

PUBLIC EMPLOYEES RETIREMENT SYSTEM - HEALTH INSURANCE RESERVE FUND

Pursuant to North Dakota Century Code Section 54-52.1-06, the Public Employees Retirement System (PERS) Board is required to establish a separate fund for any refund, rebate, dividend, experience rating allowance, discount, or any other reduction of a premium amount, which relates to the uniform group insurance program. The funds may be used by the PERS Board to reimburse the administrative expenses relating to the uniform group insurance plan.

Money in this fund is available to the PERS Board to:

- Allow the option for the PERS Board or the Legislative Assembly to change the health insurance plan to a self-insured plan (a reserve balance is required);
- Reduce the premium rates charged to agencies; and
- Cover increased premiums during the interim in the event a federal or state health insurance mandate would require a premium increase beyond the amounts anticipated by the Legislative Assembly when approving state agency budgets.

ACCUMULATION OF RESERVE BALANCE

Contracts between PERS and the health insurance carrier include gain sharing provisions if premiums paid exceed claims incurred during the biennium.

- If the premiums paid exceed the claims paid (which include administrative fees, fees for the disease management program established under Section 54-52.1-17, and wellness program fees), PERS receives 50 percent up to the first \$3 million and 100 percent for any amounts over \$3 million.
- If the premiums paid are less than the claims paid (which include administrative fees, fees for the disease management program established under Section 54-52.1-17, and wellness program fees), PERS pays 50 percent of losses up to \$6 million. Any losses over \$6 million are paid by the health insurance carrier. The provisions of the contracts require PERS to provide a \$3 million deposit with the health carrier for its share of potential losses.

The final accounting for each biennium (contract period) is completed 24 months later. The health plan experienced gains for the 2005-07 and 2009-11 bienniums and is projecting a gain for the 2011-13 biennium. At this time, PERS is also projecting a potential gain of \$1.8 million for the 2013-15 biennium, in addition to the \$3 million deposit which is anticipated to be returned from Blue Cross Blue Shield after July 1, 2017. Any potential gains for the 2013-15 biennium will not be finalized until July 1, 2017. The schedule below provides information regarding fund balances in the health insurance reserve since 2007.

	Health Insurance Reserve Fund
July 1, 2007, balance	\$1,540,648
July 1, 2009, balance	\$5,581,737
July 1, 2011, balance	\$5,943,183
July 1, 2013, balance	\$42,651,594 ¹
July 1, 2015, projected balance	\$43,076,395 ²

¹The July 1, 2013, balance includes a significant increase from the July 1, 2011, balance due to gain sharing provisions in the 2009-11 biennium. The 2009-11 biennium included a higher than usual settlement amount due to claims being substantially lower than anticipated during this biennium.

²The projected balance on July 1, 2015, includes at risk funds of \$9 million, which is at risk until July 1, 2015, and relates to the Blue Cross Blue Shield arrangement for Incurred But Not Reported health claims from the 2011-13 biennium, \$3 million currently held by Blue Cross Blue Shield for the 2013-15 biennium, which is at risk until July 1, 2017, and \$3 million which will be held by Sanford Health Plan for the 2015-17 biennium, and will be at risk until July 1, 2019. Excluding these amounts, the projected balance is \$28,076,395.

USE OF RESERVE FUND

For the 2013-15 biennium, PERS used \$10,951,457 of its reserve funds to buydown the health insurance premiums paid by state agencies and other plan members by approximately 2 percent, which totaled \$5,437,457 for the first year of the biennium and is anticipated to be approximately \$5,514,000 for the second year of the biennium. The 2 percent buydown included \$8,215,841 from the health insurance reserve and \$2,735,616 from funds available from the Early Retiree Reinsurance Program.

The Early Retiree Reinsurance Program funds became available as a result of federal health care reform which provided for a pre-Medicare retiree reinsurance program for eligible employer plans for which PERS qualified. The program reimbursed employers for 80 percent of eligible retiree claims between \$15,000 and \$90,000. The Public Employees Retirement System received the reimbursements totaling \$2,735,616 in 2011 and 2012. The federal program is no longer available.

The health insurance reserve funds are also used to provide a \$3 million deposit which is held by the health carrier for the potential claims that may exceed premiums pursuant to the contract, and for administrative expenses, fees for the disease management program established under Section 54-52.1-17, and wellness programs.