

## **PUBLIC EMPLOYEE HEALTH INSURANCE BENEFITS STUDY - BACKGROUND MEMORANDUM**

Section 41 of Senate Bill No. 2015 (2003) directs the Legislative Council to study public employee health insurance benefits, including options for providing health insurance for state employees, availability of other health insurance plans, single versus family coverage, employee contributions, and unitization of premium rates for budgeting purposes.

### **UNIFORM GROUP INSURANCE PROGRAM**

Health insurance benefits are offered to public employees under the provisions of a uniform group insurance program established by the 1971 Legislative Assembly and codified as North Dakota Century Code (NDCC) Chapter 54-52.1. Previously, the Legislative Assembly had passed 1963 Senate Bill No. 176 (formerly codified as Chapter 52-12) which authorized any department, board, or agency of the state to act on its own behalf or in conjunction with other agencies to enter a group hospitalization and medical care plan and group life insurance plan for state employees. The agencies were required to pay five dollars per month for each participating employee's insurance premium and employees were required to pay the balance of the insurance premiums. An employee could elect to participate in a single plan or family plan. The 1971 legislation establishing the uniform group insurance program repealed Chapter 52-12.

North Dakota Century Code Section 54-52.1-02 provides that the purpose of the uniform group insurance program is to promote the economy and efficiency of employment in the state's service, reduce personnel turnover, and offer an incentive to high-grade men and women to enter and remain in the service of state employment. This section provides that the uniform group must be composed of eligible and retired employees and be formed to provide hospital benefits coverage, medical benefits coverage, and life insurance benefits coverage. Eligible employees include permanent employees who are employed by a governmental unit, including members of the Legislative Assembly; judges of the Supreme Court; paid members of state or political subdivision boards, commissions, or associations; full-time employees of political subdivisions; elected state officers; and disabled permanent employees who are receiving compensation from the North Dakota Workforce Safety and Insurance fund. A permanent employee is one whose services are not limited in duration, who is filling an approved and regularly funded position in a

governmental unit, and who is employed at least 17.5 hours per week and at least five months each year or for those first employed after August 1, 2003, is employed at least 20 hours per week and at least 20 weeks each year of employment.

North Dakota Century Code Section 54-52.1-04 requires the Public Employees Retirement Board to receive bids for the provision of hospital benefits coverage, medical benefits coverage, life insurance benefits coverage for a specified term, and employee assistance program services, and to accept the bid of and contract with the carrier that in the judgment of the board best serves the interests of the state and its eligible employees. This section allows the board to utilize the services of consultants on a contract basis in order that the bids received may be uniformly compared and properly evaluated. In determining which bid, if any, will best serve the interests of eligible employees and the state, the board is required to give adequate consideration to the economy to be effected; the ease of administration; the adequacy of the coverages; the financial position of the carrier, with special emphasis as to its solvency; and the reputation of the carrier and any other information that is available tending to show past experience with the carrier in matters of claim settlement, underwriting, and services. Each uniform group insurance contract entered into by the board is required by Section 54-52.1-05 to include as many optional coverages as deemed feasible and advantageous by the board, a detailed statement of benefits offered, including maximum limitations and exclusions, and other provisions the board deems necessary or desirable.

North Dakota Century Code Section 54-52.1-03 provides that a retiree who has accepted a periodic distribution from the defined contribution plan pursuant to Section 54-52.6-13 who the board determines is eligible for participation in the uniform group insurance program or has accepted a retirement allowance from the Public Employees Retirement System, the Highway Patrolmen's retirement system, the Teachers' Insurance and Annuity Association of America - College Retirement Equities Fund (TIAA-CREF) for service credit earned while employed by North Dakota institutions of higher education, the retirement system established by Job Service North Dakota under Section 52-11-01, the judges' retirement system established under Chapter 27-17, or the Teachers' Fund for Retirement may elect to participate in the uniform group without meeting minimum

requirements at age 65, when the member's spouse reaches age 65, upon the receipt of a benefit, or when the spouse terminates employment. If a retiree or surviving spouse does not elect to participate at the times specified in this section, the retiree or surviving spouse must meet the minimum requirements established by the board. The retiree or surviving spouse must pay directly to the board the premiums in effect for the coverage then being provided. A retiree who has met the initial eligibility requirements of this section to begin participation in the uniform group insurance program remains eligible as long as the retiree maintains the retiree's participation in the program by paying the required premium pursuant to rules adopted by the board.

Except for employees receiving retirement benefits or who are eligible to participate under applicable federal law, an employee may not continue as a member of the uniform group upon termination of employment. However, a member or former member of the Legislative Assembly or that person's surviving spouse may elect to continue membership in the uniform group within the applicable time limitation after either termination of eligible employment as a member of the Legislative Assembly or termination of other eligible employment or, for a surviving spouse, upon the death of the member or former member of the Legislative Assembly. The member or former member of the Legislative Assembly or that person's surviving spouse must pay the premiums in effect for the coverage provided directly to the retirement board.

North Dakota Century Code Section 54-52.1-06 requires each department, board, or agency to pay to the retirement board each month from its funds appropriated for payroll and salary amounts a state contribution in the amount as determined by the primary carrier of the group contract for the full single rate monthly premium for each of the eligible employees enrolled in the uniform group insurance program and the full rate monthly premium in an amount equal to that contributed under the alternate family contract, including major medical coverage, for hospital and medical benefits coverage for spouses and dependent children of its eligible employees enrolled in the uniform group insurance program. The board is then required to pay the necessary and proper premium amount for the uniform group insurance program to the proper carrier or carriers on a monthly basis. The combined health insurance premium for the 2003-05 biennium is \$488.70.

North Dakota Century Code Sections 54-52.1-03.1 and 54-52.1-03.4 govern participation by political subdivisions, employees of certain political subdivisions, and temporary employees in the uniform group insurance program. Section 54-52.1-03.1 provides that a political subdivision may extend the benefits of the uniform group insurance program to its

permanent employees subject to minimum requirements established by the retirement board and a minimum period of participation of 60 months. If the political subdivision withdraws from participation in the uniform group insurance program before completing 60 months of participation, the political subdivision is required to make payment to the retirement board in an amount equal to any expenses incurred in the uniform group insurance program that exceed income received on behalf of the political subdivision employees as determined under rules adopted by the board. A retiree who has accepted a retirement allowance from a participating political subdivision's retirement plan may elect to participate in the uniform group insurance plan without meeting minimum requirements at age 65, when the employee's spouse reaches age 65, upon the receipt of a benefit, when the political subdivision joins the uniform group insurance plan if the retiree was a member of the former plan, or when the spouse terminates employment. If a retiree or surviving spouse does not elect to participate at the times specified, the retiree or surviving spouse must meet the minimum requirements established by the retirement board. Each retiree or surviving spouse is required to pay directly to the board the premiums in effect for the coverage then being provided. The board may require documentation that the retiree has accepted a retirement allowance from an eligible retirement plan other than the Public Employees Retirement System.

North Dakota Century Code Section 54-52.1-03.4 provides that an employee of a county, city, school district, district health unit, or park district that is not participating in the uniform group insurance program pursuant to Section 54-52.1-03.1 and who is not eligible for any other employee group health plan may elect to participate in the uniform group insurance program by completing the necessary enrollment forms and qualifying under the medical underwriting requirements established by the retirement board. The board may use risk-adjusted premiums for individual insurance contracts to implement the provisions of this section. The employee participating in the uniform group insurance program under this section is required to pay monthly to the retirement board the premium in effect for the coverage being provided.

Also, temporary employees may elect to participate in the uniform group insurance program by completing the necessary enrollment forms and qualifying under medical underwriting requirements of the program. Temporary employees utilizing this provision are required to pay monthly to the board the premiums in effect for the coverage being provided. This section prohibits political subdivisions, departments, boards, or agencies from making a contribution for coverage under this section.

North Dakota Century Code Section 54-52.1-04.3 requires the retirement board to establish under a

self-insurance plan a contingency reserve fund to provide for adverse fluctuation in future charges, claims, costs, or expenses of the uniform group insurance program. Under this provision, the board is required to determine the amount necessary to provide a balance in the contingency reserve fund equal to three and one-half months of claims paid based on the average monthly claims paid during the 12 months immediately preceding March 1 of each year. The board is authorized to arrange for the services of an actuarial consultant to assist the board in making this determination. All money in the contingency reserve fund are appropriated for the payment of claims and other costs of the uniform group insurance program during periods of adverse claims or cost fluctuations.

Under NDCC Sections 54-52.1-04.7, 54-52.1-04.8, and 54-52.1-04.9, the retirement board is authorized to establish a dental plan, a vision plan, and a long-term care plan and is required to establish an employee assistance program available to persons in the medical and hospital benefits coverage group. Section 54-52.1-14 requires the retirement board to develop an employer-based wellness program. This program must encourage employers to adopt a board-developed wellness program by either charging extra health insurance premiums to nonparticipating employers or reducing premiums for participating employers.

All funds necessary to pay the consulting fees and health insurance benefits related to the uniform group insurance program are appropriated from insurance premiums received by the retirement board pursuant to NDCC Section 54-52.1-06.1. A history of health insurance premiums per biennium for the 1995-97 through 2003-05 bienniums is attached as Appendix A, a historical summary of uniform group insurance benefits is attached as Appendix B, and a summary of plan benefits effective July 1, 2003, is attached as Appendix C.

Workplace Economics, Inc., reports that 16 states pay the full cost of health insurance coverage for an individual employee--the employee pays nothing--and in several other states the employee has the option of selecting a plan that will be fully paid by the employer. It should be noted that this statement applies to premiums not deductibles, coinsurance payments, or other out-of-pocket expenses that the employee may pay. Six states pay the full premium for family coverage. In most states the amount paid by the employee varies by the plan and coverage option selected. In Illinois, Kansas, New Mexico, and West Virginia the portion of the premium paid by the employee also varies by salary. In the remaining states, employees share premium costs with the state. All states provide or make available health insurance for pre-Medicare retirees, and 48 states provide or make available health insurance for Medicare-eligible employees (age 65 or older). Indiana and Nebraska do

not provide retiree coverage in the state health plan for retirees beyond age 65, although retirees in Indiana may now purchase a Medicare complimentary plan through the state. In a number of states, the retiree's share of health insurance premiums varies by characteristics such as date hired, date retired, or years of service at retirement. A schedule of group health insurance plans prepared by Workplace Economics, Inc., is attached as Appendix D. Also, a schedule of state employee health benefits monthly premium costs compiled by the National Conference of State Legislatures' health care program is attached as Appendix E.

## **HISTORY AND COSTS OF THE PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM**

Before 1983 the retirement board was required by law to solicit bids and contract for the provision of insurance benefits coverage with the insurance carrier determined by the board to be best able to provide that coverage. From 1971 to 1983 Blue Cross Blue Shield of North Dakota provided and administered the health insurance benefits plan for public employees. In 1983 the board was authorized by NDCC Section 54-52.1-04.2 to establish a plan of self-insurance for providing health benefits coverage under an administrative services-only contract or a third-party administrator contract if the board determined during any biennium that a self-insured plan is less costly than the lowest bid submitted by an insurance carrier. The board exercised the option to implement a self-insurance health benefits plan and administered the program in that manner from July 1, 1983, through June 30, 1989.

Rising health care costs in the state were the primary reason for the cash flow difficulties experienced in the health benefits plan. In the 1985-87 biennium the Legislative Assembly appropriated funds for a 20 percent premium increase, and claims costs increased 42 percent.

Although the board began its administration of the self-insured health benefits plan on July 1, 1983, with reserves of \$2,143,880, claim expenditures and other expenses of the program exceeded premium income and other revenue in 1984 and by June 1987, the fund balance, as indicated in audited financial statements of the plan, was (\$4,759,963) with estimated outstanding claims payable of \$4,600,000.

In 1987 the board incorporated various cost-containment components into the health benefits plan which included:

1. Implementation of a program of concurrent review of inpatient hospitalizations designed to eliminate unnecessary treatment or prolonged hospital stays and to allow consideration of

less expensive appropriate treatment for long-term medical care.

2. Implementation of a program of mandatory second surgical opinions for certain elective surgeries. (This program did not generate anticipated results, and after a one-year trial period was discontinued.)
3. Expansion of contract deductibles to include all inpatient, outpatient, and physician services.
4. Increase in the coinsurance base from the first \$2,000 in charges to the first \$4,000 in charges.
5. Implementation of a preferred pharmacy program.
6. Establishment of a separate premium rate for retirees, based on retiree claims experience.
7. Introduction of a \$25 copayment for each hospital emergency room visit.
8. Adjustment of the Medicare coordination of benefits formula applied to retiree members of the plan.

Due to the introduction of these cost-containment initiatives and the availability to public employees of a number of attractive health maintenance organization plans, approximately 3,350 membership contracts constituting 23 percent of the total contracts of the health benefits plan were lost during the 1987 open enrollment period resulting in a decrease of approximately \$563,000 per month in premium income.

The decision by MedCenters HMO, a health maintenance organization which had the largest Public Employees Retirement System-eligible enrollment, to discontinue its participation agreement with the Public Employees Retirement System as of July 1, 1988, and substantial increases in premiums charged by other HMOs, resulted in a substantial number of public employees choosing the Public Employees Retirement System health benefits plan during the 1988 open enrollment period. The influx of new membership and a 25 percent increase effective July 1, 1988, in premium rates charged retiree members of the plan increased monthly premium revenues by approximately \$479,100, or 31 percent.

In January 1989 the retirement board voted to end the state-funded health insurance program and buy the coverage from Blue Cross Blue Shield of North Dakota. Officials of the Public Employees Retirement System predicted the state would end the 1987-89 biennium with a \$3.5 million deficit and would need to increase premium rates by 65 percent in 1989-91. The Blue Cross Blue Shield bid of about \$35 million to fund state

employees' health insurance for the 1989-91 biennium included provisions that the company would absorb about \$5 million in unpaid claims when it took over in July 1989.

Senate Bill No. 2026 (1989) appropriated \$1.2 million from the fund for unemployment compensation claims and \$746,051 from the general fund to the Public Employees Retirement System for the state group health program for the period beginning January 1, 1989, and ending June 30, 1991.

## **RETIREE HEALTH INSURANCE PROGRAM**

The 1989 Legislative Assembly established a retiree health benefits fund account with the Bank of North Dakota for the purpose of prefunding hospital benefits coverage and medical benefits coverage under the uniform group insurance program for retiree members of the Public Employees Retirement System and the Highway Patrolmen's retirement system receiving retirement benefits or surviving spouses of those retired members who are eligible to receive or were receiving retirement benefits. The retiree health benefits program is codified as NDCC Sections 54-52.1-03.2 and 54-52.1-03.3. In order to fund this system the employer contribution under the Public Employees Retirement System was reduced from 5.12 to 4.12 percent, and under the Highway Patrolmen's retirement system the employer contribution was reduced from 17.70 to 16.70 percent or 1 percent of the monthly salary or wages of participating members, including participating Supreme Court and district court judges, and the money was redirected to the retiree health benefits fund. The current allowable monthly credit toward hospital and medical benefits coverage is \$4.50 multiplied by the member's or deceased member's number of years of credited service.

## **STUDY APPROACH**

In carrying out its study of public employee health insurance benefits, interested entities would include the Public Employees Retirement System Board, state employee representatives, retired state employees, insurers such as Blue Cross Blue Shield, health maintenance organizations, and others. The committee may also wish to utilize the expertise of the staff of the Public Employees Retirement System Board as well as its health insurance consultants.

ATTACH:5