

COST-BENEFIT ANALYSES OF HEALTH INSURANCE MANDATES

Presented by: Mary Hoberg
Legal Counsel
North Dakota Insurance Department

Before: Interim Health Services Committee
Senator Judy Lee, Chairman

Date: October 9, 2014

TESTIMONY

Good morning, Madam Chairman and members of the committee. My name is Mary Hoberg, and I am Legal Counsel for the North Dakota Insurance Department. I worked on the procurement process that resulted in Commissioner Hamm's recommendation of a contractor for your consideration.

N.D.C.C. § 54-03-28 provides that a legislative measure introduced in the North Dakota Legislative Assembly which mandates health insurance coverage may not be acted on by any committee of the Legislative Assembly unless accompanied by a cost-benefit analysis performed by a qualified private entity.

The Insurance Department solicited proposals from 10 actuarial firms for the cost of performing a health insurance mandate cost-benefit analysis.

The Department's solicitation indicated that a mandated benefit cost-benefit analysis must include:

- The extent to which the proposed mandate would increase or decrease the cost of health care services;
- The extent to which the proposed mandate would increase the use of services;

- The extent to which the proposed mandate would increase or decrease the administrative expenses of insurers and the premium and administrative expenses of the insured; and
- The impact of the proposed mandate on the total cost of health care.

We asked the actuarial firms if they would:

1. Be able to perform cost-benefit analyses during the period November 2014 through April 2015; and
2. Be able to complete a cost-benefit analysis within two weeks of receipt of each initial request made by the Legislative Council for a given mandate and within seven days for each request thereafter related to the same mandate.

We also informed the actuarial firms contacted that there was no guarantee that cost-benefit analysis services would be needed during the defined time period.

The Insurance Department received one proposal, which was from Milliman. The Department reviewed the Milliman proposal, found it responsive, and has recommended it for approval.

Milliman was also the contractor for the 2011 and 2013 sessions. In the 2011 legislative session, the contractor Milliman provided one cost-benefit analysis dealing with autism benefits. In 2013 there were no cost benefit analyses done because there was no bill triggering the process.

The budgeted amount for this session is \$20,000, which is an increase from the amount budgeted in 2011 and 2013 (\$15,000).

Thank you and I would be happy to take any questions.



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August 20, 2014

Mary Hoberg
Legal Counsel
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Re: Proposal to Provide Health Insurance Mandate Cost-Benefit Analysis

Dear Mary:

Thank you for asking Milliman to present this informal proposal to provide health insurance mandate cost-benefit analysis for the North Dakota Insurance Department. As you know, we have provided such analyses to the Legislative Council in the past. This proposal documents the scope of services, timing, and fees.

Background

We understand that the North Dakota Insurance Department is soliciting informal proposals from qualified entities for the cost of performing a health insurance mandate cost-benefit analysis in support of the 64th Legislative Assembly. If any cost-benefit analysis is requested, it will most likely be performed during the legislative session, which goes from November 2014 through April 2015.

N.D.C.C. Section 54-03-28 provides that a legislative measure introduced in the North Dakota Legislative Assembly which mandates health insurance coverage may not be acted on by any committee of the Legislative Assembly unless accompanied by a cost-benefit analysis performed by a qualified private entity. Mandated health insurance benefits can include:

- Service mandates – Benefit or treatment mandates that require insurers to cover certain treatments, illnesses, services, or procedures. Examples include child immunization, well-child visits, and mammography;
- Beneficiary mandates – Mandates or defines the categories of individuals to receive benefits. Examples include newborns from birth, adopted children from the time of adoption, and handicapped dependents;
- Provider mandates – Mandates that require insurers to pay for services provided by specific providers. Examples include nurse practitioners, optometrists, and psychologists; or
- Administrative mandates – Mandates that relate to certain insurance reform efforts that increase the administrative expenses of a specific health care plan. Examples include information disclosures, precluding companies from basing policy rates on gender, and precluding insurers from denying coverage for reauthorized services.



Mary Hoberg
August 20, 2014

Scope of Services

Milliman will conduct for the Legislative Council, during the regular 2015 legislative session, a cost-benefit analysis of each legislative measure mandating health insurance coverage of services or payment for specified providers of services.

Upon receipt of a request for a cost-benefit analysis, we will:

- Estimate the extent to which the proposed mandate would increase or decrease the cost of the service;
- Estimate the extent to which the proposed mandate would increase the appropriate use of the service;
- Estimate the extent to which the proposed mandate would increase or decrease the administrative expenses of insurers and the premium and administrative expenses of insureds; and
- Estimate the impact of the proposed mandate on the total cost of health care.

Milliman Contact Person

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Milliman Qualifications

For more than 60 years, Milliman has pioneered strategies, tools, and solutions around the globe. One of the world's largest independent actuarial and consulting firms, we are recognized leaders who have helped shape significant changes in the markets we serve. Set apart by our independent ownership, we deliver -unbiased advice based solely on what's best for our clients. Internal Milliman policy requires us to first clear a conflict check before every project. This will be required upon receipt of any specific project involving health insurance coverage mandates to ensure that no conflicts exist.

Milliman insight reaches across global boundaries and multiple industries, offering specialized consulting services in healthcare, employee benefits, investment, life insurance and financial services, and property and casualty insurance. Our consultants serve a wide range of clients, with highly personalized service and a unique combination of actuarial and business expertise. With offices in principal cities worldwide, Milliman combines global experience with local knowledge.



Mary Hoberg
August 20, 2014

Milliman has more health insurance actuaries (270) that are members of the Society of Actuaries than any other consulting firm in the United States, making us the nation's leading actuarial consultant in that area of practice. We provide consulting services to a broad array of clients including commercial insurance companies, employers, government agencies, healthcare providers, medical groups, hospitals, HMOs, PPOs, and Blue Cross/Blue Shield plans.

Milliman has quickly become an industry leader in assisting clients with analyzing the impact of the Patient Protection and Affordability Care Act and its amendments. With numerous projects and discussion papers, Milliman professionals have been deeply involved with their clients and other organizations in the health care industry over the last several months. Many of these projects have involved use of Milliman's recently developed Health Care Reform model.

Summary of Milliman's Experience and References

In addition to our prior work for the Legislative Council, we have the following history and references:

Minnesota Comprehensive Healthcare Association: The Minnesota Comprehensive Health Association (MCHA) is Minnesota's high risk pool. We have been working with MCHA for the past seven years. Our work has included developing premium rates each year, in compliance with Minnesota laws pertaining to the high risk pool. This involves collecting premium and enrollment information from carriers operating in the marketplace and adjusting the rates to reflect differences between dozens of carrier benefit plans and MCHA's plans. Our work has also included a number of ad hoc projects such as developing adjustment factors to reflect proposed changes in benefits, developing area factors, and modeling the impact of health care reform.

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Director of Operations
Minnesota Comprehensive Health Association
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Phone: 952-593-9609

North Dakota Department of Human Services: We have been engaged by the North Dakota Department of Human Services (ND DHS) to perform various projects including a fee schedule analysis, development PACE premium rates, and assistance with a new disease management program. Our experience with these projects has provided substantial insight into the health care delivery system in the State of North Dakota as well as other departments within the State government.

Mr. Erik E. Elkins
Medical Services Division
North Dakota Department of Human Services
600 E. Boulevard Ave., Department 325

Bismarck, ND 58505
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701-328-2246

California Health Benefits Review Program: Milliman currently has a contract with the California Health Benefits Review Program (CHBRP) to review all proposed health benefit mandates in California. CHBRP was created by the California legislature and is operated by the University of California. Milliman's role is to help health economists at UCLA estimate the marginal impact of this mandate on premiums and health care expenditures in California. University of California researchers draft separate analyses of the effectiveness and public health impact of each mandate.

Summary of Milliman's Strategy

We will make sufficient staff available and add staff, if necessary, to provide the Legislative Council and the Insurance Commissioner each with a completed cost-benefit analysis within two weeks of receipt of each initial request made by the Legislative Council for a given mandate and within seven days for each request thereafter related to the same mandate.

If any questions arise that would significantly impact the results of our analysis, we will submit our questions to the Legislative Council within three days of receipt of each initial request. Upon receipt of a satisfactory resolution of all questions, we will provide our completed cost-benefit analysis within seven days from that time or within two weeks from the date of the initial request, whichever is greater.

The work steps are summarized as follows:

1. Receive initial request from Legislative Council;
2. Acknowledge receipt of the request;
3. Provide questions within three days;
4. Receive responses to questions;
5. Provide results with seven days or two weeks, whichever is greater.

Tools: Milliman has developed and maintains the best health benefits pricing and benchmarking tools in the country. The primary tool is the Health Cost Guidelines™ ("HCGs"), for both commercial and over age 65 populations. The *Guidelines* have been published and continuously updated since the mid-1950s and provide a valuable resource for measuring and estimating health care cost components under a wide variety of scenarios.

In addition, Milliman supplements its HCGs by purchasing or using other databases and rating tools. The other databases and rating tools relevant to this project may include:

- FAIRHEALTH – contains allowed and billed charge amounts by procedure code and 3-digit zip code,
- Discharge data from all hospitals in approximately 20 states,
- MediSpan pharmacy claims data

- MEDPAR – contains inpatient hospital claim data for Medicare beneficiaries,
- Medicare 5% Sample, and
- Truven Health MarketScan database.

Each of these data sources has advantages and disadvantages, depending on the information needed. Together, the commercial databases include over 50 million commercial member years of historical claim data.

Personnel

We have put together a team of consultants and actuaries who we feel can provide you with the highest quality consulting services.

Leigh Wachenheim is a Principal and Consulting Actuary in the Minneapolis office. She has been with Milliman since 1994 and is very familiar with our professionals, as well as our tools and resources. As you know, Leigh was the author of the various cost-benefit analyses in years past. She will be the peer reviewer for this project and will offer expertise throughout.

Kent Roepke will be the project manager. Kent is a Consulting Actuary in the Minneapolis office with over 20 years of health care consulting experience.

We will also use additional staff members to do various work needed to complete this project. Additional staff members will be used primarily to perform data analysis and administrative functions.

Fees

Milliman charges for professional services based on the hours worked on a project and the experience level of the consultant doing the work. Each consultant has an hourly billing rate that varies based on the level of the experience of the consultant. Each cost-benefit analysis will require its own unique level of expertise and experience. We will strive to use the most efficient resources available given the specific nature of the mandate and the required timeframe.

I expect the cost for the cost benefit analysis of each mandate will be in the range of \$13,000 to \$16,000. If follow-up work is required for a particular mandate, I expect the cost for each follow-up analysis will be in the range of \$6,000 to \$8,000. As you requested, hourly rates are in the table below.



Mary Hoberg
August 20, 2014

Hourly Billing Rates
Rates for the Period July – December 2014
Confidential

Name	Title	Hourly Billing Rate
Leigh Wachenheim, FSA, MAAA	Principal & Consulting Actuary	\$550
Kent Roepke, ASA, MAAA	Consulting Actuary	\$480
Additional Staff	Various	\$150-\$300

We may involve other Milliman consultants with commensurate billing rates. These are our normal hourly billing rates for the period July – December 2014. Hourly billing rates will increase on January 1, 2015 as part of our normal annual cycle. Also, billing rates will increase for actuarial students as they work through the credentialing process.

Our cost estimate does not include any time spent on site or any travel expenses. Travel expenses, if required, are billed at cost. If it appears at any time that costs will exceed the high end of the range, we will contact you to discuss alternatives before proceeding.

If Milliman is one of the selected vendors, we would need to have a consulting services agreement in place before we can begin work. Milliman has certain contractual requirements pertaining to limitation of liability, third party distribution, choice of law, and others. We have negotiated a contract with the Department of Insurance in the past and would use that contract as a starting point.

Please contact me at 952-820-2474 or kent.roepke@milliman.com or Leigh Wachenheim at 952-820-2481 or leigh.wachenheim@milliman.com if you have any questions.

Sincerely,

Kenton J. Roepke, ASA, MAAA
Consulting Actuary