2011 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2110

2011 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

SB 2110
1/12/2011
Job Number 12807

☐ Conference Committee

Committee Clerk Signature Ena Lutsch

Explanation or reason for introduction of bill/resolution:

Relating to subgroups, receiving bids for prescription drug coverage

Minutes: 1 attached testimony

Chairman Klein: Opened the meeting on Senate Bill 2110.

Sparb Collins, Executive Director of the North Dakota Public Employees Retirement Systems: Testimony Attached

Senator Murphy: So as it is written, this is what you want?

Sparb: With these changes, yes. For the pre-medicare side offering them a lower cost option with fewer benefits may be helpful to them. On the bidding side, we bid out the plan and it varies, our next bid will be in a year and a half. We bid out the plan either as a fully insured plan or self- insured plan.

Chairman Klein: Commented that he was surprised that they could not do a RFP on their own. Asked why you have to come to the Legislature and create a law stating you need to bid on this non group.

Sparb: The statue allows them to bid out at a self funded bases but the statue says we have to have this contingency reserve requirement.

Senator Andrist: Asked why he felt they had no recommendation from the employee benefits committee.

Sparb: They have three options. We didn't get a non recommendation out of the bill. There were some questions and they decided to allow it to go into session to be decided on.

Senator Nodland: Asked about the contingency reserves and how they are held.

Sparb: Right now today because we a fully insured plan with Blue Cross and Blue Shield we don't have a contingency reserve requirement. Under self insured whoever we hire pays the claim if at the end of the period we end up short, then we have to have the cash and

that is when we have to have the reserve. The reserve would be held in a money market account or a very liquid account.

Patrick Ward, representing Medical Health Unit, world's largest pharmacy benefits Management Company: In support of section 3 which would allow for the unbundling of the prescription drug benefits. We would like to be able to bid on the state's plan.

Rod ST Aubyn, Representing Blue Cross and Blue Shield: Stated they don't take a position on the bill. Just wanted to clarify the reserving amount that was being talked about, is pretty close to what the State has as fully insured products as well. They have to have two to three months in reserve. They lost money in the PERS plan and that is why we need the reserve. The difference between self and fully insured plans was explained and questions answered for the Senators plan.

Chairman Klein: Closed the hearing.

2011 SENATE STANDING COMMITTEE MINUTES

Senate Industry, Business and Labor Committee
Roosevelt Park Room, State Capitol

SB 2110
1/12/2011
Job Number 12824

☐ Conference Committee

Committee Clerk Signature Ea Lestad

Explanation or reason for introduction of bill/resolution:

Relating to the subgroups, receiving bids for prescription drug coverage.

Minutes: Vote Taken

Chairman Klein: Opened the meeting.

Senator Andrist: Moved a do pass on Senate Bill 2110.

Senator Laffen: Seconded the motion.

Vote Taken: Yes – 7 No – 0

Senator Klein to carry the bill

FISCAL NOTE

Requested by Legislative Council
12/29/2010

Bill/Resolution No.: SB 2110

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	$0	$0	$0	$0	$0	$0
Expenditures	$0	$0	$0	$0	$0	$0
Appropriations	$0	$0	$0	$0	$0	$0

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
$0	$0	$0	$0	$0	$0	$0	$0	$0

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).*

This bill would allow: 1.Another lower cost health coverage option for pre-medicare retirees. 2. The board to receive separate bids for prescription drug coverage. 3. The board to consider self insurance for prescription drug coverage. 4. A new target range for contingency reserve funds.

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.*

N/A

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.*

N/A

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.*

N/A

Name:	Sparb Collins	**Agency:**	NDPERS
Phone Number:	701-328-3900	**Date Prepared:**	01/05/2011

Date: 1/12/2011
Roll Call Vote # 1

2011 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2110

Senate Industry, Business and Labor 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 Senator Andrist Seconded By Senator Laffen

Senators	Yes	No	Senators	Yes	No
Chairman Jerry Klein	✓		Senator Mac Schneider	✓	
VC George L. Nodland	✓		Senator Murphy	✓	
Senator John Andrist	✓				
Senator Lonnie J. Laffen	✓				
Senator Oley Larsen	✓				

Total (Yes) 7 No 0

Absent 0

Floor Assignment Senator Klein

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

REPORT OF STANDING COMMITTEE

SB 2110: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends **DO PASS** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2110 was placed on the Eleventh order on the calendar.

2011 HOUSE INDUSTRY, BUSINESS AND LABOR

SB 2110

2011 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee
Peace Garden Room, State Capitol

SB 2110
March 14, 2011
Job #15391

☐ Conference Committee

Committee Clerk Signature Pe Mae Kuch

Explanation or reason for introduction of bill/resolution:

Subgroups, receiving bids for prescription drug coverage, self-insurance for prescription drug coverage and contingency reserve fund requirements under the uniform group insurance program

Minutes:

Chairman Keiser: Opens the hearing on SB 2110.

Sparb Collins~Executive Director of the North Dakota Public Employees Retirement System: (See the attached testimony).

Vice Chairman Kasper: Do you have a plan on how to get to that contingency reserve that you outlined over that 60 months or are you going to increase the premiums or hope you have good claims experience or both?

Sparb Collins: It will depend upon where we are at when we go self-insured. If we are coming off of a fairly successful biennium, we may have funds that are being returned to us that we would be able to contribute to helping to achieve that level. For what we don't have funds to contribute to it, we're going to spread that as part of the premium over the 60-month period in order to meet this requirement in the statute. Hopefully we would have a successful biennium, we would spread the difference over 60 months and that would be used as a comparison against the fully insured in analyzing the proposals.

Vice Chairman Kasper: Does this bill give you an opportunity to build a PERS plan that would have multiple options for the employees to choose? For example one plan may have a $500 deductible with copays, etc. One plan might be an NHSA plan. One plan might be a $2,000 or $3,000 deductible. Will you have that option with the way the bill is designed?

Sparb Collins: This bill doesn't address that question. HB 1364 which passed the house has a high deductible insurance plan option. This bill will allow for the pre-Medicare retirees.

Vice Chairman Kasper: If this bill were to pass without additional legislation, would you not be able to call for proposals that would give you multiple options of health insurance plans that the employees can choose from?

Sparb Collins: I would have to review to answer confidently.

Vice Chairman Kasper: I think that would be wise if you so choose.

Sparb Collins: I know we did ask our attorney in the last 6 months this question. I just don't remember the answer.

Chairman Keiser: Share with the committee what our current plan is for PERS. When does that contract expire? Also, how this fits relative to our current plan.

Sparb Collins: The PERS plan is bid out. We just finished a bid this last fall and it will be rebid again in two years. The successful bidder was the BCBS. We are under a fully insured plan today. We are shielded from losses beyond the premium that we pay and a short quarter in advance that. If the premiums paid are less than the claims incurred, those funds are reconciled and reimbursed PERS. Now we share 50/50 in the first $3 million of gain. After that all of the gain comes back to PERS.

The other arrangement in the contract with BCBS, we have about $17 million/month in premium that comes in through different sources, there is premium on account at BCBS where we do get interest on that at a five-year T-bill interest rate. That interest is payable back to us. Presently PERS has one particular plan design that is available to all of our active employees. It is composed of basic plan design and a preferred provider organization (PPO) plan design. Back in the 90's we negotiated PPO discounts with health care providers that reduce the fee schedule of BCBS. To the extent we get lower fees we can pass that along in the form of higher benefit. Those are the basic arrangements of today.

What this bill addresses is that bidding process that we go through every several years. Our bidding process is set out in statute. When we went through it with our new consultant these questions came up. A lot of our clients bid out the bundle product which is the health, hospital, and prescription drug coverage. We asked our attorney if we could bid the prescription coverage separately. He said it looks like the statute doesn't allow you to do that.

The other thing we do is bid out the plan on a fully insured basis and a self insured basis. The difference between the two is:

--Under a fully-insured basis, we transfer most all of the risk to the insurance company. If we take in a certain level of premium, and the plan in that two-year period has trends higher than expected, there is a loss. That loss risk is transferred to BCBS.

--Under a self-insured arrangement, that risk would be retained with the plan. You still have a certain level of risk. That's why you have this contingency reserve to handle that risk when those claims exceed premiums. The way that contingency reserve was set up in statute today, it seems to imply that we need $60 million in the bank before we

could become self insured. If that is the threshold, we will never be able to be self insured because we will never have $60 million sitting in the bank.

We worked with a consultant. They came up with this method whereby we could set this up so we would be able to fund that over that period and spread that cost in to the premiums. These are ways to try to provide the opportunity for realistic options. Then maybe we can put more competition into our bid process.

Representative Ruby: Will this lower cost health insurance be completely stand-alone or would it be under the umbrella or the risk and cost-sharing of the current PERS policy?

Sparb Collins: This would be under the current PERS plan. So if the plan did become self-insured, that risk would be with the PERS plan to the extent that we are fully insured then that risk is transferred away.

Representative Ruby: All the current agencies, counties, schools districts, cities are under the same policy at the same cost?

Sparb Collins: Yes, the cost varies to a degree. The active employee group has one cost. The retired, pre-Medicare retirees, the statute sets up their premium. It says the pre-Medicare single premium is 150% of the active employees' premium. So if the active employee's premium is $100, the pre-Medicare would be $150. The Medicare retirees actually have a separate plan that is actuarially determined based on their own pool. Their plan design is different because they have Medicare as their primary payer. PERS is their secondary payer. There is also the Medicare Part D which is the prescription drug for Medicare.

Representative Ruby: The pre-Medicare group that we are creating is generally calculated on several things: claims history and the age of the group. In this situation everyone will be in the upper age group. This is going to be one of the most expensive demographics. Is that 150% premium rate adequate?

Sparb Collins: The pre-Medicare group is already authorized in statute. What we are asking for is the authority to offer that group an additional plan that would be a lower cost plan. It can't increase what is called the implicit subsidy which means it has to be actuarially determined to not require anymore subsidy from the plan. You are exactly correct. They (age 55-65) are the most expensive part of our group except for Medicare. The claims from this group cost us twice as much as the group 25-45 years old.

Representative Ruby: The lower cost comes from lesser benefits?

Sparb Collins: Yes. That's the only way we will get the costs down.

Representative Ruby: I'm talking about what the policy covers. With the higher deductible, what level are you looking at?

Sparb Collins: We haven't set a deductible level. If this is authorized, we'd have the actuaries come in. If our goal is to get a lower level of premium, they would have to work

with us to come up with a plan they would look at a high deductible or change coinsurances. The area that generates the most savings is putting more costs on prescription drugs. The number of units you go through on drugs is so much higher. With a high deductible plan we could set up a Health Saving Account for our pre-Medicare retirees. Then they can take their premium and get some tax advantages. Those would be things to be figured.

Representative Ruby: Really the Health Savings Account as a tax advantage is more valuable to people who are employed.

Sparb Collins: Absolutely.

Representative Frantsvog: You referred to the contingency reserve. Do you know what the difference is between the time a service is provided and when the request for payment of that service is made? It would seem reasonable that the amount of premium paid and collected in that interim could be used as a part of the $60 million reserve. In reality you shouldn't need those funds until on the other end to close the account out. I was wondering what the difference is in time from the time a claim is incurred until it is paid.

Sparb Collins: Most claims today are filed electronically and they come through quickly. Our plan has people that incur services out of state. Our claims run-out period with BCBS is actually two years. What is proposed for the incurred but not reported claims is 1.5 months. It's a tight corridor. It's the standard within the industry.

Representative Frantsvog: I was referring to regular claims. If I get a stitch on my finger, how long is it until you get the claim for the work that was done.

Sparb Collins: If it's done in North Dakota, those are filed electronically. There are other things that complicate some of this. Like when going into a hospital, you may be in for some time. That may delay when claims are filed. The course of service may be extended over a longer period of time.

Representative Amerman: The plan you are offering is for the ages 55 to 65, and you offer this and not very many people like it. Is there a percentage where you would implement this if not too many were interested or do you take whoever is interested.

Sparb Collins: If there are small percentages, we would continue to offer it. That would have to be answered by the carrier.

Chairman Keiser: Is this enabling legislation for the board to create alternative approaches. This would apply to contracts negotiated in 2013 that would be applied in 2014?

Sparb Collins: The bid will go out in 2012. This would affect that bid document. We revise the bid document to include bids on more options. That would be analyzed and the decision would become effective in 2013.

Chairman Keiser: You assume that if we offer this alternative package, it would affect our grandfather status on our plan?

Sparb Collins: We did become aware about 10 months ago. The grandfather provision said that if we changed carriers, we would lose our grandfathered status. So the last time we went through this bid last fall we didn't get a lot of interest because everybody knew that was the situation we were in. If we changed carriers, we would lose our status--that is the grandfather status under federal law--there would be additional cost to us of around $10-12 per contract per month for additional services. That has since been clarified now to say we can change carriers. So the constraint is that we can't change some of the provisions of the plan design. All of these things are evolving. It has been clarified that the high deductible health insurance plan bill could be used as a new plan without endangering our grandfather status of existing plan. If we have a cost of making a switch that has to be factored in.

Chairman Keiser: On the calculation of your reserve, currently you are using 1½ to 3 months on claims paid. The balance in the contingency reserve is 3 ½ months of claims paid.

Sparb Collins: 1.1 to 1.6 for the incurred but not reported and 1.5 to 3 months for contingency reserve.

Chairman Keiser: Isn't that the same formula?

Sparb Collins: That is approximately the same if you include the incurred but not reported.

Chairman Keiser: This is just clarifying.

Chairman Keiser: Anyone else here to testify in support of SB 2110.

Patrick Ward~Medco Health Solutions: The bill on page 2, line 16 would expand the opportunity to separate, we call it "unbundling", the health care benefit from the prescription drug benefit. We would like the opportunity to bid on that.

Chairman Keiser: When that is bid, we can put any specifications into the bid that we want and then Medco or whoever has to decide whether they accept it.

Patrick Ward: The PERS program has a very sophisticated consulting arrangement. They would put together a request for proposal that would have everything they want in it. If they put it out separately for bid they are going to have a handful of bidders. We have a number of state plans that Medco provides the drug benefit for.

Vice Chairman Kasper: If PERS chose in their RFP to have full transparency of accounting of the PBM transactions including rebating, spreading, etc. that would be part of the RFP that PBMs would not mind responding to?

Patrick Ward: Not at all. We do that all the time.

Chairman Keiser: Anyone else here to testify in support on SB 2110, in opposition, in the neutral position to SB 2110?

Chairman Keiser: Should there be anything else such as amendments in the bill to give you more flexibility in terms of going out on bid?

Sparb Collins: These were the issues that arose as we went to design the bid last time.

Chairman Keiser: These reflect the consultants' suggestions. Do you see any additional features that it should have?

Sparb Collins: No.

Chairman Keiser: Closes the hearing.

2011 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee
Peace Garden Room, State Capitol

SB 2110
March 16, 2011
15609

☐ Conference Committee

Committee Clerk Signature Ellen LeTang

Explanation or reason for introduction of bill/resolution:

Subgroups, receiving bids for prescription drug coverage, self-insurance for prescription drug coverage and contingency reserve fund requirements under the uniform group insurance program

Work Session Committee Minutes:

Chairman Keiser: Opens the work session on SB 2110.

Chairman Keiser: It's opening up for the bidding purpose the pharmacy management contract separate for the insurance contract. PBM's did offer an amendment that said that they want that process more transparent. Sparb said he would rather manage that through an RFP and they have asked that their amendment be withdrawn.

Vice Chairman Kasper: SB 2110 allows PERS to seek self-funded quotes is an extremely important bill because right now with the legislation and statutes the way they are, they cannot and this allows them to and opens up more opportunities for bidders. SB 2110 solves that problem and it allows that 60 months to accumulate the reserve in a meaningful manner.

Vice Chairman Kasper: Moves a Do Pass.

Representative Nathe: Second.

Chairman Keiser: Further discussion?

Roll call was taken for a Do Pass on SB 2110 with 14 yeas, 0 nays, 0 absent and Vice Chairman Kasper is the carrier.

2011 HOUSE STANDING COMMITTEE MINUTES

House Industry, Business and Labor Committee
Peace Garden Room, State Capitol

SB 2110
March 22, 2011
15808

☐ Conference Committee

Committee Clerk Signature Ellen LeTang

Explanation or reason for introduction of bill/resolution:

Subgroups, receiving bids for prescription drug coverage, self-insurance for prescription drug coverage and contingency reserve fund requirements under the uniform group insurance program

Work Session Committee Minutes:

Chairman Keiser: Opens the work session on SB 2110.

Vice Chairman Kasper: You will recall that in Sparb's testimony on being able to obtain bids for fully insured and self-funded health insurance in changing the statue so that it was clear that they could do it. He mentioned in his testimony that their actuary and consultant said that there some conflicting language but they thought that they could go ahead get it anyway. I asked Sparb if he could find out if there is conflicting language, what do you need to do to clarify the language. We ran this by Representative Grande and the employee's benefit committee; she said that they did not have to go back into session. I will let Sparb explain what it does and move on the bill.

Sparb Collins~Executive Director of the North Dakota Public Employees Retirement System: (Did not turn on the sound recording-parts inaudible). When we had the hearing last week a question came up on whether PERS had the authority to potentially under our bidding requirement whether have the authority to contract with multiple vendors and carriers, if that ends up being the most optimal arrangement. When we asked our attorneys, they felt that we had the authority to do it but it had to be inferred in statute (inaudible).

Chairman Keiser: Page 2, line 23, I think we need to be plural on bids, which isn't in the amendment. Again all we are doing is making it explicit what we intended to do and I think that's a great clarification.

Vice Chairman Kasper: Moves the adoption of the amendments with the amendment to the amendments say on page 2, line 23, one or more bids and page 2 line 24, carriers.

Representative Ruby: Second.

Representative N Johnson: They can accept more than one contract?

Chairman Keiser: Yes, one or more contracts or carriers.

Voice vote, motion carries.

Chairman Keiser: What are the wishes of the committee?

Vice Chairman Kasper: Do Pass as Amended.

Representative Nathe: Second.

Roll call was taken for a Do Pass as Amended on SB 2110 with 14 yeas, 0 nays, 0 absent and Vice Chairman Kasper is the carrier.

Date: March16

Roll Call Vote # _____

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2110

House **House Industry, Business and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

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

Motion Made By Rep Kasper Seconded By Rep Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	✓		Representative Amerman	✓	
Vice Chairman Kasper	✓		Representative Boe	✓	
Representative Clark	✓		Representative Gruchalla	✓	
Representative Frantsvog	✓		Representative M Nelson	✓	
Representative N Johnson	✓				
Representative Kreun	✓				
Representative Nathe	✓				
Representative Ruby	✓				
Representative Sukut	✓				
Representative Vigesaa	✓				

Total Yes 14 No 0

Absent 0

Floor Assignment Rep Kasper

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

Adopted by the Industry, Business and Labor Committee

March 22, 2011

VK
3/23/11

PROPOSED AMENDMENTS TO SENATE BILL NO. 2110

Page 2, line 23, overstrike "the bid" and insert immediately thereafter "one or more bids"

Page 2, line 24, overstrike "carrier" and insert immediately thereafter "carriers"

Renumber accordingly

Date: March 22, 2011

Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2110

House **House Industry, Business and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 11.0330.01002 0.2000

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

Motion Made By Rep Kasper Seconded By Rep Ruby

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser			Representative Amerman		
Vice Chairman Kasper			Representative Boe		
Representative Clark			Representative Gruchalla		
Representative Frantsvog			Representative M Nelson		
Representative N Johnson					
Representative Kreun					
Representative Nathe					
Representative Ruby					
Representative Sukut					
Representative Vigesaa					

voice vote - motion carries

Total Yes _____ No _____

Absent _____

Floor Assignment _____

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

p2 - bids, carriers

Date: March 22, 2011

Roll Call Vote # 2

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES

BILL/RESOLUTION NO. 2110

House **House Industry, Business and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

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

Motion Made By Rep Kasper Seconded By Rep Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	✓		Representative Amerman	✓	
Vice Chairman Kasper	✓		Representative Boe	✓	
Representative Clark	✓		Representative Gruchalla	✓	
Representative Frantsvog	✓		Representative M Nelson	✓	
Representative N Johnson	✓				
Representative Kreun	✓				
Representative Nathe	✓				
Representative Ruby	✓				
Representative Sukut	✓				
Representative Vigesaa	✓				

Total Yes 14 No 0

Absent 0

Floor Assignment Rep Kasper

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

REPORT OF STANDING COMMITTEE

SB 2110: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2110 was placed on the Fourteenth order on the calendar.

REPORT OF STANDING COMMITTEE

SB 2110: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2110 was placed on the Sixth order on the calendar.

Page 2, line 23, overstrike "the bid" and insert immediately thereafter "one or more bids"

Page 2, line 24, overstrike "carrier" and insert immediately thereafter "carriers"

Renumber accordingly

2011 TESTIMONY

SB 2110

Testimony of

Sparb Collins

On Senate Bill 2110

Mr. Chairman, members of the committee, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System. I appear before you today on behalf of the PERS Board and in support of this bill.

The bill before you today relates to the group health insurance plan administered by PERS. This plan provides services to the state, participating political subdivisions and retirees. The following is the participation statistics for 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 proposed, this bill would amend the North Dakota Century Code relating to the uniform group insurance program as follows:

1. Allow another lower cost coverage option for retired employees not eligible for Medicare (Section 1).

2. Allow the Board to receive separate bids for prescription drug coverage (Section 2 & 3).

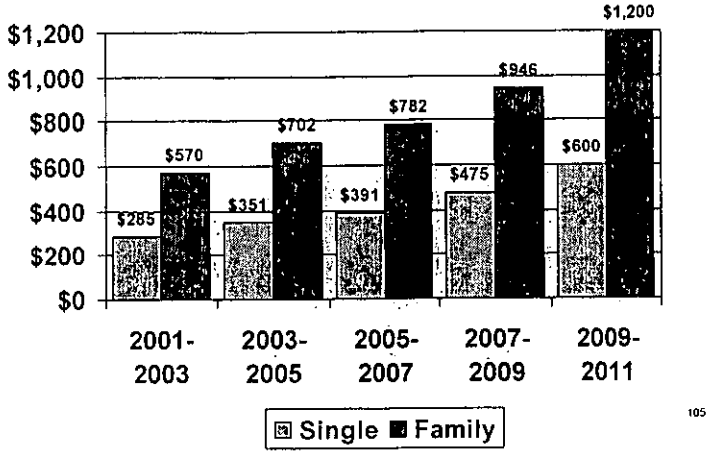
3. Establishes a target range of contingency reserve funds and a timeline to meet the reserve requirement (Section 4).

Concerning the first item of offering a lower cost option for Non-Medicare Eligible Retirees, currently Non-Medicare retiree rates are set in the North Dakota Century Code. The Board is interested in offering a lower cost plan that does not increase the implicit subsidy as determined by the Governmental Accounting Standards Board's other postemployment benefit reporting procedure.

This bill would allow the Board to consider offering a lower cost plan that is more affordable for pre-Medicare retirees. The plan would be offered with a one-time open enrollment and then would be subject to continuation as specified in section 54-52.1-03. As this is a lower cost option and is intended to be priced based on its true actuarial value, we anticipate no financial impact to the plan.

The challenge the pre-Medicare group has had with rates under the existing structure can be viewed in the following graph from PERS:

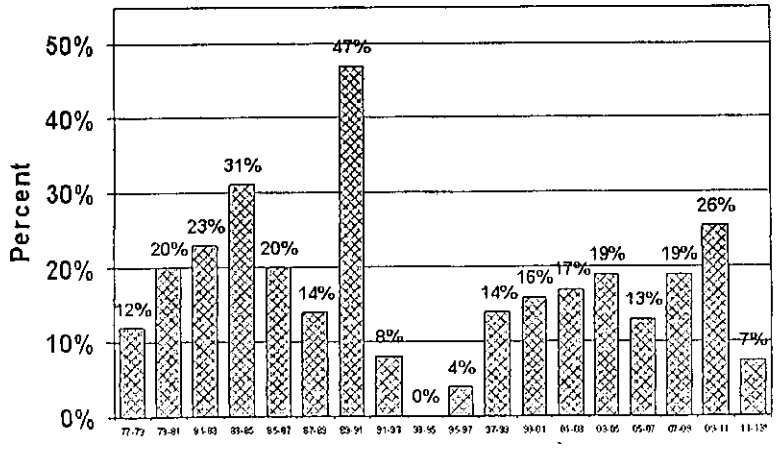
NDPERS Non-Medicare Premiums



105

As the above shows, premiums have become very high. The proposed change would allow PERS to offer another lower cost plan. This additional plan would likely be a High Deductible Plan (HDHP) which would allow those eligible retirees to contribute to a Health Savings Account (HSA) as long as they are not Medicare eligible.

The other provisions of this bill relate to making our bid process for the group health insurance plan more competitive, and incorporating into that bid process more options to consider in awarding the health plan business. The following graph shows the increases in plan costs since 1977:



As the above shows, any additional process that we can add that may enhance competition could help. The purpose of these changes do not reflect any concern with our existing arrangement with BCBS. Our only reason for these changes is to insure that when we put the health insurance plan up for bid that we allow for the maximum amount of competition to insure that we get the best arrangement for our employers and members.

Sections 2 and 3 of the bill allow the PERS Board to receive separate fully insured and self-insured bids for prescription drug coverage and health benefits separately. Allowing this means the Board can consider additional vendors beyond those that currently administer the medical and hospital benefits. Stand alone pharmacy benefit managers have the potential to negotiate more advantageous arrangements as well as creating increased competition and advantageous pricing. The Board would only consider a self-insured plan if it is determined to be less costly than an insured bid with equivalent contract benefits. Also, this practice is used by many other large groups in managing their health plans. Allowing PERS to bid this option and add it as a possibility, would increase the competition for our plan. However, it may also only confirm that our existing arrangement is the best. The advantage of us getting this information and considering it in our contracting process helps us to assure all our members and employers that we are getting the best arrangement and the lowest premium.

Section 4 of the proposed bill also changes the contingency reserve requirements of NDCC 54-52.1-04.3 for a self-insured plan. The statute states:

> **54-52.1-04.3. Contingency reserve fund – Continuing appropriation.** The board shall establish under a self-insurance plan a contingency reserve fund to provide for adverse fluctuations in future charges, claims, costs, or expenses of the uniform group insurance program. *The board shall determine the amount necessary to provide a balance in the contingency reserve fund equal to three and one-half months of claims paid based on the average monthly claims paid during the twelve-month period immediately preceding March first of each year.* The board may arrange for the services of an actuarial consultant to assist the board in making the determination. All moneys in the contingency reserve fund, not otherwise

appropriated, are appropriated for the payment of claims and other costs of the uniform group insurance program during periods of adverse claims or cost fluctuations. (emphasis added)

The italic and underlined section requires the Board to establish a contingency reserve fund equal to 3.5 months of claims which would be currently be about $60 million. As we worked with our consultant on this section, several questions arose. Does the reserve requirement include Incurred but Not Reported Claims (IBNR) , how much time does the Board have to establish the fund once the plan has become self-insured, what happens if the amount dips below 3.5 months, etc? We asked our attorney and he indicated that the statute was not clear on some of these matters. A conservative interpretation would be that we would need to have the reserve fully funded before going to a self-insured plan and that (IBNR) would not be counted. Due to these questions, we felt that seeking additional clarification on these matters in the statute would be beneficial and that in so doing it could make the self-insured option more competitive with the fully insured option.

A market assessment was conducted by our consultant and they found that prudent and conservative reserve levels would be 1.1 to 1.6 months for incurred but not paid (IBNP) claims and 2.0 to 3.2 months for Contingency Reserves. Based upon this review, the proposed bill draft would now be to require a target of 1 to 1.5 months incurred but not paid reserve and a 1.5 to 3 months contingency reserve. The proposed statute would also clarify the time period for funding the reserve as 60 months of becoming self-insured. This change will permit the Board to implement an RFP strategy that more fully considers the self-insured option and will provide a more competitive and enhanced bidding process that could reduce overall premium costs.

This bill was reviewed by the Legislative Employee Benefits Committee. The committee did not offer a recommendation on the bill.

Mr. Chairman, members of the committee, this concludes my testimony and thank you.

Testimony of

Sparb Collins

On Senate Bill 2110

Mr. Chairman, members of the committee, my name is Sparb Collins. I am the Executive Director of the North Dakota Public Employees Retirement System. I appear before you today on behalf of the PERS Board and in support of this bill.

The bill before you today relates to the group health insurance plan administered by PERS. This plan provides services to the state, participating political subdivisions and retirees. The following is the participation statistics for 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 proposed, this bill would amend the North Dakota Century Code relating to the uniform group insurance program as follows:

1. Allow another lower cost coverage option for retired employees not eligible for Medicare (Section 1).

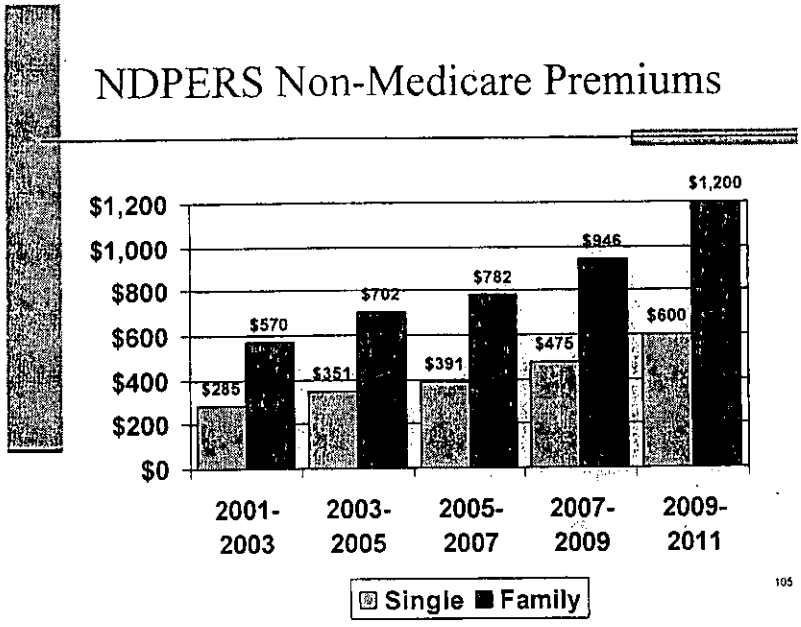
2. Allow the Board to receive separate bids for prescription drug coverage (Section 2 & 3).

3. Establishes a target range of contingency reserve funds and a timeline to meet the reserve requirement (Section 4).

Concerning the first item of offering a lower cost option for Non-Medicare Eligible Retirees, currently Non-Medicare retiree rates are set in the North Dakota Century Code. The Board is interested in offering a lower cost plan that does not increase the implicit subsidy as determined by the Governmental Accounting Standards Board's other postemployment benefit reporting procedure.

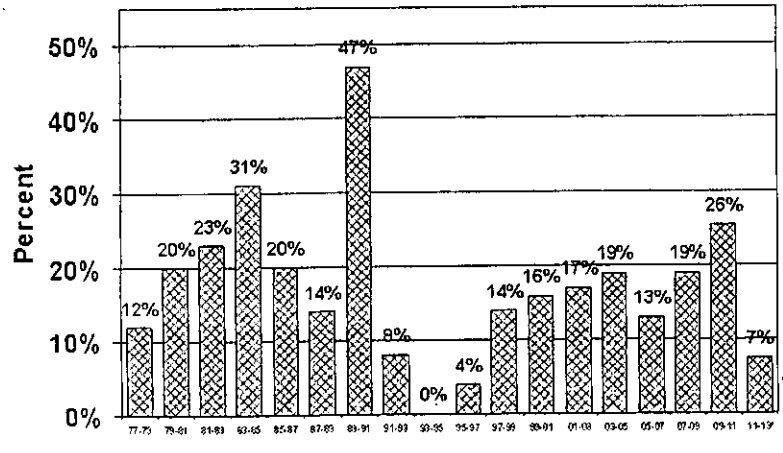
This bill would allow the Board to consider offering a lower cost plan that is more affordable for pre-Medicare retirees. The plan would be offered with a one-time open enrollment and then would be subject to continuation as specified in section 54-52.1-03. As this is a lower cost option and is intended to be priced based on its true actuarial value, we anticipate no financial impact to the plan.

The challenge the pre-Medicare group has had with rates under the existing structure can be viewed in the following graph from PERS:



As the above shows, premiums have become very high. The proposed change would allow PERS to offer another lower cost plan. This additional plan would likely be a High Deductible Plan (HDHP) which would allow those eligible retirees to contribute to a Health Savings Account (HSA) as long as they are not Medicare eligible.

The other provisions of this bill relate to making our bid process for the group health insurance plan more competitive, and incorporating into that bid process more options to consider in awarding the health plan business. The following graph shows the increases in plan costs since 1977:



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This bill was reviewed by the Legislative Employee Benefits Committee. The committee did not offer a recommendation on the bill.

Mr. Chairman, members of the committee, this concludes my testimony and thank you.

PROPOSED AMENDMENTS TO SENATE BILL NO. 2110

Page 2, line 23, overstrike "the" and insert immediately thereafter "one or more"

Page 2, line 24, overstrike "carrier" and insert immediately thereafter "carriers"

Renumber accordingly