

**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

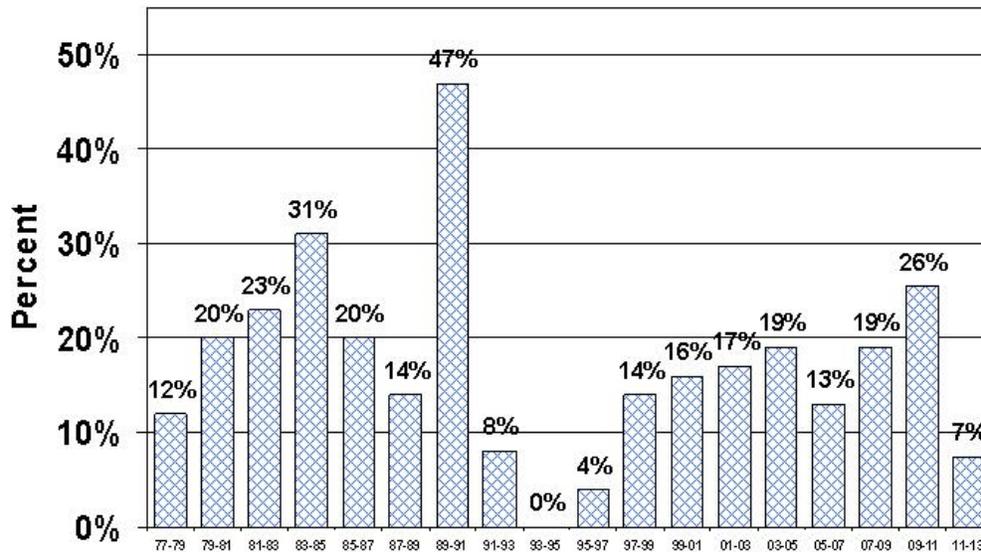
EMPLOYEES

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.

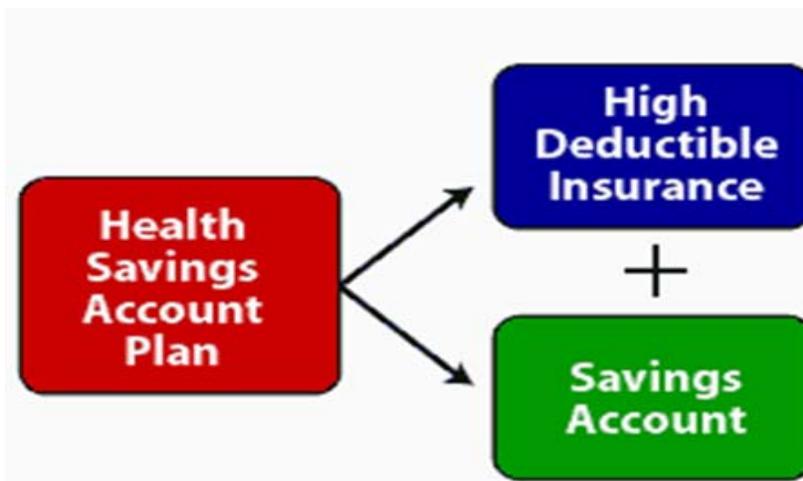
The following table is a history of those increases.



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.



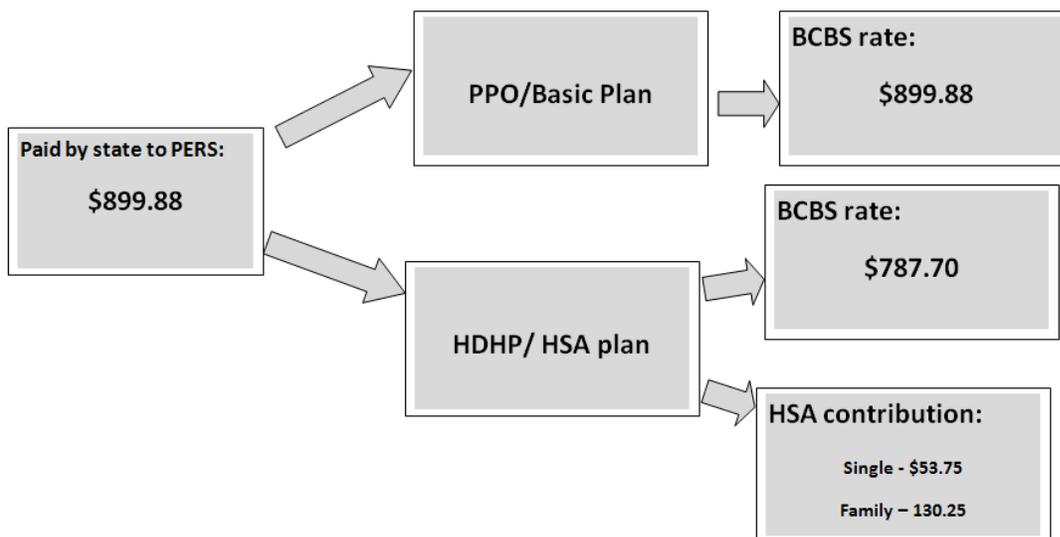
BCBS has indicated that adding this option would increase premiums about 1.5% or from \$886.62 to \$899.88 for the PPO plan. The PPO rate then becomes the premium for all agencies. While a lower rate is actually paid to BCBS for the HDHP, the difference in the premium billed and that paid to BCBS for 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.