



# **Industry, Business and Labor Committee**

Rod St. Aubyn  
BCBSND

August 3, 2010



# Testimony Outline

- Chair requested an update on some final components of your study.
  - Breakdown of Premium Costs
  - Reserve Levels
  - Tax Update
  - Administrative Expenses
  - Board Update



# Blue Cross Blue Shield of North Dakota

- One of the most efficiently run companies in the country.
  - Below industry level administrative expenses.
  - Lowest premium rates for comparable products.
  - Adequate reserve levels for safety.



- Noridian Mutual Insurance Company contracted with the Sherlock Company.
  - Compare our administrative costs.
  - Compare corporate executive/governance costs.
  - Comparison done with 22 Blues plans.
  - Comparison also done with Independent/Provider-Sponsored plans.



# Sherlock Report Findings

- “NMIC administers health benefit plans at low cost compared to its peers. Its costs are below that of universes of BCBS Plans, Independent/Provider-Sponsored Plans and Public Companies. This low cost is in evidence regardless of whether it is measured on a reported basis or adjusted for product mix. It is evident in nearly every product...regardless of whether costs are measured in dollars or as a percent of premiums.”



# Sherlock Report Findings

- “In addition, Noridian Mutual Insurance Company’s Corporate Executive/Governance costs appear low, not withstanding its relatively small size, and its premium rates are also low.”



# Your Premium Dollars at Work



Audited 2009 costs



# Historical Premium Rates and Financial Results

	Rate Increases				Financial Results				
	Group		Individual		Annual Underwriting Gain	Annual Net Income	Total Surplus	Months of Surplus	RBC
Year	Requested	Approved	Requested	Approved					
2001	14.8%	12.5%	0.0%	0.0%	\$17.00	\$23.80	\$137.30	3.3	623%
2002	13.8%	11.9%	10.9%	10.2%	\$17.00	\$17.70	\$137.20	2.9	566%
2003	11.2%	9.9%	10.5%	8.9%	\$21.20	\$26.60	\$187.80	3.7	705%
2004	10.8%	8.5%	8.5%	4.2%	\$6.50	\$18.60	\$200.60	3.9	692%
2005	6.0%	6.0%	13.2%	10.4%	\$30.30	\$38.50	\$222.70	4.1	722%
2006	10.8%	7.0%	4.2%	2.9%	-\$17.10 <sup>1</sup>	\$3.90 <sup>1</sup>	\$233.30	3.8	666%
2007	17.3%	9.9%	10.0%	9.4%	-\$3.10	\$18.00	\$236.30	3.6	629%
2008	14.9%	0.0%	14.8%	0.0%	-\$9.00	\$8.80	\$195.80	2.7	496%
2009 <sup>2</sup>	11.4%	7.9%	0.0%	0.0%	\$8.60	\$9.30	\$215.70	2.9	506%
2010 <sup>3</sup>	3.2%	.08%	13.1%	12.2%				3.0	523%
2010	4.0%	1.5%							
2010	3.5%	1.7%							

Dollars in millions.

<sup>1</sup> Reflects \$26.5 million premium refund.

<sup>2</sup> BCBS revised its request downward from 14.9% to 11.4%; 7.9% was ultimately approved on May 15, 2009, effective for policies renewing on or after July 1, 2009.

<sup>3</sup> Beginning in 2010, BCBS is submitting quarterly rate increases for its group block of business only.



# Reserve Levels



Scrumptious  
cream puffs  
LIFE, B1

BUSINESS A11  
HOME SALES PERK UP IN F-M

## The Forum

of Fargo-Moorhead

Final edition

Saturday, July 24, 2010

102,000 readers

### Landowners unite against divers

Feel flood concerns not addressed by officials

By Heidi Shaffer  
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A group of North Dakota landowners against a proposed Red River diversion is rallying to have their voices heard.

The Landowners Association of North Dakota hosted an open forum Tuesday for about 100 property owners and community members to discuss concerns they feel are not being addressed by the U.S. Army Corps of Engineers and the Metro Flood Work Group.

Worries about downstream impacts of the 30-mile channel topped a long list of apprehensions many in the group expressed.

Hendrum, Minn., Mayor Curt Johannsen helped form a work group to study the downstream impacts and said Tuesday's meeting served as a unifying force for groups of farmers, water boards and concerned landowners.

Johannsen said many in the group distrust whether the Metro Flood Study Group will keep

promises made to help mitigate an increase in river levels. And he was disappointed no one from the diversion's decision-making body attended the landowners' meeting.

"To me, that's just a slap in the face," Johannsen said.

But Darrell Vanyo, Cass County commissioner and Metro Flood Group member, said Tuesday evening that he didn't know about the meeting.

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### East Grand Forks to lightly over F-M div

By Kevin Bonham  
Forum Communications Co.

The East Grand Forks (Minn.) City Council could decide next week whether to join other northern Red River Valley governments in a resolution seeking an extension in the public comment period on the proposed \$1.27 billion Fargo-Moorhead diversion project.

But even if signs on it, the overall members in work session, they said. Grand Forks built after the

EGF: Page A

## Regulator: Blue Cross reserves OK

Surpluses deemed not too large

By Dale Wetzel  
Associated Press Writer

BISMARCK — Blue Cross Blue Shield of North Dakota has maintained reasonable financial reserves since the state Insurance Department ordered the company to pay \$26.5 million in refunds four years ago, Insurance Commissioner Adam Hamm said Friday.

Consumers Union, a New York-based nonprofit organization, issued a report Friday that suggested Blue Cross and Blue Shield organizations should use their financial reserves to moderate health insurance premium increases.

The report reviewed the finances of Blue Cross Blue Shield organizations in 10 states. North Dakota was not included. Hamm said comparisons between states should be viewed skeptically.

"It's kind of state-by-state dependent," Hamm said. "We have to look at the facts and circumstances in North Dakota."

The Fargo-based health insurer said Friday it had

\$228 million in reserves on June 30. Since 2005, its reserve amounts have ranged from \$195.8 million to \$236.3 million, according to the company.

During the same time, Blue Cross Blue Shield's risk-based capital score, a measurement of the company's financial strength, has fallen from 722 percent in 2005 to 523 percent on June 30, according to the company and the state Insurance Department. The Blues would draw increased scrutiny from state regulators if its score dropped below 200 percent.

Hamm said the insurer's surplus gets a fresh look each time Blue Cross Blue Shield of North Dakota files for an increase in its health insurance rates. It is one factor in deciding whether the proposed increase should be cut back or granted at all, Hamm said.

"We don't want to see it drop too far because obviously surplus is necessary to make sure there's a cushion," Hamm said. "You

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# Nonprofit Mutual Tax Misconceptions

## **Real Estate Tax (Net):**

- 2007 – \$281,143
- 2008 – \$299,123
- 2009 – \$204,122

## **Premium Tax:**

- 2007 – \$9,884,867
- 2008 – \$10,554,855
- 2009 – \$11,013,746
- Noridian pays premium taxes in lieu of State Income taxes. If Noridian were to pay state income tax rather than premium taxes, the tax amount would be significantly lower.

## **Sales and Use Tax:**

- Noridian pays sales and use tax at a rate of 6.5% (for purchases in Fargo, the amount will vary based on the city tax rate) on all purchases deemed taxable by the State.

## **Federal Income Taxes:**

- 2007 – \$655,997
- 2008 – (\$455,331)
- 2009 – \$1,011,289

Noridian has a negative tax expense in 2008 due to a large number of items that are deductible for tax purposes but are not considered expenses for accounting purposes. For accounting purposes these payments would reduce liabilities or increase assets.

The numbers above for Federal income tax expense is not actually what was paid in taxes due to carryovers, carry backs and adjustments for other items such as K-1 income we were unaware of until after the books were closed but which is still taxable in the current year.

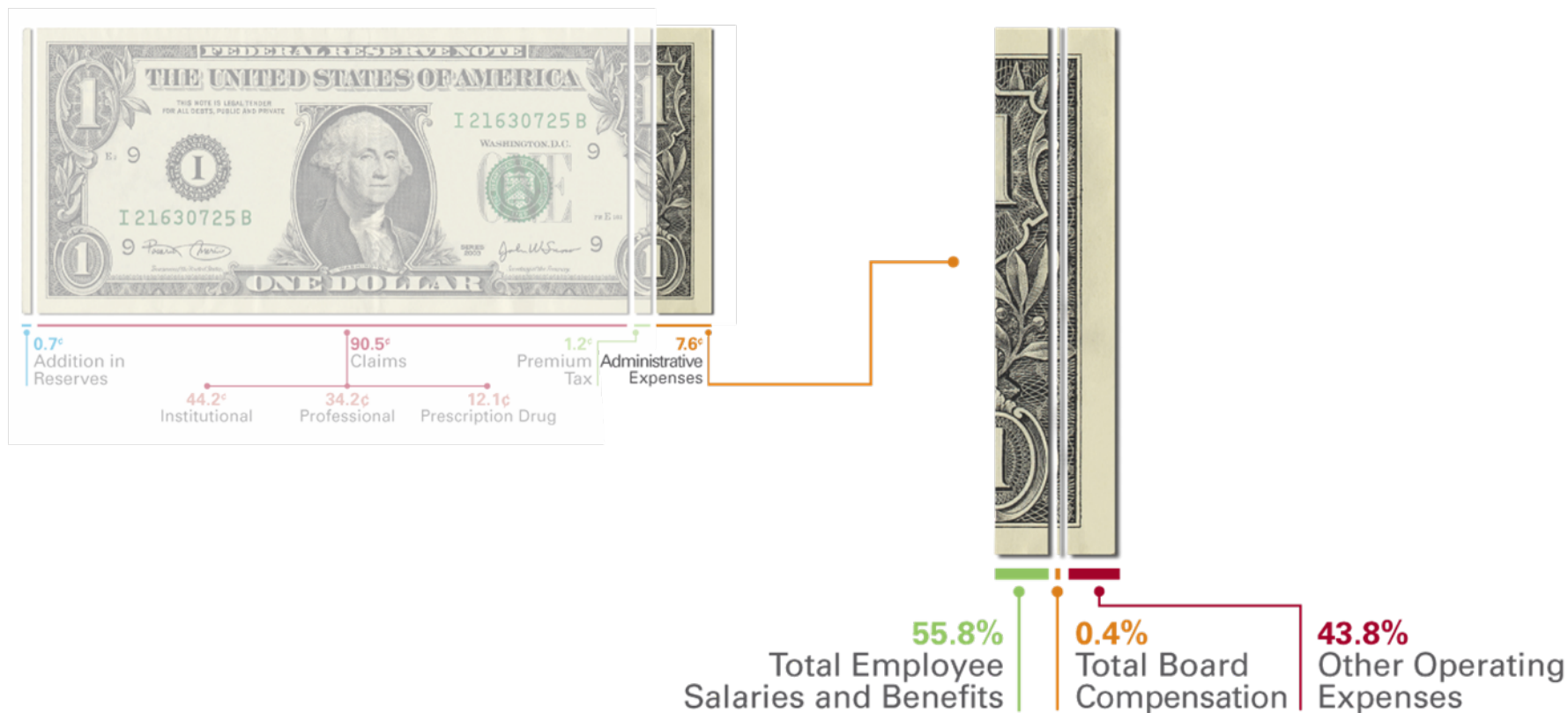


# PPACA Insurer Taxes

- PPACA imposes aggregate annual tax apportioned among health insurers based on market share.
  - 2014 - \$8 billion
  - 2015 - \$11.3 billion
  - 2016 - \$11.3 billion
  - 2017 - \$13.9 billion
  - 2018 - \$14.3 billion
  - After 2018 indexed to the rate of premium growth.



# Administrative Expenses





# Extensive Board Actions

- Implemented Seven Point Plan for Board of Directors' Oversight Strategy
  - Executive Leadership Change
  - Governance Counsel
  - Internal Review
  - Administrative/Operational Policies
  - Governance Policies
  - Executive Compensation
  - Board Compensation and Elections



# Questions?