

86<sup>th</sup> Legislative Session – 2011

Committee: Joint Appropriations

Thursday, February 24, 2011

P - Present  
E - Excused  
A - Absent

Roll Call

P Sutton  
P Haverly  
P Heineman  
P Novstrup (Al)  
P Peters  
P Putnam  
P Rampelberg  
P Dennert  
P Wismer  
P Juhnke  
P Bolin  
P Romkema  
P Dryden  
P White  
P Tidemann  
P Carson  
P Brown, Vice-Chair  
P Wink, Chair

OTHERS PRESENT: See Original Minutes

The meeting was called to order by Representative Dean Wink.

**Bureau of Personnel Benefits Briefing**

**Ms. Sandra Zinter**, Commissioner of the Bureau of Personnel (BOP), introduced the staff members present at the meeting – **Mr. Dennis Studder**, Director of Employee Benefits; **Ms. Mary Weischedel**, Assistant Director of Employee Benefits, and **Ms. Mary Keeler**, Accounting Manager.

Distributed was a PowerPoint presentation explaining the South Dakota state employees health benefits for FY2012 (**Document #1**).

Commissioner Zinter stated that the state has a self funded health insurance plan. With this plan, the employer pays for claims out-of-pocket when claims are made. Employees do not pay an upfront premium, but pay 25% to 30% of the cost of the plan through co-pays, deductibles, co-insurance, penalty for tobacco users, and dependent premiums.

Some of the challenges of having a self funded health insurance plan that covers about 26,000 members include: contracting with providers and vendors, managing vendors, and handling employee concerns.

The health plan covers permanent fulltime and permanent part-time employees and their dependents, retirees who pay a premium until age 65, and COBRA members. The average age of a plan member is 35.09 and the average age of an employee on the health plan is 46.48. The reason for the lower plan member age is due to the dependents.

Currently, 878 members receive benefits outside of the state. Most of the plan members live in the Sioux Falls area, Rapid City area, or Pierre. Because many members live near the state borders, the state is trying to bring the health care claims in adjacent states under the current Dakota care network. This would be a financial savings for the state.

Commissioner Zinter stated that while active employees don't pay premiums, they pay for co-pays, co-insurances, penalties for tobacco use, and premiums for spouses and dependents.

**Representative Jim Bolin** asked about the monitoring of tobacco use. Commissioner Zinter responded that it is a self-monitoring, honor roll system. The employee indicates that they are a tobacco user during the annual health assessment. If a person in the community notices another employee using tobacco when they indicated they are not tobacco users, a form is sent to the supervisor and the employee needs to pay the tobacco user fee.

The state offers three different health plans:

- \$300 deductible/Co-pay plan;
- \$1,000 deductible plan; and
- \$2,000 deductible plan (HSA compatible).

\$300 Deductible Plan – Ms. Weischedel stated that about 70% of the membership are enrolled in the \$300 deductible plan. The total membership (including employees, spouses, and dependents) is 17,873. With this plan, employees pay 100% of the cost until the deductible is satisfied. Once the deductible is met, the plan begins to pay 75% of the medical cost. The out-of-pocket maximum per individual per plan year is \$2,500.

\$1,000 Deductible Plan – Ms. Weischedel said that approximately 25% of the membership are enrolled in this plan. The total membership (including employees, spouses, and dependents) is 6,300. The employees do not make co-payments under this plan and the employee pays 100% of the cost until the deductible is met. Once the deductible is met, the plan begins to pay 75% of the medical cost. The out-of-pocket maximum per individual per plan year is \$3,500.

Ms. Weischedel noted that the pharmaceuticals are separate and each member pays a \$50 deductible each plan year, then pays the co-pay after the deductible is met. The pharmaceutical deductible is applicable to both the \$300 and \$1,000 deductible plans.

\$2,000 Deductible Plan – Ms. Weischedel stated that 4.6% of the membership is enrolled in the \$2,000 deductible plan. The structure of this plan is set-up and is compliant with IRS standards for a health savings account plan. When members opt for this plan, they have the ability to establish a Health Savings Account (HAS) outside of the state health plan.

Under the \$2,000 deductible plan, the pharmaceuticals are included in the expenses to meet the deductible. There is not a \$50 deductible associated like the other two plans. Therefore a member will pay the full amount of the prescriptions until the \$2,000 deductible is met. The out-of-pocket maximum per individual per plan year is \$4,000 and \$8,000 for a family.

If an employee that selects this plan and provides proof that they are establishing an HSA, then there is an employer contribution of \$300. The employee can contribute a maximum of \$5,650 to the HSA. The amount for the IRS allowable for calendar year 2010 is a total of \$5,950. This amount will remain the same for 2011.

**Senator Deb Peters** asked if there are any incentives for an employee to select the \$2,000 deductible plan. Ms. Weischedel responded that the annual \$300 state contribution to the HSA is an incentive. Commissioner Zinter stated that the other incentive is that the dependent premiums are lower on the \$2,000 deductible plan.

Senator Peters requested a listing of the cost differential to the state to have the three plans and the cost for the employees to purchase the plans.

Commissioner Zinter explained the service partners that are associated with the health plan. They include:

- DakotaCare Administrative Services – the provider network;
- Express Scripts Inc. – prescription drug network which includes a formulary list of approved, pre-authorized medications;
- Health Fitness Corporation – includes the wellness and lifestyle information;
- Sanford Partner in Prevention – annual biometric screening to state employees which includes – blood pressure, height, weight, cholesterol, BMI, etc; and

- Health Management Partners – provides pre-authorization of services and case management of serious health conditions to ensure the case is being managed properly.

For FY2010, there were 5,713 (19.4%) members that did not have a claim. There were 15,913 (54.1%) of the members submitted claims totaling less than \$1,500 each; the average claim was \$355. Commissioner Zinter stated that 74% of the members had less than \$1,500 in claims for FY2010.

There were 6,056 (20.6%) members that had claims totaling between \$1,500 and \$9,999 each in FY2010. The average cost per member was about \$3,920 for this group of claimants.

Commissioner Zinter said that the last two columns of the chart on slide 10 of Document #1 is where the BOP focuses the office's effort on management. There are 1,446 (4.9%) of the members with claims between \$10,000 and \$49,999 each. The total amount of claims paid for this group is \$29,351,993; which is 32.5% of the entire state claims. There are 280 (1%) of the membership with claims totaling more than \$50,000 each. The total amount of claims paid for this group is \$31,665,592; which is 35% of the entire state claims. Therefore, about 6% of the membership generates over 67% of the medical claims.

Commissioner Zinter stated that the average claim cost is directly related to the age of the member. The BOP is working to encourage members to exercise, eat healthy, and take their prescribed medications.

Ms. Keeler explained the wellness and prevention services offered under the Latitude program. Senator Peters asked the BOP to provide the details for the longitudinal data program contracts.

Commissioner Zinter stated that slide 14 of Document #1 lists the plan changes for FY2012. The chiropractic co-pay will increase from \$25 to \$35 and there are some pharmacy formulary changes. Other areas the BOP is working on include:

- Renewing contracts with providers;
- Emphasis on wellness prevention programs; and
- Utilization of the Review and Case Management.

Commissioner Zinter noted that the BOP is not requesting an increased appropriation for the health insurance plan for FY2012.

Life Insurance – The state provides a \$25,000 life insurance policy per member. Employees are then able to purchase supplemental life insurance at five times the annual salary or up to \$400,000. Employees are also able to purchase \$10,000 in life insurance for dependents.

Commissioner Zinter explained the health Plan full accrual financial statement on slide 16 of Document #1. She noted that the FY2010 unaudited income statement, the FY2011 estimated income statement, and the FY2012 projected income statement all have expenses that exceed the total revenue. The largest portion of the health plan expenses is from the member claims. The claim expense has been relatively flat for the last two years – around \$92,000,000 – because of the vendor contracts and the wellness programs.

Commissioner Zinter noted that the BOP is able to carry-forward to the next fiscal year any over-recovery or under-recovery in allowable costs. The plan was able to breakeven in FY2010 and projecting to breakeven in FY2011. However, the BOP estimates that the plan will be short \$50,763 at the end of FY2012.

Representative Bolin asked if fees can be placed against other medically documented areas that increase the cost of health care. Commissioner Zinter responded that the state only has an additional fee for tobacco use. If the federal government informs the state that an issue or illness is appropriately documented as causing an increase in health care costs, then the BOP will address the issue.

In response to **Senator Phyllis Heineman's** question, Commissioner Zinter stated that according to statute, every state employee has to be on the state health plan unless can provide documentation showing they have other health coverage. The employees are able to select any of the three health care plan options. The total cost to the state is \$6,135 per member.

**Representative H. Paul Dennert** asked how many employees are not on the state health plan. Commissioner Zinter responded that about 300 employees have shown proof of other health insurance.

In response to **Representative Lance Carson's** question, Commissioner Zinter stated that it costs the state the same amount to ensure a full-time employee and a part-time employee. To reach a cost per person, the BOP takes that total cost of the plan and divides it by the total number of people in the plan. The BOP then bills the agencies for the number of employees in that department to recover the cost of the health insurance plan.

Commissioner Zinter stated that there are issues affecting the cost of the health care plan that the state is not able to control. Some of those costs include:

- Increasing inflation;
- Increasing costs of new medical treatments;
- Increasing costs of specialty drugs;
- Rising costs of hospital stays;
- Increasing utilization of the plan; and
- Increasing federal mandates.

Slide 18 of Document #1 compares that annual contribution per employee in South Dakota to the surrounding states. Commissioner Zinter stated that South Dakota has the lowest contribution rate in the area.

MOTION: ADJOURN

Moved by: Carson  
Second by: Juhnke  
Action: Prevailed by voice vote.

Lisa Shafer  
Committee Secretary

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Dean Wink, Chair