

TESTIMONY OF
SPARB COLLINS
ON
HOUSE BILL 1071

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

House Bill 1071 relates to the PERS group insurance plan which includes the PERS health plan. The provisions of this bill include authority to address the new Medicare Rx program as it relates to our retiree plan and the other provisions are proposed to increase the competition to provide group insurance services to the State of North Dakota and to make the bidding process more effective and competitive. Some of the provisions of this bill were proposed last session and were unsuccessful. As proposed this session we have attempted to address those concerns with changes to the bill before you today.

Section 1 of the bill allows PERS to accept and expend funds from sources other than premiums. This section is proposed in recognition of the new Medicare law that may provide subsidies to plans such as PERS for continuing to providing Rx benefits to our retirees. Allowing PERS to accept these funds to the extent of availability would reduce the cost to our retirees.

Section 2 of the bill allows PERS to negotiate with bidders on both price and specifications. According to previous guidance from the Attorney General PERS can negotiate only negotiate on price. As noted in the actuarial and technical review done by the health consultant on this bill for the Legislative Employee Benefits Committee:

Regarding the provision in the bill to allow PERS to negotiate with bidders on price and specifications, this is a relatively common among other public sector employers that we have worked with. Some states such as New Mexico, allow a "best and final" offer after the initial proposal. Others allow the plan sponsor to negotiate with the finalist or finalists as part of contracting.

The present provision is very restrictive and may not get the best value for the state and that is why the proposed change is offered

Section 3 of the bill allows PERS to self administer the plan and allows PERS to have an independent provider network. PERS presently has a provider network but it is not portable. Having an independent network would be portable. Based upon concerns last session that PERS would allow others to use the network the proposal this time is being

limited to PERS use only. The health consultant noted the following in its review of this bill for the Legislative Employee Benefits Committee:

The last provision of this proposed bill would allow PERS to establish its own proprietary health provider network or work to make its existing network portable. As Gallagher Benefits Services has very recently experienced while conducting PERS' medical RFP project, no managed care organization other than BCBSND has an established statewide physician and hospital network. Financially, it is not feasible for other carriers to establish a provider network unless they were assured of PERS' business. Until such time as BCBSND agrees to allow other organizations to access the existing PERS PPO and EPO networks, it is unlikely that PERS will be able to attract other bidders on its medical plan. Please note that PERS does presently have its own PPO network and EPO networks that were developed with BCBS as part of the present PERS/BCBS insurance plan. Therefore, the issue is not that PERS needs to create its own PPO network but rather making its existing PPO network portable.

In recognition of the above and the concerns expressed last session PERS is proposing new language this time that will hopefully be acceptable and make the plan more competitive.

The provisions of this bill have been reviewed by the PERS actuary who has determined the provisions of this bill would have no adverse financial impact to PERS. In fact the consultant noted, "to the extent that this bill would create a more competitive environment for PERS' health plan business, it could result in lower costs. For example, if increased competition just reduced costs by ½%, the resulting savings to PERS would be almost \$1.2 million per year." These provisions have also been reviewed by the Legislative Employee Benefits Committee and given a favorable recommendation. The fiscal note for this bill indicates no fiscal effect. On behalf of the PERS Board I would request your favorable consideration of this bill. Mr. Chairman this concludes my testimony.