PUBLIC EMPLOYEE HEALTH INSURANCE PLAN STUDY - BACKGROUND MEMORANDUM

STUDY CHARGE

By directive of the Legislative Management, the Health Care Reform Review Committee is charged with studying the public employee health insurance plan, including the feasibility and desirability of transitioning to a self-insurance plan to provide health benefits coverage. The study must include a review of the current plan and consideration of the costs and benefits of the current plan compared to the costs and benefits of a self-insurance plan.

PREVIOUS LEGISLATIVE STUDIES

Although the topic of the Public Employees Retirement System (PERS) transitioning from a fully insured to a self-insurance health insurance plan to provide health benefits coverage has not been studied by the Legislative Management in recent history, the Legislative Management's interim committees and the Employee Benefits Programs Committee have conducted studies relating to public employee health benefits coverage.

Legislative Management Interim Studies

During the 2013-14 interim, the 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 received information the state health insurance plan is exempt from certain provisions of the federal Affordable Care Act (ACA) 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 an employee is required to pay more than 5 precent of a single or family premium rate.

The 2013-14 Government Finance Committee recommended and the Legislative Assembly approved House Concurrent Resolution No. 3003, which provided 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 ACA.

Although the 2015-16 Health Care Reform Review Committee considered a bill draft to remove the statutory requirement the state fund 100 percent of the cost of state employee health insurance premiums, the committee did not make any recommendations relating to this study.

Statutory Committee - Employee Benefits Programs Committee

The Employee Benefits Programs Committee is a statutory committee that receives status reports from PERS, including the activities of the PERS Board relating to the public employee health benefits coverage, and reviews bill drafts and bills that may affect public employee health benefits coverage.

During the 2013-14 interim, PERS reported to the committee on the status of the PERS request for proposals for health benefits coverage for the 2015-17 biennium. This 2014 solicitation is the most recent request for proposal for public employee health benefits coverage. This solicitation included a request for a fully insured plan as well as for a self-insurance plan. Ultimately, the PERS Board awarded Sanford Health Plan a contract for a fully insured plan. This 2-year contract with Sanford Health Plan has the option of up to two 2-year renewals. The contract was renewed to provide coverage for the 2017-19 biennium. It is likely during the summer of 2018 the Employee Benefits Programs Committee will receive status reports from PERS on the PERS Board's review of Sanford Health Plan's performance under the current contract, an analysis of proposed rate increases for the 2019-21 biennium, and possible contract renewal or solicitation of bids.

PUBLIC EMPLOYEE HEALTH BENEFITS

North Dakota Century Code Section 54-52.1-04 directs the PERS Board to receive bids for providing hospital benefits coverage, medical benefits coverage, and prescription drug coverage. The required coverage is frequently referred to as health benefits coverage. In contracting for health benefits coverage, the board is directed to contract with the carriers that, in the judgment of the board, best serve the interests of the state and its eligible employees, taking into consideration:

- The economy to be effected;
- The ease of administration;
- The adequacy of the coverages;

- The financial position of the carrier, with special emphasis as to its solvency; and
- The reputation of the carrier and any other information that is available tending to show past experience with the carrier in matters of claim settlement, underwriting, and services.

Notwithstanding Section 54-52.1-04, under Section 54-52.1-04.1 the PERS Board may contract with one or more health maintenance organizations to provide health benefits coverage, or under Section 54-52.1-04.2 may provide the coverage through self-insurance.

Recent History

The PERS Board has contracted to provide health benefits coverage through a fully insured plan from July 1989 to the present. Before July 1987, the coverage was provided through self-insurance; however, the plan exhausted its funding during the 1987-89 biennium resulting in the change to the fully insured plan. The PERS Board contracted with Blue Cross Blue Shield of North Dakota from July 1989 through June 2015 and with Sanford Health Plan from July 2015 to the present.

Although the PERS health benefits coverage technically is provided through a fully insured plan, it is actually provided though a modified fully insured plan. Because of the large size of the group, PERS historically has been able to negotiate a gain sharing and loss corridor provision - 50/50 in the first $6 million of loss and the remainder of the loss to the carrier and 50/50 in the first $3 million of gain and the remainder to PERS. With the most recent contract renewal for coverage during the 2017-19 biennium, PERS shares in any gain, but does not share in any loss.

Self-Insurance Option

Section 54-52.1-04.2 provides if the PERS Board determines a self-insurance plan is less costly than the lowest bid submitted by a carrier for underwriting the plan with equivalent contract benefits, the board may establish a self-insurance plan for providing health benefits coverage. This analysis likely would take place at the time the board reviews bids received as part of the rebidding of the contract. If the board finds self-insurance is less than the lowest bid, the board is not required to establish a self-insurance plan, because the law is permissive.

Requirements

If the PERS Board establishes a self-insurance plan, the plan must be offered through an administrative services only plan or a third-party administrator plan, and the plan may be for all of the health benefits coverages, with or without prescription drug coverage, or may be limited to prescription drug coverage.

If the PERS Board establishes a self-insurance plan:

- The bid period must close by January 1 of an odd-numbered year, and the award must be made by March 1 of that year.
- The board is required to solicit a bid once every other biennium; however, the board may renegotiate an existing plan during the interim.
- Individual stop-loss coverage must be made a part of the plan.

Contingency Reserve Fund

Under Section 54-52.1-04.3, if the PERS Board establishes a self-insurance plan, the board also is required to establish a contingency reserve fund to provide for adverse fluctuations in future charges, claims, costs, or expenses of the plan. The board is required to establish a balance amount necessary for claims paid, between 1.5 and 3 months of claims paid. In addition, the board is required to establish an additional balance amount necessary for claims incurred, but not yet reported, between 1 and 1.5 months. Upon the initial changeover from a contract for insurance to a self-insurance plan, the board is required to have in place a plan that is reasonably calculated to meet the funding requirements within 60 months.

Political Subdivisions

If the PERS Board establishes a self-insurance plan, political subdivisions participating in the state's uniform group health benefits coverage under Section 54-52.1-03.1 also would transition to participate in the self-insurance plan. In practice, the move from a traditional insurance carrier to self-insurance would have very little impact on the political subdivision participants, as the participants would continue to pay a monthly premium regardless of whether self-insured. A political subdivision may withdraw from participation in the PERS health benefits coverage at any time; however, if at the time of withdrawal, the political subdivision has not completed 60 months of participation in the PERS plan, the political subdivision may be subject to additional costs for early withdrawal.

STUDY PLAN

The study charge requires the study of the public employee health insurance plan include a study of the feasibility and desirability of transitioning to a self-insurance plan to provide health benefits coverage. This study must include a review of the current plan and consideration of the costs and benefits of the current plan compared to the costs and benefits of a self-insurance plan.

To pursue this charge, the committee may consider:

- Contacting PERS and the current health benefits provider, Sanford Health Plan, to provide an overview of the current plan.
- Contacting PERS and private carriers to gather information regarding the pros and cons of retaining the current, fully insured plan versus transitioning to a self-insurance plan.
- Contacting PERS and private carriers to gather information regarding how the ACA and any changes made to the ACA may affect the current health plan, a non-grandfathered plan, and a self-insurance plan.
- Contacting PERS to review the current health benefit plan solicitation and renewal laws and timeline.