# STUDY OF STATE CONTRIBUTIONS TO STATE EMPLOYEE HEALTH INSURANCE PREMIUMS - BACKGROUND MEMORANDUM

## STUDY RESPONSIBILITIES

House Concurrent Resolution No. 3003 (attached as an appendix) provides for a study of the state contribution to the cost of state employee health insurance premiums, including the feasibility and desirability of establishing a maximum state contribution for state employee health insurance premiums and the effect of losing the state's grandfathered status under the federal Affordable Care Act. The responsibility for this study was assigned to the Government Finance Committee by the Legislative Management.

## PREVIOUS LEGISLATIVE STUDIES

The 2013-14 Government Finance Committee studied the state contribution to the cost of state employee health insurance premiums, including the feasibility and desirability of establishing a maximum state contribution for state employee health insurance premiums. The committee learned the state health plan is exempt from certain provisions of the federal Affordable Care Act as long as the plan's grandfathered status is continued. The committee learned the plan's grandfathered status may be lost if certain existing plan benefits are not maintained or if an employee is required to pay more than 5 percent of a single or family premium rate.

The 2013-14 Government Finance Committee recommended House Concurrent Resolution No. 3003, which was approved by the 2015 Legislative Assembly, to provide for the study of the state contribution to the cost of state employee health insurance premiums, including the feasibility and desirability of establishing a maximum state contribution for state employee health insurance premiums and the effect of losing the state's grandfathered status under the federal Affordable Care Act.

## BACKGROUND INFORMATION

North Dakota Century Code Chapter 54-52.1 provides group medical insurance is available to any employee who meets the eligibility requirements of being a permanent employee of the state. To be eligible, an employee must be at least 18 years of age, occupy a regularly funded position, work a minimum of 20 hours per week, and work at least 20 weeks each year. Temporary employees who work a minimum of 20 hours per week and 20 weeks per year may purchase health insurance at their own expense or the employing agency may pay the premium.

The 1963 Legislative Assembly enacted Chapter 52-12 which authorized state agencies, either individually or jointly with other agencies, to enter a group hospitalization and medical care plan and group life insurance plan for each agency's employees. The agencies were required to pay $5 per month for each participating employee's insurance premium. An employee could elect to participate in either a single or family plan. The 1971 Legislative Assembly repealed Chapter 52-12 and enacted Chapter 54-52.1 establishing the uniform group insurance program. The program was placed under the authority of the Public Employees Retirement Board. The board was required to solicit bids and contract for the provision of insurance benefits coverage with an insurance carrier determined by the board.

From 1971 to 1983, Blue Cross Blue Shield of North Dakota provided and administered the health insurance benefits plan for public employees. In 1983 the Retirement Board was authorized by Section 54-52.1-04.2 to establish a plan of self-insurance for providing health benefits coverage under an administrative services-only contract or a third-party administrator contract if the board determined during any biennium that a self-insured plan is less costly than the lowest bid submitted by an insurance carrier. The board exercised the option to implement a self-insurance health benefits plan and administered the program in that manner from July 1, 1983, through June 30, 1989.

Rising health care costs in the state were the primary reason for the cashflow difficulties experienced in the health benefits plan. In the 1985-87 biennium, the Legislative Assembly appropriated funds for a 20 percent premium increase, and claims costs increased 42 percent.

Although the Retirement Board began its administration of the self-insured health benefits plan on July 1, 1983, with reserves of $2,143,880, claim expenditures and other expenses of the program exceeded premium income and other revenue in 1984. By June 1987 the fund balance, as indicated in audited financial statements of the plan, was a negative $4,759,963 with estimated outstanding claims payable of $4,600,000.

In 1987 the Retirement Board incorporated various cost-containment components into the health benefits plan which included:

1. Implementation of a program of concurrent review of inpatient hospitalizations designed to eliminate unnecessary treatment or prolonged hospital stays and to allow consideration of less expensive appropriate treatment for long-term medical care.
2. Implementation of a program of mandatory second surgical opinions for certain elective surgeries. (This program did not generate anticipated results and after a one-year trial period was discontinued.)
3. Expansion of contract deductibles to include all inpatient, outpatient, and physician services.
4. Increase in the coinsurance base from the first $2,000 in charges to the first $4,000 in charges.
5. Implementation of a preferred pharmacy program.
6. Establishment of a separate premium rate for retirees, based on retiree claims experience.
7. Introduction of a $25 copayment for each hospital emergency room visit.
8. Adjustment of the Medicare coordination of benefits formula applied to retiree members of the plan.

Due to the introduction of these cost-containment initiatives and the availability to public employees of a number of attractive health maintenance organization plans, approximately 3,350 membership contracts constituting 23 percent of the total contracts of the health benefits plan were lost during the 1987 open enrollment period, resulting in a decrease of approximately $563,000 per month in premium income.

The decision by the Medcenter One HMO, a health maintenance organization that had the largest Public Employees Retirement System (PERS) eligible enrollment, to discontinue its participation agreement with PERS as of July 1, 1988, and substantial increases in premiums charged by other health maintenance organizations resulted in a substantial number of public employees choosing the PERS health benefits plan during the 1988 open enrollment period.

In January 1989, the Retirement Board voted to end the state-funded health insurance program and buy the coverage from Blue Cross Blue Shield of North Dakota. Officials of PERS predicted the state would end the 1987-89 biennium with a $3.5 million deficit and would need to increase premium rates by 65 percent in 1989-91. The Blue Cross Blue Shield bid of about $35 million to fund state employees' health insurance for the 1989-91 biennium included provisions that the company would absorb about $5 million in unpaid claims when it took over in July 1989.

Senate Bill No. 2026 (1989) appropriated $1.2 million from the fund for unemployment compensation claims to PERS for the state group health program for the period beginning January 1, 1989, and ending June 30, 1991.

Until 1993 the health insurance program charged premiums based on each employee's election of a single or family plan. Beginning in the 1993-95 biennium, the Retirement Board began to charge a combination rate that is a blended rate per employee whether a single or family plan is chosen. The blended rate enables agencies to budget the same premium rate for all employees; therefore, an agency's budget is not adversely affected if an employee electing to receive single health insurance coverage quits and is replaced by an employee electing to receive family coverage. The schedule below shows the premiums charged since the program began in 1963.

| Biennium | Single Plan | Percentage Change | Family Plan | Percentage Change | Combination Rate | Percentage Change |
|---|---|---|---|---|---|---|
| 1963-65 | $5.00 | | $21.00 | | | |
| 1965-67 | $8.55 | 71.0% | $21.50 | 2.4% | | |
| 1967-69 | $10.75 | 25.7% | $25.00 | 16.3% | | |
| 1969-71 | $14.45 | 34.4% | $34.90 | 39.6% | | |
| 1971-73 | $15.95 | 10.4% | $41.90 | 20.1% | | |
| 1973-75 | $14.46 | (9.3%) | $41.90 | 0.0% | | |
| 1975-77 | $19.50 | 34.9% | $59.95 | 43.1% | | |
| 1977-79 | $25.50 | 30.8% | $67.42 | 12.5% | | |
| 1979-81 | $34.84 | 36.6% | $87.40 | 29.6% | | |
| 1981-83 | $42.68 | 22.5% | $107.07 | 22.5% | | |
| 1983-85 | $50.28 | 17.8% | $140.28 | 31.0% | | |
| 1985-87 | $60.00 | 19.3% | $168.00 | 19.8% | | |
| 1987-89 | $68.28 | 13.8% | $191.28 | 13.9% | | |
| 1989-91 | $99.82 | 46.2% | $280.39 | 46.6% | | |
| 1991-93 | $108.00 | 8.2% | $304.00 | 8.4% | | |
| 1993-95 | | | | | $254.00 | |
| 1995-97 | | | | | $265.00 | 4.3% |
| 1997-99 | | | | | $301.00 | 13.6% |

| Biennium | Single Plan | Percentage Change | Family Plan | Percentage Change | Combination Rate | Percentage Change |
|---|---|---|---|---|---|---|
| 1999-2001 | | | | | $349.72 | 16.2% |
| 2001-03 | | | | | $409.09 | 17.0% |
| 2003-05 | | | | | $488.70 | 19.5% |
| 2005-07 | | | | | $553.95 | 13.4% |
| 2007-09 | | | | | $658.08 | 18.8% |
| 2009-11 | | | | | $825.66 | 25.5% |
| 2011-13 | | | | | $886.62 | 7.4% |
| 2013-15 | | | | | $981.69 | 10.7% |
| 2015-17 | | | | | $1,130.22 | 15.1% |

From 1963 through 1969, the state contributed $5 per month toward the cost of health insurance for state employees. State employees paid any additional amount for single or family coverage. During the 1969-71 biennium, the state contributed $7.50 per month. For the period 1973 through 1979, the state paid the cost of a single health insurance plan. Employees choosing a family plan paid any additional cost. Since 1979 the state has paid the full cost of either a single or family plan for eligible state employees.

The schedule below provides information on health insurance premiums and the cost of health insurance increases since the 1997-99 biennium.

**State Employee Health Insurance Increases (Excluding Higher Education)**

| Biennium | Monthly Premium | Increase From Previous Biennium | Percentage Increase | General Fund | Special Funds | Total |
|---|---|---|---|---|---|---|
| 1997-99 | $301 | $36 | 13.6% | $7,026,674 | $3,619,802 | $10,646,476 |
| 1999-2001 | $350 | $49 | 16.2% | $6,989,537 | $3,858,174 | $10,847,711 |
| 2001-03 | $409 | $59 | 17.0% | $11,182,551 | $6,001,252 | $17,183,803 |
| 2003-05 | $489 | $80 | 19.5% | $8,027,122 | $8,258,216 | $16,285,338 |
| 2005-07 | $554 | $65 | 13.4% | $5,335,798 | $7,903,870 | $13,239,668 |
| 2007-09 | $658 | $104 | 18.8% | $9,115,817 | $12,346,031 | $21,461,848 |
| 2009-11 | $826 | $168 | 25.5% | $15,889,790 | $20,215,824 | $36,105,614 |
| 2011-13 | $887 | $61 | 7.4% | $7,179,809 | $5,995,847 | $13,175,656 |
| 2013-15 | $982 | $95 | 10.7% | $11,127,312 | $9,700,989 | $20,828,301 |
| 2015-17 | $1,130 | $148 | 15.1% | $19,877,362 | $14,316,411 | $34,193,773 |

As of July 2015, there were approximately 15,177 active state health contracts, including higher education employees. Based on this number, total funding required for a biennium for health insurance premiums is $411,680,375.

Excluding higher education, state agencies budgeted for 9,627 state health contracts for the 2015-17 biennium. Based on this number, total funding for health insurance premiums for the 2015-17 biennium is $261,135,071, of which $151,766,345 is from the general fund.

## High-Deductible Health Plan

Section 54-52.1-18, as enacted by the 2011 Legislative Assembly, requires the Retirement Board to develop and implement a high-deductible health plan with a savings account as an alternative to the regular health insurance plan. The section requires the difference between the cost of the high-deductible health plan premium and the regular health plan premium for single and family health plans to be deposited in a health savings account for the benefit of the participating employee. The high-deductible health plan has higher annual deductibles and larger out-of-pocket costs which are partially offset by the employer contribution to the health savings account. The health savings account is not subject to federal income tax at the time of deposit and funds may be carried over and used in subsequent years. The account is owned by the participant, the state makes contributions to the account, there is no fund balance limit, funds in the account continue into subsequent years if not used, and the account is portable if the employee discontinues employment with the state. The state currently contributes $60.74 per month into the account for employees with a single plan and contributes $147 per month into the account for employees covered under a family plan. As of May 2015, there were 164 employees enrolled in the high-deductible health plan.

## Calculation of Health Insurance Premiums

During the spring and summer of even-numbered years, PERS begins the process to obtain bids for state employee health insurance policies for the following biennium. Bids are normally returned in August, reviewed by

PERS, and then submitted to the Office of Management and Budget for inclusion in the executive budget. Bids received for health insurance premiums generally include several options that may affect the amount of the premium. Options include changes in deductible amounts, coinsurance amounts, copayment amounts, and prescription drug benefits. The health insurance plan may also have reserves that can be used to buy down the cost of premiums.

### Health Insurance Premiums Paid by Political Subdivisions

The percentage of a single health insurance plan paid by political subdivisions in the state ranges from 75 to 100 percent. The percentage of a family health insurance plan paid by political subdivisions in the state ranges from 41 to 100 percent.

### State Employee Health Insurance Premiums Paid by Other States

The average monthly cost of a standard individual health insurance policy in other states in 2012 was $562.69, with the state paying on average $492.50 and the employee paying on average $70.40. The average monthly cost of a family health insurance policy in other states in 2012 was $1,412.52, with the state paying on average $1,111.74 of the premium and the employee paying on average $300.50.

### Federal Affordable Care Act

The state health plan is exempt from certain provisions of the federal Affordable Care Act as long as the plan's grandfathered status is continued. The plan's grandfathered status may be lost if certain existing plan benefits are not maintained or if the employer contribution to employees' health insurance premiums is reduced by more than 5 percent from the contribution rate in effect on March 23, 2010. If an employee is required to pay more than 5 percent of a single or family premium rate the state plan also may lose its grandfathered status.

### Estimated Employee Costs Based on Percentage Contributions for Premiums

State agencies are charged a blended rate of $1,130.22 per month for a state employee's health insurance premium. The blended rate is based upon a single health insurance plan rate of $543.28 per month and a family health insurance plan rate of $1,311.74. As of March 2014, there were 3,433 employees with a single plan and 11,744 employees with a family plan. The schedule below details the monthly cost to state employees if they were required to pay a percentage of their health insurance premiums.

| Monthly Premium[1] | 1 Percent of Premium | 2 Percent of Premium | 3 Percent of Premium | 4 Percent of Premium | 5 Percent of Premium |
|---|---|---|---|---|---|
| Single plan - $543.28 | $5.43 | $10.87 | $16.30 | $21.73 | $27.16 |
| Family plan - $1,311.74 | $13.12 | $26.23 | $39.35 | $52.47 | $65.59 |

[1]Reflects monthly premiums for the 2015-17 biennium.

The table below details the estimated biennial amounts that would be paid by state employees if they were required to pay a percentage of health insurance premiums.

| Estimated Total Biennial Amounts to Be Paid by State Employees for Health Insurance Based on Percentage of Premium Paid | | | | | | |
|---|---|---|---|---|---|---|
| | Number of Plans | 1 Percent | 2 Percent | 3 Percent | 4 Percent | 5 Percent |
| Single plan | 3,433 | $447,619 | $895,239 | $1,342,858 | $1,790,477 | $2,238,096 |
| Family plan | 11,744 | 3,697,218 | 7,394,436 | 11,091,654 | 14,788,872 | 18,486,089 |
| Total | 15,177 | $4,144,837 | $8,289,675 | $12,434,512 | $16,579,349 | $20,724,185 |

## STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study of the state contributions for state employee health insurance premiums:

1. Receive information regarding historical costs for state employee health insurance premiums and estimated future premium costs, including information on changes to out-of-pocket expenses.
2. Receive information from PERS regarding changes to the health insurance plan that may cause the plan to lose its grandfathered status under the federal Affordable Care Act.
3. Receive information from PERS regarding the financial effect, effect on covered services, and other effects of losing the state's grandfathered status under the federal Affordable Care Act.
4. Receive testimony from interested persons regarding the study.

5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

ATTACH:1