

2009 SENATE INDUSTRY, BUSINESS AND LABOR

SB 2276

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2276

Senate Industry, Business and Labor Committee

Check here for Conference Committee

Hearing Date: January 26, 2009

Recorder Job Number: 7722

Committee Clerk Signature

Eva Liebelt

Minutes:

Chairman Klein: Called IBL back to order. We will hear SB 2276.

Senator Potter: Written Testimony attached. In Favor.

Chairman Klein: Why would I need to know that?

Senator Potter: Most don't understand loss ratio; it's not a silver bullet. You're at the age for a higher policy. Basis of what the company is offering to the public.

Chairman Klein: Is this something we can't ask about now?

Senator Potter: It is allowed. Every policy came in with a loss ratio on the filing, let the consumer know.

Senator Nodland: How will this help me as a consumer?

Senator Potter: You will know the percentage of money that is going to you and what is going to the policy.

Senator Andrist: You talk about loss ratio and I generally believe it should not be controlled that tightly. You said this is just about disclosure but how much extra work will this be for the insurance department?

Senator Wanzek: Disclosure of more information, would this not add more administrative cost that would add more dollars to the loss ratio?

Senator Potter: They already produce this. Just give this information to the consumer.

Senator Andrist: A third of those companies actually loss business in North Dakota last time I looked. Is there really a science where they can actually estimate their loss ratio?

Senator Potter: There is a science that is predictive. The actual experience is random. The smaller amount of business than the larger insurance company. It doesn't hold their feet to the fire.

DanUlmer, Blue Cross/Blue Shield of ND: Written Testimony Attached. In support of the bill.

Discussion followed.

Don Morrison, North Dakota People. Org.: The insurance industry is one of the most powerful and important in our world. The policy discussions are becoming more secret. This bill provides common sense in profits verses premiums. The consumer should have more knowledge and information given to them.

Pat Ward, AFLAC Insurance: Written Testimony Attached. In opposition of the bill.

Discussion followed about the consumer and what they really want to know. They are looking at what is this going to cost me and what am I going to get.

Michael Fix, Life and Health Director: Neutral. Ask yourself is this helpful to the consumer?

It could get to be a lot for the insurance companies. When the policy holder or consumer has questions that need to be answered. What are my premiums and benefits and what is going to be excluded.

Senator Andrist: How will this affect the administrative cost of your office?

Michael: It will make more work.

Chairman Klein: Close Hearing on Senate Bill 2276.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2276

Senate IBL Committee

Check here for Conference Committee

Hearing Date: February 2, 2009

Recorder Job Number: 8376

Committee Clerk Signature

Eva Liebelt

Minutes:

Chairman Klein: Opened Senate hearing on SB 2276, Senator Behm absent.

Senator Potter: This is the bill that would be easier to pass, which states the loss ratio should be disclosed.

Chairman Klein: Aflac was against it because it would create consumer confusion.

Senator Andrist: When I get a renew notice for my insurance policy, I would like 1 page to tell me what it does. We don't need another page to tell what the outcome is.

Senator Wanzek: I believe there is no harm in letting the consumer know more but I don't see any benefit to this bill. What is the coverage, how much it will cost?

Chairman Klein: We hope we find out what is not covered.

Senator Nodland: I come from a rural area and most of us trust or local agent. All we want to know is what our policy covers and what the premium is. If the policy doesn't pay, there are other local agents in town. We like that information but we don't need to add more.

Senator Potter: I would like to acknowledge he says a lot of what's correct, but it obviously had to explain it to this committee it not going to be something the consumer is going to be excited about. This is one method that allows you to know what it costs. This is an easy fix.

Senator Wanzek: Made motion to Do Not Pass

Senator Andrist: Seconded motion.

Chairman Klein: Bill received 4-2 vote for a Do Not Pass, with Potter & Horne in opposition,
Behm absent

Date: 2/2/09
Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2276

Senate

Committee

Industry, Business and Labor

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Pass Do Not Pass Amended

Motion Made By Senator Wanzek Seconded By Senator Andrist

Senator	Yes	No	Senator	Yes	No
Senator Jerry Klein - Chairman	✓		Senator Arthur H. Behm		
Senator Terry Wanzek - V.Chair	✓		Senator Robert M. Horne		✓
Senator John M. Andrist	✓		Senator Tracy Potter		✓
Senator George Nodland	✓				

Total (Yes) 4 No 2

Absent 1

Floor Assignment Senator Klein

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 2, 2009 4:53 p.m.

Module No: SR-30-1441
Carrier: Klein
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2276: Industry, Business and Labor Committee (Sen. Klein, Chairman) recommends DO NOT PASS (4 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). SB 2276 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

SB 2276

Testimony of Sen. Tracy Potter to the Senate Industry, Business and Labor Committee on SB 2276, January 26, 2009

Mr. Chairman and members of the esteemed Senate Industry, Business and Labor Committee, SB 2276 is a piece of pro-consumer legislation. It is intended to provide North Dakota health insurance consumers with the most basic piece of information about an insurance policy - what percentage of premiums will go to pay claims.


In economics class they teach about *homo economicus*, rational economic man. The invisible hand of the market moves in the direction of increased human happiness and progress because individuals make rational economic decisions. That works better in some sectors than in others. Computers, cell phones and the progress of technology in recent decades got a boost from the invisible hand. It doesn't work so well in health care ... or in health insurance. I'm not one to dispute Adam Smith on this, but the fundamental requirement for making rational economic decisions is information.

Insurance policy terms are worked over by actuaries who predict the number and severity of claims that will be filed under those terms. Then insurance companies set premiums sufficient to cover those anticipated claims, or losses; add necessary costs of administration; and whatever the market will bear for company profits. The result of all this math work is an anticipated loss ratio. That is, the anticipated loss ratio is the predicted percentage of claims paid cents per dollar of premium paid.

Anticipated loss ratio is the best way to rate an insurance policy. While an individual, here or there, might be better off because they paid lower premiums and had no illness or accident, society and the economy as a whole benefits when health insurance premiums go to pay for health care. The percentage of the GDP going to health care and the percentage of family budgets going to health care are high enough without also financing insurance company profits and bureaucracy. So, it is in society's interest to see that health insurance is run as efficiently as possible.

In North Dakota we have long recognized that having a standard for loss ratios on health insurance is an appropriate function of government. Last legislative session we lowered that standard, based on the idea that lowering the loss ratio standard would create healthy competition. But if a policy or a company is not aimed to meet high standards, any competition they offer is not healthy. We don't need competition by confusion, or by cherry-picking. And those are the only kinds of competition available to a company offering low anticipated loss ratios. That's what this policy discloses, the anticipated loss ratio not the actual loss ratio.

You will have before you, following this bill, a second one which sets anticipated loss ratio standards higher than they are in code today. The standards are easily met by the state's leading health insurer and its only real competition. Medica's VP of Regional Health Services reported using only 7.5 cents of premium dollar (North Dakota Medical Association *Checkup*, December, 2006) for administration. I believe that if we ask the Blues, they'll tell you current loss ratios are over 100%, and their standard anticipated loss ratio is always over 85% on group plans.



That's just for comparison. You could have a healthy competition between Medica and the Blues over which can offer the most cost-efficient plan, even under a serious loss ratio standard.

But without that higher standard, and especially because we don't have it, this piece of legislation is needed. Consumers have the right to be informed - just like how many cents per ounce in the grocery store, they should know how many cents per dollar are likely to go to the services they are insuring for.

I thought this legislation was of my own device and imagination. I was disappointed to learn that somebody else thought of it first. The state of Minnesota requires precisely this kind of disclosure, and their methods could be borrowed by our Insurance Department, as the Commissioner sets up the rules for implementing the law.

Mr. Chairman, I'll stand for questions.



Senate Bill 2276

For the record, I'm Dan Ulmer representing Blue Cross Blue Shield of North Dakota. Insurance policy loss ratios have been debated off and on for a number of legislative sessions and over the years they have become a key component in determining whether or not premiums are reasonable in relation to the benefits provided by an insurance product.

Therefore the Insurance Department is charged with closely scrutinizing the loss ratios of every health insurance company's rate filings before the Insurance Commissioner approves the requested premium rates.

Loss ratios are calculated to determine how much of a given premium dollar actually covers the benefits in the policy that consumers purchase. Basically, if a policy has a 90% loss ratio that means that for every dollar the company collects it returns \$.90 in benefits and spends \$.10 on administrative processing requirements.

Senate Bill 2276 essentially requires that all health insurers inform their existing and potential members by posting the products' projected loss ratios in clear language in a noticeable position on everyone's health insurance policy.

We at BCBSND believe our members have a right to know how much value their premium dollar will return in benefits and therefore support Senate Bill 2276.

Finally, for the record, other states, in particular Minnesota, already require this.

Respectfully submitted

Dan Ulmer
BCBSND Lobbyist #93

TESTIMONY OF PATRICK WARD IN OPPOSITION TO SB 2276

Senate IBL Committee

January 26, 2009

Chairman Klein and Members of the Committee.

My name is Patrick Ward and I appear in opposition to SB 2276. I represent Aflac Insurance. I am also proud to be an Aflac policyholder.

SB 2276 would require insurance companies to disclose the anticipated loss ratios for the plan. It requires disclosure of this information to the insured at an initial policy application or anytime the plan's premiums change thereafter. The disclosure must be provided in clear language that makes it clear what portion of premium covers administration and profit.

Similar to testimony we will give on SB 2314, we believe that minimum loss ratios are not one size fit all and that small premium policies cannot support high minimum loss ratios. Such limitations do not adjust for premium size, will limit innovation, and will make some types of valuable coverage unavailable in the market.

Disclosure of anticipated loss ratio at point of sale would be highly confusing to customers. It is not comparable with other types of coverage. Loss ratio estimates are an incomplete measure of the value of an insurance policy. For

instance; rate increase history, renewal type, and claims payment ability are just a few other factors that should also be evaluated. Customers are protected by comprehensive regulation of insurance companies by the State Insurance Department. The Insurance Department can regulate and oversee these matters in rate filings and form filings and also through rulemaking. We compliment the department on the good job that they do.

When purchasing an insurance policy for a limited benefit type policy, the information consumers want to know is what the premium is going to cost them and what benefits will be available in the case of the covered event. Aflac policies are guaranteed renewable which means they are not canceled unless the premium is not paid. Also the premium rates are level and are not increased except by policy class on a statewide basis which would require DOI approval as well.

I recently benefited greatly from a supplemental cancer coverage policy I had purchased from Aflac at work. I was diagnosed with prostate cancer last year and underwent surgery at Mayo Clinic. Aflac stepped in above my Blue Cross Blue Shield coverage and paid many supplemental benefits which were very, very appreciated during the time I had to take off of work.

Limited benefit policies should be exempt from this section of the code that relates to accident and health insurance loss ratios for major medical policies

which are renewed annually usually with premium adjustments based on claims experience.

Please vote a do not pass on SB 2276.

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