COST-BENEFIT ANALYSES OF HEALTH INSURANCE MANDATES

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

Before: **Interim Human and Human Services Committee**
Representative Robin Weisz, Chairman

Date: **August 5, 2010**

TESTIMONY

Good morning, Mr. Chairman and members of the committee. My name is Michael Fix, and I am the Director of the Life and Health Division and Actuary for the North Dakota Insurance Department.

N.D.C.C. § 54-03-28 provides that a legislative measure introduced in the North Dakota Legislative Assembly which mandates health insurance coverage may not be acted on by any committee of the Legislative Assembly unless accompanied by a cost-benefit analysis performed by a qualified private entity.

The Insurance Department solicited from 12 actuarial firms proposals for the cost of performing a health insurance mandate cost-benefit analysis. A copy of the solicitation is attached to my testimony.

The Department's solicitation indicated that a mandated benefit cost-benefit analysis must include:

- The extent to which the proposed mandate would increase or decrease the cost of health care services;
- The extent to which the proposed mandate would increase the use of services;
- The extent to which the proposed mandate would increase or decrease the administrative expenses of insurers and the premium and administrative expenses of the insured; and
- The impact of the proposed mandate on the total cost of health care.

We asked the actuarial firms if they would:

1. Be able to perform cost-benefit analyses during the period November 2010 through April 2011; and

2. Be able to complete a requested cost-benefit analysis within a four week or shorter time frame.

We also informed the actuarial firms contacted that there was no guarantee that cost-benefit analysis services would be needed during the defined time period.

Proposals were evaluated based 60% on bidder qualification and 40% on cost.

Two companies responded with proposals: Ingenix Consulting and Milliman. Both companies are able to perform the cost-benefit analyses as requested.

Ingenix Consulting is part of Ingenix, a global health information technology organization with experience working with mandate cost-benefit analyses.

Milliman is the actuarial firm that first performed a cost-benefit analysis on all the mandates in North Dakota in 2002. They have also performed cost-benefit analyses for prior North Dakota Legislative Assemblies.

Either firm is capable of performing the cost-benefit analyses requested. My relative comparison of the two firms is as follows:

- Ingenix Consulting – 4.0
- Milliman – 4.6

I can provide details on the basis for this scoring if the committee would like that information.

Based on our analysis, we recommend to the committee that Milliman be used to perform proposed mandated benefit cost-benefit analyses if requested by the 2011 Legislative Assembly.

Actuarial Consulting Firms for Mandate Analysis – 2011 Session

1. AON Risk Consultants, Inc.
2. Deloitte & Touche, LLP
3. Ernest & Young, LLP
4. Hause Actuarial Solutions
5. Lewis & Ellis
6. Mercer Human Resources Consulting
7. Milliman
8. Reden & Anders
9. The Segal Company
10. Tillinghast
11. Wakely Consulting Group, Inc.
12. Watson Wyatt Insurance and Financial Services, Inc.

North Dakota
Insurance Department
Adam W. Hamm, Commissioner

July 9, 2010

RE: Health Insurance Mandate Cost-Benefit Analysis – Solicitation for Proposals

Dear Sir or Madam:

The North Dakota Insurance Department is soliciting informal proposals from qualified entities for the cost of performing a health insurance mandate cost-benefit analysis.

The intent of this solicitation is to select a consultant who will be available to support the 62nd Legislative Assembly of North Dakota. The consultant must be available to perform cost-benefit analysis services during November 2010 through April 2011. If a legislative measure is introduced that requires a health insurance mandate cost-benefit analysis, the analysis must be completed within four weeks or shorter specified time. There is no guarantee that the cost-benefit analysis services described herein will be needed.

N.D.C.C. § 54-03-28 provides that a legislative measure introduced in the North Dakota Legislative Assembly which mandates health insurance coverage may not be acted on by any committee of the Legislative Assembly unless accompanied by a cost-benefit analysis performed by a qualified private entity. Mandated health insurance benefits can include:

> Service mandates - Benefit or treatment mandates that require insurers to cover certain treatments, illnesses, services, or procedures. Examples include child immunization, well-child visits, and mammography;
>
> Beneficiary mandates - Mandates or defines the categories of individuals to receive benefits. Examples include newborns from birth, adopted children from the time of adoption, and handicapped dependents;
>
> Provider mandates - Mandates that require insurers to pay for services provided by specific providers. Examples include nurse practitioners, optometrists, and psychologists; or

Administrative mandates - Mandates that relate to certain insurance reform efforts that increase the administrative expenses of a specific health care plan. Examples include information disclosures, precluding companies from basing policy rates on gender, and precluding insurers from denying coverage for reauthorized services.

When a bill is introduced containing a health insurance mandate, a cost-benefit analysis must be completed which must include:

1. The extent to which the proposed mandate would increase or decrease the cost of health care services;

2. The extent to which the proposed mandate would increase the use of services;

3. The extent to which the proposed mandate would increase or decrease the administrative expenses of insurers and the premium and administrative expenses of the insured; and

4. The impact of the proposed mandate on the total cost of health care.

This request for proposals is being done pursuant to N.D.C.C. ch. 54-44.4 and N.D. Admin. Code article 4-12. A copy of the proposed general contract terms may be found at page 62 of the following website address:

http://www.ag.nd.gov/manuals/contractmanual/contract.pdf

If you are interested in being considered to perform this cost-benefit analysis, please submit your proposal. Proposals must be received no later than July 30, 2010 at 2:00 p.m. Central Daylight Savings time. Questions regarding this solicitation are due July 21, 2010, and should be directed to Mary Hoberg at the address, telephone number, or email address below. Proposals received after the date and time specified in this solicitation will be rejected.

Proposals must contain the following information:

1. Bidder's name, address, and telephone number;

2. Bidder's qualification to provide the cost-benefit analysis including:

   a. A summary of the firm's history providing this type of service;

   b. A summary of your firm's strategy for conducting health insurance mandate cost-benefit analysis to meet within the four weeks of receiving the legislative bill that would create the mandate;

c. Identification of the personnel who perform this type of service to include their training, education, and experience (resumes are acceptable);

d. Three references for which the bidder has provided similar services; and

3. The bidder's hourly or other unit rate that would be charged to perform the analysis.

Proposals will be evaluated based upon:

Bidder Qualifications	60%
Cost	40%

The three highest scoring entities will be recommended to the North Dakota Legislative Council.

There is no on-site performance expected, but if travel is required, it will be reimbursed at actual cost and on-site per diem rates.

Proposals must be submitted to:

Mary Hoberg
Legal Counsel
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505
mhoberg@nd.gov
Telephone: (701) 328-2440

Thank you.

Sincerely,

Adam W. Hamm
Commissioner
N.D. Insurance Department

AWH/bp

INGENIX

Proposal for Health Insurance Mandate Cost-Benefit Analysis

For the
North Dakota Insurance Department

Submitted by:
Ingenix Consulting

July 30, 2010

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I. Letter of Transmittal

July 30, 2010

Ms. Mary Hoberg
Legal Counsel
North Dakota Insurance Department
600 East Boulevard Ave., Dept 401
Bismarck, ND 58505

RE: HEALTH INSURANCE MANDATE COST-BENEFIT ANALYSIS PROPOSAL

Dear Ms. Hoberg:

On behalf of Ingenix Consulting (IC), I'm pleased to submit this proposal for actuarial services, in response to your Solicitation of Proposals, dated July 9, 2010, which asks for proposals from qualified entities for performing cost-benefit analyses of health insurance mandates.

I believe you'll find, after reading our proposal, that IC has the credentialed actuarial staff, state-of-the-art actuarial tools and applications, and most importantly, experience working on similar projects, to perform the services that the Insurance Department is seeking in an expert and timely manner.

We welcome your questions about our proposal and look forward to discussing with you our capabilities, resources, and proposed work plan.

Sincerely,

Earl L. Hoffman

Earl L. Hoffman, FSA, MAAA
Director, Actuarial Consulting

ELH:mje

II. Introduction and Understanding of Requested Services

Ingenix Consulting (IC) is pleased to have the opportunity to make this proposal to the North Dakota Insurance Department (the Department) to perform cost-benefit analyses on proposed health insurance mandates. We believe that IC has the independence, the actuarial tools and databases, and most importantly, the experienced and talented actuarial staff that can perform all of the duties for the Department as listed in the Solicitation for Proposals.

We understand that the Department is seeking a consultant that can evaluate the following:

- The extent to which a proposed mandate will increase or decrease the cost of health care services. This requires that we project the likely utilization or incremental utilization of the mandated benefit and the average cost per service of the services included under the mandate.

- The extent to which a proposed mandate will increase the use of services. In order to do this, we will first derive the present level of utilization and unit cost of the mandated services or beneficiaries. Based on the terms of a proposed mandate (number of services and/or cost per service; required benefit terms; required beneficiaries to cover) and the prevalence in the insured population of the condition(s), services, or population targeted by the mandate, we will then project how much utilization is likely to increase as a result of the mandate.

- The extent to which the proposed mandate would increase or decrease the administrative expenses of insurers and the premium and administrative expenses of the insured members. We are familiar with current typical levels of administrative expenses and premium retention loads and will project how much these may change as a result of a mandate.

- The impact of a proposed mandate on the total cost of health care. This involves not only projecting cost of the mandate itself but also looking at other, non-mandated benefits whose costs may be increased or decreased as a result of the mandate.

As we will show below, IC has the ability to assemble a multi-disciplinary team of actuaries, physicians, pharmacists, and other healthcare professionals to perform the cost, benefit, and utilization analysis that the Department is seeking.

III. General Information

Bidder's Name: Ingenix Consulting

Bidder's Address: 12125 Technology Drive, Eden Prairie, MN 55344

Bidder's Telephone Numbers:

Earl Hoffman: 952-942-3230 or Jennifer Linn 952-942-3217

Bidder's Email Addresses:

earl.hoffman@ingenixconsulting.com

jennifer.linn@ingenixconsulting.com

IV. History, Qualifications, and Experience of Ingenix Consulting

Brief History of Ingenix Consulting

Ingenix Consulting (IC) is part of Ingenix, a global health information technology organization serving the needs of health plans and insurers, employer health plans, government health programs, health provider groups, and others. Ingenix is part of UnitedHealth Group, Inc. (UHG) but functions independently of UHG's other units. The work we do for our clients (some of which are UHG's competitors), and the information we receive from them, is always held in the strictness of confidence and not shared.

IC was formed from Ingenix's acquisition of several consulting firms:

- Reden & Anders — One of the top actuarial, management and clinical consulting firms (formed in 1990; acquired February 1998).
- The Lewin Group — The nation's pre-eminent health policy and research organization, based in Falls Church, Virginia (acquired June 2007).
- Healthia Consulting — A highly-ranked provider-focused IT strategy, system implementation and optimization consulting firm (acquired September 2007).
- Global Works Systems, Inc. — A trusted provider-focused software and services health care IT firm (acquired November 2008).

IC is focused exclusively on the health and human services industry and is working to drive industry change and help clients solve the most complex problems facing the industry. We have over 1,000 consultants who work with employers, hospitals, health plans, government agencies and pharmaceutical companies. Our objective is to turn information into vision and action in order to:

- Improve the affordability, quality, usability and accessibility of health and human services to the entire population.
- Provide government units, health plans, and employers with clear and well-researched analyses and projections of healthcare trends and cost drivers, the impact of benefit changes and mandates, and strategies to control costs.
- Enable payers of health care to improve their viability through better plan design, premium development, claims projections, reserve calculations, assessment of risk-based capital needs, and market strategizing.

We are uniquely positioned in the marketplace because we:

- Have developed, acquired and built the world's best-in-class health care consulting capabilities.
- Apply extensive industry experience.
- Provide unmatched, innovative, value-added solutions.
- Have made unparalleled investments in data, analytic tools and methodologies, including a database of health care claims from over 157 million individuals.
- Drive powerful business improvement results for our clients based on data-driven initiatives and return measurement.

Overview of Experience, Databases, and Actuarial Tools

We believe that Ingenix Consulting is definitely able to provide the services specified in the solicitation for proposals. First and foremost, our staff includes credentialed healthcare actuaries, physicians, pharmacists, and other healthcare professionals who regularly perform the same tasks as outlined in the solicitation. We have experience evaluating benefit mandates and other benefit changes for other insurance departments and for numerous health plans, insurers and employers across the country.

IC actuaries, including our proposed lead consultants Earl Hoffman and Dan Bailey, have extensive experience in evaluating the impact of plan changes and benefit mandates. Most of this work has been for health plans, insurers, and self-funded employers, but they have also performed these services for state insurance departments (see below).

IC has built a strong reputation in the health care industry by developing sophisticated tools and models that our consultants use to deliver value-added services to our clients, including projection of claims costs, analyzing the impact of plan changes and determining the adequacy of premiums. These tools enable us to quickly evaluate the cost impact of most proposed mandates. IC builds these tools using the Ingenix claims databases, which are among the largest non-government health databases in the country. Among the tools we will use for the engagement are:

- **Comprehensive Commercial Medical Expense Pricing Model**: This tool allows us to price a wide range of in-network and out-of-network plan variations. The tool varies underlying allowed costs by location, level of cost management, and provider reimbursement (discounts or allowed charges as percentages of Medicare allowed). We can calculate underlying allowed costs for different utilization management levels, provider reimbursement levels, and geographical locations. Among the locations for which we can adjust model costs are Bismarck, Fargo, Grand Forks, and North Dakota outside of these MSAs.

- **Claim distributions by size of claim**: These tables show the distribution of claims and members by the amounts of annual claims per member for various combinations of services (for example, all services, all but prescription drugs, inpatient only, etc.) We will use these distributions to derive the impact of different deductible, coinsurance, and out-of-pocket limit levels.

- **Dental Pricing Model**: This projects costs for various dental plan designs. Underlying allowed costs can be calibrated to North Dakota.

- **Prescription Drug Pricing Model**: This projects costs for various prescription drug benefit designs.

- **Benefit Plan Pricer**: This provides a fast way to determine the net benefit to allowed ratio for deductible, coinsurance, and out-of-pocket limit variations. This is particular useful in "real time" discussions we may have on plan design alternatives.

- **Technology Pipeline**: This provides us with information on cost and utilization of new or upcoming changes in treatment for some patients. The tool is useful in trend projections as well as in discussion of emerging technology and coverage and plan design issues.

IC's History of Providing the Requested Services

As mentioned above, IC actuaries have extensive experience in evaluating the impact of benefit changes and mandates for the various payer of healthcare: health plans, insurers, employers, and government units. This is a fundamental part of our work for numerous clients. Many of IC's actuaries, including Earl Hoffman and Dan Bailey, performed these functions regularly for their health insurer employers prior to joining IC.

Specific recent state insurance department engagements are as follows:

- **Maine Bureau of Insurance:** In August 2007, Earl Hoffman compared the cost of alternative benefit designs for the state's standard small group plans.

- **Connecticut Department of Insurance:** Since October 2009, Dan Bailey has been the lead consultant on an engagement to evaluate the cost and social impact and medical efficacy of over 50 current or proposed mandates, which include service, beneficiary, and provider mandates. Depending on their complexity, many of these mandate evaluations require extensive research into outside data sources, including carriers and state universities, and the use of IC's proprietary cost models, databases, and continuance tables.

- **Kentucky Department of Insurance:** Jim Drennan, FSA, MAAA, who is associated with our Atlanta office, has worked with this client for many years. Each year for the last five years, every proposed state mandate in Kentucky with an impact on health insurance costs has been reviewed by IC. This analysis of expected costs is based on internal IC experience, as well as available public data. An actuarial report is prepared for the legislature for each proposed mandate, which provides a range of estimated costs for the proposal, split between insured groups and the self-funded state employee plan, if applicable.

V. Strategy for Conducting the Mandate Cost-Benefit Analysis

Depending upon the particular mandate to be considered and the expertise of IC staff relative to the mandate, IC proposes to assemble a team of actuaries, clinicians, and other consultants. Either a Senior Consultant or Director will manage the work of less senior staff in order to keep the cost affordable. The purpose of this team approach is to achieve a synergy of experience and knowledge that enables IC to deliver better actuarial projections as well as to clarify the economic, health insurance market, and delivery system ramifications of the mandate.

Steps involved in the assessment of each mandate would be:

1. Clarify exactly what benefits, providers, or beneficiary categories are being mandated.
2. Determine what data and other information are needed to assess the cost impact of the mandate and then gather as much of the data as possible from either IC-internal or external sources. If research of external sources is required, the IC research consultants will commence this as soon as possible.
3. Review information and data gathered in step 2 for reasonableness and usefulness; where applicable, analyze and summarize the data.
4. Project costs due to the mandate, using data and information from step 3 and IC's proprietary cost modeling tools and continuance tables (see descriptions of these above).
5. Review preliminary projected costs internally with other IC consultants.
6. Prepare a draft report to the Department with findings and exhibits.
7. Peer review the draft report and make changes as a result of the peer review.
8. Send the final report to the Department.
9. Discuss the report with Department staff and/or present findings to staff or legislative panels, as requested by the Department.

Methodologies

Each mandate will initially go to the IC lead actuary Earl Hoffman. He will begin with a review of the terms of the mandate and any material provided by the Department and will discuss with Department staff any aspects of the work which are vague or otherwise unclear. We anticipate that Earl or Dan Bailey will manage the work for most of the mandates. Earl or Dan will then choose consultants with particular experience, knowledge, or past work that are relevant to the mandate to assist with the mandate evaluation. Jim Drennan will also be available to provide input in situations where he has reviewed similar mandates.

We will then develop a preliminary work plan, projected deliverable date, and consulting cost estimate within 3 business days of receiving a proposed mandate, or as soon as possible thereafter if relevant staff are on vacation. We will discuss the timing and cost with the Department.

We will next determine what data we need for our evaluation, in addition to the data we already have or can access. If research of external sources is required, that will commence at the outset. We'll discuss with Department staff whether we can obtain additional data from the Department or via a data request to carriers. If the latter, we will prepare a written data request and work with these parties to obtain the needed information.

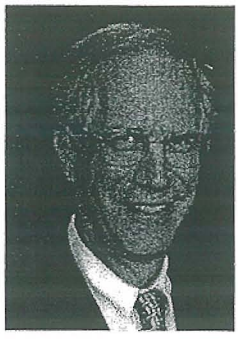
Using our cost models calibrated to North Dakota locations, databases, continuance tables, and other data, we will then project the cost of the proposed benefit as per member per month (PMPM) and as a percentage of the net PMPM of a typical plan or plans of benefits. If requested by the Department, we'll also project costs as an average per subscriber per month or per dependent per month. We'll consider the following aspects of incremental cost:

- The limitations on the mandated services, providers, or beneficiaries that are currently present in most plans.
- Whether the mandate applies to individual, group, or both types of policies.
- What is the potential demand for the mandated services and how much of this demand is currently satisfied by insured health plans.
- The change in utilization and the expected unit cost of the mandated services, and the possible change in utilization of other services related to the mandated services or treatment of a condition.
- The extent to which mandated services replace other services that are now covered, and the extent to which the mandated treatment of a condition is entirely incremental or possibly reduces costs for related conditions.
- The ways in which carriers can or do manage utilization, and the extent to which this management would be allowed under the proposed mandate. We'll also look at the possible difficulties of managing excessive utilization.
- Indirect or additional carrier administrative costs due to the proposed mandate. Examples are the higher administrative costs to allow the choice of a mandated optional benefit or to verify eligibility of a newly mandated class of beneficiaries.

We will prepare a full, written report with the results of our study, including any clarifying supporting exhibits, and send it to the Department after it has been internally peer-reviewed at IC. As requested by the Department, we will also discuss our report with the Department's staff, other state agencies, and members and staff of the Legislature, and testify about our study at Legislative committee meetings and hearings.

VI. Ingenix Consulting Personnel that Will Perform the Requested Services

If the Department chooses IC, then Earl Hoffman, FSA, MAAA, of our Eden Prairie, Minnesota office, will be the lead consultant for the engagement. He will be assisted by Dan Bailey, FSA, MAAA, of our Rocky Hill, Connecticut office. Both Earl and Dan will work with other IC consultants, depending upon their experience and special knowledge as applicable to a particular mandate and upon their availability. Earl's and Dan's brief professional biographies are as follows:



Earl L. Hoffman, FSA, MAAA

Director, Actuarial Consulting
Financial Advisory and Actuarial Services

Earl Hoffman is Director, Actuarial Consulting with IC. His work for IC's clients includes:

- Public employer health insurance rate development, plan evaluation, and other issues.
- Small group and individual health rate development, rate filing, compliance review, and annual compliance certification.
- State high risk plans.
- Large group pricing, experience rating, and credibility formulas.
- Health claim experience analysis.
- Health insurance reserves and risk based capital.
- Employer specific and aggregate stop loss and reinsurance.
- Part D creditable coverage attestations for employers.

He has been a speaker and workshop leader at Society of Actuaries' meetings and has also spoken at meetings of the National Association of State Comprehensive Health Insurance Plans. He is a member of the Health Practice Financial Reporting Committee of the American Academy of Actuaries.

Prior to joining Ingenix Consulting, Earl was with ReliaStar Life for 18 years, most recently as Second Vice President and Actuary. At ReliaStar, he was the financial product manager of the group insured and minimum premium medical and dental lines of business, responsible for development of factors and methods used in rating and reserves. He also performed cash flow testing and determined of risk based capital needs. Previous to ReliaStar, he worked for Western Life (now called Assurant Life) for 8 years.

Daniel Bailey

Actuarial Consulting Director
Financial Advisory and Actuarial Services

Daniel Bailey is a health actuary and Director in the Financial Advisory and Actuarial Services practice of Ingenix Consulting. Dan is located in the Rocky Hill, CT office. He has 20 years of actuarial experience in positions of progressive responsibility ranging from entry level to AVP and Chief Actuary. Dan's background includes commercial health insurance business of all group sizes and funding types, including federal government, state government, and municipality plans. He also has over ten years of experience with government programs including managed Medicare, managed Medicaid, SCHIP, and high risk pools. Dan has worked with all types of health insurance products in many states throughout the US and its territories. These include indemnity, PPO, HMO, POS, HRA, HSA, CDHP, pharmacy, dental, and medical stop loss throughout the United States. His experience spans the managed care continuum and the spectrum of fully insured arrangements and self-funding. He has also worked with provider groups, IPAs and PHOs, and with state governments, and he is cognizant of the differing perspectives of the various stakeholders in the health care system.

Dan assists clients with assignments and projects spanning the full range of work done by health actuaries. This includes strategy and feasibility studies, pricing and trend, product development, forecast and plan, reserving and valuation, financial reporting, rating systems, risk adjustment, predictive modeling, mandate analysis, underwriting, provider analysis, and market analysis. Dan has helped various types of HMOs, insurance companies, and MGUs develop actuarial reporting that enables them to better understand the key drivers of their business performance and the risks underlying their contracts and enterprise. He also has experience with Medicare Advantage, Part C, and MA-PD bidding for individual and group HMO, PPO, PFFS, and SNP bids.

Prior to Ingenix Consulting, Dan worked with Blues plans, community HMOs, not-for-profit, mutual, and for-profit payers. Dan came to Ingenix in 2007 from Aetna where he worked with commercial and Medicare Advantage programs in multiple states. He has been a member of the Academy of Actuaries and certified actuary for over fifteen years, and he has signed hundreds of health insurance filings with various states and CMS.

In the US and abroad, Dan has presented on and written articles about Medicare and managed Medicare, Small Group, State Health Reform, Consumer Driven Health Care, and Health Cost. Dan is a member of the International Association of Actuaries Health Section. He is a fellow of the Society of Actuaries and an elected member of the SOA Health Section Council. Dan is also involved with the Academy of Actuaries and has worked on several Academy workgroups, including Mental Health Parity, the Uninsured workgroup and two of its subgroups on Health Coverage and Health Cost, and the State Mandated Coverage task force.

Dan studied mathematics and literature and graduated summa cum laude as a University Scholar from the University of CT. He also studied actuarial science in the graduate program of the State University of New York, Binghamton.

VII. References

Paul Lombardo, ASA, MAAA
Insurance Actuary
Connecticut Insurance Dept
153 Market Street PO Box 816
Hartford, CT 06142-0816
United States
860-297-3891
Paul.lombardo@ct.gov

Richard Diamond, FSA, MAAA
Life &Health Actuary
Maine Bureau of Insurance
State of Maine
34 State Street Station
Augusta, ME 04333-0034
207-624-8428
Richard.H.Diamond@maine.gov

Ms. D.J. Wasson
Deputy Executive Director
Kentucky Department of Insurance
P.O. Box 517
Frankfort, KY 40602-0517
502-564-3630

VIII. Hourly Billing Rates and Related Charge Information

IC charges its consultants' time based on its standard hourly rates, effective through September 30, 2010, as follows:

Directors*:	$495 per hour
Senior Consultants:	$390 per hour
Research and Other Consultants:	$330 per hour
Associate Consultants:	$280 per hour
Analysts:	$250 per hour
Administrative Staff:	$110 per hour

* Includes Earl Hoffman and Dan Bailey

These hourly rates are expected to increase by approximately 5% at October 1, 2010 and again by another 5% at October 1, 2011.

Earl Hoffman will lead the IC engagement team. Earl and other Directors or Senior Consultants will develop the approach to analyze each mandate and determine the data required to perform the analysis. The technical aspects of the engagement—running the IC cost models, collecting and sorting claims database information, and building exhibits, will be performed primarily at the Associate Consultant and Analyst levels, under the direction of a Director or Senior Consultant. Research Consultants will perform most of the searches for outside research and data, such as information from provider organizations, universities, and government agencies. All reports and exhibits prepared for the Department will be peer-reviewed within IC at the Consultant or higher level.

If the Department requires that IC staff appear in person for testimony, presentations, or discussions with Department staff, then IC will charge for its direct travel expenses, in addition to the hourly rates above.

Milliman

8500 Normandale Lake Blvd.
Suite 1850
Minneapolis, MN 55437
USA

Tel +1 952 897 5300
Fax +1 952 897 5301

milliman.com

July 30, 2010

Mary Hoberg
Legal Counsel
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505

Re: Proposal to Provide Health Insurance Mandate Cost-Benefit Analysis

Dear Mary:

Thank you for asking Milliman to present this informal proposal to provide health insurance mandate cost-benefit analysis for the North Dakota Insurance Department. As you know, we have provided such analyses to the Legislative Council in the past. This proposal documents the scope of services, timing, and fees.

Background

We understand that the North Dakota Insurance Department is soliciting informal proposals from qualified entities for the cost of performing a health insurance mandate cost-benefit analysis in support of the 62nd Legislative Assembly. If any cost-benefit analysis is requested, it will most likely be performed during the legislative session, which goes from November 2010 through April 2011.

N.D.C.C. Section 54-03-28 provides that a legislative measure introduced in the North Dakota Legislative Assembly which mandates health insurance coverage may not be acted on by any committee of the Legislative Assembly unless accompanied by a cost-benefit analysis performed by a qualified private entity. Mandated health insurance benefits can include:

- Service mandates – Benefit or treatment mandates that require insurers to cover certain treatments, illnesses, services, or procedures. Examples include child immunization, well-child visits, and mammography;
- Beneficiary mandates – Mandates or defines the categories of individuals to receive benefits. Examples include newborns from birth, adopted children from the time of adoption, and handicapped dependents;
- Provider mandates – Mandates that require insurers to pay for services provided by specific providers. Examples include nurse practitioners, optometrists, and psychologists; or
- Administrative mandates – Mandates that relate to certain insurance reform efforts that increase the administrative expenses of a specific health care plan. Examples include information disclosures, precluding companies from basing policy rates on gender, and precluding insurers from denying coverage for reauthorized services.

Milliman

Mary Hoberg
July 30, 2010

Scope of Services

Milliman will conduct for the Legislative Council, during the regular 2011 legislative session, a cost-benefit analysis of each legislative measure mandating health insurance coverage of services or payment for specified providers of services.

Upon receipt of a request for a cost-benefit analysis, we will:

- Estimate the extent to which the proposed mandate would increase or decrease the cost of the service;
- Estimate the extent to which the proposed mandate would increase the appropriate use of the service;
- Estimate the extent to which the proposed mandate would increase or decrease the administrative expenses of insurers and the premium and administrative expenses of insureds; and
- Estimate the impact of the proposed mandate on the total cost of health care.

Milliman Contact Person

Kent Roepke
Consulting Actuary
8500 Normandale Lake Blvd.
Suite 1850
Minneapolis, MN 55437
Kent.roepke@milliman.com

Milliman Qualifications

For more than 60 years, Milliman has pioneered strategies, tools, and solutions around the globe. One of the world's largest independent actuarial and consulting firms, we are recognized leaders who have helped shape significant changes in the markets we serve. Set apart by our independent ownership, we deliver -unbiased advice based solely on what's best for our clients. Internal Milliman policy requires us to first clear a conflict check before every project. This will be required upon receipt of any specific project involving health insurance coverage mandates to ensure that no conflicts exist.

Milliman insight reaches across global boundaries and multiple industries, offering specialized consulting services in healthcare, employee benefits, investment, life insurance and financial services, and property and casualty insurance. Our consultants serve a wide range of clients, with highly personalized service and a unique combination of actuarial and business expertise. With offices in principal cities worldwide, Milliman combines global experience with local knowledge.

Milliman

Mary Hoberg
July 30, 2010

Milliman has over 500 full-time consultants specializing in health insurance and health care management, making us the nation's leading actuarial consultant in that area of practice. We provide consulting services to a broad array of clients including commercial insurance companies, employers, government agencies, healthcare providers, medical groups, hospitals, HMOs, PPOs, and Blue Cross/Blue Shield plans.

Milliman has quickly become an industry leader in assisting clients with analyzing the impact of the Patient Protection and Affordability Care Act and its amendments. With numerous projects and discussion papers, Milliman professionals have been deeply involved with their clients and other organizations in the health care industry over the last several months. Many of these projects have involved use of Milliman's recently developed Health Care Reform model.

Summary of Milliman's Experience and References

Minnesota Department of Human Services: Leigh Wachenheim has extensive experience working with the State of Minnesota. Since 2003, she has served as the state's actuarial consultant for rate setting for prepaid public programs in Minnesota, including Medical Assistance, General Assistance Medical Care, and MinnesotaCare. The rate setting process involves analysis of trends in medical costs and demographic factors (such as eligibility, age/gender, and geographic area) and also includes estimates of the impact of various benefit changes and/or mandates. Leigh sits at the table each year with DHS in negotiating capitation rates with nine health plans operating in Minnesota in this market.

Mr. R. Jason Wiley
Minnesota Department of Human Services
540 Cedar Street
St. Paul, MN 55155
Jason.Wiley@state.mn.us
651-431-2533

North Dakota Department of Human Services: We have been engaged by the North Dakota Department of Human Services (ND DHS) to perform various projects including a fee schedule analysis, development PACE premium rates, and assistance with a new disease management program. Our experience with these projects has provided substantial insight into the health care delivery system in the State of North Dakota as well as other departments within the State government.

Erik E. Elkins
Medical Services Division
North Dakota Department of Human Services
600 E. Boulevard Ave., Department 325
Bismarck, ND 58505
soelke@nd.gov
701-328-2246

Milliman

Mary Hoberg
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California Health Benefits Review Program: Milliman currently has a contract with the California Health Benefits Review Program (CHBRP) to review all proposed health benefit mandates in California. CHBRP was created by the California legislature and is operated by the University of California. Milliman's role is to help health economists at UCLA estimate the marginal impact of this mandate on premiums and health care expenditures in California. University of California researchers draft separate analyses of the effectiveness and public health impact of each mandate.

Summary of Milliman's Strategy

We will make sufficient staff available and add staff, if necessary, to provide the Legislative Council and the Insurance Commissioner each with a completed cost-benefit analysis within four weeks of receipt of each initial request made by the Legislative Council for a given mandate and within seven days for each request thereafter related to the same mandate.

If any questions arise that would significantly impact the results of our analysis, we will submit our questions to the Legislative Council within three days of receipt of each initial request. Upon receipt of a satisfactory resolution of all questions, we will provide our completed cost-benefit analysis within seven days from that time or within four weeks from the date of the initial request, whichever is greater.

The work steps are summarized as follows:

1. Receive initial request from Legislative Council;
2. Acknowledge receipt of the request;
3. Provide questions within three days:
4. Receive responses to questions:
5. Provide results with seven days or four weeks, whichever is greater.

Tools: Milliman has developed and maintains the best health benefits pricing and benchmarking tools in the country. The primary tool is the Health Cost Guidelines ™ ("HCGs"), for both commercial and over age 65 populations. The *Guidelines* have been published and continuously updated since the mid-1950s and provide a valuable resource for measuring and estimating health care cost components under a wide variety of scenarios.

In addition, Milliman supplements its HCGs by purchasing or using other databases and rating tools. The other databases and rating tools relevant to this project may include:

- MDR – contains allowed and billed charge amounts by procedure code and 3-digit zip code,
- Discharge data from all hospitals in approximately 20 states,
- Captiva's Context Billed Charge UCR Database
- MEDPAR – contains inpatient hospital claim data for Medicare beneficiaries,
- Medicare 5% Sample, and
- MedStat MarketScan database.

Each of these data sources has advantages and disadvantages, depending on the information needed.

Personnel

We have put together a team of consultants and actuaries who we feel can provide you with the highest quality consulting services.

Leigh Wachenheim is a Principal and Consulting Actuary in the Minneapolis office. She has been with Milliman since 1994 and is very familiar with our professionals, as well as our tools and resources. As you know, Leigh was the author of the various cost-benefit analyses in years past. She will be the peer reviewer for this project and will offer expertise throughout.

Kent Roepke will be the project manager. Kent is a Consulting Actuary in the Minneapolis office with over 15 years of health care consulting experience.

We will also use additional staff members to do various work needed to complete this project. Additional staff members will be used primarily to perform data analysis and administrative functions.

Fees

Milliman charges for professional services based on the hours worked on a project and the experience level of the consultant doing the work. Each consultant has an hourly billing rate that varies based on the level of the experience of the consultant. Each cost-benefit analysis will require its own unique level of expertise and experience. We will strive to use the most efficient resources available given the specific nature of the mandate and the required timeframe.

I expect the cost for the cost benefit analysis of each mandate will be in the range of $12,000 to $15,000. If follow-up work is required for a particular mandate, I expect the cost for each follow-up analysis will be in the range of $5,000 to $7,000. As you requested, hourly rates are in the table below.

Hourly Billing Rates
Rates for the Period July – December 2010
Confidential

Name	Title	Hourly Billing Rate
Leigh Wachenheim, FSA, MAAA	Principal & Consulting Actuary	$515
Kent Roepke, ASA, MAAA	Consulting Actuary	$389
Additional Staff	Various	$150-$250

We may involve other Milliman consultants with commensurate billing rates. These are our normal hourly billing rates for the period July – December 2010. Hourly billing rates will increase on January 1, 2011 as part of our normal annual cycle. Also, billing rates will increase for actuarial students as they work through the credentialing process.

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Mary Hoberg
July 30, 2010

Our cost estimate does not include any time spent on site or any travel expenses. Travel expenses, if required, are billed at cost. If it appears at any time that costs will exceed the high end of the range, we will contact you to discuss alternatives before proceeding.

If Milliman is one of the selected vendors, we would need to have a consulting services agreement in place before we can begin work. Milliman has certain contractual requirements pertaining to limitation of liability, third party distribution, choice of law, and others. We have negotiated a contract with the Department of Insurance in the past and would use that contract as a starting point.

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Please contact me at 952-820-2474 or kent.roepke@milliman.com or Leigh Wachenheim at 952-820-2481 or leigh.wachenheim@milliman.com if you have any questions.

Sincerely,

Kenton J. Roepke, ASA, MAAA
Consulting Actuary