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September 13, 2010
Representative Bette Grande, Chair
Legislative Employee Benefits Committee
State Capital
600 East Boulevard
Bismarck, North Dakota 58505-0360

Dear Representative Grande:

RE: REVIEW OF PROPOSED BILL 10060.0200 AMENDMENT RELATING TO SUBGROUPS, RECEIVING BIDS FOR PRESCRIPTION DRUG COVERAGE, SELF-INSURANCE FOR PRESCRIPTION DRUG COVERAGE AND CONTINGENCY RESERVE FUND REQUIREMENTS

The following summarizes the proposed legislation as well as our assessment of the financial and technical impacts of the bill.

OVERVIEW OF PROPOSED BILL

As proposed, this bill would amend the North Dakota Century Code relating to the uniform group insurance program as follows:

- Allow another lower cost coverage option for retired employees not eligible for Medicare.
- Allow the board to receive separate bids for prescription drug coverage
- Allow the board to consider self insurance of the health insurance benefits as well as part or all of the prescription drug coverage.
- Establishes a target range of contingency reserve funds and a timeline to meet the reserve requirement

EXPECTED FINANCIAL IMPACT

The bill expands the options made available to the NDPERS Board and should not have any financial impact and will allow for exploration of plan and funding alternatives that could save costs in the future.

Lower Cost Option for Non-Medicare Eligible Retirees

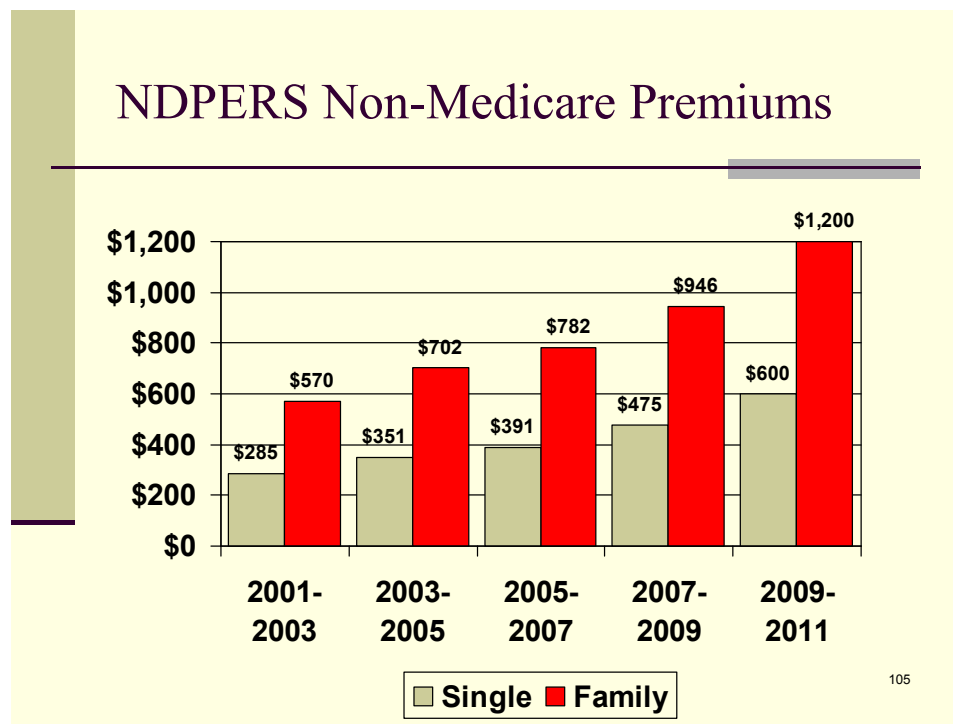
Currently Non-Medicare retiree's rates are set at 150% of the active rate. The board is interested in offering a lower cost plan that does not increase the implicit subsidy as determined by the governmental accounting standards board's other postemployment benefit reporting procedure.

This bill would allow the board to consider offering a lower cost plan that is more affordable for premedicare retirees. The plan would be offered with a one-time open enrollment and then subject to

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continuation as specified in section 54-52.1-03. As this is a lower cost option and is intended to be priced based on its true actuarial value, we anticipate no financial impact to the plan.

The challenge the premedicare group has had with rates under the existing structure can be viewed in the following graph from PERS;



As the above shows premiums have become very high. The proposed change would allow PERS to offer another lower cost plan. This additional plan would likely be a High Deductible Plan (HDHP) which would allow those eligible retirees to contribute to a Health Savings Account (HSA) as long as they are not Medicare eligible. There are many administrative and policy issues to consider which were addressed previously in a memo from Gallagher Benefit Services to Sparb Collins (December 28, 2007).

As another coverage option may be offered, provided the option does not increase the implicit subsidy as determined by the governmental accounting standards board's other post employment benefit reporting procedure. This option will need to be priced on a true actuarial value or higher. Much work has begun on exploring additional options for premedicare retirees and no new plan will be offered if it increases costs to PERS and its retirees.

Stand Alone Prescription Drug Plan and Self Insurance of Benefits

By allowing the board to receive separate fully insured and self insured bids for prescription drug coverage and health benefits separately, the board can consider additional vendors beyond those that currently administer the medical and hospital benefits. Stand alone pharmacy benefit managers have the potential to negotiate more advantageous arrangements as well as creating increased competition

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and advantageous pricing. The board would only consider a self insured plan if determined as less costly than an insured bid with equivalent contract benefits.

Contingency Reserve Fund

The proposed bill also changes the contingency reserve requirements of NDCC 54-52.1-04.3 for a self insured plan. The statute states:

54-52.1-04.3. Contingency reserve fund – Continuing appropriation. The board shall establish under a self-insurance plan a contingency reserve fund to provide for adverse fluctuations in future charges, claims, costs, or expenses of the uniform group insurance program. *The board shall 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 twelve-month period immediately preceding March first of each year.* The board may arrange for the services of an actuarial consultant to assist the board in making the determination. All moneys in the contingency reserve fund, not otherwise appropriated, are appropriated for the payment of claims and other costs of the uniform group insurance program during periods of adverse claims or cost fluctuations. (emphasis added)

The italic and underlined section requires the board to establish a contingency reserve fund equal to 3.5 month of claims which would be currently be about \$60 million. The Attorney General Office indicated this should be funded over a reasonable period of time. They also indicated that Incurred but Not Reported Claims (IBNR) can not be counted as part of the contingency reserve funds. The present statutory requirements::

1. Creates a significant disadvantage to a self insured option.
2. Changing its provision would help to make it more competitive and would enhance the bidding process cost

A market assessment was conducted and found that prudent and conservative recommendation of reserve levels would be 1.1 to 1.6 months for incurred but not paid (IBNP) claims and 2.0 to 3.2 months for Contingency Reserves. Based upon this review the proposed bill draft would now be to require a target of 1 - 1.5 month incurred but not paid reserve and a 1.5 – 3 month contingency reserve within 60 months of becoming self insured. This change will permit the board to implement an RFP strategy that considers self insured option and will provide a more competitive and enhanced bidding process that may reduce overall premium costs.

Sincerely,

Patrick L. Pechacek, CEBS
Director

Peter Roverud
Senior Manager

CC: Sparb Collins, NDPERS