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Memo

Date: October 22, 2024

To: Rebecca Fricke - Executive Director, North Dakota Public Employees Retirement System

Representative Austen Schauer - Chair, Legislative Employee Benefits Programs Committee, North Dakota State Government

From: Tim Egan, Dan Plante, Ford Edgerton, and Karno Sarkar - Deloitte Consulting LLP

Subject: **FINANCIAL REVIEW OF PROPOSED BILL 25.0142.01000**

Deloitte Consulting LLP (Deloitte [i]) was engaged to review the proposed legislation and the potential financial impact to the Uniform Group Insurance Program (Program) administered by the North Dakota Public Employees Retirement System (NDPERS), as well as other considerations that may contribute to the evaluation of the legislation.

The information included in the review relies on data provided by NDPERS, as well as publicly available data and industry studies. From the data provided by NDPERS, some of these data sources were developed by NDPERS, while others were prepared or created by third parties and delivered to NDPERS.

As part of the review, all data were reviewed for reasonableness, but an audit was not performed on the data. To the extent the data contain errors or anomalies that were unknown at the time the data were provided, the analysis may be affected by those issues.

OVERVIEW OF PROPOSED BILL

The current Bill amends and reenacts sections 54-52.1-01, 54-52.1-02, and 54-52.1-03.1 of the North Dakota Century Code relating to health insurance benefits coverage provided by the Uniform Group Insurance Program. The amendment changes the following:

- Consolidates the definition of "carrier" to an entity that is authorized to provide health insurance in the state:
    - The prior definition splits out coverage for medical benefits coverage and hospital coverage.
- Revises the definition for "health insurance benefits coverage" to be a non-grandfathered PPO health plan sponsored by a large employer that offers hospital coverage, medical coverage, or both coverages.
- Defines a non-grandfathered health plan to mean a plan that does not qualify as a grandfathered plan under the Patient Protection and Affordable Care Act (PPACA).
- Requires that State active employees and non-Medicare retirees will solely be offered the NDPERS non-grandfathered health plan. Political subgroups will still be offered the grandfathered health plan alongside the non-grandfathered plan. Additionally, any political

subdivisions that are currently offered the grandfathered plan can continue to participate in this plan.

- Specifies that Garrison Diversion Conservancy District and district health units that are required to participate in the retirement system may participate in the Uniform Group Insurance Program. The premium structure for these members will mirror what is offered to state employees.
- Requires that the Uniform Group Insurance program must provide health insurance benefits.

IMPLICATIONS OF BILL

One of the impacts of Bill 142 will result in a shift of the State active employee and non-Medicare retiree populations to a non-grandfathered health plan as determined by the PPACA. By moving to a non-grandfathered plan, the following plan design enhancements will be mandated for covered individuals:

1) Large group employer non-grandfathered plans must offer a minimum value standard of coverage as determined by the PPACA. To meet the minimum value threshold, plans must adhere to the following:

    a. Plans must cover at least 60% of total allowed costs of benefits that are expected to be incurred under the plan. The employee is responsible for the remaining costs through deductibles, copayments, and coinsurance. Plans must receive an actuarial certification that deems that the minimum actuarial value is at least 60% in order to meet this requirement.

    b. Large group employers must offer significant coverage for core services in order to be compliant under non-grandfathered PPACA requirements. These services include:

        i. Coverage for room and board, nursing care, and other hospital services when admitted as an inpatient.

        ii. Coverage for both physician and specialist visits during an inpatient stay, including follow-up care.

        iii. Coverage for surgical services, including pre- and post-operative care. This includes the cost of procedure and the cost of consultation with surgeons, anesthesiologists, and other physicians involved in inpatient surgical procedures.

        iv. Coverage for intensive care units (ICUs), neonatal intensive care (NICU), and other specialized inpatient services.

        v. Coverage for prescription drugs administered during a hospital stay.

        vi. Coverage for diagnostic tests, imaging, and lab work performed during an inpatient visit.

        vii. Coverage for inpatient rehabilitation services such as physical therapy, occupational therapy, and speech therapy.

viii. Coverage for primary care physician (PCP) visits, routine check-ups, and outpatient treatment of illness.

ix. Coverage for specialist visits.

x. Coverage for diagnostic tests, imaging, and lab work performed in an outpatient setting.

xi. Coverage for outpatient mental health and substance abuse disorder services.

2) Plans are prohibited from imposing annual or lifetime limits on the dollar value of the services mentioned above.

3) Plans must cover preventative services without any cost-sharing requirements. Preventative services include (but are not limited to):

   a. Vaccinations for adults and children;

   b. Routine annual wellness visits;

   c. Routine Diagnostic screenings;

   d. Screenings for cervical, colorectal, and prostate cancer;

   e. Tobacco Cessation programs and eligible supplies;

   f. Preventative medications and supplements;

   g. Childcare visits up to the age of 6;

   h. Coverage for contraception; and

   i. Women's wellness visits and breastfeeding support (including breast pump coverage).

4) Non-grandfathered health plans must comply with out-of-pocket maximum limits set by the PPACA. All member costs such as deductible or copay costs must accumulate towards their out-of-pocket maximum.

5) Out-of-Network emergency room services will be covered at the same level as in-network services.

6) A non-grandfathered plan, unlike a grandfathered plan, must comply with all PPACA reporting provisions. This includes Transparency in Coverage reporting, RxDC reporting, and the No Surprises Act attestations.

Political subgroups that are offered health insurance by NDPERS will still be eligible for a grandfathered plan. When developing the premium of both health plans, the non-grandfathered plan will utilize experience from the State employee and non-Medicare population, whereas the political subgroups will be underwritten separately. This is a deviation from how premium rates were developed in prior biennia.

State active employee premiums are currently established using a single rate per contract. The premium for a State employee with dependents is set at the same level as a State employee that only covers themselves. Political subgroups have two rates: one for employee only coverage and one for covering families. A political subgroup employee that covers their family will have a premium set at a higher level than an employee that only covers themselves. Bill 142 requires that the Garrison Diversion Conservancy District and district health units' premium structures to be treated in the same manner as State employees. The premium rates for these employees will be calculated based on grandfathered plan experience however, instead of charging two rates like other political subgroups, these employees will be offered a single flat rate like the premium structure for State employees.

ESTIMATED FINANCIAL IMPACT

Based on the review of current offerings and the stipulations within the current legislation, it is anticipated that moving State active employees and non-Medicare retirees from grandfathered to non-grandfathered status will have a financial impact on the Uniform Group Insurance Program. It is estimated the financial impact of this move is approximately $26,353,000 in the 2025 – 2027 biennium ending 6/30/2027.

Currently, the NDPERS plan does meet many of the non-grandfathered plan design requirements that were listed earlier. However, the following changes must be made to fully comply with the non-grandfathered plan design requirements:

- All copays will accumulate towards a member's plan out-of-pocket maximum.
- Preventative services will be covered with no cost-sharing responsibilities for members:
    - Currently, the NDPERS plan has an annual wellness allowance of $200. Once this allowance is exhausted, preventative services are covered with a member cost share. This cost-sharing responsibility has been removed when analyzing the financial impact.
    - Additionally, preventative care will now include 100% coverage for breast pumps, an increase in coverage for childcare wellness visits, contraceptive medications regardless of formulary status, tobacco cessation, colonoscopies, and cancer screenings without any service limits. Previously, there services were not covered at 100% and included some service limits.

The development of the estimated claims impact utilized an internal Medical Rate Model, which includes medical and pharmacy benefit designs and is based on over 40 million active/non-Medicare retiree claims. The Medical Rate Model functions as a claims repayment model, applying detailed input plan provisions against the claims record database, effectively repricing the claims, and producing the expected plan claim payments versus allowed charges.

It is estimated the plan design changes required as a result of the proposed Bill would produce a 3.0% increase to the expected total claims paid *for State employees and non-Medicare retirees* covered under the Uniform Group Insurance Program (no change for other covered groups). This is the impact of increasing the richness of coverage under the plan. Additionally, an increase in the richness of benefits may lead to a bump in utilization. Members, once hearing about a richer benefit offering, may withhold utilization until the new plan provisions are active, which may lead to pent-up demand once the new benefits are in place. The estimated increase in cost due to this uptick in utilization is 1.0%. The combination of these two factors impacting claims would result in a **3.9% increase to premiums for the State Active and non-Medicare Retiree plans**.

The Political Subgroup plans and the Medicare population will not see an impact to their plan offerings as a result of Bill 142. Political Subgroups will still have access to the grandfathered plans and the Medicare population will have access to the same plans as they currently do. Therefore, these two groups will **not see any increase in premiums**.

When combining the impact of the premium increase to State Active and Non-Medicare Retiree plans to the current costs of the Political Subgroup and Medicare plans, the result is a **3.1% increase in total plan costs** for the Uniform Group Insurance Program. This anticipated change to the expected claims costs was applied to the estimated biennium claims cost for actives and pre-Medicare retirees enrolled in the PPO/Basic Grandfathered plan developed using 2023 – 2025 biennium costs and trending these costs forward to develop the 2025 – 2027 renewal rates.

The table below outlines the impact of Bill 142 for each subgroup under NDPERS:

Group	State Actives	Political Subgroups	Non-Medicare Retirees	Medicare	Total Cost
Status Quo 2025 -2027 Cost	$667,166,000	$132,048,000	$14,204,000	$50,426,000	**$863,844,000**
Plan Design Change Actuarial Value Adjustment	3.0%	No Impact	3.0%	No Impact	
Initial Utilization Change	1.0%		1.0%		
Adjusted Estimated Total Cost	$692,969,000	$132,048,000	$14,754,000	$50,426,000	**$890,197,000**
Estimated Total Cost % Impact	**3.9%**	**0.0%**	**3.9%**	**0.0%**	**3.1%**

It is estimated that the financial impact of the proposed legislation on the Uniform Group Insurance Program is approximately $26,353,000 in the 2025-2027 biennium ending 6/30/2027.

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