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).

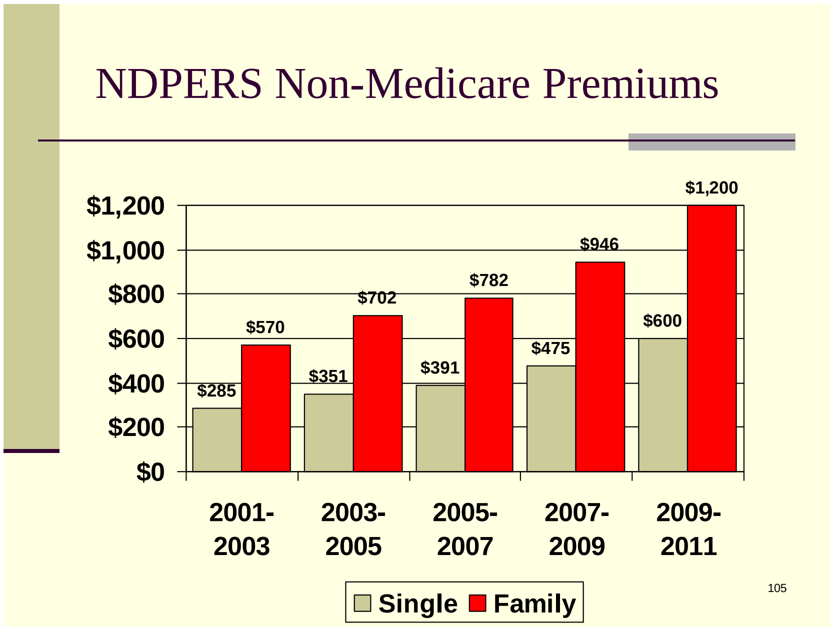
2. Allow the Board to receive separate bids for prescription drug coverage (Section 2 & 3).

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.

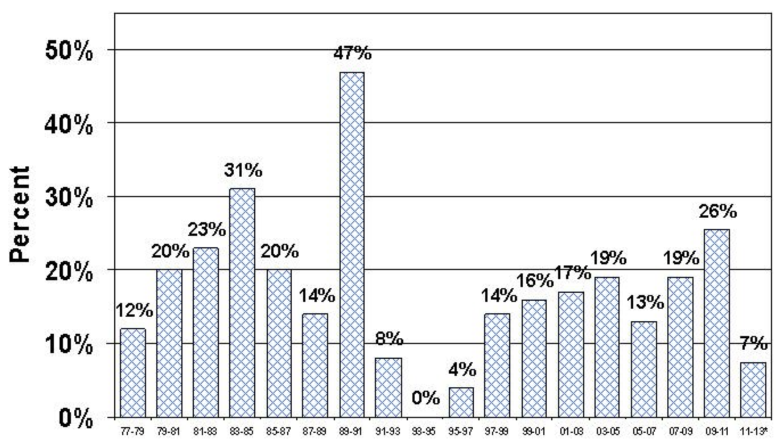
This bill would allow the Board to consider offering a lower cost plan that is more affordable for pre-Medicare retirees. The plan would be offered with a one-time open enrollment and then would be subject to continuation as specified in section 54-52.1-03. As this is a lower cost option and is intended 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:



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. *<u>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.</u>* 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.