17-13
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1058

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Koppelman Seconded By Dockter

Representatives	Yes	No	Representatives	Yes	No
Chairman Jim Kasper	✓		Rep. Bill Amerman	✓	
Vice Chairman Randy Boehning	✓		Rep. Gail Mooney	✓	
Rep. Jason Dockter	✓		Rep. Marie Strinden	✓	
Rep. Karen Karls	✓		Rep. Steven Zaiser	✓	
Rep. Ben Koppelman	✓				
Rep. Vernon Laning	✓				
Rep. Scott Louser	✓				
Rep. Gary Paur	✓				
Rep. Karen Rohr	✓				
Rep. Vicky Steiner	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Boehning

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

REPORT OF STANDING COMMITTEE

HB 1058: Government and Veterans Affairs Committee (Rep. Kasper, Chairman) recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1058 was placed on the Eleventh order on the calendar.

2013 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1058

2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

HB 1058
3/7/2013
Job Number 19575

☐ Conference Committee

Committee Clerk Signature	Carie Winings

A BILL for an Act relating to benefit coverage and health benefits credit for retired employees not eligible for Medicare and retired employees eligible for Medicare under the uniform group insurance program; and to provide a contingent effective date.

Minutes:

Chairman Dever: Opened the hearing on HB 1058.

Deb Knudsen: **Manger of Benefits Planning and Research, North Dakota Public Employees Retirement System** - See Attachment #1 for testimony in support of the bill. Senator Dever asks Ms. Knudsen if the funds that support the health plan are segregated from the retirement funds to which she states that they are not comingled. She explains the health fund and says it is in very good shape.

Opposition - none
Neutral - none

Chairman Dever: Closed the public hearing on HB 1058.

Committee discussion

Senator Nelson states that the PERS plan is primary to Medicare. Committee will take up discussion at a later date.

2013 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veterans Affairs Committee
Missouri River Room, State Capitol

HB 1058
03/08/2013
Job Number 19643

☐ Conference Committee

Committee Clerk Signature	Carrie Wenning

Minutes:

Chairman Dever: Opened HB 1058 for committee discussion and reminded the committee what the purpose of the bill was. They also clarified the unfunded liability.

Senator Nelson: Moved a Do Pass.

Senator Marcellais: Seconded.

A Roll Call Vote Was Taken: 7 yeas, 0 nays, 0 absent.

Chairman Dever: Carrier.

Date: 3/8

Roll Call Vote #: 1

2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 1058

Senate Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Senator Nelson Seconded By Senator Marcellais

Senators	Yes	No	Senator	Yes	No
Chariman Dick Dever	✓		Senator Carolyn Nelson	✓	
Vice Chairman Spencer Berry	✓		Senator Richard Marcellais	✓	
Senator Dwight Cook	✓				
Senator Donald Schaible	✓				
Senator Nicole Poolman	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Dever

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

REPORT OF STANDING COMMITTEE

HB 1058: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1058 was placed on the Fourteenth order on the calendar.

2013 TESTIMONY

HB 1058

Attachment 1

TESTIMONY OF SPARB COLLINS ON

HOUSE BILL 1058

Mr. Chairman, members of the committee, good morning my name is Sparb Collins and I am the Executive Director of the North Dakota Public Employees Retirement System (PERS). Today I appear before you in support of HB1058. This bill relates to retirees, in particular pre-Medicare retirees. Specifically, it does the following:

1. Closes the PERS health plan to pre-Medicare retirees on July 1, 2015 (Section 1)
2. Makes the retiree health credit portable (Section 2 & 3).

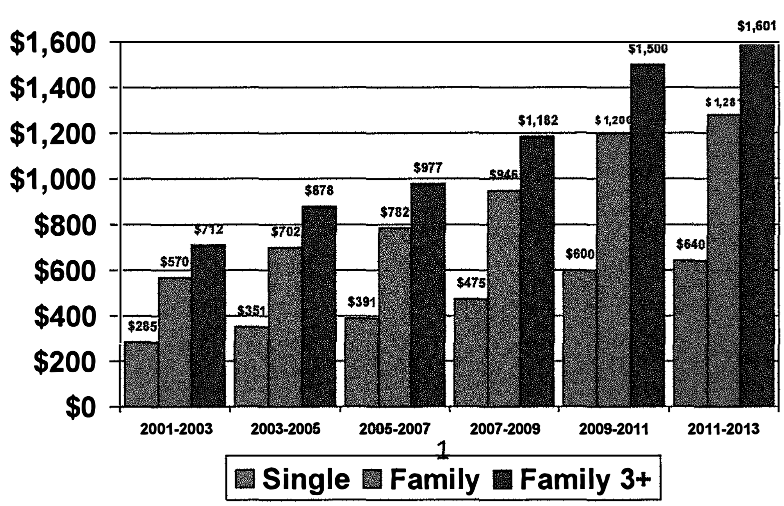
Let me discuss the reasons and details of the proposed changes listed above.

<u>SECTION 1 - CLOSES THE PERS HEALTH PLAN TO PRE-MEDICARE RETIREES</u>

Section 54-52.1-02 (1) authorizes retired employees not eligible for Medicare the option to participate in the PERS Health Plan. Historically, it is my understanding that this option was available to insure that retiring employees would be able to find health coverage when they retired without having to be exposed to medical underwriting requirements or pre-existing condition provisions. The rate for this coverage is also set in statute as:

- the rate for a non-Medicare retiree single plan is one hundred fifty percent of the active member single plan rate,
- the rate for a non-Medicare retiree family plan of two people is twice the non-Medicare retiree single plan rate, and
- the rate for a non-Medicare retiree family plan of three or more persons is two and one-half times the non-Medicare retiree single plan rate.

The following is a history of the premium for that coverage:



Since the above rate is set by a state statute and is not based upon the actuarial requirements of the group, the above rates while high, do not reflect the full cost of that coverage. If the rate was set based upon the actuarial requirement for the pre-Medicare group, it would be even higher. This difference between the statutory rate and the actuarial rate is called an implicit subsidy of the plan.

Relating to financial reporting of this implicit subsidy, the Governmental Accounting Standards Board (GASB) finalized Statements No. 43 (GASB 43 for funded OPEB plans) and 45 (GASB 45 for employers) in 2004. The statements' objectives are to establish uniform standards of financial reporting by state and local governmental entities for post-employment benefit plans other than pension benefits (OPEB plans). This includes post-employment health care benefits such as the one provided to North Dakota pre-Medicare retirees. Pursuant to these statements the State must report the present value of this implicit subsidy as a footnote on the State's financial reports. The most recent valuation put this amount at $65.2 million. If this bill is adopted, PERS would no longer offer this coverage. Consequently, this liability would be substantially eliminated and, therefore, would not appear on the financial statements.

The second aspect of the implicit subsidy is that in the near term (the cost for one year) the actuarial difference in the cost is applied to the active contracts in the plan. The estimated cost of this to the active contracts in the plan is about $2.46 per contract per month on premiums for 2013-15. Again, if the provisions of this bill are approved, this cost would no longer be applied to the active contracts in the plan. In the fiscal note, we assumed that this would reduce the active health insurance coverage by about half of this amount in 2015-17. We would expect that by 2018 nearly all pre-Medicare members would be off the health plan and this entire savings would then be reflected in the active premiums.

While the provisions of this bill would result in the above two savings for the employer (no longer having to report the present value of the subsidy on the states financial statements and the subsidy being reflected on the active rates), what about the effect on retirees? First, as mentioned at the beginning, this coverage was offered to pre-Medicare retirees to insure they had access to coverage when they retired. Due to the passage of the Affordable Care Act (ACA), there are provisions in the bill that provide access to insurance without having to be concerned with being medically underwritten or having pre-existing condition provisions. Consequently, the primary reason that PERS offers this coverage to this group may no longer apply. Additional advantages for the pre-Medicare retirees to access coverage through the new health care exchanges may be:

- Possible subsidies for coverage
- More selection of plans

The primary disadvantage to our pre-Medicare retirees is that at this time the PERS Retiree Health Insurance Credit is not portable, so they would lose that benefit by going to the health care exchange. That is why Sections 2 & 3 of this bill are proposed. You will note, however, that the effective date of this act is not until July 1, 2015 (Section 4, page 7). The reason for this is to allow us enough time to confirm our understanding when the Affordable Care Act provisions are implemented in 2014. If our understanding proves to be incorrect, then corrective provisions can be proposed to the 2015 legislative session before we stop offering non-Medicare coverage. The advantage of passing the bill at this time is that we will see the present value cost on the financial statement's reduced.

SECTIONS 2 & 3 – RETIREE HEALTH CREDIT PORTABILITY

In 1989, the North Dakota Legislature started the Retiree Health Insurance Credit Program (RHIC). The purpose of this program was to help retirees offset the cost of health insurance. It was recognized at the time that the cost of health insurance was becoming increasingly unaffordable. The monthly benefit formula and benefit paid information is:

BENEFIT FORMULA:

$5 for each year of credited service

Example: *$5 x 25 years = $125*

During the last year, the program paid out the following benefits:

BENEFITS PAID

Average benefit: $118 per month to 4,442 members

This program is presently funded by a 1.14% contribution from payroll.

Presently, this benefit can only be used to purchase PERS retiree health insurance coverage.

If the provision in Section 1 of this bill alone was passed, it would mean that pre-Medicare retirees would not be able to participate in the PERS health plan and would lose this benefit. Consequently, the proposal in Sections 2 & 3 would make this coverage portable for any health insurance coverage and also allow it to be used for the PERS dental, vision, prescription and long term care coverage. This provision adds the portability feature for not only pre-Medicare retirees but also Medicare retirees.

During the interim study of this bill by the Legislative Employee Benefits Committee, it was noted that the cost of making this coverage "portable" would be .19% of payroll, and the cost of the existing program is .90% of payroll. Adding the cost of existing coverage and the portability provision would result in a total cost of 1.09%. The existing contribution is 1.14% which means that the portability provision could be added without the need to increase contributions.

Summary

As noted in the beginning of this testimony, this bill does two basic things:

1. Closes the PERS Health Plan to pre-Medicare retirees on July 1, 2015 (Section 1). As discussed above, this will eliminate the implicit subsidy associated with offering this coverage, which consists of a present value of about $65 million, thus reducing that amount on the state's financial statements. In addition, this change will reduce the active rates in the future by the annual implicit subsidy cost of about $2.46 per contract per month.

2. Makes the retiree health insurance credit portable. While this will increase the cost of this program based upon the most recent actuarial valuation, the additional cost can be paid within the existing contribution.

Both the employer and retired employees benefit from the provisions of this bill. The employer gets rid of the implicit subsidy costs. The retiree gets more flexibility for using the health credit.

This bill was reviewed during the interim by the Legislative Employee Benefits Committee and received a favorable recommendation. In addition, the PERS Board requests your favorable consideration of the bill.

Mr. Chairman, this concludes my testimony and thank you.

Attachment #1

TESTIMONY OF NDPERS ON

HOUSE BILL 1058

Mr. Chairman, members of the committee, good morning my name is Deb Knudsen and I am the Manager of Benefits Planning and Research at the North Dakota Public Employees Retirement System (PERS). Today I appear before you in support of HB1058. This bill relates to retirees, in particular pre-Medicare retirees. Specifically, it does the following:

1. Closes the PERS health plan to pre-Medicare retirees on July 1, 2015 (Section 1)
2. Makes the retiree health credit portable (Section 2 & 3).

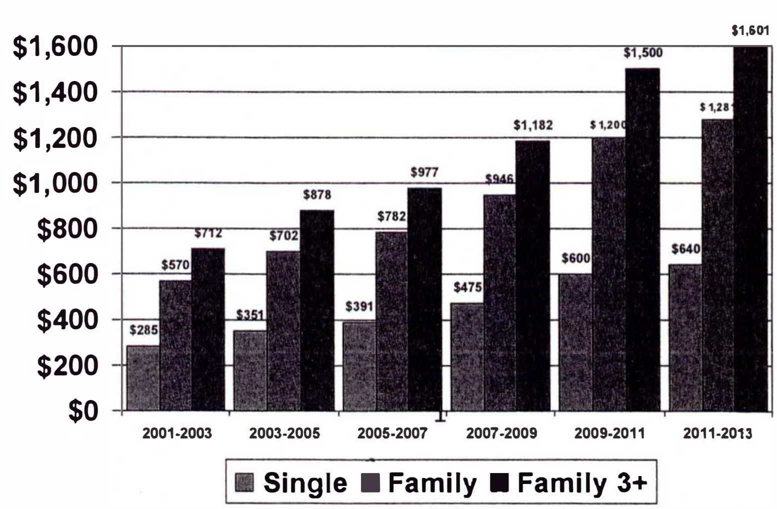
Let me discuss the reasons and details of the proposed changes listed above.

SECTION 1 - CLOSES THE PERS HEALTH PLAN TO PRE-MEDICARE RETIREES

Section 54-52.1-02 (1) authorizes retired employees not eligible for Medicare the option to participate in the PERS Health Plan. Historically, it is my understanding that this option was available to insure that retiring employees would be able to find health coverage when they retired without having to be exposed to medical underwriting requirements or pre-existing condition provisions. The rate for this coverage is also set in statute as:

- the rate for a non-Medicare retiree single plan is one hundred fifty percent of the active member single plan rate,
- the rate for a non-Medicare retiree family plan of two people is twice the non-Medicare retiree single plan rate, and
- the rate for a non-Medicare retiree family plan of three or more persons is two and one-half times the non-Medicare retiree single plan rate.

The following is a history of the premium for that coverage:



Since the above rates are set by a state statute and are not based upon the actuarial requirements of the group, the above rates, while high, do not reflect the full cost of that coverage. If the rates are set based upon the actuarial requirement for the pre-Medicare group, they would be even higher. This difference between the statutory rate and the actuarial rate is called an implicit subsidy of the plan.

Relating to financial reporting of this implicit subsidy, the Governmental Accounting Standards Board (GASB) finalized Statements No. 43 (GASB 43 for funded OPEB plans) and 45 (GASB 45 for employers) in 2004. The statements' objectives are to establish uniform standards of financial reporting by state and local governmental entities for post-employment benefit plans other than pension benefits (OPEB plans). This includes post-employment health care benefits such as the one provided to North Dakota pre-Medicare retirees. Pursuant to these requirements, the State must report the present value of this implicit subsidy as a footnote on the State's financial reports. The most recent valuation put this amount at $65.2 million. If this bill is adopted, PERS would no longer offer this coverage. Consequently, this liability would be substantially eliminated and, therefore, would not appear on the financial statements.

The second aspect of the implicit subsidy is that in the near term (the cost for one year) the actuarial difference in the cost is applied to the active contracts in the plan. The estimated cost of this to the active contracts in the plan is about $2.46 per contract per month on premiums for 2013-15. Again, if the provisions of this bill are approved, this cost would no longer be applied to the active contracts in the plan. In the fiscal note, we assumed that this would reduce the active health insurance coverage by about half of this amount in 2015-17. We would expect that by 2018 nearly all pre-Medicare members would be off the health plan and this entire savings would then be reflected in the active premiums.

While the provisions of this bill would result in the above two savings for the employer (no longer having to report the present value of the subsidy on the states financial statements and the subsidy being reflected on the active rates), what about the effect on retirees? First, as mentioned at the beginning, this coverage was offered to pre-Medicare retirees to insure they had access to coverage when they retired. Due to the passage of the Affordable Care Act (ACA), there are provisions in the bill that provide access to insurance without having to be concerned with being medically underwritten or having pre-existing condition provisions. Consequently, the primary reason that PERS offers this coverage to this group may no longer apply. Additional advantages for the pre-Medicare retirees to access coverage through the new health care exchanges may be:

- Possible subsidies for coverage
- More selection of plans

The primary disadvantage to our pre-Medicare retirees is that at this time the PERS Retiree Health Insurance Credit is not portable, so they would lose that benefit by going to the health care exchange. That is why Sections 2 & 3 of this bill are proposed. You will note, however, that the effective date of this act is not until July 1, 2015 (Section 4, page 7). The reason for this is to allow us enough time to confirm our understanding when the Affordable Care Act provisions are implemented in 2014. If our understanding proves to be incorrect, then corrective provisions can be proposed to the 2015 legislative session before we stop offering non-Medicare coverage. The advantage of passing the bill at this time is that we will see the present value cost on the financial statement's reduced.

SECTIONS 2 & 3 – RETIREE HEALTH CREDIT PORTABILITY

In 1989, the North Dakota Legislature started the Retiree Health Insurance Credit Program (RHIC). The purpose of this program was to help retirees offset the cost of health insurance. It was recognized at the time that the cost of health insurance was becoming increasingly unaffordable. The monthly benefit formula and benefit paid information is:

BENEFIT FORMULA:

$5 for each year of credited service

Example: *$5 x 25 years = $125*

During the last year, the program paid out the following benefits:

BENEFITS PAID

Average benefit: $118 per month to 4,442 members

This program is presently funded by a 1.14% contribution from payroll.

Presently, this benefit can only be used to purchase PERS retiree health insurance coverage.

If the provision in Section 1 of this bill alone was passed, it would mean that pre-Medicare retirees would not be able to participate in the PERS health plan and would lose this benefit. Consequently, the proposal in Sections 2 & 3 would make this coverage portable for any health insurance coverage and also allow it to be used for the PERS dental, vision, prescription and long term care coverage. This provision adds the portability feature for not only pre-Medicare retirees but also Medicare retirees.

During the interim study of this bill by the Legislative Employee Benefits Committee, it was noted that the cost of making this coverage "portable" would be .19% of payroll, and the cost of the existing program is .90% of payroll. Adding the cost of existing coverage and the portability provision would result in a total cost of 1.09% of payroll.

The existing contribution is 1.14% which means that the portability provision could be added without the need to increase contributions.

Summary

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Both the employer and retired employees benefit from the provisions of this bill. The employer gets rid of the implicit subsidy costs. The retiree gets more flexibility for using the health credit.

This bill was reviewed during the interim by the Legislative Employee Benefits Committee and received a favorable recommendation. In addition, the PERS Board requests your favorable consideration of the bill.

Mr. Chairman, this concludes my testimony and thank you.

NDPERS Proposed Legislation for 2013 Session

HB1058 - Health Coverage for Retirees

Section 1	*Closes the Pre-Medicare Plan to retirees after December 31, 2013. Legislators would still be able to participate.*
Section 2	*Allows the retiree heath credit to be used for additional coverages (Rx, dental, vision and LTC). In addition, it allows the credit to be used for any health coverage (presently it can only be used for PERS Health)*
Section 3	*Allows the retiree heath credit to be used for additional coverages (Rx, dental, vision and LTC). In addition, it allows the credit to be used for any health coverage (presently it can only be used for PERS Health)*
Section 4	*Sets the effective date of the bill to be Jan 1, 2014 and contingent on the passage of the ACA*