

2011 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1364

2011 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee Fort Union Room, State Capitol

HB 1364
January 28, 2011
13641

☐ Conference Committee

Committee Clerk Signature

Carmen Hunt

Explanation or reason for introduction of bill/resolution:

Relating to the creation of a high-deductible health plan with a health savings account, and to provide an appropriation.

Minutes:

Chairman Bette Grande opened the hearing on HB 1364.

Rep. Al Carlson, District 41, appeared in support of HB 1364. This bill deals with the high-deductible health plan, an HSA savings account. The best explanation is from this memorandum of what the intent of this legislation is. **Attachment 1**. This has been used in other states. It has worked in other states. Obviously, a lot of the people that pick this are going to be your younger employees who believe, of course, that they are bullet proof and never going to get sick, and they are going to have a less premium. They are going to be able set this money aside for those kinds of things. This one has some cost to it. Because of some ___ there is a little bit of an increase in the premium by the Blues. Obviously, they feel that they are going to take some of the healthiest people out of the pool. Everything we do is based on the concept of the pool. I received a letter yesterday that 29 governors signed talking about the health care program from the federal government. One of the things that they were concerned about is that they were hoping that plan would waive the provisions that discriminated against consumer driven health plans such as health savings accounts. That topic has arisen in PPACA and these governors that signed this, obviously most of them were republican governors, as they sent the letter to Kathleen S___ they said there are some things that we think are damaging to options that people have for health care. One of them on the list was the health savings accounts.

Rep. Glen Froseth: On Lines 12 and 13, the difference between the cost of the single and family premium must be deposited in the plan. The state only provides one type of plan, and that is a family plan for everyone.

Rep. Al Carlson: You will have an explanation of what that difference is on the two. That is the money that would build the account. Sparb will have those two numbers for you. You should jot those down so you understand what the value will go into this account. In some of the other accounts, it was obvious you were able to set aside money as an individual. They are not plans like this but in the medical savings accounts you were able

to put the money aside, and then have that in the account and use it within a given year for your expenses. In this case we, the state, are putting the money in.

Rep. Mark Sanford: The intent would be that when an employee was to leave then, the balance would go with them?

Rep. Al Carlson: That would be my intent, yes. If the language doesn't say that, it would be the intent. We always have the discussion about turnover and retaining employees. Whether you view this as being an aid or a detriment to hiring people, I would view it as an aid. When we have a lot of our turnover, it is those people that are hired and in their first to the fifth year is our highest level of turnover. It is not in the 15th to the 20th year, because they pretty much made a career decision at that point in time. I would think it has a real benefit that they can travel and take that with them.

Chairman Bette Grande asked Sparb Collins if she had a fiscal note. He replied not yet.

Sparb Collins, Executive Director, North Dakota Public Employees Retirement System, appeared as neutral. **Attachment 2.** Some questions were asked during testimony.

Rep. Glen Froseth: This member's account, how would that member's account be handled? How would it be invested? Would the state invest that? Would that be up to the individual to invest?

Sparb Collins: The process that would be put into place is that if this bill would pass, PERS would need to select a vendor for the health savings account. That can be a bank or another entity. In that process you can have it so that there are a limited number of options. It is just like a savings account with a fixed interest rate or potentially you can build in other options that allow people to make decisions to do other types of investing with that money as well. The basic decisions, once the vendor is established, are the member's because it will be their account. It is in their name, and they will make decisions. We will probably automatically deposit it into that account. If they terminate employment, they can take it with them, they can put it in, they can transfer it to another health savings account. While the money is in the account if they need to pay medical expenses from that account, they can do that. They are going to have a \$1,200 or \$2,400 deductible so they probably will draw it down for certain expenses while the money is in the account. We anticipate we would be depositing money into the account on a monthly basis at the time when we get paid for premiums. We would send the high deductible premium off to Blue Cross/Blue Shield just like we do today with the regular premium. At the same time we would send money into the employee's account of the difference.

Rep. Glen Froseth: Does the employee then if he chooses to transfer money from his account, is there any sort of accounting method so you know that the money wasn't just drawn out and spent on something else besides health care?

Sparb Collins: The employee will be responsible to maintain documentation so that if the IRS comes around and does an audit of the employee that they can say here we notice you wrote out \$5,000 worth of expenses out of your health savings account they will be

expected to be able to produce the justification to show that it was for eligible expenses which would be medical expenses. I might contrast that. Today as some of you may be familiar, we offer a Section 125 medical spending account to employees on a pretax basis. Underneath that program it is a little different, because if you put money into it and you incur an expense, you submit to us a claim, and then we pay the claim. When you submit to us the claim, we actually validate the claim because we say when you submit it, you have to submit the attached explanation of benefits or how you incurred that eligible expense. We look at it. We say yes that is an eligible expense, and then we write out a check to the employee.

Chairman Bette Grande: Don't I have to pay that bill first, and then you guys will reimburse it?

Sparb Collins: Yes, and that is probably what is going to occur pretty much in the health savings account. You will probably get billed from a provider for \$200 and then you can write your check out of your health savings account to pay it. Then you just keep a copy of the bill in a file in case you ever get audited to show how you came up with that eligible expense.

Rep. Lonny Winrich: I think this is what you said but I want to be sure. The health savings account can be used to pay the deductible?

Sparb Collins: Yes, a deductible and any eligible expense. If you incur an expense that is eligible and not necessarily associated with a deductible, you can use it for that too, dental or some other type of medical expense. Maybe it is one that is not covered by the plan that is eligible for tax purposes.

Rep. Karen Rohr: You mentioned that if the individual terminates, the HSA is theirs to use. How about the actual plan? Is that portable? The state wouldn't subsidize it but would they be able to have the option of paying the premium or a different premium if it is Blue Cross/Blue Shield?

Sparb Collins: The portability would be the same as it is today. That would be as set up underneath federal law. They have what we call COBRA rights which are extended rights. They can take 18 months on the coverage depending upon what their qualifying event was at which time after that they would be looking to transition to another plan unless they met our eligibility. For example, in our plan an employee can stay on it if they are retired.

Rep. Bill Amerman: On the lines of Rep. Winrich's question, you could use the plan to pay your deductible. When the plan first got started and you are just entering and the money going in there is not built up and you hit some kind of injury, will they have to pay the deductible or could they use the plan as long as they are in the plan to offset their deductible?

Sparb Collins: I think I am following. As an example, somebody joins the plan, and let us say they have a family plan, we would probably be depositing about \$100 a month into the account. Let us say in the first two months they get \$200 and they have an unexpected automobile accident and they have a \$2,500 deductible. They will be responsible for that

difference. They will have \$200 but they will have a \$2,300 deductible that they will have to pay at that point. The goal is over time is to get, after a year or two, money into the account to help absorb that deductible. It would be the same type of thing today in our existing plan which has a \$400 deductible. If you put money into your medical spending account which we call the flex comp program, if you put \$50 a month in there and \$50 in January and you have an event that takes you through your deductible, you are going to be responsible for that \$350 before the rest of it gets deposited.

Rep. Lisa Meier: How does it work when an individual dies though? What happens with the beneficiary? How does that all work?

Sparb Collins: I am going to have follow up on that particular question. I assume that it would be just part of the regular estate plan.

Vice Chairman Randy Boehning: Just to continue on from Rep. Amerman's scenario, say the first or two months you come in and have this high deductible of \$2,400 or \$2,500 and you only have \$200 in your health savings account, can you go back into that account months down the line and make an arrangement with your health care provider to make a \$100 or \$200 a month payment with them until that bill is paid up or is it once you make the one payment you can't come back in and accept the fund?

Sparb Collins: I will again clarify that. I believe, yes you can. The guidelines I have read is a payment of an eligible expense. Once you have incurred that eligible expense even if you pay it over three or four months, it still is an eligible expense.

Rep. Karen Rohr: HSAs are not just built for catastrophic events in an individual's life? Would the plan exempt them from certain things like wellness screens or pregnancies or would that money also come out of HSAs?

Sparb Collins: It has to be for an eligible medical expense. It doesn't necessarily have to be just a deductible but an eligible medical expense. The eligible medical expenses as I understand are those that the IRS codes as eligible medical expenses.

Chairman Bette Grande: It would be the same as using my flex dollars. I can use them for orthodontia. I think eye care can fall within that. It is pretty broad what you can utilize this money for. It comes in a book.

Sparb Collins continued with his testimony.

Chairman Bette Grande: Could you give me the numbers again, the current flat rate premium family, single? What's the amount that goes into the accounts if we do this?

Sparb Collins: The flat rate that is proposed for next biennium that is in the budget for next biennium is \$886.62. If this bill passes, that flat rate would actually end up going that we pay to Blue Cross/Blue Shield to \$899.88. It would go up about \$13.62. What we would do underneath that bill is we would convert that flat rate to what would be the equivalent single and family rate. That would be the basis on what we would pay the member and that is on Page 4 of my testimony where I say when once we do that

equivalence, then it would be about \$645 that would go into the single plan account and about \$1,563 that would go into the family account. These, of course, will go through a final rating after the end of the biennium in case there is legislation that is passed to expand benefits or do things that cause cost. The final deductible plan that may be adopted by PERS might be slightly higher here, and the reason why is that under federal law these deductibles are indexed and they go up. You know the federal government indexes them every year so a lot of times an employer will set it a little bit higher so that the employee doesn't see that indexing every year. This is what the minimum is right now.

Chairman Bette Grande: To put it in simple terms for my mind, if I elect to do this and I am in the single then how much put in my account every month?

Sparb Collins: About \$645 per year. If you are in the family, it would \$1,563 per year. At \$1,563 a year, and let us say your family deductible under the high deductible health insurance plan gets set at \$2,500, you can see that is your risk corridor. It is going to be between that \$1,500 and that \$2,500 the first year. Let us say the first year you are able to put all that \$1,500 into your health savings account and then the next year you maybe are going to start to close off that deductible portion as you get more money in there. In the standard plan we have today a \$400 deductible per person, and a family deductible maximum of \$1,200. For example, in my family there are three of us. If I incur \$600 in expenses, after the \$400 then I have met my individual deductible and then the plan starts to pay 80/20 on the rest after I have met my \$400. Under the high deductible health insurance plan, the entire family has to reach that \$2,400 first. While I say here there is a single deductible of \$1,200, that doesn't mean that if I am in a family that I singularly meet the \$1,200 and it gets paid after that. No, the family, the three of us, have to meet the \$2,400 before the plan will pay anything.

Rep. Roscoe Streyle: There has been no decision made on the deductible? Who would make that?

Sparb Collins: The PERS board.

Rep. Roscoe Streyle: I would assume it would be \$3,500 or \$3,000 or something to that effect?

Sparb Collins: Right now the minimum that you can establish for a family is \$2,400 and a single, \$1,200. That is indexed under federal law so what a lot of employers will do is when they start the plan, they might say it is \$2,500 instead of \$2,400. That way the employee knows it isn't going to go up right away next year. You can plan accordingly.

Rep. Roscoe Streyle: The \$1,563 is based on \$2,400 whereas if you had at \$3,500...

Sparb Collins: \$1,563 is independent of the deductible amount. It is just the difference in the premium that Blue Cross/Blue Shield will charge us between the two plans.

Rep. Roscoe Streyle: If the deductible is higher, shouldn't they charge us less a premium.

Rep. Glen Froseth: On the enrollment period, how do you handle that? Do you have a thirty day enrollment period once a year? You just can't get into the plan anytime?

Sparb Collins: No. This would be done during what we call our annual enrollment. Each year we run an annual enrollment for the members to make decisions. It usually opens around October 15 and it runs until November something. Right now today an employee gets an opportunity in that annual enrollment to make decisions on how much they want to put into a medical spending account or into a dependent care account, whether they want to pretax certain premiums. It is also an open enrollment period for people to come on to the health insurance plan if they haven't been on the health insurance plan. This would just fit into that mix.

Rep. Lonny Winrich: I assume the federal indexing is driven by the consumer price index?

Sparb Collins: I am not sure. I am going to have to check that whether it is CPI or some medical index.

Rep. Lonny Winrich: Is an employee allowed to put additional money into the HSA over and above the state contribution?

Sparb Collins: Yes, up to the limits that are established by the federal law which are also indexed, and those limits right now are \$3,050 for the single and \$6,150 for the family. What we would be doing in the first year is probably depositing for the single \$645. They would still have \$2,000 some they could contribute on their own. There are two ways and we haven't thought through this that could be done. One way is through the employer's payroll system setting up mechanism so that they can just do it automatically, pretax it like you would do our supplemental retirement savings and then the payroll system would shoot it off into the account. The second way is to do it on your own individually and then at the end of the year take the credit or the adjustment against your tax return to get the benefits and the tax savings.

Rep. Lonny Winrich: As I read your fourth bullet here under other observations, if you limited the flex comp account to non covered expenses, you could, in fact, have both but there would be little point in it because all eligible expenses can be paid out of the HSA. Is that correct?

Sparb Collins: That would seem. I do know that there are like, for example, Indiana, they do have a limited use flexible spending account arrangement. I will follow up on that one as well.

Rep. Karen Rohr: This goes back to your comment about looking at the success of these programs. You mentioned that the number of enrollees doesn't mean that it is actually successful in terms of the consumer end. I like the idea of it gives them more options, it is pre taxed, you have consumer personal responsibility for their healthcare, but has Minnesota or Indiana actually collected any data from the enrollees in terms of is it enough money in their HSAs to cover the rising cost of healthcare?

Sparb Collins: Not that I am aware of. Indiana did do a study to see if their health plan utilization was lower than the high deductible health insurance plan compared to their PPO, and it was lower in the high deductible health insurance plan. If we did a similar study, I would fully expect that to be the case. If I had high healthcare costs, I am not going to leave the main plan with a higher coverage. The people who will select this are people who have lesser health costs. Right now for us our health plan trends are really pretty low. A year and a half ago, we had pretty high trends. We were running 10%-12%. Now we are down to around 4%-5%. This is cyclical. We have good periods and we have bad periods, so I wouldn't want to portray to you that we have somehow solved healthcare and got it down.

Rep. Lisa Meier: What is the common interest earning per year on these accounts?

Sparb Collins: I don't know. I think it is going to be varied depending upon who the bank is, who you get to sign to, the type of account. In the initial phases of a program like this, most people are going to have to keep this money, and the main thing you have to offer is a highly liquid account. It probably is going to have kind of like a passbook savings rate on it. In the initial years you are only going to have in there \$1,500 or \$600 that you will want to be able to access quickly. As time goes by and more money gets into the account, you might be able to add additional options where you would give up a little bit of that liquidity but you would be able to get better returns.

Vice Chairman Randy Boehning: When you take a higher deductible insurance out, your premium rates typically go down, and we are looking at increasing our payments to Blue Cross/Blue Shield by 1 ½% which is \$33 and something. Why is this going up?

Sparb Collins: The reason why it is happening is if your policy position was that we aren't putting any money into the account for you the employee, then there would be a net overall savings because the high deductible premium that we pay to Blue Cross/Blue Shield is less than what we are paying for the main plan. This bill provides that we are going to benchmark everything off of what the cost would be to stay in the main plan and any difference between that lower premium, and I'll use, for example, let us say the main plan is \$10 a month and the high deductible health insurance plan premium is \$7 and this bill provides that \$3 in savings that is there from going to that high deductible plan, that is what is going into the member's account. Yes, overall, we will be paying Blue Cross/Blue Shield less money than what we do today, but that difference in savings is what is going over into the member's account, and the member is getting to keep and take with them. Once it is paid into that member's account, it is theirs forever. If the policy decision was to say you don't get any of that savings, you don't get any benefit of going into the high deductible we would be able to show an overall net premium savings. Of course, if that was the case to be honest with you and an employee had to pick of having a 100% premium payment, 100% premium payment with a high deductible, they are all going to be over in the other plan so that the difference is the benefit to the employee to select that lower deductible plan. Our hope for benefit is once they move over there, they are going to utilize less services and our trends for the biennium after next biennium are going to be lower than what they would have been.

There was no one else neutral or in opposition of this bill.

The hearing was closed.

Later **Attachment 3** was handed out by the law intern.

2011 HOUSE STANDING COMMITTEE MINUTES

House Government and Veterans Affairs Committee

Fort Union Room, State Capitol

HB 1364

February 3, 2011

13956

☐ Conference Committee

Committee Clerk Signature

Carmen Hunt

Explanation or reason for introduction of bill/resolution:

Relating to the creation of a high-deductible health plan with a health savings account, and to provide an appropriation

Minutes:

Chairman Bette Grande opened the meeting on discussion of HB 1364. This was to start up a high deductible health plan, health savings accounts. Mr. Collins brought in some amendments that are in his testimony on Page 5. It is an appropriation, not a fiscal note. Section 2 has an appropriation to it.

Rep. Mark Sanford made a motion to accept the amendment.

Rep. Lisa Meier seconded the motion.

Chairman Bette Grande: You should have received in your binders on this particular bill, answers to the questions asked of Sparb at the hearing.

A voice vote was taken to accept the amendment. The motion carried.

Vice Chairman Randy Boehning made a motion for a **Do Pass as amended.**

Rep. Lonny Winrich seconded the motion.

Rep. Gary Paur: Does the amendment include the one little change on Line 21 where we make that o a capital?

Chairman Bette Grande: Correct. We are removing the period after the word account on Line 16. Let us start over, committee. We have asked for a removal of the do pass. We need to further amend to remove the period after the word account. Then we insert at least on Line 20 and change the capital o to a little o on Line 21.

Rep. Lonny Winrich moved to adopt this change to the amendment.

Rep. Lisa Meier seconded the motion.

A voice vote was taken. The motion carried.

Vice Chairman Randy Boehning made a motion for a Do Pass as amended and rerefer to appropriations.

Rep. Lonny Winrich seconded the motion.

**DO PASS AS AMENDED AND REREFER TO APPROPRIATIONS, 13 YEAS, 0 NAYS.
Rep. Ron Guggisberg is the carrier of this bill.**

FISCAL NOTE

Requested by Legislative Council
03/14/2011

Amendment to: HB 1364

1A. State fiscal effect: *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures				\$91,000		
Appropriations				\$91,000		

1B. County, city, and school district fiscal effect: *Identify the fiscal effect on the appropriate political subdivision.*

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. Bill and fiscal impact summary: *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1364 provides for a High Deductible Health Plan option with a Health Savings Account for the NDPERS Health Plan. BCBS has estimated that health premiums would increase \$13.26 per month for 2011-13. If utilization of the program is less than 15% the final cost of this program would be less.

B. Fiscal impact sections: *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Participants in the HDHP would have Health Savings Accounts (HSA's) that would be funded with the difference in premium between the NDPERS PPO Plan and the HDHP. The additional cost is to fund the HSA. The goal of this program is reduce long term utilization of the plan which would help reduce plan trends and future premium increases.

3. State fiscal effect detail: *For information shown under state fiscal effect in 1A, please:*

A. Revenues: *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

N/A

B. Expenditures: *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

The final expenditures are estimated based on 1% to 15% participation in a new HDHP option. The estimate of General Fund and Other Funds expenditures are shown in the table below based on the actual State contract participation percentage in the HDHP.

	General Fund - Other Funds	
1.0% :	\$207,281	- \$229,789
2.5% :	\$518,203	- \$574,473
5.0% :	\$1,036,405	- \$1,148,945
7.5% :	\$1,554,608	- \$1,723,418
10.0% :	\$2,072,810	- \$2,297,890

12.5% : \$2,591,013 - \$2,872,363
15.0% : \$3,109,215 - \$3,446,835

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

The appropriation of \$91,000 is for NDPERS to pay for changes to the PERS business system to accommodate this new plan design and the additional cost of educational material and open enrollment information in offering this new plan design option.

Name:	Sparb Collins	Agency:	NDPERS
Phone Number:	328-3900	Date Prepared:	03/14/2011

Date: 2-3-11
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1364

House GOVERNMENT AND VETERAN AFFAIRS Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☐ Do Pass ☐ Do Not Pass ☐ Amended ☒ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Sanford Seconded By Rep. Meier

Representatives	Yes	No	Representatives	Yes	No
Chairman Bette Grande			Bill Amerman		
Vice Chairman Randy Boehning			Ron Guggisberg		
Glen Froseth			Lonny Winrich		
Karen Karls					
Lisa Meier					
Gary Paur					
Karen Rohr					
Mark Sanford					
Vicky Steiner					
Roscoe Streyle					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

voice vote
adopt amendment motion carried

Date: 2-3-11
Roll Call Vote #: 2

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1369

House GOVERNMENT AND VETERAN AFFAIRS Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☐ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Winrich Seconded By Meier

Representatives	Yes	No	Representatives	Yes	No
Chairman Bette Grande			Bill Amerman		
Vice Chairman Randy Boehning			Ron Guggisberg		
Glen Froseth			Lonny Winrich		
Karen Karls					
Lisa Meier					
Gary Paur					
Karen Rohr					
Mark Sanford					
Vicky Steiner					
Roscoe Streyle					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

*Voice vote
taken to
remove period
after the word
accounts insert
at least on line
20 and change
Capital to lower case
on line 21.
Motion carried*

11.0125.04001
Title.05000

Adopted by the Government and Veterans
Affairs Committee
February 3, 2011

VR
2/3/11

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1364

Page 1, line 16, remove the underscored period

Page 1, line 21, replace "Once" with "At least once"

Renumber accordingly

Date: 2-3-11
Roll Call Vote #: 3

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1364

House GOVERNMENT AND VETERAN AFFAIRS Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 11. 0125. 04001

Action Taken ☒ Do Pass ☐ Do Not Pass ☒ Amended ☐ Adopt Amendment

☒ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Boehning Seconded By Rep. Warrick

Representatives	Yes	No	Representatives	Yes	No
Chairman Bette Grande	✓		Bill Amerman	✓	
Vice Chairman Randy Boehning	✓		Ron Guggisberg	✓	
Glen Froseth	✓		Lonny Winrich	✓	
Karen Karls	✓				
Lisa Meier	✓				
Gary Paur	✓				
Karen Rohr	✓				
Mark Sanford	✓				
Vicky Steiner	✓				
Roscoe Streyle	✓				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Rep. Guggisberg

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

REPORT OF STANDING COMMITTEE

HB 1364: Government and Veterans Affairs Committee (Rep. Grande, Chairman)
recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends
DO PASS and **BE REREFERRED** to the **Appropriations Committee** (13 YEAS,
0 NAYS, 0 ABSENT AND NOT VOTING). HB 1364 was placed on the Sixth order on
the calendar.

Page 1, line 16, remove the underscored period

Page 1, line 21, replace "Once" with "At least once"

Renumber accordingly

2011 HOUSE APPROPRIATIONS

HB 1364

2011 HOUSE STANDING COMMITTEE MINUTES

House Appropriations Committee Roughrider Room, State Capitol

HB 1364
2/10/11
14369, 14401

☐ Conference Committee

Committee Clerk Signature

Meredith Trachsel

Explanation or reason for introduction of bill/resolution:

A BILL for an Act relating to the creation of a high-deductible health plan with a health savings account; and to provide an appropriation.

Minutes:

You may make reference to "attached testimony."

Chairman Delzer: Opened discussion on HB 1364. The title was read.

Representative Bette Grande, District 41: This is to create a high deductible health plan (HDHP) with a health savings account (HSA). This was heard during the interim with the employee benefits committee with further study done with Deloitte. One of the concerns was whether or not this could be done with the grandfathering of the PERS with Obamacare and various things. It was determined this account could be set up and it won't interfere with any other implementations of things. The set-up implementation is up to a sum of \$91,000.

Chairman Delzer: That number came from Mr. Collins?

Representative Grande: Correct.

Chairman Delzer: This would change the health plan for those that wanted to join this.

Representative Grande: Correct, it is an opt-in plan. If you choose to go from the PERS health plan to a HDHP, this option will be made available to you.

Chairman Delzer: Does the difference between the cost of the regular plan and the HDHP go into the HSA?

Representative Grande: That goes towards your account.

Chairman Delzer: This is money that carries forward and can be built up, it is actually the employees' money.

Representative Grande: Yes, it is transferable to their new employer, they could take it with if they left.

Chairman Delzer: What constitutes a HDHP?

Representative Grande: They must have a deductible for a single, \$1200, and for family, \$2400; maximum out of pocket expense for a single, \$5950, and family, \$11,900.

Chairman Delzer: Questions by the committee?

Representative Monson: On line 13 on the first page, it mentions eligible state employees. Who would that be?

Representative Grande: It's in the section of Century Code, 54-52.1. It is every permanent employee who is employed by the governmental unit as that term is defined in this section; eligible employee includes members of the legislative assembly, judges of the supreme court, paid members of the state and political subdivisions, etc.

Chairman Delzer: If someone was elected and chose to join this plan, and four years later was unelected and dropped off the PERS plan, can they take the health savings money with them?

Representative Grande: It's portable.

Chairman Delzer: Do they have to have high deductible insurance to continue it, or can they just use it for medical costs? We may wish to ask for clarification of that from Mr. Collins.

Representative Dahl: If we have people electing out of the pool for the regularly negotiated health care package, how will that impact the rates of those people left in the pool?

Representative Grande: That was discussed with BlueCross BlueShield, and they feel this has a cost risk of 1.5% that would affect it in that portion.

Representative Skarphol: What are eligible expenditures out of the HSA?

Representative Grande: Those are established by the federal government.

Representative Skarphol: Do you envision this being administered by the same entity that typically manages our state insurance?

Representative Grande: Yes.

Chairman Delzer: Further questions? If not, we'll move on to another bill for now.

Continued on recording 14401

Chairman Delzer: Discussion by the committee on 1364, with the health savings plan. It has an appropriation of \$91,000.

Representative Klein: I move Do Pass.

Vice Chairman Kempenich: Second.

Chairman Delzer: Further discussion?

Representative Skarphol: The \$91,000, that's for the preliminary planning and administrative costs?

Vice Chairman Kempenich: On the back, it shows that's exactly what it is, for implementation of section 1.

Chairman Delzer: I have thought a health savings plan for a new employee would be a good thing ever since the federal government decided they were allowable.

Representative Kroeber: What was the committee vote?

Chairman Delzer: Out of GVA was 13-0. The carrier was Representative Guggisberg. Anything further? Seeing no further discussion, we have a motion for a Do Pass. We'll call the roll. Motion carries 21-0. Representative Brandenburg will be the carrier.

Date: 2/10/11
Roll Call Vote #: 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1364

House Appropriations Committee

Legislative Council Amendment Number _____

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment
☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Klein Seconded By Rep. Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Nelson	X	
Vice Chairman Kempenich	X		Representative Wieland	X	
Representative Pollert	X				
Representative Skarphol	X				
Representative Thoreson	X		Representative Glassheim	X	
Representative Bellew	X		Representative Kaldor	X	
Representative Brandenburg	X		Representative Kroeber	X	
Representative Dahl	X		Representative Metcalf	X	
Representative Dosch	X		Representative Williams	X	
Representative Hawken	X				
Representative Klein	X				
Representative Kreidt	X				
Representative Martinson	X				
Representative Monson	X				

Total (Yes) 21 No 0

Absent 0

Floor Assignment Rep. Brandenburg

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

REPORT OF STANDING COMMITTEE

HB 1364, as engrossed: Appropriations Committee (Rep. Delzer, Chairman)
recommends **DO PASS** (21 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed HB 1364 was placed on the Eleventh order on the calendar.

2011 SENATE GOVERNMENT AND VETERANS AFFAIRS

HB 1364

2011 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veteran's Affairs Committee Missouri River Room, State Capitol

HB 1364
March 10, 2011
15226

☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

Relating to the creation of a high-deductable health plan with a health savings account; and to provide an appropriation.

Minutes:

Testimony Attached

Representative Al Carlson: District 41 in Fargo. Establishment of the health savings account, I have some handouts with information that I would like to hand out (see attachment #1). 1364 establishes health savings accounts as an alternative to the current plan. It must be made available by January 1, 2012. The bill provides the different between the single family and the employees must be deposited. Health savings accounts are an expansion and evolution of medical savings accounts. There are federal requirements that go with this; the individual must be covered continuously by a qualified high deductible health insurance policy; the savings account cannot be covered by any other plan, must be under the age of 65 and cannot be claimed as a dependant on someone else's health care plan. Participants cannot contribute to the health savings account. Contributions are 100% tax deductible from income. Minnesota had 15% who would opt out in the first year. As we introduce this into a new program there is saving down the road. This is a plan that has worked in other states, Indiana has established this already. The concept came forward because I told the employee benefits committee that it needed to be addressed.

Senator Berry: Why was the number so low to begin with? Do we have a track record on the savings?

Representative Carlson: I would defer to Sparb Collins for those technical numbers.

Senator Nelson: This was bill 103 in the interim and we don't have an employee benefits report on what the outcome of 103 was in the interim, can you tell us?

Representative Carlson: I don't know that.

Senator Nelson: Normally we have had the employee benefits reports included with our bills.

Sparb Collins: See attached testimony #1.

Chairman Dever: Why does it have a legislative sponsor instead of the employee benefits committee as the sponsor?

Senator Cook: It was submitted by a legislator to the employee benefits committee.

Chairman Dever: Flex accounts are covered by things that aren't covered by insurance, would that be the same with the high deductible?

Sparb Collins: Generally I think so.

Senator Berry: You are not allowed to have the health savings and the flex account. IS that to prevent double dipping?

Sparb Collins: Yes. As people become more familiar with these options it is more easily used.

Senator Berry: Such as?

Sparb Collins: They had more incentives to use this option. What I think is going to occur is that state employees are going to take on a \$1,200 risk. If you have health conditions you are not going to take these options. 80% of our premium goes to 20% of our clients. So 80% of our people should, in theory, give this consideration.

Senator Cook: I was thinking that there would be a bigger spread. Is this typical of what you saw in Minnesota and Indiana

Sparb Collins: The deductible gives you the most bang for your buck simply because it all has to do with volume. We have a lot of people who don't get to their deductible.

Senator Cook: And they could go in and out?

Sparb Collins: At least once every biennium but I suspect it will be every year

Senator Cook: A family who is going to have kids they wouldn't want to be on this plan?

Senator Nelson: If someone chose this plan and they reached the age of 65 and start getting Medicare, what happen to their account?

Sparb Collins: They can continue to use it.

Senator Berry: This is pre tax dollars set aside up to a certain amount. It rolls over then, yes.

Sparb Collins: It sits in the account until you draw it.

Senator Nelson: What happens if I die?

Sparb Collins: There is a beneficiary set up.

Rod St Aubyn: Representing Blue Cross Blue Shield. It doesn't eliminate PPO's but for all practical purposes providers are willing to take a deeper discount because it will expand the

number of people. Under this bill it would say that anyone can join any network. Under the PPO arrangement the member or employee group gets more of a benefit.

Senator Nelson: What impact will that have on the PERS plan?

Rod St. Aubyn: I don't know what the discounts are, we need to determine that.

There was no one else present to speak in favor, opposition or a neutral position on HB 1364.

Chairman Dever then closed the public hearing on HB 1364

2011 SENATE STANDING COMMITTEE MINUTES

Senate Government and Veteran's Affairs Committee Missouri River Room, State Capitol

HB 1364
March 17, 2011
15616

☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

Relating to the legislative compensation commission; and to provide an effective date.

Minutes:

No testimony attached

Chairman Dever: This got a favorable report from employee compensation. It sounds interesting to me and it is not imposing anything on anyone it's just putting the option out there.

Senator Nelson: But you need to have insurance to have this plan?

Chairman Dever: Only applies to PERS.

Senator Nelson: I think that a lot of the single folks thought that they would be getting it cheaper.

Vice Chairman Sorvaag: I am betting that there will not be a lot of interest in it.

Senator Nelson: What is the fiscal note?

Chairman Dever: It's an appropriation. I don't see that anyone offered any amendments.

Senator Nelson: If PPOs have to go out of existence...

Chairman Dever: The bill that dealt with PPO became a study.

Senator Nelson: And the feds write the rules as to how this is set up?

Vice Chairman Sorvaag: But all these rules could be changed in the next few years.

Chairman Dever: I was intrigued by the fact that this savings account can be used as a flex account.

A motion for a do pass was made by Senator Cook with a second by Senator Schaible, there was not further discussion, roll was taken, the motion passed and Senator Berry volunteered to carry the bill to the floor

Date: 3/17/11
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1364

Senate GVA Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment

☒ Rerefer to Appropriations ☐ Reconsider

Motion Made By Cook Seconded By Schaible

Senators	Yes	No	Senators	Yes	No
Chairman Dever	X		Senator Marcellais	X	
Vice Chairman Sorvaag	X		Senator Nelson	X	
Senator Barry	X				
Senator Cook	X				
Senator Schaible	X				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Berry

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

REPORT OF STANDING COMMITTEE

HB 1364, as engrossed: Government and Veterans Affairs Committee (Sen. Dever, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1364 was rereferred to the Appropriations Committee.

2011 SENATE APPROPRIATIONS

HB 1364

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

HB 1364
03-25-2011
Job # 15992

☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL relating to the creation of a high-deductible health plan with a health savings account; and to provide an appropriation.

Minutes:

See attached testimony.

Chairman Holmberg called the committee to order on HB 1364. Roll call was taken. Lori Laschkewitsch, OMB and Brady Larson, Legislative Council were also present. There was discussion regarding House action in some of the Agency Budget Senate Bills. Let us proceed with HB 136.

Sparb Collins, Executive Director of ND Public Employees Retirement System (PERS) explained HB 1364 and provided written Testimony attached # 1. Among our responsibilities is the administration of the group health plan. The primary challenge the plan has faced is rising health care costs. His testimony shares the amount the premiums are for the different plans. **PERS has taken a neutral position on this bill. (Meter 9.45)**

Senator Kilzer: It was my impression that the Health Care Reform Act didn't look very kindly on high deductible plans. Would this be affected by the Health Care Reform Act at all?

Sparb Collins: In the interim our consultant didn't note any specific concerns with the Health Care Reform Act. So at this point I am not aware of any provisions.

Chairman Holmberg: Anyone else going to testify on 1364? We will close the hearing on 1364.

Representative Carlson: came in after the hearing and submitted Testimony attached # 2, ND Public Employee Health Insurance – Health Savings Account Option. (an explanation of the Bill.)

2011 SENATE STANDING COMMITTEE MINUTES

Senate Appropriations Committee Harvest Room, State Capitol

HB 1364
April 5, 2011
Job # 16366

☐ Conference Committee

Committee Clerk Signature

Rose Lanning

Explanation or reason for introduction of bill/resolution:

A committee vote on HB 1364 relating to the creation of a high-deductible health plan with a health savings account; and to provide an appropriation

Minutes:

You may make reference to "attached testimony."

Chairman Holmberg: The fiscal note indicated a \$91,000 hit in other funds. My notes suggests, and I might be wrong here, but there wasn't a great deal of usage in this, but it is an option for employees. What are the wishes of the committee on 1364?

Senator Christmann moved Do Pass on HB 1364.
Senator Wanzek seconded.

A Roll Call vote was taken. Yea: 7 Nay: 6 Absent: 0

The bill goes back to GVA and Senator Berry will carry the bill.

Date: 4-5-11Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 1364Senate APPROPRIATIONS Committee☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken: ☒ Do Pass ☐ Do Not Pass ☐ Amended ☐ Adopt Amendment☐ Rerefer to Appropriations ☐ ReconsiderMotion Made By Christmann Seconded By Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Warner		✓
Senator Bowman	✓		Senator O'Connell		✓
Senator Grindberg	✓		Senator Robinson		✓
Senator Christmann	✓				
Senator Wardner	✓				
Senator Kilzer		✓			
Senator Fischer		✓			
Senator Krebsbach		✓			
Senator Erbele	✓				
Senator Wanzek	✓				

Total (Yes) 7 No 6

Absent _____

Floor Assignment GVA Berry

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

REPORT OF STANDING COMMITTEE

HB 1364, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO PASS** (7 YEAS, 6 NAYS, 0 ABSENT AND NOT VOTING).
Engrossed HB 1364 was placed on the Fourteenth order on the calendar.

2011 TESTIMONY

HB 1364

NORTH DAKOTA PUBLIC EMPLOYEE HEALTH INSURANCE - HEALTH SAVINGS ACCOUNT OPTION

This memorandum discusses House Bill No. 1364 (2011), which establishes a high-deductible health plan with a health savings account option for public employees and health savings accounts and consumer-directed health plans in other states. House Bill No. 1364 directs the Public Employees Retirement System Board to develop and implement a high-deductible health plan with a health savings account as an alternative to the current plan. The bill provides the high-deductible health plan alternative must be made available to state employees by January 1, 2012, and may be offered at the discretion of the board to political subdivisions after June 30, 2013. The bill provides that the difference between the cost of the single and family premium for eligible state employees under the current plan and the premium for those employees electing to participate under the high-deductible health plan must be deposited into a health savings account for the benefit of each participating employee.

Health savings accounts were established in federal law in December 2003, with passage of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Health savings accounts are tax-free financial accounts that are designed to help individuals save for future health care expenses. Health savings accounts are an expansion and evolution of medical savings accounts.

There are four federal requirements to be eligible for a health savings account. An individual must be covered simultaneously by a qualified high-deductible health insurance policy; the health savings account enrollee cannot be covered by any other health insurance plan, such as a spouse's plan; the health savings account enrollee must be under age 65; and the health savings account enrollee cannot be claimed as a dependent on someone else's federal income tax return. For 2010 participants in qualified high-deductible health plans were required to pay the first \$1,200 of their medical expenses, \$2,400 for family

coverage, before insurance benefits began. In comparison, conventional insurance plans, whose participants cannot contribute to health savings accounts, typically have deductibles of about one-third of these amounts. Contributions are 100 percent tax deductible from gross income. In 2010 the annual out-of-pocket expenses under qualified high-deductible health plans, including deductibles, copayments, and coinsurance, could not exceed \$5,950 for individual/self-only coverage or \$11,900 for family coverage.

Generally, a health savings account option with a high-deductible insurance plan is a health insurance plan that has a high deductible--the amount of medical expenses one must pay annually before coverage kicks in. The premium--the regular fee one pays to obtain coverage--for a high-deductible insurance plan is typically lower than premiums for traditional insurance plans. However, a high-deductible plan does not begin paying benefits until after one has spent a set amount of the individual's own money on health care expenses. The unpaid portion of expenses is known as a deductible. One can use the health savings account to pay deductible expenses, copays, coinsurance payments, and other noncovered health care expenses. All health savings account earnings are tax-free, and there is no limit on how much one can accumulate in the account. When one takes money out to pay eligible medical costs, those distributions are tax-free as well. There are no time constraints on when one can spend money from the account. For example, if one does not use all of the account money on health care costs, the individual does not lose the money as it can be carried over at year's end into the next year to pay for future medical costs.

The Center for Policy and Research reported that as of January 2010, 10 million people were covered by health savings accounts/high-deductible health plans in the United States.

**TESTIMONY OF
SPARB COLLINS
ON HB 1364**

Madame Chair, members of the committee, my name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System. Among our responsibilities is the administration of the group health plan.

Background

The follow statistics relate to the plan:

HEALTH

PARTICIPATION

AGENCY

State	99
Counties	39
School Dist	28
Cities	57
Others	65
	288

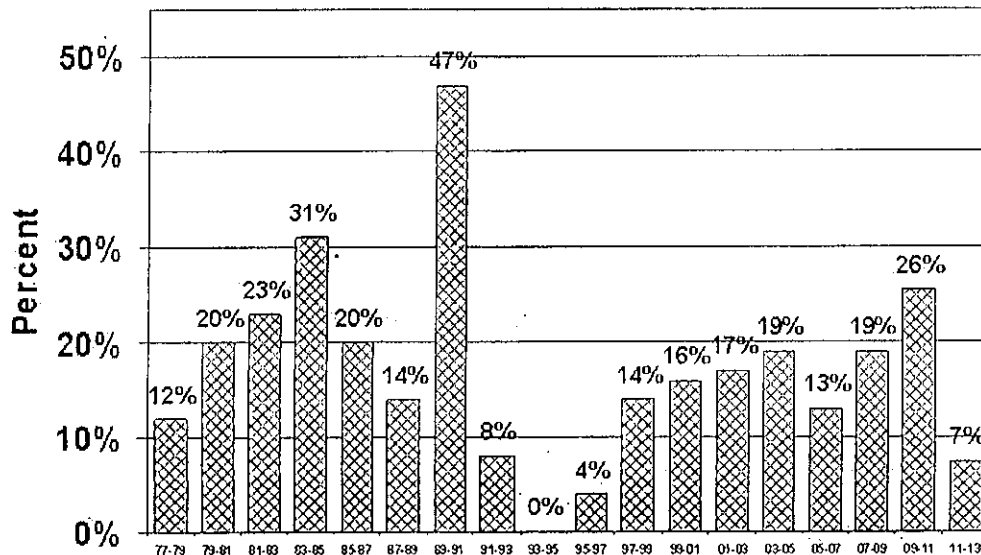
EMPLOYEES

State	14,682
Counties	1,865
School Dist	1,180
Cities	1,009
Others	521
Legislators	127
Retirees	5,694
COBRA	354

25,432

As you will note, PERS provides services to the state, participating political subdivisions and retirees. The primary challenge the plan has faced is rising health care costs.

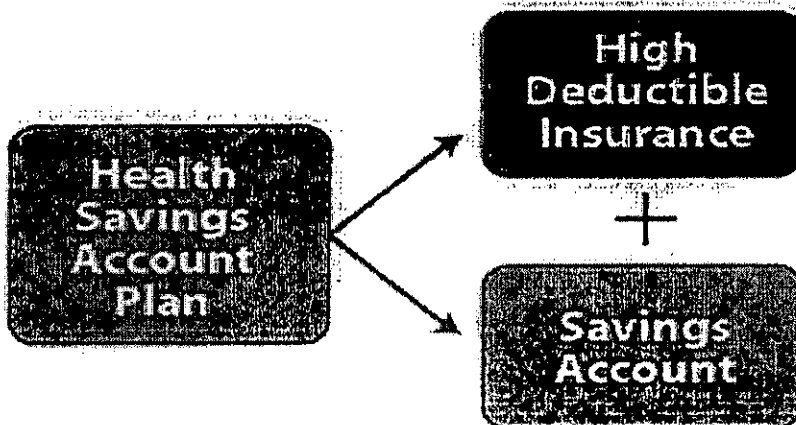
The following table is a history of those increases.



Recently, the plan has expanded its disease management programs and wellness programs. The cost increase for the next biennium is 7%, our third lowest.

Proposal

As proposed, this bill would allow for the implementation and administration of a consumer-directed health savings account option as well as High Deductible Health Plan (HDHP) option.



The PPO rate will be the rate billed to employers for health plan coverage. While a lower rate is actually paid to BCBS for the HDHP, the difference in the premium billed and that paid to BCBS for coverage is deposited into a participant's health savings account. The goal in adding this health plan design option is to help maintain lower health plan trends in the future so we do not return to double digit premium increases in the high teens or low twenty percent range. By having members have more of a financial stake in their health care decisions, it could reduce utilization which in turn would reduce overall premium increases in the future.

Federal law authorizes the establishment of High Deductible Health Plans (HDHP), under which individuals may establish Health Savings Accounts (HSA) into which they and their employers can make federal tax-exempt contributions that can be used for the payment of certain qualified medical expenses. Annual contribution limits are established under federal law and are based on the individual's status, eligibility, and health plan coverage (single - \$3050 and family - \$6,150). As a condition of establishing a Health Savings Account, an individual must be covered under a High Deductible Health Plan. The specific requirements of high-deductible health plans are provided in federal law, but generally require the payment of a certain minimum deductible and the expenditure of certain out-of-pocket expenses before an individual's medical services are covered under the plan. For 2010 the federal law states that in order to be eligible to establish a health savings account the qualified high deductible health plan must have deductible limits of at least \$1,200 single and \$2,400 family and the maximum out-of-pocket expenses must be no more than \$5,950 single and \$11,900 family.

The following table shows the existing plan and the HDHP option:

Plan Design	NDPERS PPO/Basic	High Deductible Health Plan
Single Deductible	\$400	At least \$1,200
Family Deductible	\$1,200	At least \$2,400
Single Out-of-pocket maximum	\$1,150/\$1,650	No more than \$5,950
Family Out-of-pocket maximum	\$2,700/\$3,700	No more than \$11,900
Copayments (office visits, therapy)	\$25/30	Subject to Deductible and Out-of-pocket maximum
Prescription Drugs (generic, brand, non-formulary)	\$5/20/25	Subject to Deductible and Out-of-pocket maximum

As previously noted the bill provides that the difference in premium (based upon the equivalent single/family premium) would be paid into the member's HSA account. Based upon estimated premiums for next biennium, this would be an approximate annual amount of \$645 per year for those with a single plan and \$1,563 for those with a family plan. BCBS has indicated that cost of adding this option is that health premiums for 2011-2013 will increase for the state by about 1.5% or from \$866.62 to \$899.88 (part of this increase is used to fund the HSA). This additional cost can be paid from the expected settlement with BCBS for this biennium so actual premiums would not have to increase. Alternatively, premiums are being reprojected in February so this may also be paid directly from the existing premium if our projected rates go down. You will note the bill also provides an appropriation to PERS to pay for changes to our business system to accommodate this new design and additional cost for rolling out the plan design option.

Other State HDHP Experiences

Attached is a memo from our consultant that compares the enrollment experience of two states - Indiana and Minnesota. You will note that after several years Indiana had about 70% of their employees enroll in the HDHP. However, the experience in Minnesota was that 60 enrolled out of 4,000 eligibles.

Other Observations

- Health savings accounts are designed to belong to the individual and move freely with the individual. These funds move from employer to employer or can be held directly by the individual if the employer does not offer a health savings account.
- Health savings accounts must be held in trust and contributions to a health savings account must be vested immediately.
- Health savings account dollars can be used for additional benefits not currently covered, such as Long Term Care insurance, some over the counter drugs, retiree insurance, etc.
- You may not have a Flexible Spending Account and a Health Savings Account unless the Flexible Spending Account is for limited use (services not covered by the health plan). The state presently has a flexible spending account for employees.

Madame Chair, members of the committee, lastly I would like to request the following amendment:

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1364

Page 1, line 20, after the underscored period insert "At least"

Page 1, line 21, replace "Once" with "once"

Renumber accordingly

Based upon a call with our consultant yesterday, it was their suggestion that we leave open the option to do the enrollments annually.

You will note that this bill received a favorable recommendation from the Legislative Employee Benefits Committee. PERS has taken a neutral position on the bill.

This concludes my testimony and thank you.



Deloitte Consulting LLP
50 South Sixth Street
Suite 2800
Minneapolis, MN 55402
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

January 27, 2011

Mr. Sparb Collins
Executive Director
NDPERS
400 East Broadway, Suite 505
Box 1214
Bismarck, ND 58502

Subject: High Deductible Health Plan with Health Savings Account

Dear Sparb:

As you know we have been assisting you in the review of Proposed Bill 10103.011, Implementing and Administering a Consumer-Directed Health Savings Account Option. Our analysis of that proposed bill was documented in our letter to Representative Grande (October 25, 2010). As a continuation of that analysis, you asked that we review the experience of a couple of states that are currently offering High Deductible Health Plan (HDHP) with Health Savings Account (HSA). This letter will provide a high level overview of our observations of the programs offered by the states of Minnesota and Indiana.

In summary, Indiana has seen significant steerage to the HDHP offerings due to large contribution differences. Minnesota has seen much smaller participation without the contribution differences.

Both Minnesota and Indiana offer a HDHP with an employer funded HSA contribution on a voluntary basis. The plans are offered to all employees in Indiana and to employees not subject to collective bargaining in Minnesota. Whereas North Dakota pays 100% of employee and family premium costs, Minnesota pays 100% of single and 85% of dependent premiums. For Minnesota, the total premium is the same for the Advantage Plan and the HDHP. Indiana's employer premiums and contributions vary significantly depending upon the plan selected, but in all cases require employee contributions for single and dependent coverage. Single premiums range from \$3,713.32 to \$7,828.08 with Indiana paying 62% to 97% of the single premium. Family premiums range from \$11,665.28 to \$21,668.40 with Indiana paying 64% to 98% of the family premium.

The remainder of this letter will look at each program separately.

Indiana

Three options are offered to employees and then premiums are also differentiated based upon whether the employee smokes. Essentially, the plan designs offered are a first dollar deductible then 80% coverage up to an out-of-pocket maximum (OOP) amount. Prescription drugs are

covered for a copayment after satisfaction of the deductible. For simplicity sake, we will describe the single non-tobacco coverage and costs.

	Traditional PPO	CDHP1	CDHP2
First \$ Deductible	\$750	\$2,500	\$1,500
Maximum OOP	\$2,000	\$4,000	\$3,000
HSA Contribution	N/A	\$1,251	\$752
Annual Single Premium Cost	\$2,698	\$94	\$704

It is easy to see that employees are being steered into the CDHP/HDHP options. The difference in premium cost to the employee is \$2,600 more than the CDHP1 while the deductible difference is only \$1,750 and the maximum OOP is \$2,000. In addition, the single CDHP1 plan participant receives an annual HSA contribution of \$1,251. Approximately 70% have migrated from the PPO to the CDHP options.

Minnesota

The Minnesota legislature mandated that a HDHP be offered on a voluntary basis to members of the Commissioner's Plan (non-bargaining unit employees). Since the State of Minnesota pays 100% of single coverage, offering a premium differential would not be of any value to the employee choosing the HDHP. As a result, it was determined to provide a contribution to the HSA for employees choosing to enroll in the plan.

Minnesota offers a tiered network program to its employees where member cost sharing is reduced if low-cost and efficient providers are selected for delivery of care. This program has proven to be very cost effective for the State and its employees for the past several years.

Essentially the plan has a first dollar deductible which varies based on network tier after which services are subject to copayments or coinsurance. The collective bargaining agreement guarantees statewide access to Cost Level Two providers. Again, for simplicity purposes we will describe the single employee coverage.

	Advantage Cost Level Two	HDHP
First \$ Deductible	\$140	\$1,500
Maximum OOP	\$1,900	\$4,000
HSA Contribution	N/A	\$800
Prescription drugs	Not subject to Deductible	Subject to Deductible
Annual Single Premium Cost	\$0	\$0

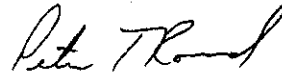
Minnesota offered the HDHP as a voluntary option without attempting to steer employees to the plan. The HSA contribution was expected to keep the entire programs cost neutral. 2011 was the second year of the HDHP offering. Approximately 4,000 employees were eligible and about 60 enrolled.

I hope that this summary provides the high level overview and analysis that you were requesting. If you have questions please do not hesitate to contact Pete or me.

Sincerely,



Patrick Pechacek, CEBS
Director



Peter Roverud
Senior Manager



- What Medical Expenses Are Includible?
 - Abortion
 - Acupuncture
 - Alcoholism
 - Ambulance
 - Annual Physical Examination
 - Artificial Limb
 - Artificial Teeth
 - Autoette
 - Bandages
 - Birth Control Pills
 - Body Scan
 - Braille Books and Magazines
 - Breast Reconstruction Surgery
 - Capital Expenses
 - Car
 - Chiropractor
 - Christian Science Practitioner
 - Contact Lenses
 - Crutches
 - Dental Treatment
 - Diagnostic Devices
 - Disabled Dependent Care Expenses
 - Drug Addiction
 - Drugs
 - Eyeglasses
 - Eye Surgery
 - Fertility Enhancement
 - Founder's Fee
 - Guide Dog or Other Service Animal
 - Health Institute
 - Health Maintenance Organization (HMO)
 - Hearing Aids
 - Home Care
 - Home Improvements
 - Hospital Services
 - Insurance Premiums
 - Intellectually and Developmentally Disabled, Special Home for
 - Laboratory Fees
 - Lead-Based Paint Removal
 - Learning Disability
 - Legal Fees
 - Lifetime Care—Advance Payments

- Lodging
- Long-Term Care
- Meals
- Medical Conferences
- Medical Information Plan
- Medicines
- Nursing Home
- Nursing Services
- Operations
- Optometrist
- Organ Donors
- Osteopath
- Oxygen
- Physical Examination
- Pregnancy Test Kit
- Prosthesis
- Psychiatric Care
- Psychoanalysis
- Psychologist
- Special Education
- Sterilization
- Stop-Smoking Programs
- Surgery
- Telephone
- Television
- Therapy
- Transplants
- Transportation
- Trips
- Tuition
- Vasectomy
- Vision Correction Surgery
- Weight-Loss Program
- Wheelchair
- Wig
- X-ray
- What Expenses Are Not Includible?
 - Baby Sitting, Childcare, and Nursing Services for a Normal, Healthy Baby
 - Controlled Substances
 - Cosmetic Surgery
 - Dancing Lessons
 - Diaper Service
 - Electrolysis or Hair Removal
 - Flexible Spending Account
 - Funeral Expenses

- Future Medical Care
- Hair Transplant
- Health Club Dues
- Health Coverage Tax Credit
- Health Savings Accounts
- Household Help
- Illegal Operations and Treatments
- Insurance Premiums
- Maternity Clothes
- Medical Savings Account (MSA)
- Medicines and Drugs From Other Countries
- Nonprescription Drugs and Medicines
- Nutritional Supplements
- Personal Use Items
- Swimming Lessons
- Teeth Whitening
- Veterinary Fees
- Weight-Loss Program



Deloitte Consulting LLP
Suite 2800
50 South Sixth Street
Minneapolis, MN 55402-1844
USA

Tel: 612.397.4000
Fax: 612.397.4450
www.deloitte.com

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 10103.0100 IMPLEMENTING AND ADMINISTERING A
CONSUMER-DIRECTED HEALTH SAVINGS ACCOUNT OPTION**

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 allow for the implementation and administration of a consumer-directed health savings account option as well as allow the Board to adopt incentives to encourage participation in this option.

Federal law authorizes the establishment of High Deductible Health Plans (HDHP), under which individuals may establish Health Savings Accounts (HSA) into which they and their employers can make federal tax-exempt contributions that can be used for the payment of certain qualified medical expenses. Annual contribution limits are established under federal law and are based on the individual's status, eligibility, and health plan coverage. As a condition of establishing a Health Savings Account, an individual must be covered under a High Deductible Health Plan. The specific requirements of high-deductible health plans are provided in federal law, but generally require the payment of a certain minimum deductible and the expenditure of certain out-of-pocket expenses before an individual's medical services are covered under the plan. For 2010 the federal law states that in order to be eligible to establish a health savings account the qualified high deductible health plan must have deductible limits of at least \$1,200 single and \$2,400 family and the maximum out-of-pocket expenses must be no more than \$5,950 single and \$11,900 family. HDHP plans may also cover preventive services before application of the deductible.

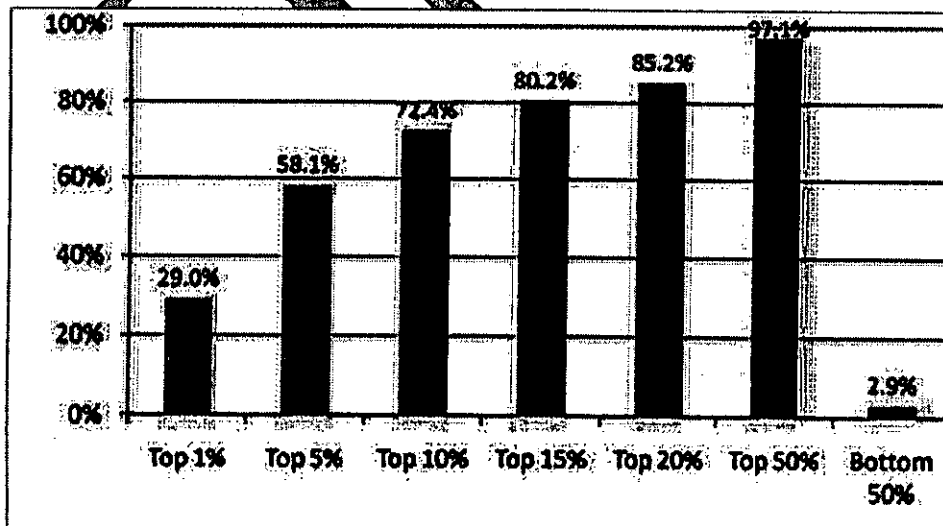
The uniform group insurance program is currently fully insured with Blue Cross Blue Shield of North Dakota. Benefits are generally a \$400 single deductible and \$1,200 family deductible with the State required to pay the full cost of premium (NDCC 54-52.1-06). This change would require a significant reduction in the value of benefits. However, the difference could be added to the member's health savings account.

To: Representative Grande
 Subject: Proposed Bill 10103.0100
 Date: September 13, 2010
 Page 2

Single Deductible	\$400	At least \$1,200
Family Deductible	\$1,200 (embedded deductible of \$400 per family member)	At least \$2,400 (no embedded deductible)
Single Out-of-pocket maximum	\$1,150	No more than \$5,950
Family Out-of-pocket maximum	\$2,700	No more than \$11,900
Copayments (office visits, therapy)	\$20/25/30	Subject to Deductible and Out-of-pocket maximum
Prescription Drugs (generic, brand, non-formulary)	\$5/20/25	Subject to Deductible and Out-of-pocket maximum

The fundamental premise of a high deductible health plan and health savings account is that the employer-funded health savings account will provide incentives for members to consume their health savings account balance wisely. More specifically, the goal of HDHPs is to reduce discretionary utilization by plan participants. These plans are then linked to Health Care Savings accounts (HSA) funded by the premium savings which are used to help pay the higher deductibles when incurred. In addition a participant in an HSA can keep the funds in the savings plan if they don't use it for expenses in the year contributed. Those funds that are saved in a year can be carried over each year and may be used for health care expenses incurred at a later time or even into retirement. In theory, this ability to save the funds in an account creates the incentive for people to reduce discretionary services.

To gain a perspective on the distribution of PERS health plans expenses please note the following table:



Catch-up Provision for Individuals over 55 is \$1,000 for employee

What it is a health savings account?

- An HSA is an individual savings account in your name that allows you to set aside money for current and future medical expenses. It gives you the most benefit from your high-deductible health plan by allowing the use of pre-tax dollars in the payment of medical expenses. Unused funds that you retain in this account accumulate from year to year; there is no "use it or lose it" provision.
- Eligible expenses that may be paid from this account include doctor's visits and prescriptions and dental and vision expenses. Your Tower Bank HSA also is an interest-bearing account.
- An HSA can only be established in conjunction with a qualified CDHP. You must choose one of the State of Indiana's qualified plans (CDHP I or CDHP II) in order to be eligible to open an HSA. Other eligibility rules may also apply.
- Individuals who are enrolled in Medicare*, who can be claimed as a dependent on another person's tax return, who have other insurance coverage that is not a qualifying CDHP, or who have received VA benefits within the previous three months are not eligible to open an HSA. Visit the Tower Bank Web site at www.towerbank.net/ or call 888-HSA-TOWR for details about eligibility and other HSA information.

** - When you turn age 65 and sign up for Social Security benefits, you will automatically be enrolled in Medicare Part A. This will disqualify you from receiving the State's contribution or making your own contributions into an HSA. You should decline to receive Social Security retirement benefits and decline Medicare Part A if you wish to open an HSA.*

Why select a health savings account?

1. You will pay lower medical insurance premiums.
2. HSAs provide tax savings three ways - pre-tax contributions through payroll deduction, tax-free earnings (interest) and tax-free withdrawals for qualified medical expenses. Unlike other savings or retirement investment vehicles, if used for approved medical expenses, you will not pay tax on the money spent from your account.
3. You control your funds. You decide how much of your own money to contribute to the account, which medical expenses to pay and whether to save the money in the account for the future or use it for current expenses.

**TESTIMONY OF
SPARB COLLINS
ON ENGROSSED HB 1364**

Mr. Chairman, members of the committee, my name is Sparb Collins. I am Executive Director of the North Dakota Public Employees Retirement System. Among our responsibilities is the administration of the group health plan.

Background

The following statistics relate to the plan:

HEALTH

PARTICIPATION

AGENCY

State	99
Counties	39
School Dist	28
Cities	57
Others	65
	288

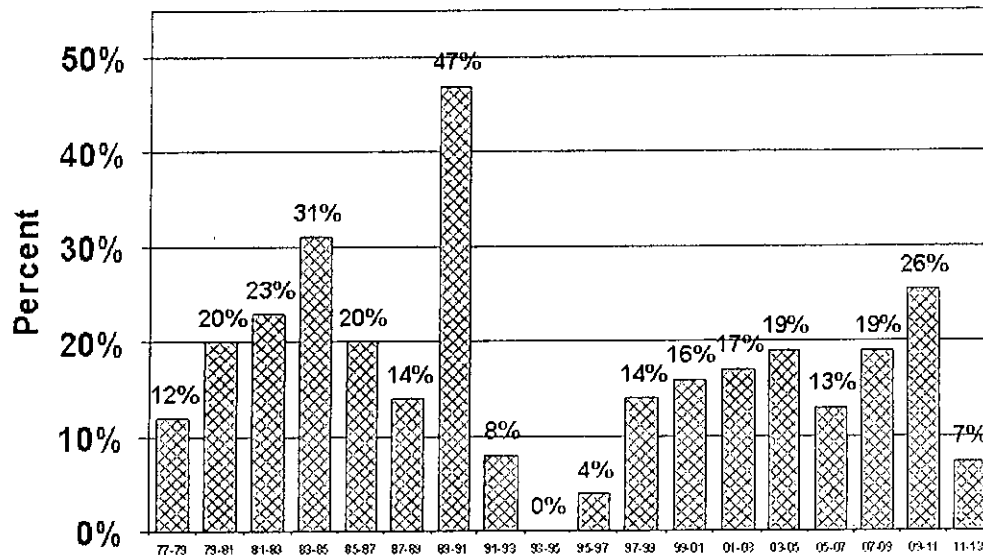
EMPLOYEES

State	14,682
Counties	1,865
School Dist	1,180
Cities	1,009
Others	521
Legislators	127
Retirees	5,694
COBRA	354

25,432

As you will note, PERS provides services to the state, participating political subdivisions and retirees. The primary challenge the plan has faced is rising health care costs.

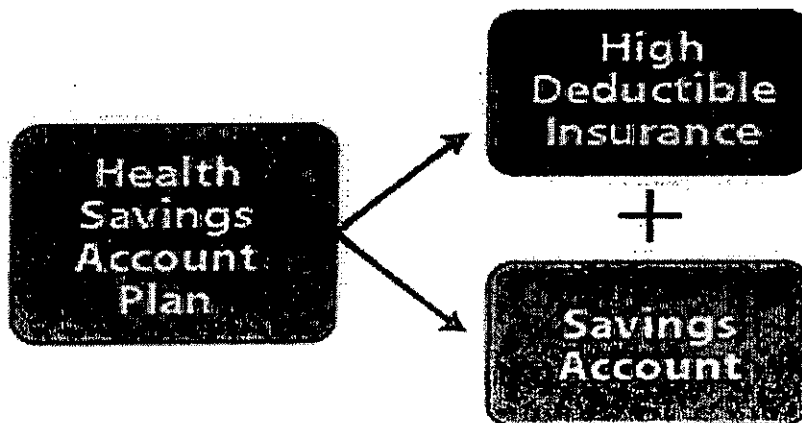
The following table is a history of those increases.



Recently, the plan has expanded its disease management programs and wellness programs. The cost increase for the next biennium is 7%, our third lowest.

Proposal

As proposed, this bill would allow for the implementation and administration of a consumer-directed health savings account option as well as High Deductible Health Plan option that would be available to state employees.



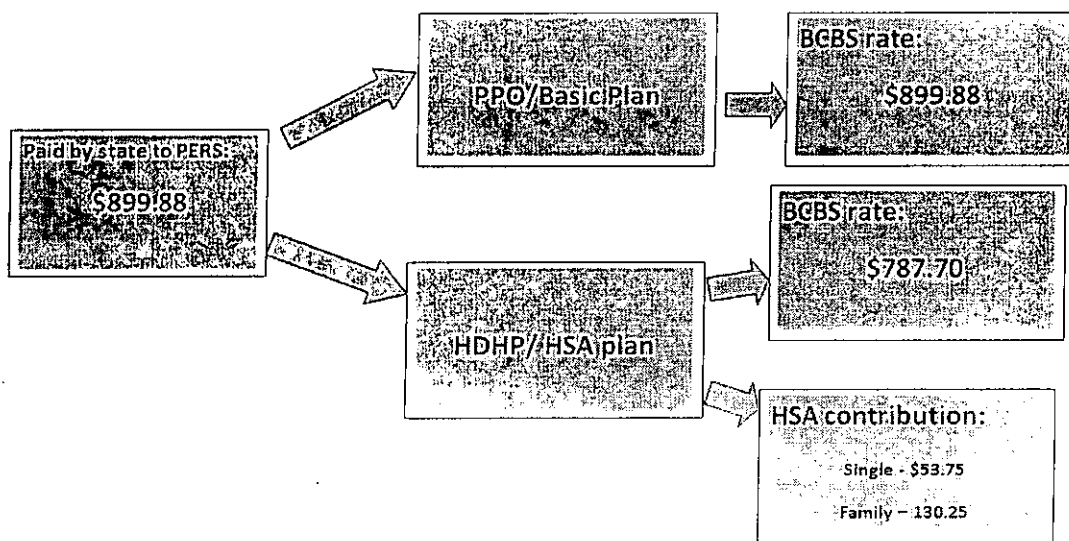
BCBS has indicated that adding this option would increase premiums about 1.5% or from \$886.62 to \$899.88 for the PPO plan. The PPO rate then becomes the premium for all agencies. While a lower rate is actually paid to BCBS for the HDHP, the difference in the premium billed and that paid to BCBS for coverage is deposited into a participant's health savings account for those elect the option. The goal in adding this health plan design option is to help maintain lower health plan trends in the future so we do not return to double digit premium increases in the high teens or low twenty percent range. This plan design is built around the concept of having members have more of a financial stake in their health care decisions which is intended to reduce utilization and overall premium increases in the future.

The basic structure of this program is established in federal law that authorizes the establishment of High Deductible Health Plans (HDHP) and Health Savings Accounts (HSA) into which employers can make federal tax-exempt contributions that can be used by an individual member for the payment of certain qualified medical expenses. Annual contribution limits are established under federal law and are based on the individual's status. Federal law also requires that as a condition of establishing a Health Savings Account, an individual must be covered under a High Deductible Health Plan. The specific requirements of high-deductible health plans generally require the payment of a certain minimum deductible and the expenditure of certain out-of-pocket expenses before an individual's medical services are covered under the plan. For 2010 the federal law states that in order to be eligible to establish a health savings account the qualified high deductible health plan must have deductible limits of at least \$1,200 single and \$2,400 family deductible and the maximum out-of-pocket expenses must be no more than \$5,950 single and \$11,900 family.

The following table shows the existing plan and the HDHP option:

Plan Design	NDPERS/PPO/Basic	High Deductible Health Plan
Single Deductible	\$400	At least \$1,200
Family Deductible	\$1,200	At least \$2,400
Single Out-of-pocket maximum	\$1,150/\$1,650	No more than \$5,950
Family Out-of-pocket maximum	\$2,700/\$3,700	No more than \$11,900
Copayments (office visits, therapy)	\$25/30	Subject to Deductible and Out-of-pocket maximum
Prescription Drugs (generic, brand, non-formulary)	\$5/20/25	Subject to Deductible and Out-of-pocket maximum

This bill also provides that the difference in premium (based upon the equivalent single/family premium) would be paid into the member's HSA account. Using the estimated premiums for next biennium, this would be an approximate annual amount of \$645 per year for those with a single plan and \$1,563 per year for those with a family plan. The following outlines the monthly process:



BCBS has indicated that health premiums will need to increase for the state by 1.5% to add this option assuming that 15% of the employees elect to participate. This means the estimated premiums for 2011-2013 will increase from \$866.62 to \$899.88. This additional cost can be paid from the expected settlement with BCBS and from premium gains for this biennium so actual budgeted premiums would not have to increase. Note if utilization of the program is less than estimated, then the final cost of this program will vary based upon the following table of participation rates. The final expenditures are estimated based on 1% to 15% participation in a new HDHP plan.

Participation Rate	General Fund	Other Funds
1.0%	\$207,281	\$229,789
2.5%	\$518,203	\$574,473
5.0%	\$1,036,405	\$1,148,945
7.5%	\$1,554,608	\$1,723,418
10.0%	\$2,072,810	\$2,297,890
12.5%	\$2,591,013	\$2,872,363
15.0%	\$3,109,215	\$3,446,835

Appropriation

This bill also provides a one time appropriation to PERS of \$91,000 to implement this bill. This pays the cost of changing our business system to handle HSA payments (estimated not to exceed \$71,000) and the cost of special mailings to our members explaining the program and their option to elect it during the open enrollment (estimated to be about \$20,000).

Other State HDHP Experiences

Attached is a memo from our consultant that compares the enrollment experience of two states - Indiana and Minnesota. You will note that after several years Indiana had about 70% of their employees enroll in the HDHP. However, the experience in Minnesota was that 60 enrolled out of 4,000 eligibles.

Other Observations

- Health savings accounts are designed to belong to the individual and move freely with the individual. These funds move from employer to employer or can be held directly by the individual if the employer does not offer a health savings account.
- Health savings accounts must be held in trust and contributions to a health savings account must be vested immediately.
- Health savings account dollars can be used for additional benefits not currently covered, such as Long Term Care insurance, some over the counter drugs, retiree insurance, etc.
- You may not have a Flexible Spending Account and a Health Savings Account unless the Flexible Spending Account is for limited use (services not covered by the health plan). The state presently has a flexible spending account for employees.

You will note that this bill received a favorable recommendation from the Legislative Employee Benefits Committee. PERS has taken a neutral position on the bill.



Deloitte Consulting LLP
50 South Sixth Street
Suite 2800
Minneapolis, MN 55402
USA

Tel: +1 612 397 4000
Fax: +1 612 397 4450
www.deloitte.com

January 27, 2011

Mr. Sparb Collins
Executive Director
NDPERS
400 East Broadway, Suite 505
Box 1214
Bismarck, ND 58502

Subject: High Deductible Health Plan with Health Savings Account

Dear Sparb:

As you know we have been assisting you in the review of Proposed Bill 10103.011, Implementing and Administering a Consumer-Directed Health Savings Account Option. Our analysis of that proposed bill was documented in our letter to Representative Grande (October 25, 2010). As a continuation of that analysis, you asked that we review the experience of a couple of states that are currently offering High Deductible Health Plan (HDHP) with Health Savings Account (HSA). This letter will provide a high level overview of our observations of the programs offered by the states of Minnesota and Indiana.

In summary, Indiana has seen significant steerage to the HDHP offerings due to large contribution differences. Minnesota has seen much smaller participation without the contribution differences.

Both Minnesota and Indiana offer a HDHP with an employer funded HSA contribution on a voluntary basis. The plans are offered to all employees in Indiana and to employees not subject to collective bargaining in Minnesota. Whereas North Dakota pays 100% of employee and family premium costs, Minnesota pays 100% of single and 85% of dependent premiums. For Minnesota, the total premium is the same for the Advantage Plan and the HDHP. Indiana's employer premiums and contributions vary significantly depending upon the plan selected, but in all cases require employee contributions for single and dependent coverage. Single premiums range from \$3,713.32 to \$7,828.08 with Indiana paying 62% to 97% of the single premium. Family premiums range from \$11,665.28 to \$21,668.40 with Indiana paying 64% to 98% of the family premium.

The remainder of this letter will look at each program separately.

Indiana

Three options are offered to employees and then premiums are also differentiated based upon whether the employee smokes. Essentially, the plan designs offered are a first dollar deductible then 80% coverage up to an out-of-pocket maximum (OOP) amount. Prescription drugs are

covered for a copayment after satisfaction of the deductible. For simplicity sake, we will describe the single non-tobacco coverage and costs.

	Traditional PPO	CDHP1	CDHP2
First \$ Deductible	\$750	\$2,500	\$1,500
Maximum OOP	\$2,000	\$4,000	\$3,000
HSA Contribution	N/A	\$1,251	\$752
Annual Single Premium Cost	\$2,698	\$94	\$704

It is easy to see that employees are being steered into the CDHP/HDHP options. The difference in premium cost to the employee is \$2,600 more than the CDHP1 while the deductible difference is only \$1,750 and the maximum OOP is \$2,000. In addition, the single CDHP1 plan participant receives an annual HSA contribution of \$1,251. Approximately 70% have migrated from the PPO to the CDHP options.

Minnesota

The Minnesota legislature mandated that a HDHP be offered on a voluntary basis to members of the Commissioner's Plan (non-bargaining unit employees). Since the State of Minnesota pays 100% of single coverage, offering a premium differential would not be of any value to the employee choosing the HDHP. As a result, it was determined to provide a contribution to the HSA for employees choosing to enroll in the plan.

Minnesota offers a tiered network program to its employees where member cost sharing is reduced if low-cost and efficient providers are selected for delivery of care. This program has proven to be very cost effective for the State and its employees for the past several years.

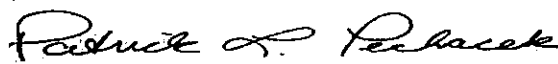
Essentially the plan has a first dollar deductible which varies based on network tier after which services are subject to copayments or coinsurance. The collective bargaining agreement guarantees statewide access to Cost Level Two providers. Again, for simplicity purposes we will describe the single employee coverage.

	Advantage/Cost Level Two	HDHP
First \$ Deductible	\$1,400	\$1,500
Maximum OOP	\$1,900	\$4,000
HSA Contribution	N/A	\$800
Prescription drugs	Not subject to Deductible	Subject to Deductible
Annual Single Premium Cost	\$0	\$0

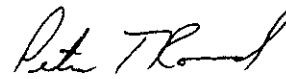
Minnesota offered the HDHP as a voluntary option without attempting to steer employees to the plan. The HSA contribution was expected to keep the entire programs cost neutral. 2011 was the second year of the HDHP offering. Approximately 4,000 employees were eligible and about 60 enrolled.

I hope that this summary provides the high level overview and analysis that you were requesting. If you have questions please do not hesitate to contact Pete or me.

Sincerely,



Patrick Pechacek, CEBS
Director



Peter Roverud
Senior Manager

NORTH DAKOTA PUBLIC EMPLOYEE HEALTH INSURANCE - HEALTH SAVINGS ACCOUNT OPTION

This memorandum discusses House Bill No. 1364 (2011), which establishes a high-deductible health plan with a health savings account option for public employees and health savings accounts and consumer-directed health plans in other states. House Bill No. 1364 directs the Public Employees Retirement System Board to develop and implement a high-deductible health plan with a health savings account as an alternative to the current plan. The bill provides the high-deductible health plan alternative must be made available to state employees by January 1, 2012 and may be offered at the discretion of the board to political subdivisions after June 30, 2013. The bill provides that the difference between the cost of the single and family premium for eligible state employees under the current plan and the premium for those employees electing to participate under the high-deductible health plan must be deposited into a health savings account for the benefit of each participating employee.

Health savings accounts were established in federal law in December 2003, with passage of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Health savings accounts are tax-free financial accounts that are designed to help individuals save for future health care expenses. Health savings accounts are an expansion and evolution of medical savings accounts.

There are four federal requirements to be eligible for a health savings account. An individual must be covered simultaneously by a qualified high-deductible health insurance policy, the health savings account enrollee cannot be covered by any other health insurance plan, such as a spouse's plan, the health savings account enrollee must be under age 65, and the health savings account enrollee cannot be claimed as a dependent on someone else's federal income tax return. For 2010 participants in qualified high-deductible health plans were required to pay the first \$1,200 of their medical expenses, \$2,400 for family

coverage, before insurance benefits began. In comparison, conventional insurance plans, whose participants cannot contribute to health savings accounts typically have deductibles of about one-third of these amounts. Contributions are 100 percent tax deductible from gross income. In 2010 the annual out-of-pocket expenses under qualified high-deductible health plans, including deductibles, copayments, and coinsurance, could not exceed \$5,950 for individual/self-only coverage or \$11,900 for family coverage.

Generally, a health savings account option with a high-deductible insurance plan is a health insurance plan that has a high deductible—the amount of medical expenses one must pay annually before coverage kicks in. The premium—the regular fee one pays to obtain coverage—for a high-deductible insurance plan is typically lower than premiums for traditional insurance plans. However, a high-deductible plan does not begin paying benefits until after one has spent a set amount of the individual's own money on health care expenses. The unpaid portion of expenses is known as a deductible. One can use the health savings account to pay deductible expenses, copays, coinsurance payments, and other noncovered health care expenses. All health savings account earnings are tax-free, and there is no limit on how much one can accumulate in the account. When one takes money out to pay eligible medical costs, those distributions are tax-free as well. There are no time constraints on when one can spend money from the account. For example, if one does not use all of the account money on health care costs, the individual does not lose the money as it can be carried over at year's end into the next year to pay for future medical costs.

The Center for Policy and Research reported that as of January 2010, 10 million people were covered by health savings accounts/high-deductible health plans in the United States.