

2009 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1120

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1120**

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 01/22/2009

Recorder Job Number: 7522

Committee Clerk Signature

Hathy Rodin

Minutes:

Chairman Grande: I will bring the House GVA committee to order and the clerk will call the roll.

Sparb Collins, E.D. of the ND Public Employees Retirement System (PERS): I am appearing before you today on behalf of the PERS Board and in support of this bill. Mr. Collins submitted a three-page written testimony, **see attachment #1**.

Chairman Grande: Refresh my memory. Which of the funds are we taking the 1.9 million out of?

Sparb Collins: This would come out of the Health Insurance funds. And it would only be to the extent that if the plan performed better than expected during the next 2 years, we'd get that money back.

Rep. Nathe: Section 1, line 9; what is the definition of "high grade."

Sparb Collins: That has been in statute since before I began. I assume they are talking about qualified people for positions with minimum requirements as a way of attracting them.

Chairman Grande: We don't have a FN on this because it is being absorbed in that fund, correct?

Sparb Collins: I believe so; we weren't requested for a FN.

Rep. Kasper: Are you requesting additional funding from the legislature for the state employees' health insurance right now?

Sparb Collins: Yes.

Rep. Kasper: Are these funds separate from how the retiree benefits are funded compared to the ND PERS actively employees fund?

Sparb Collins: No. When we reported to the appropriations committee the last meeting, we acknowledged what the balance was in that account and this was proposed for this bill.

Rep. Kasper: There are no segregated funds for this plan compared to the active PERS health plan? They are co-mingled?

Sparb Collins: Yes.

Rep. Kasper: Are you saying you are in a position to absorb the cost? And it will reduce the income by 1.9 million, but I think you are asking for a funding increase from the legislative body because of increase health insurance costs for the whole PERS plan. Is that correct?

Sparb Collins: That's correct.

Rep. Kasper: So therefore, there is a cost although it is hidden, because you are going to have to ask for 1.9 million more from the legislature for the current plan because you are reducing the income by 1.9 million here.

Sparb Collins: Those rates that were projected forward was based on the necessary rate to sustain that benefit plan. And in addition we have certain gains that have accrued that we acknowledged to PERS and this is part of the gains of the biennium. You are correct in that, that gain can be used here as is suggested or that gain can be used another way which would be used to offset the premium increase.

Rep. Kasper: What is your requested funding increase for the PERS Health Insurance Plan for the next biennium?

Sparb Collins: Approximately 25%.

Rep. Kasper: I mean in dollars.

Sparb Collins: I would have to look it up...If you were looking for the state group solely, I would estimate close to 35-40 million without looking it up.

Rep. Kasper: So that means you could reduce your request by 2 million if this bill were not passed?

Sparb Collins: You would have to determine if that would apply to the state groups or all groups. The state represents approximately 65% of the health insurance. So that 2 million was buy back 100% of the contracts, so it would be slightly less.

Rep. Kasper: The state owns the fund for state employees, we don't any other...

Sparb Collins: The gain we are talking about accrues from the entire plan.

Chairman Grande: On that same line, because that has been my confusion and I'm blending in what my questions for 1121 were going to be too. We have this one (1120) where we are taking funds out of that insurance plan, but in the next bill (1121) we are going to be asked to increase out of the general fund to cover that.

Sparb Collins: The next bill will just relate to the retirement plan, not the health insurance plan.

Chairman Grande: Do we have a different bill? Did we have a bill during the interim that we dealt with money for the insurance; there was an increase in the employer side.

Sparb Collins: I don't recall, but there is one, maybe what you are thinking is the Retiree Health Credit Program?

Chairman Grande: That's it.

Sparb Collins: That is separate which isn't the health insurance plan but is a separate Retiree Health Credit Trust.

Chairman Grande: The health insurance fund that you are taking the 1.9 million out of is not the same as the Retiree Health Credit Program? That one's in trouble, this one is not, this one is? Is this what we are trying to do?

Sparb Collins: I wouldn't characterize the Retiree Health Credit Trust as in trouble. That was the one in which during the interim we talked about the increase of the benefit by 50 cents.

Chairman Grande: Will we have the before us?

Sparb Collins: Yes, that started on the Senate side.

Rep. Schneider: I think what you are trying to do is a great idea; you do run the risk of a pretty substantial increase in 2 years if the subsidy isn't allowed to continue. Is that a concern at all?

Sparb Collins: Yes. That's why I wanted to acknowledge in the bill that this if for 2 years only. It provides short term help. 2 years from now, we may end up making up this increase but an interim increase that may be there. So you could be looking at a substantial increase next time as well. We hope that in the next 2 years health insurance costs dampen and with that dampening it would offset this concern. This is simply short term assistance only and would just apply to those retiring before age 65 and retired folks later who would like to apply.

Chairman Grande: This COBRA group, is that a way of terming that?

Sparb Collins: This would be the group after COBRA. COBRA rates are already set by federal law and that is built into the rates. COBRA law says we can only charge 102% under varying conditions. But for 18 months after termination. Then after that if you continue to stay with us because you are eligible, you would go to 150%, this bill would drop it to 130% and as we talked about during the interim with this group at 150% that premium doesn't necessarily pay expenses.

Chairman Grande: This is based on the hope that insurance rates are going to lower. What is the history on that?

Sparb Collins: When I first came into PERS in 1989, we were going through a cycle even worse than this. In 1989 the increase for PERS was something like 40 some percent for the plan. In 1991, there was a lot of talk about changing health care. It became a national issue in 1991. All that happened was a lot of talk about putting in a new plan. For 4 years, rates dampened down. The next biennium, in 1993, we didn't even come in for a rate increase because it dampened down and flattened out. Now, if we would have a similar situation, it would dampen down but the trends in the last 5 – 6 years, its double digits.

Rep. Kasper: I don't think you are going to see health insurance rates go down in the future. Did this group of 800 ask you to do this or did your board decide this. How did you get to this decision.

Sparb Collins: We have a group with several sub-committees; one is the retiree committee that talks about pre-Medicare rates. Last session there was a bill brought forward relating to this dilemma as it related to legislators in the same group; the pre-Medicare group.

Rep. Kasper: I recall that, it was killed on the floor and I carried the bill.

Sparb Collins: This is not perfect, this is just short-term.

Rep. Kasper: If you look at the chart, the rates for 2001-2003 to the current rates for this biennium, without this bill passing, would be more than double. So if we are going to do a temporary fix for the next 2 years, with a potential that the following biennium, you are looking at a rate for these 800 people going up to nearly 2,000 dollars a month, you are almost getting to a point where it is unaffordable. Therefore, why wouldn't the group want to take a smaller increase now instead of a huge one in 2 years?

Sparb Collins: Some would argue that it is unaffordable right now. Even short-term health is beneficial. This is a

Rep. Kasper: I agree that the rates are getting unaffordable now. Does your board consider different option plans? Higher deductible? Letting the employee choose, not mandating. You are actuarially looking at these 800 people on their own to determine these rates.

Sparb Collins: Underneath the statutes, their rate is set as a function; their rate is not set on actuarial on its own. It's set underneath the statute as a percent of the state active list. So, it doesn't necessarily reflect their actuarial cost.

Rep. Kasper: Most likely their costs are higher?

Sparb Collins: The rate we charge them (inaudible)

Rep. Kasper: All the more reason to look at a higher deductible plan to make it affordable until they qualify for Medicare.

Sparb Collins: We have started to take a look at that and we may have to look at it more closely, one of the issues is to the extent we take the pre-Medicare groups and offering different pricing structures to this. We are going to have people flowing that pricing structure that best reflects their health care costs. For example: If we offer a plan at half this cost, with a \$1000 deductible and you were a pre-Medicare person and you didn't have any health insurance cost, you are going to elect the lower one. For us as a plan, what that means is that individual is going to elect a lower cost plan and our higher cost people are going to go into the other category which is going to potentially result in what we call adverse selection. And that may have some implications for the overall cost of the plan. We have to carefully think this through. Maybe we can find a way of shifting that risk out.

Rep. Schneider: How many of the 800 members will move to Medicare status in the next 2 years. And also are you seeing any trends of pre-Medicare people electing to take this coverage either increasing or decreasing?

Sparb Collins: I don't have the numbers. I can put that together. I'm not sure off hand.

Rep. Schneider: Generally, are pre-Medicare retirees; are they increasingly taking this coverage or electing not to? Have you seen any trends in that at all?

Sparb Collins: What I can tell you is I'm not seeing the group get smaller. I do know the ability to pay the premium, especially the pre-plus; we only have a couple of people in that group. That is getting almost unaffordable.

Chairman Grande: Anyone else who wishes to testify in favor of HB 1120. Anybody against to 1120? Neutral to 1120? The hearing is closed.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1120

House Government and Veterans Affairs Committee

☐ Check here for Conference Committee

Hearing Date: 01/22/09

Recorder Job Number: 7609

Committee Clerk Signature

Lou Engelson

Minutes:

Chairman Grande: Let's start with 1120.

Rep. Kasper: If you look at what we're doing to the employees that are in this situation by reducing their premium, now they're going to get a huge increase in two years.

Chairman Grande: There's a good chance they would double.

Rep. Kasper: If you think they're not happy now, wait til two years from now.

Chairman Grande: It might save them \$120 now, but it's going to cost them \$300 or \$400 when they come back.

Rep. Schneider: Insurance, especially health insurance, has a way of self-correcting itself. I look back to a few years back when Blue Cross was ordered to return that money. All was find until the requests of their premium increases in the following years.

Chairman Grande: In the scheme of things, I think we are going to have people more upset down the road.

Rep. Dahl: I'll move a do not pass.

Rep. Kasper: Second.

The roll was called by the clerk.

11 yes, 1 no, 1 absent. Representative Schneider was assigned to carry the bill.

Date: 1-22-09
Roll Call Vote #: _____

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1120

House **Government and Veterans Affairs** Committee

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Legislative Council Amendment Number _____

Action Taken DNP

Motion Made By Dahl Seconded By Kasper

| Representatives | Yes | No | Representatives | Yes | No |
|------------------------|-----|----|-----------------|-----|----|
| Chairman Grande | ✓ | | Rep. Amerman | | ✓ |
| Vice Chairman Boehning | ✓ | | Rep. Conklin | ✓ | |
| Rep. Dahl | ✓ | | Rep. Schneider | ✓ | |
| Rep. Froseth | ✓ | | Rep. Winrich | | |
| Rep. Karls | ✓ | | Rep. Wolf | ✓ | |
| Rep. Kasper | ✓ | | | | |
| Rep. Meier | ✓ | | | | |
| Rep. Nathe | ✓ | | | | |
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Total (Yes) 11 No 1

Absent 1

Floor Assignment Schneider

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

REPORT OF STANDING COMMITTEE

HB 1120: Government and Veterans Affairs Committee (Rep. Grande, Chairman)
recommends **DO NOT PASS** (11 YEAS, 1 NAY, 1 ABSENT AND NOT VOTING).
HB 1120 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1120

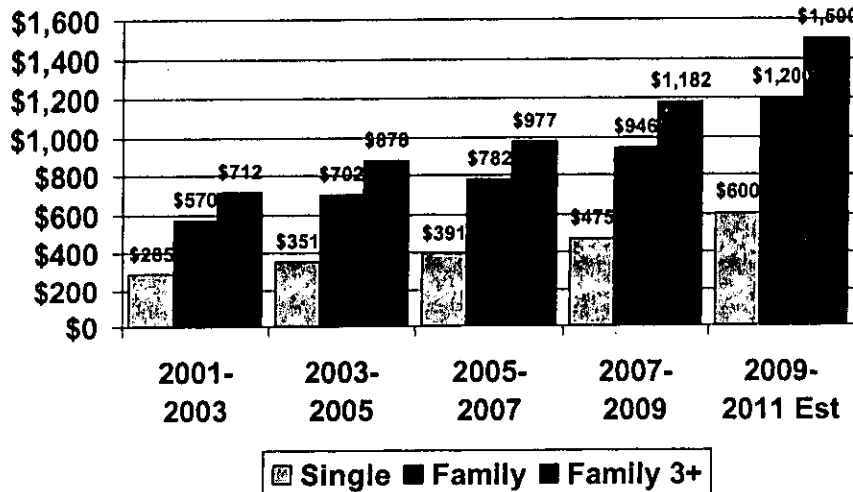
**Testimony of
Sparb Collins
on
House Bill 1120**

Madame Chair, members of the committee, good morning. My name is Sparb Collins and I am Executive Director of the North Dakota Public Employees Retirement System or PERS. I appear before you today on behalf of the PERS Board and in support of this bill.

House Bill 1021 is a bill intended to amend section 54-52.1-02 of the North Dakota Century Code (Act) relating to non Medicare retiree insurance rates under the uniform group insurance program. The Non Medicare retiree rates is for those members who retire before age 65 and former legislators who elect this health coverage. Presently we have almost 800 contracts in this group. Under the proposed bill, the insurance rate for a non Medicare retiree choosing single coverage is to be 130% of the active member single plan rate. Currently, non Medicare retiree rates are 150% of the active member single plan rate. The bill also provides an expiration date of June 30, 2011 for the Act.

To get a better understanding of why the bill is proposed the following table shows a history of the Non Medicare retiree rate and an estimate of the rate increase for 2009-2011:

NDPERS Non-Medicare Premiums



As the above demonstrates, the rate has gone up substantially and will continue that rise in 2009-2011.

If this bill is passed, the rates for 2009-2011:

| PreMedicare Rate | Existing NDCC* | | Proposed NDCC* | |
|------------------|----------------|---------|----------------|--|
| | Single | Family | +3 Family | |
| Single | \$ 600 | \$ 520 | | |
| Family | \$1,200 | \$1,040 | | |
| +3 Family | \$1,500 | \$1,300 | | |

**Estimated*

The benefit of the bill is it will reduce the rates for this group for the next biennium. The financial effect to PERS is that it will reduce the premium income from the group by about \$1.9 million over the next two years below the premium requirements. This means PERS will need to add to our risk the cost of this premium change. That is, PERS will need to subsidize these premiums. We are in a position to do this for two years. We do not know if we can beyond that date, therefore, the bill's provision expires in two years. At that time the rating method would return to the present method unless additional action is taken.

Attachment #1
page