

**MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE
JOINT SUBCOMMITTEE ON GENERAL GOVERNMENT**

**Seventy-Second Session
February 24, 2005**

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on General Government, was called to order at 8:07 a.m., on Thursday, February 24, 2005. Chairwoman Kathy A. McClain presided in Room 2134 of the Legislative Building, Carson City, Nevada. [Exhibit A](#) is the Agenda. All exhibits are available and on file at the Research Library of the Legislative Counsel Bureau.

ASSEMBLY COMMITTEE MEMBERS PRESENT:

Ms. Kathy McClain, Chairwoman
Mr. Morse Arberry Jr.
Mr. Mo Denis
Mr. Joseph M. Hogan
Mrs. Ellen Koivisto
Mr. Bob Seale

SENATE COMMITTEE MEMBERS PRESENT:

Senator Bob Beers, Chairman
Senator Bob Coffin
Senator Dean A. Rhoads

COMMITTEE MEMBERS ABSENT:

Mr. Lynn Hettrick

STAFF MEMBERS PRESENT:

Gary Ghiggeri, Senate Fiscal Analyst
Steve Abba, Principal Deputy Fiscal Analyst
Bob Guernsey, Principal Deputy Fiscal Analyst
Bob Atkinson, Senior Program Analyst
Laura Freed, Program Analyst
Anne Bowen, Committee Secretary
Linda Smith, Committee Secretary

**PUBLIC EMPLOYEES BENEFITS PROGRAM (625-1338) –
BUDGET PAGE PEBP-1**

P. Forrest Thorne, Executive Director, Public Employees' Benefits Program, introduced James R. Wells, CPA, Financial Officer, Public Employees' Benefits Program, and Ronnie Susan Thierman, FSA, EA, Aon Consulting and Insurance Services.

Mr. Thorne referenced [Exhibit B](#), "Public Employees' Benefits Program, FY2006-2007 Biennial Budget," which had been presented to the Subcommittee members.

Mr. Thorne stated that the second page summarized those items that would be covered today beginning with the agency budget concepts, the three budget accounts, and an appendix, which contained the revised performance indicators.

Mr. Thorne said that when building the agency budget, costs were separated from revenues with costs detailed in Budget Account 1338. The state revenue share for retirees was detailed in Budget Account 1368 and the state revenue share for active employees in Budget Account 1390. Mr. Thorne stated that the budget restored some previously eliminated benefits in the modified base budget and there was moderate caseload growth as well. The budget utilized reserves to stabilize fund balance and smooth out premium increases throughout a biennium. With the creation of the new Budget Account 1390, reconciliation issues and duplicate efforts between the Public Employees' Benefits Program (PEBP) and the pay centers had been eliminated. Mr. Thorne noted that the budget modification before the Subcommittee today accounted for the actual FY2006 rate and cost projections from the actuary used in the FY2006 rate setting process. The budget modifications also included revisions to the headcount projections, which were updated as of February 1, 2005, and additional surplus generated in FY2005.

Mr. Thorne stated that the budget recognized that plan costs must be paid by someone and acknowledged premium revenues were received from a variety of different sources. Cost sharing between employer and employee or retiree was a revenue side issue. It allowed approval of program operations and plan basics without affecting the plan design, with the PEBP Board having the prerogative to set plan design, and the flexibility to change plan design within the scope of the approved budget.

Mr. Thorne commented that some of the Subcommittee members might remember his quote from the 2003 session: "There is only one guarantee with our budget projections and that is they will be wrong. The only questions are by how much and in which direction." Mr. Thorne continued and said that for the current biennium the projections were wrong, but the projections were wrong on the positive side. He stated the PEBP had worked very hard to develop mechanisms to allow them "to deal with the second part of this equation." Mr. Thorne said the agency wanted to improve the accuracy of the projections while having a mechanism to fund the inevitable ups and downs of an insurance program.

Mr. Thorne stated that the building blocks for the budget began with setting the plan design with a key element of maintaining accurate and reliable data. The PEBP had worked very hard on this element over the past biennium and they were in a much better position as a result, according to Mr. Thorne. That data was utilized to establish the rates as well as utilizing surplus fluctuations in subsidy calculations. In good years the PEBP would utilize surplus to hold down the rate contributions for subsidy calculations, and in deficit years it would be used to supplement the subsidy calculations.

Mr. Thorne said that in setting the plan design, the PEBP Board approved several changes to the benefit plan offerings at the February 3, 2005, meeting. One of the changes was to maintain the \$500 PPO deductible plan, but eliminate the \$1,000 and \$2,500 PPO deductible plans. However, the plan

would add a \$2,000 PPO deductible comprehensive major medical plan (80/20) with true single and family deductibles. The PEBP was attempting to position a plan alternative that would come close to meeting the Internal Revenue Service (IRS) rules for a high deductible health plan. Mr. Thorne said the ideal plan would allow flexibility in the future if the board should choose to move to a more consumer-directed program, with the possibility of adding Health Reimbursement Arrangements (HRA) or Healthcare Savings Accounts (HSA). In establishing the new rates for both the \$500 PPO plan and the new \$2,000 major medical plan, the combined plan experience for the actives, non-Medicare retirees, and Medicare retirees were commingled. The justification for commingling experience was found in NRS 287.0434(3)(b). The PEBP had been addressing the commingling experience in stages since it had been added to the statute in the 2001 session. Mr. Thorne stated that in 2004 the experience for actives and early retirees were commingled in the DxCG model, which was the predictive modeling tool that actuaries used. Retirees over age 65 had been handled separately. In 2005 the experience for actives, early retirees, and Medicare retirees were all commingled in the DxCG model. From an equity standpoint, that meant that the Medicare Part B premium had to be included as a covered benefit under the plan. Mr. Thorne stated that would eliminate the possibility of a Medicare retiree paying the same cost as actives and early retirees for their plan benefits, in addition to paying for their Medicare Part B premium.

Mr. Thorne stated that maintaining accurate data was crucial in order for actuaries to have a high probability of accurate predictions. The PEBP had worked very hard to ensure the accuracy of their data. During the past biennium an average claim payment turnaround time of less than ten days had been maintained. Turnaround time was the time between the receipt of the claim by the third party administrator and the actual disbursement of the funds. Mr. Thorne noted there was a lag time, which was counted from the date of service to the date of payment. Lag time could be affected by many factors, including late submission by the provider, multiple insurer billings, and turnaround time. The PEBP had a payment record of approximately 52,000 claims per month, and on average, had 9,900 claims in inventory that had not been processed. The 9,900 figure was approximately 1 week of claims. Mr. Thorne said that the PEBP had an average of 3,300 claims in pending status, awaiting additional information, but 96 percent of those claims were paid within 30 days.

According to Mr. Thorne, the quarterly audits of the third party administrator had continued, ensuring that the PEBP knew the number of claims reported was accurate and the job was performed properly. The quarterly audits had been used as a tool with the third party administrator to greatly improve their service to the plan and the participants. Programmatic audits of the pharmacy benefit manager, case management contractor, and the preferred provider organization (PPO) network had been added during FY2005.

Mr. Thorne said predictive modeling was using data to set rates. Predictive modeling was not new and had been used in federally funded programs since 1984. The efficacy was so strong that it was mandated for all Medicare changes since January 2004. The PEBP actuarial consultant, Aon Consulting, performed a predictive health risk assessment; using industry recognized state-of-the-art modeling software, to determine the cost of the current plan of benefits for the next plan year. This was a prospective indicator which utilized the health status of the participants to project what claims they would incur in the coming year. Mr. Thorne stated the prospective indicator was different

from traditional rate settings or projections, where existing claims were used to project out on the trend, based on inflation and other factors, as to what the claims would be in the coming year. Some of the same techniques, such as age and sex adjusting, were embedded in the predictive technology. Mr. Thorne continued by stating this methodology used actuarial and clinically-based statistical applications to evaluate the claims transaction data in the past to define the risk profile of participants, and to forecast claims arising in the next year. This methodology was more accurate because it used actual international disease classification codes to match against each individual. A unique identifier was applied to every claim record to evaluate both employee and dependent risk profiles.

Mr. Thorne cited an example of predictive modeling: If a participant had a coronary bypass operation, the likelihood of that individual having that same type of claim in the following year was very small.

In addition, Aon Consulting used its AonMedTool to develop the cost of the proposed plan changes. In combination, those tools were used to produce rates for FY2006, which incorporated the new benefit plan designs.

Mr. Thorne noted that current plans analyzed recent plan experience using the DxCG model, and assumed no changes to the FY2005 benefit plans, which resulted in 8 percent lower expected costs in FY2006 than FY2005.

Predictive modeling contained one budgeting drawback; it was valid for "one year out." Mr. Thorne said the State used a biennial budget process which required the PEBP to project two years, therefore they were one year ahead of the time required for the initial budget. Actuaries used projective modeling to set FY2006 rates and cost for the adjusted budget. Mr. Thorne stated the PEBP had 18 months of high quality claims data with the same plan design. Actuaries preferred to have 36 months, or more, of data, but the data for July 2002 through June 2003, included "catch up" on unpaid claims and a substantially different plan design than July 2003 forward. The data prior to FY2002 was not considered reliable. Mr. Thorne noted that when perusing the projection for FY2006, that work was accomplished at the beginning of calendar year 2005 for the prior 18 months, which included all of 2004 and one-half of 2003. There were substantial lead times required to accumulate valid data to cast accurate projections. Fiscal year 2007 costs were established using the more traditional trend approach.

Mr. Thorne said that if claims experience increased early in FY2006, there could be up to two years of higher than average experience in the next biennium, which could cause the PEBP to come up short in revenues. As the PEBP looked into alternatives, they had attempted to build-in a mechanism to deal with the ebb and flow through the biennium in order to deal with any changes required, within the normal biennial budget process. The Rate Stabilization Reserve and, if necessary, the Incurred But Not Reported (IBNR) reserve would be used to handle any cash flow shortfall. The next step would be to increase participant contributions, and then cut benefits. Mr. Thorne said that one of the options to be discussed was whether the session law that set the subsidy levels for the biennium should include an option to adjust the subsidy levels by appearing before the Interim Finance Committee (IFC) to allow adjustments in the interim. The last option would be to call a special session to adjust subsidy levels.

Mr. Thorne stated that the future FY2008 and FY2009 budgets would contain 36 months of good data with substantially similar plan designs. The certainty

of that accuracy probability would be increased. Mr. Thorne said what must be recognized with the present modification was that surplus was being utilized over the next biennium to hold down the cost of the present subsidy contributions. In the next biennium an increase of \$22 million would be required, plus increases for normal inflation and growth, to arrive at a normal level of subsidy contribution. Mr. Thorne commented that the idea was to use the surplus in the stabilization reserve to level the cost during any given biennium, and then use the budgeting process to adjust for a surplus or deficit.

Mr. Thorne stated that the Rate Stabilization Reserve was contained in Decision Unit E-200, and had been established to minimize the cost fluctuation impact to plan design and premium revenues throughout a biennium, and to smooth rate increases. The reserve was reviewed biannually and adjusted for inflation and growth of the program. Deficits were added to subsidies and rates, and surpluses were subtracted from subsidies and rates in future biennia.

Mr. Thorne referred to page 15 of [Exhibit B](#), and stated that the adjusted base totaled \$267,534,796; the FY2005 work program totaled \$281,620,895; the FY2006 request totaled \$285,459,011; and the FY2007 request totaled \$297,979,878.

Mr. Thorne said the utilization of the reserve over the biennium was depicted through graphs on page 16 of [Exhibit B](#). In FY2006, the reserve was 22.6 percent of the total, and in FY2007, the reserve was 14.5 percent of the total.

On page 17 of [Exhibit B](#), Mr. Thorne noted the figures for the adjusted base for each year of the biennium, plus the maintenance decision unit totals, the enhancements, as well as the totals for each year of the biennium. The adjusted base showed the effect of the surplus being carried forward into the first year of the biennium, while the utilization of those reserves stabilized in the second year of the biennium.

The adjusted base budget funded current operations without provision for increase in self-funded claims or fully insured product costs; maintained the current 32 FTE staffing level; continued the use of private consultants at current levels; and, reflected the full year cost for the contracts approved in FY2004.

Mr. Thorne stated the adjusted base budget included the restoration of some previously eliminated benefits. A lower deductible would be available to participants who completed a health assessment form. Regardless of whether a participant chose the \$500 deductible plan, or the \$2,000 plan, completion of a health assessment form resulted in reducing the deductible to half.

The dental maximum would increase, with the completion of the health assessment form, from \$1,500 to \$2,000. It was an attempt to gather basic status information on participants to allow the PEBP to better target wellness and preventative measures for particular items. According to Mr. Thorne, the key items being studied were weight control, tobacco usage, and hypertension.

Mr. Thorne noted that prescription benefits were being enhanced by including tobacco cessation prescriptions. The vision benefit would include a lens/frame allowance of \$125 every 2 years and an exam allowance equal to 80 percent of the usual, customary, and reasonable charges. The dental benefit would increase the number of cleanings allowed per year from two to four. Mr. Thorne stated that the pre-certification requirement for MRI, CT, MRA, and

PET scans would be eliminated. In working with the pre-certification and case management contractor, it had been found that they rarely, if ever, overturned a recommendation for those scans.

Mr. Thorne said the PEBP was planning to expand the wellness benefit to cover all recommended health screenings and immunizations, additional tobacco use cessation and weight control programs, and stress management.

The plan would include the Medicare Part B premium as a covered expense not subject to the deductible and paid at 80 percent. Coordination of benefits would change from integration of benefits to maintenance of benefits.

Mr. Thorne stated the individual maintenance Decision Units were M-100, M-300, M-304, and M-305, which amounted to \$278,645 in FY2006, and \$323,798 in FY2007.

Decision Unit M-101 covered the Health Maintenance Organization contracts, basic life and long-term disability contracts, and the self-funded claims expense, which amounted to \$39.9 million in FY2006 and \$68 million in FY2007. Mr. Thorne explained that the HMO contracts had been adjusted for enrollment changes as of February 1, 2005, and actual contract renewal rates used for FY2006. Contractual limits of 10 percent cost increase were factored in for FY2007. Mr. Thorne stated that the renewal rates for life, long-term disability, accidental death and dismemberment, and travel accident, contained a 5 percent cost increase for FY2007. For the self-funded claims expense, the predictive modeled composite rate established in the new rate setting process, was used to establish the cost for FY2006. For FY2007, increased composite rates, plus trend of 16 percent for medical, and 8 percent for dental, were used.

Mr. Thorne indicated that Decision Unit M-200 concerned caseload growth and represented a 2 percent inflation factor for participant population growth due to retirements, addition of non-state retirees, and participating employer growth. Those revisions were based upon the February 1, 2005, headcount. Mr. Thorne said that represented a total of \$4,158,655 in FY2006 and \$9,638,698 in FY2007.

Mr. Thorne reviewed Decision Unit E-200, the rate stabilization reserve, which implemented the actuary's recommendation. Decision Unit E-200 was in addition to the reserve for IBNR claims; it covered contingent expenses and unexpected increases in inflation and/or large claims, and was based upon 2 to 3 months of projected claims. The target amount for the rate stabilization reserve was currently \$24,144,675, to be achieved by June 30, 2007.

Decision Unit E-250 concerned staff training in the amount of \$6,408 each year. Mr. Thorne said the decision unit funded training for executive-level staff to enable them to stay current in their respective areas of expertise. Further, it addressed concerns over rapid changes in technology and health-care related issues, such as Health Insurance Portability and Accountability Act (HIPAA), Medicare changes, and Other Post Employment Benefit (OPEB) changes for the Governmental Accounting Standards Board (GASB).

Mr. Thorne addressed Decision Unit E-325, enhancement of the communications program, which provided \$47,613 each year to fund a quarterly newsletter to participants. It provided an educational forum for participants to gain a better understanding of their benefits, and improve health-care choices by providing timely information to participants. The

communications program also met one of PEBP's stated goals to "provide effective communications so that participants understand the plan and are able to maximize their benefits." Mr. Thorne noted that focus groups conducted in 2004 had suggested all the items contained in Decision Unit E-325.

Decision Unit E-525 covered the office relocation and Decision Unit E-710 addressed replacement equipment. Mr. Thorne stated that \$181,434 was requested in FY2006 and \$54,424 was requested in FY2007 for those decision units. According to Mr. Thorne, the following funds were allocated for the new space at the Department of Conservation and Natural Resources lease purchase building:

- \$72,500 in one-time costs for furniture and videoconferencing equipment.
- Ongoing increase in rent costs of \$24,900 in FY2006 and \$26,100 in FY2007 over the FY2005 projected costs.
- Increase in usable square feet from 8,201 to 9,008.

Decision Unit E-710 funded replacement equipment in accordance with the Information Technology Officer's replacement schedule.

Mr. Thorne referred to page 28 of [Exhibit B](#) and noted the multiple sources of revenue that contributed to the program. The largest contribution was the state subsidy for active employees. However, other categories of contributions were the state retiree subsidy, state active share, state retiree share, non-state retiree subsidy, non-state retiree share, non-state active share, plus the balance forward. Mr. Thorne said those categories remained relatively consistent across the biennium.

Mr. Thorne addressed participant rates and stated that final participant rates were subject to HMO renewal rates, renewal rates for Life, Long Term Disability (LTD), Accident, Death and Dismemberment (AD&D), Travel Accident vendors, and the state subsidy allocation. Renewal rates for HMO, LTD, AD&D, and Travel Accident had been received by the PEBP. Mr. Thorne commented that the final rates and subsidy allocation would be presented to the PEBP Board at the March 10, 2005, meeting for a decision.

Chairwoman McClain said the question paramount in her mind was whether the new budget recommendation presented before the Subcommittee had been approved by the PEBP Board, and whether those changes had the Governor's support, because the official budget amendment had not been received from the Budget Office. Mr. Thorne's presentation had been derived from the amended numbers and the Subcommittee was still using the recommendations included in The Executive Budget.

Mr. Thorne responded that it was his understanding that the Budget Office was in the process of finalizing the amended budget. The Budget Office was attempting to decide how to utilize the surplus that had been generated by the PEBP. The question was whether to "draw down on the surplus" or devise a method to transfer some of the surplus directly to the General Fund, which would alter the ultimate subsidy levels that were required. Neither the overall scope of the budget, nor the spending levels would change. It was a component issue of how much was surplus, how much was subsidy. Mr. Thorne stated the Budget Office was in agreement with the overall revised budget submitted by the PEBP.

Chairwoman McClain asked if the Budget Office had indicated how soon an amended budget would be available. Mr. Thorne said he had hoped it would be available already.

John P. Comeaux, Director, Department of Administration, said that whether the issue of what to do with the surplus was solved or not, the budget adjustment package would be submitted to the Subcommittee by tomorrow. Chairwoman McClain asked if that would include the budget adjustments for every agency. Mr. Comeaux replied that was correct.

Mr. Comeaux explained that in 1999, the PEBP was in very bad shape and had required a cash infusion to "bail them out." That cash had been provided in two separate legislative bills. One of the bills had included language that provided for assessments to agencies that were not General Fund agencies, the other bill did not. Mr. Comeaux said the Budget Office had been attempting to locate the worksheets that had been compiled on those bills, but so far had been unsuccessful. The difference that it would make was in the General Fund share of the reduction to the surplus. He noted it was not a huge amount, possibly up to \$3 million. Mr. Comeaux assured the Subcommittee that whether or not the problem was solved, they would submit the budget adjustment package no later than tomorrow.

Chairwoman McClain said it was imperative that the Subcommittee had the amendments as soon as possible since not only was the PEBP Board meeting on March 10, 2005, the legislative session lasted only 120 days.

Senator Beers commented that he found the waxing and waning of fortunes of the Public Employees' Benefit Program nerve-racking. The situation that Mr. Comeaux had referred to, happened after a budget had been presented that reflected costs were going down and the PEBP was in good shape, and by the interim that was no longer true. Senator Beers asked Mr. Thorne to explain why the picture for this biennium was so much better than the one from five years ago.

Mr. Thorne stated that he understood the concern and it was an issue that he and his staff had worked very hard to address. Compared to the type of information available to the PEBP Board, the Budget Office, the Governor's Office, and the Legislature in 2001, the current PEBP budget was light years ahead. In 2001, there had been problems with the third party administrator, such as claims that were unaccounted for. Those claims were discovered when a new third party administrator was employed through a bid process. All those claims were resolved in 2002, and the quarterly audit of the third party administrator had been instituted to ensure that the program never encountered that problem again. Mr. Thorne said the quarterly audit not only guaranteed that the claims were processed, but that they were processed in a timely and accurate manner. Those procedures had contributed to the improved data available to the actuaries.

Senator Beers asked if the PEBP Board had given any thought to restoring some of the lost benefits rather than reducing the plan contributions. Mr. Thorne stated the PEBP Board had already approved the restoration of the benefits deemed important to the participants. The PEBP had conducted focus groups and an electronic survey in 2004 with the participants, to determine what was most important to them from a restoration standpoint. The top three priorities were determined to be a lower deductible, restoration of benefits, and improvement in the dental and vision plans. Mr. Thorne stated the top three

priorities had been addressed and the PEBP had still been able to implement the reductions.

Senator Beers noted that the PEBP would be the second agency to be housed in the new Conservation and Natural Resources Building that was requesting the purchase and installation of videoconferencing equipment. He wondered if there was any possibility of consolidating those requests between agencies in the building in order to save funds.

Mr. Comeaux replied that if he remembered correctly, The Executive Budget recommended three videoconferencing setups for the Conservation and Natural Resources Building. An attempt had been made to consolidate videoconferencing services for the building, but a small, portable, 100 percent grant-funded arrangement had been recommended for Water Resources. On the second floor, a central videoconferencing unit had been recommended that would be controlled by Conservation and Natural Resources, but would be available to all other agencies in the building. According to Mr. Comeaux, it was recommended that the PEBP have a separate videoconferencing system because they would be using the system approximately 80 percent of the time.

Senator Coffin asked for clarification of whether PEBP would commit on the price of premiums, since they had already stated that benefits would remain the same.

Mr. Thorne responded that while the PEBP had made some benefit restorations, they were attempting to keep the basic structure of the plan the same. The PEBP was attempting to bring stability, not only to the general plan design, so that participants in the plan knew what to expect, but also the same relative stability to the cost of the program. Mr. Thorne elaborated, that while there would be cost sharing the PEBP was attempting to keep the share constant. He believed that they were heading in the right direction to make the concept work.

Senator Coffin noted that while benefit restorations were good, the cuts had been drastic. He further stated his concern that younger employees of the State, particularly in the field of law enforcement, were leaving for more lucrative employment with cities and counties in Nevada. Senator Coffin stated he had requested data concerning the demographics of people who were leaving State employment. He had never received the data from either the PEBP or the Department of Personnel. Senator Coffin said he believed that in some cases, with younger employees, insurance benefits were even more important than salary. He noted that he had specifically discussed orthodontia with Mr. Thorne, which was totally missing from State benefits.

Mr. Thorne noted that there were a number of questions to be answered. First, Senator Coffin was correct; the PEBP had been unable to provide departure data. That data would have to be supplied by the Department of Personnel.

Mr. Thorne said that as the PEBP had moved into predictive modeling and the rate structure that was developing, it had been found that the family rate was going to be reduced substantially. The traditional rate structure seen in the insurance industry was a factor off from the single rate. The rate was almost double for an employee and spouse, one and a fraction for an employee with children, and two plus something for a family. Mr. Thorne stated that when looking at the predictive modeling the most expensive tier in the program was the employee and spouse, or the retiree and spouse. It was actually less expensive to insure an entire family, as opposed to an employee and spouse.

When considered within the demographics of the population it made sense, according to Mr. Thorne, because there tended to be older employee and spouse coverage with higher utilization of medical services. The spouses in the family situation tended to be younger and healthier. Those facts would eventually be reflected in the rate structure and would provide a more favorable rate situation for the younger employee.

Senator Coffin said that while he thought he was in the older category, his youngest child was only 11 years old, and he imagined there were other State employees in the same situation. He reiterated that insurance for orthodontia would be more of a consideration for an employee than insurance premiums.

Mr. Thorne responded that the participant survey had included a question regarding orthodontia, in both the focus groups and the electronic survey, and orthodontia had ranked way down on the priority list. Senator Coffin commented that the panel had not considered the younger, sworn officer types. Mr. Thorne emphasized the PEBP had attempted to get a representative, cross-section of the participant pool. Senator Coffin said that in spite of his problem with there being no orthodontia benefit, he was happy with the program, and he and his family had experienced good results.

Assemblywoman Koivisto commented that she was pleased that the PEBP was doing so well and was happy that benefits were being restored, but asked about premiums. She said if people could not afford the premiums the benefits did not matter.

Mr. Thorne responded that when the gross rates were examined on an aggregate basis, even with the benefit restorations, they would be reduced by approximately 3 percent over current rates. What the participant paid would depend upon their dependant tier, whether they were State or non-state retirees, and so on.

Chairwoman McClain asked to hear from the actuary firm and said she was particularly interested in predictive modeling.

Ronnie Susan Thierman, FSA, EA, Vice President, Aon Consulting and Insurance Services, stated she was the actuary who worked on the PEBP insurance plan. Predictive modeling was the latest and greatest way to estimate what future costs would be for a particular plan. Ms. Thierman said in the past the way the methodology worked was to examine the expenditures of the current year, make adjustments for changes in demographics or plan design and medical inflation, apply those adjustments to the costs of the current year, and the expected costs in the next plan year were determined. What studies had shown was that predictions of that type were incorrect, because there could be huge medical bills in one year and those medical bills treated whatever was wrong, in the subsequent year huge costs would not be expected.

Another type of example would be a participant with high blood pressure, along with related medical issues. That participant might not have very high related costs in the current year, but the ICD-9 codes and the prescription drug information would indicate that the probability was that the condition was getting worse, so the actuary would expect higher medical costs in the subsequent year. Ms. Thierman said that by examining the data and putting it through a model that was able to analyze the expenditure, as well as emerging trends, it was a much better predictor of what would happen in the subsequent year. That was the conclusion that everyone who had looked at the various

systems had arrived at, including the federal government. Medicare required predictive modeling to be used in their projections. Ms. Thierman stated that while predictive modeling was a much better tool than had been available in the past, it was not "a crystal ball." That was the reason the contingency reserve had been suggested, to handle some of the unexpected swings that might occur in the subsequent period.

Chairwoman McClain asked if predictive modeling and the contingency reserve had been recent implementations. Mr. Thorne responded that the PEBP Board had implemented the predictive modeling for setting the plan rates for FY2005. That was the weakest set of data available and, as a result, the actuaries were more conservative in setting the cost projections for the current year. Eighteen months of very solid data was now available to set the rates for FY2006 and the actuaries were very comfortable with those rate levels. Mr. Thorne noted the many steps that had been taken over the past few years in moving toward the type of foundation needed in order to have more accurate rate projections and cost projections. The PEBP was developing the tools to deal with the inevitable ups and downs that occurred in this type of program.

Chairwoman McClain stated that her concern was that, a month into the session there was an amended budget. She asked why it could not have been presented earlier so the Subcommittee had the correct numbers from the beginning.

Mr. Thorne responded that the budget was built in August 2004, and was due September 1, 2004. At that point, only two months into the current plan year, the PEBP was using FY2005 rates and "trending out" from there based upon the inflation and utilization expected trends. Even as late as December 2004, there was only four month's worth of data in the current year; that data was typical for the first quarter to five months of a plan year. The PEBP worked with the actuaries to develop the rates for plan year 2006, to be finalized at the March meeting. The plan design had been finalized for July 1, 2005, and the actuaries' rate recommendations had been received. Mr. Thorne said when those numbers were plugged into the budget and they began doing recalculations they would be going from 2005 and "trend it up from there." The actual experience for 2005 was coming in lower than the rates, the 2006 rates were now final, and were a step below that. Mr. Thorne noted that as the predictive modeling became more accurate and acquired a larger base of data, the PEBP would be much closer to normal data on the changes. Part of the reason for the change to a fiscal year for the plan year was to allow the PEBP to make adjustments and bring them before the Legislature while it was still in session.

Senator Beers asked if Ms. Thierman had been involved in the conversion from traditional methods of actuarially determining medical plan liabilities and costs to the new method. Ms. Thierman replied that she had been involved. The DxCG modeling was a predictive modeling and she had been involved in both methodologies.

Senator Beers wondered if, more often than not, the predictive modeling resulted in lower projected costs. Ms. Thierman responded, not necessarily, it depended upon the underlying health status of the group.

Senator Beers asked if, in Ms. Thierman's opinion, the PEBP had been requiring excessive contributions because the data was insufficient. Ms. Thierman said that based upon the information that had been available at the time, the analysis

was as accurate as it could have been. Typically, at least 36 months of data was preferred, but currently only 18 months of data had gone into the DxCG modeling because there had been no accurate data available before that time.

Senator Beers asked if Ms. Thierman had determined the amount of the rate stabilization reserve. Ms. Thierman replied that she had, and Senator Beers asked how that had been accomplished. Ms. Thierman explained that her company had looked at the experience in terms of fluctuations in the plan benefits, and normative data from other very large clients across the country. Based upon that data Aon Consulting had made their analysis.

Senator Beers asked if it was correct that overcharging on the contributions had resulted in generating enough money to create the rate stabilization fund. Ms. Thierman responded that excess funds had been included in the rates in order to create the rate stabilization fund. The fund had been nearly depleted, which was not a good situation.

Senator Beers noted that at some point an adequate reserve would have been established, and he questioned whether contribution amounts could then be lowered. Ms. Thierman agreed and pointed out that was one of the factors that had led to the current lower contributions.

Senator Beers questioned how much of the present lower rate requirement could be attributed to no longer needing to increase the rate stabilization reserve. Ms. Thierman responded approximately \$5 million per year. Senator Beers requested the percentage basis of the decrease in the proposed rates. Mr. Thorne stated it would be a \$5 million decrease on approximately \$150 million.

Senator Coffin commented that it was very important for a cooperative plan to have good reserves. The biggest mistake a benefit plan could make was to "under forecast expenses," according to Senator Coffin.

Chairwoman McClain noted that a study conducted by the Personnel task force recommended that public information officers (PIO) be changed from classified service to unclassified service. Apparently the PEBP had not been included in that recommendation, and she wondered if there was a reason the PEBP wanted their PIOs to remain classified. Chairwoman McClain also inquired as to how the recommended salaries were determined for the unclassified positions in the Public Employees' Benefit Program.

Mr. Thorne stated he would have to defer that question to the Budget Office. It was his understanding that when the Personnel task force did the study they excluded boards and commissions. He had reviewed the results of the study and had requested that those results be applied to the PEBP as well.

Chairwoman McClain asked if that request would be part of the amended budget. Mr. Thorne replied that it would not; it was a request he had made to the Budget Office and required their action.

PUBLIC EMPLOYEES BENEFITS PROGRAM - RETIRED EMPLOYEES' GROUP INSURANCE (101-1368) – BUDGET PAGE PEBP-10

Mr. Thorne informed the Subcommittee that Budget Account 101-1368 was the budget account that served as a "pass-through" from all state agency operating budgets to the PEBP program for the State retiree premium subsidy. The

subsidy program for State retirees was split into two segments. State employees who retired prior to 1994 received 100 percent of the base subsidy as established by the Legislature each biennium. State employees who retired after 1994 received a percentage of the State subsidy based upon their years of service ranging from a low of 25 percent of the base subsidy for 5 years of service to 137.5 percent of the base subsidy for 20 years or more of service. Mr. Thorne stated that the requested funding for this budget account was to provide for a State subsidy of approximately 67 percent of the cost of coverage. Budget Account 101-1368 was funded by a percentage assessment against budgeted payroll of all State related entities, including the University System, Public Employees' Retirement System (PERS), Legislative Counsel Bureau (LCB), and various boards and commissions. Mr. Thorne said it was important to note that the average number of years of service for State retirees was 16.2, as of February 1, 2005. The cost of the program was not determined by simply multiplying the base amount by the number of State retirees; it had to be adjusted upward in the total cost since the actual midpoint was higher.

Mr. Thorne reviewed the information contained on pages 32 and 33 in [Exhibit B](#). The total cost in Budget Account 1338 was considered and the miscellaneous revenue and balance forward was subtracted to arrive at the premium revenue required. The State retiree share of that cost was 16.9 percent based on projected retiree population and related costs. The State subsidy share of 67 percent was applied to that portion attributable to State retirees to arrive at the amount required for the State subsidy. Mr. Thorne noted the same calculations and percentage were carried through again in FY2007.

Mr. Thorne stated that the current base subsidy rate for FY2005 was \$316.26 per month per participant. For FY2006, the proposed base subsidy rate would be \$321.27, a 1.6 percent increase from FY2005. For FY2007, the proposed base subsidy rate would be \$336.97, a 4.9 percent increase from FY2006.

Chairwoman McClain interjected that those numbers were the third set of numbers that had been presented to the Subcommittee. They were different numbers from those presented in the budget modifications or The Executive Budget. Mr. Thorne responded that after review by the Budget Office, a calculation error had been discovered on the retirees' side which had to be adjusted. That adjustment had resulted in a 67 cent difference in the subsidy rate.

Chairwoman McClain noted that in The Executive Budget the subsidy rate was \$341.30 for FY2005-06 and \$359.00 for FY2006-07. The budget amendment was \$297.29 for FY2006 and \$311.00 for FY2007, and the PEBP's budget used the figures of \$321.27 for FY2006 and \$336.97 for FY2007, according to Chairwoman McClain. Mr. Thorne responded that there had been a 5 percent error in the retiree subsidy calculation because the 15 year and 16.2 average years of service had not been factored in the first calculation. That miscalculation had increased the numbers being projected for the retiree subsidy for the next biennium.

Chairwoman McClain asked which set of numbers should be used. Mr. Thorne stated \$321.27 for FY2006, and \$336.97 for FY2007.

Chairwoman McClain requested clarification regarding the subsidy rate for FY2005. Mr. Thorne stated the subsidy rate for FY2005 had already been approved and set in the 2003 session in the amount of \$316.26.

Chairwoman McClain asked Mr. Thorne to tell her what the monthly rate would be for a retiree and spouse using the FY2005 subsidy. Mr. Thorne stated that he had not brought the rate charts with him, but the rate he could quote without the chart would be for a single retiree. The monthly contribution in FY2005 for a 15-year retiree would be approximately \$115, and for a retiree with 20 or more years of service the contribution dropped to 31 cents.

Senator Beers noted that during the Governor's State of the State Address he had discussed a plan to eliminate subsidies to retirees' health benefits for new hires. Senator Beers asked Mr. Thorne if he had any knowledge of the status of that plan. Mr. Thorne responded that he did not; the PEBP had simply provided an estimate of the savings amount for the Governor's Office.

Mr. Arberry asked Mr. Thorne if he knew when a bill would be submitted regarding the plan to eliminate subsidies to retirees' health benefits for new hires. Mr. Thorne replied that he would have to defer to the Budget Office for any information regarding a bill submitted by the Governor's Office. Mr. Arberry inquired as to whether the PEBP or the Governor's Office would defend the bill when it was introduced. Mr. Thorne replied that it would be the Governor's Office.

Mr. Arberry asked Mr. Comeaux if he had any knowledge about when a bill would be introduced by the Governor's Office to eliminate subsidies to retirees' health benefits for new hires and, further, when the bill was introduced, who would defend it. Mr. Comeaux replied that he did not know when the bill would be introduced, but he would attempt to find out, and it would be either the Budget Office or someone from the Governor's Office who would speak to that when the time came.

Chairwoman McClain opened the hearing on Budget Account 101-1390.

PUBLIC EMPLOYEES BENEFITS PROGRAM – ACTIVE EMPLOYEES' GROUP INSURANCE (101-1390) – BUDGET PAGE PEBP-12

Mr. Thorne informed the Subcommittee that the creation of the new budget account was to fund the active employees' group insurance subsidies in much the same manner that Budget Account 101-1368 handled that function for the retirees' subsidies. Budget Account 101-1390 would serve as a pass-through from all State agencies' operating budgets to the PEBP for State active employees' subsidies. The budget proposal would:

- Eliminate duplicate efforts associated with current premium billing process and independent eligibility systems maintained by pay centers
- Eliminate reconciliation between the PEBP and pay centers
- Eliminate stale claim requests related to retroactive employer subsidies
- Simplify enforcement of agency notification rules (NRS 287.0439)
- Eliminate multiple layer payment plans between the PEBP, pay centers, and participants

Mr. Thorne stated the new proposed budget account would be funded by an automated transfer of a calculated per employee amount for every filled position. The Public Employees' Benefits Program would:

- Calculate employer subsidies for all State entities
- Transfer funds to Budget Account 1338

- Generate "Employee Deduction Files" and transmit to pay centers monthly according to their payroll schedule
- Collect retroactive adjustments from employees and establish payment plans when necessary

The pay centers would:

- Return "Reject" report to the PEBP with their remittance showing deductions not collected and the reason why
- Only deal with current month premiums
- Deduct for payment plans when necessary

Mr. Thorne continued with his presentation by stating that the same process was used with Budget Account 1390 that had been used in Budget Account 1368. The PEBP began with the total cost of Budget Account 1338, subtracted miscellaneous revenue and balance forward, and arrived at the figure for the premium revenue required for FY2006. The State active share of the total premium required was 71.6 percent of the total cost based on the projected employee population and related costs. The State subsidy share on an aggregate basis would be 90 percent and the State employee share would be 10 percent.

Mr. Thorne explained that the subsidy rate for FY2005 for active employees' group insurance was \$558.07 as established in A.B. 544 in 2003. For FY2006 the proposed subsidy rate was \$481.19, a 13.8 percent decrease from FY2005. For FY2007, the proposed subsidy rate was \$500.20, a 4 percent increase from FY2006. Mr. Thorne said, when examining the retirees' subsidy rate as compared with the active employees' subsidy rate, the rate structure that had been developed beginning July 1, 2006, was a final step in the commingling of the rates between active employees, non-Medicare retirees, and Medicare retirees. The proposed rate structure would place all active employees, non-Medicare retirees, and Medicare retirees in the same rate class. Mr. Thorne stated that would increase the aggregate rates for Medicare retirees, but would include, in their covered costs, the Medicare Part B premium. It would take advantage of the Medicare Part A savings, which was hospital coverage provided by Medicare. Instead of it being a one-way subsidization, from actives to non-Medicare retirees, who were the highest cost users, it brought a two-way subsidy where the Medicare Part A savings was spread across all the population. Mr. Thorne said it provided a leveling of the rates, and a leveling of the benefit structure. Through commingling, it would not matter if a participant was an active employee, a non-Medicare retiree, or a Medicare retiree, the total benefit received was the same. The out-of-pocket maximums would be the same. The rates paid by participants would be the same. The commingling plan had the effect of reducing the active employee rate even further than the cost reductions generated through the plan experience. It was worth an extra \$10 to \$12 per month, just for the active employee cost, through commingling.

Mr. Thorne said he believed the plan brought to "final fruition" the intent of the commingling, which had been to equalize the cost across all the classes of participants within the State program. The plan also moved some of the subsidy out of the rate structure for the retirees and into the direct subsidy. There had been a slight increase in the retiree subsidy that had been required for the funding mechanism and a decrease in the subsidy required for active employees.

Mr. Thorne stated that once the final report from the actuary was received regarding the State's and the plan's liability under the new Governmental Accounting Standards Board (GASB) rules for retirees' subsidies, there would be a clearer picture of the changes that happened because of commingling. Mr. Thorne hoped to have a general number available next month but the details would take longer. The potential liability had to be developed. The calculations were made in 2005 for the plan year beginning July 2007 and had to be recorded on the State's balance sheet as an unfunded liability. The direct subsidy could be an unfunded liability for those on the pay-as-you-go system, as was the State of Nevada. Once that number had been established a mechanism could be developed to provide for a pre-funding of the unfunded liability. One of the problems arose from dealing with the federal government and their requirements as to what they would consider as part of the cost-sharing. Mr. Thorne explained that the federal government would accept either a pay-as-you-go plan or a pre-funded plan, but the PEBP could find nothing that would allow for a transition from a pay-as-you-go plan to a pre-funded plan. One-time pre-funding would be very expensive. Mr. Thorne advised the Subcommittee that the PEBP would continue to explore all possibilities, work with the Budget Office and the federal formulas, to attempt to discover another way to fund a transition.

Chairwoman McClain thanked Mr. Thorne for his presentation and called for questions from the public.

Gary H. Wolff, Teamsters Local 14, which represented the Nevada Highway Patrol (NHP) troopers, stated that one of the main reasons NHP troopers were leaving for other employment was the State's health-care plan. Mr. Wolff admitted he "was the guy PEBP loved to hate" because, although he had nothing personal against the PEBP, he had serious concerns about how the entire program had been operated since its creation. Mr. Wolff wondered how the PEBP could subsidize an employee and spouse in the amount of \$931.22, yet give single employees only \$453.21 and also charge them \$14.36 per month. Mr. Wolff emphasized that the Legislature had been adamant that the state employee should not have to pay out-of-pocket for their own health insurance premium. According to Mr. Wolff, the huge deductibles and loss of benefits to employees and families had created the large surplus in the system. Mr. Wolff said if the single employee had been given the \$558.00 premium and been allowed to leave the PEBP for the Teamsters insurance program, their benefits would have been much higher and the State would probably have saved millions in training costs for employees who had left for better pay and benefits.

Mr. Wolff stated the other problem he had with the PEBP was with their consultant, Aon Consulting. Approximately one year before when Teamsters Local 14, on behalf of Nevada Highway Patrol troopers, had asked to leave the PEBP, Aon Consulting had claimed that if Teamsters Local 14 were to leave the PEBP, it would not impact the system even 1 percent. Mr. Wolff maintained that allowing 300 Nevada Highway Patrol troopers to leave the PEBP would not have cost the State a dime, and many NHP troopers would have stayed because of a better health-care program. Mr. Wolff remarked that currently Aon Consulting was claiming that 300 departures would impact the system 5.6 percent, which was over the 5 percent allowed by law.

Senator Beers commented that he had heard the same testimony from Mr. Wolff before, but never when a representative from Aon Consulting was in the room. He wondered if perhaps the representative from Aon Consulting would address

the disparity between the two analyses of the cost of the group leaving. Mr. Wolff asked how in one year's time the impact percentage could go from 1 percent to 5.6 percent.

Mr. Thorne stated that the NHP trooper's "opt-out group" had been studied in two stages, the impact on the PEBP and the impact on the participant. In the prior year there had been much higher employee contribution toward the premium so that the small impact on the program translated into a relatively small impact on the participant's cost. In the FY2005 rate structure the PEBP Board had used surplus funds from FY2004 to reduce the participant's contributions toward the premium in the current year as a "one-time give back" because of the benefit cutbacks in the prior years. That reduced what the participant was paying monthly from approximately \$14.00 to \$4.36 per month. Mr. Thorne stated that when examining the impact on the overall program, the subsidy amount was fixed in statute and therefore could not change. Any increase in the program, generated from a group leaving the program, must be assessed against the participant's share of the cost. The impact on the program by the NHP troopers leaving the PEBP, as a percentage of the \$4.36 monthly premium, increased the participant's share by more than the 5 percent allowed by statute. Mr. Thorne noted that it had been reviewed not only by Aon Consulting, but by the Nevada Attorney General's Office and was deemed as an appropriate interpretation of the statutory requirements.

Senator Beers requested clarification of Mr. Thorne's statement.

Mr. Thorne explained that if there was a premium cost of, in round numbers, \$500, and the State was contributing toward that premium cost the amount of \$485, the participant share would be \$15. When the participant share was reduced in the following year because of an increase in the subsidy to \$495, the participant share became \$5. A healthier group leaving the program would cause the participant rate to change up to 1 percent. Mr. Thorne said, for example, 1 percent of \$500 would be \$5. There would be a \$5 impact on the program, but since the State subsidy was already fixed for that biennium in session law, that additional \$5 could not be covered through the subsidy, therefore, the participant must assume the cost. Instead of paying \$5, as in the example, the participant would pay \$10, which would exceed the 5 percent statutory requirement. Senator Beers asked if that was because the overall cost of the program would increase to \$505, and Mr. Thorne replied that was correct.

Senator Beers asked if the increase would incur because the group of 300 troopers leaving the program was generally healthy and would generate income to the health plan, but not utilize the services and would subsidize other members of the group who were using more benefits. Mr. Thorne indicated that was correct, because when a younger, healthier group left the program, it left an older, not as healthy group, with higher costs that had to be distributed among a smaller pool.

Senator Beers asked if the net impact, after the subsidy was increased to \$495 to bring down the reserve, the participant's contribution was lowered to \$5 from \$15, and the healthy group was permitted to leave, was greater than 5 percent. Mr. Thorne replied that example was correct. Senator Beers commented that 5 percent of \$500 would be \$25. Mr. Thorne stated that it would be 5 percent of the \$5, or the participant's share, because the statute stated the impact on the participant's cost had to be considered. The participant would be paying out-of-pocket a share of their coverage. The

subsidy portion of the overall cost was fixed. Any increase because of a group that left the program had to be borne by the participant, and statute stated that impact could not be more than 5 percent. Senator Beers noted that in this case, a \$5 participant contribution would be \$5.25 whereas at \$15 it would be \$15.75. Mr. Thorne indicated that was correct.

Chairwoman McClain recessed the meeting at 9:39 a.m. and reconvened at 9:52 a.m.

DEPARTMENT OF ADMINISTRATION
HEARINGS DIVISION (BUDGET ACCOUNT 101-1015)
BUDGET PAGE - ADMIN-125

Bryan A. Nix, Senior Appeals Officer, Hearings and Appeals Division, Department of Administration, began his presentation regarding Budget Account 101-1015, by stating there had been a number of inquiries from the Subcommittee, most notably regarding the Hearings Division's performance standards.

Mr. Nix said the Hearings and Appeals Division had attempted to provide information about other types of standards and issues. The Hearings and Appeals Division had, in the past year, implemented a new case management system that allowed the Division to track cases and information related to those cases, as well as automate certain aspects of the agency functions. Mr. Nix noted that prior to the implementation of the new database, the compiling of statistics and processing of the workload was all accomplished manually. The new system allowed the Division to gather and input data on a minute-by-minute basis as cases progressed. The new system had been installed in the Carson City office in the past month.

Mr. Nix referred to [Exhibit C](#), a Memorandum, which detailed his responses to questions posed by the Subcommittee at pre-session hearing. He stated the Hearings and Appeals Division carried a significant caseload, with each hearing officer averaging approximately 1,500 cases per year, and each appeals officer averaging approximately 450 cases per year. The major focus of the Division was to provide due process hearings to parties in determinations in Workers' Compensation cases. Mr. Nix said appeals were also heard from other state agencies, Victims of Crime Program cases, and Medicare cases. Cases before a hearing officer were, for the most part, handled and resolved within approximately 90 days of the date that a request had been filed. Cases before an appeals officer were handled and resolved in six months to a year, depending on the complexity of the case.

Mr. Nix stated the budget for the Hearings Division was requesting two new staff positions; a Legal Secretary II position in Decision Unit E-250, and an Administrative Assistant I position in Decision Unit E-251. The caseload in the Division had been growing steadily, but nowhere in proportion to the growth in the population. Mr. Nix said he felt the most remarkable change in Workers' Compensation had been the date when Workers' Compensation insurance had been privatized. Rather than one insurer, there were now multiple insurers with multiple attorneys, which had made the workload of the Hearings and Appeals Division much more complex. Mr. Nix explained that the Division had moved into new office space in Las Vegas, which had forced the office to have two separate waiting rooms. Unfortunately, the office could not handle the functions of two waiting rooms with the same staff. The purpose of the two requested positions for the Las Vegas office was to maintain the workload,

share the workload fairly among staff, help process records on appeal to the district court, data input, and help in providing notices and scheduling hearings.

Mr. Nix informed the Subcommittee that another decision unit in the budget requested funding to install electronically-assisted opening doors on the front entry to the building in Las Vegas. The landlord had installed Americans with Disabilities Act (ADA) approved doors, but those doors were not electronically assisted, and the office had a large number of visitors in wheelchairs and walkers who had difficulty opening the doors. Mr. Nix explained that the Division was requesting electronically-assisted doors for one entrance into the main building and into the entrances of the Hearings and Appeals Office.

Chairwoman McClain pointed out to the Subcommittee that pictures of the entryways had been provided on pages 11, 12, and 13, in [Exhibit C](#).

Mr. Arberry inquired as to why the Hearings and Appeals Offices needed to pay for the installation of the electronic doors when the building had been leased. Mr. Nix replied that the landlord had already provided ADA approved doors for the building. When the Hearings and Appeals Offices had leased the space it had not been anticipated that the lack of electronically-assisted doors would be a problem. The Las Vegas office had a ten-year lease and the doors were not terribly expensive, according to Mr. Nix. The Division felt an obligation to the clients to provide doors that were easier to access, as they had some complaints from people who were struggling with the doors. Mr. Arberry agreed with the concept, but said since the building was being leased, perhaps the landlord could meet the Division halfway and split the cost.

Mr. Arberry continued and asked Mr. Nix how the workload had increased for the Division since the State Industrial Insurance System (SIIS) had been eliminated. Mr. Nix replied that it was apparent from the figures on page 4 of [Exhibit C](#) that the Division had experienced fairly progressive growth. Every year seemed to produce a larger caseload than the year before. The biggest change since the privatization of Worker's Compensation had been that there was no longer a single insurer. From the perspective of the Hearings Division, having only one insurer had made the process much easier, as they were responsible for scheduling hearings, providing notice to the parties, holding the hearings, and rendering a decision. Currently the Division dealt with 300 different insurers as opposed to 1 insurer. Mr. Nix noted that many times the Division was uncertain as to the identity of the insurer when the appeal was received, which required research to ascertain the correct insurer. A database existed through the Department of Industrial Relations (DIR) that tracked who was insured through whom. Tracking and dealing with all of those insurance companies had made the work of the Division more complex and time-consuming.

Chairwoman McClain commented that the Division had gone before the Interim Finance Committee (IFC) on November 17, 2004, and requested two Administrative Assistant positions. She asked Mr. Nix to explain why the Division was now requesting a Legal Secretary position and an Administrative Assistant position. Mr. Nix stated that the original plan had been to include the Legal Secretary position and the Administrative Assistant position in The Executive Budget. Approximately one year ago the Division had planned to go before the IFC and request two Administrative Assistant positions because of the workload; because of various delays, that request had not been brought before the IFC until November 2004. The IFC had recommended that the Division hire two temporary clerical employees, but the Division elected not to

as they did not have the funds in their budget. In the interim the Division had taken a "hard look" at what was being requested, according to Mr. Nix. The Division had chosen to pursue the two positions requested in the budget. Mr. Nix stated that if the two requested positions did not resolve the problem with the workload, the Division might have to request additional positions in a year or two.

Senator Beers referred to page 7 of [Exhibit C](#) and wondered why the officer workload was almost five times higher in Carson City compared with Las Vegas. Mr. Nix replied that the chart showed how many cases were continued by the hearing and appeals officers, and in FY2004 many more cases were continued in Carson City than in Las Vegas. Mr. Nix said he was uncertain as to why that was the case, but referred to page 4 of [Exhibit C](#). He pointed out that in FY2004, the average caseload of the hearing officers in Las Vegas had been approximately 1,530, while in Carson City it had been closer to 2,000. Mr. Nix indicated that was because there were only two hearing officers in Carson City and there had been three. If another hearing officer position was added in Carson City, it would significantly decrease the caseload. Mr. Nix said he had spent a lot of time discussing the caseload with the hearing officers in Carson City and they felt comfortable with their caseload. He had assured them that if the caseload increased much more the Division would consider requesting another hearing officer position for Carson City.

Senator Beers commented that the Las Vegas hearing officers were probably very comfortable with their workload. Mr. Nix stated that the Division had been able to compile and print out statistics regarding the workload for the first time, and they were just beginning to analyze the data. Mr. Nix said perhaps one of the reasons that there had been more continuances in Carson City than in Las Vegas could be that Carson City was more accommodating to moving the workload, because of their workload. He continued by stating that many of the hearing officers tended to deny continuances because, not only was it more work to re-notice the hearing, but it put the work off into their own future rather than immediately resolving the case.

Senator Beers commented that it appeared the caseload of the Las Vegas hearing officers was approximately three cases per working day. Senator Beers asked why the Appeals Office lobby could not be moved into the Hearings Office lobby, handle those three cases per day with existing personnel, eliminate the request for new personnel, and spend that money fixing the doors. Mr. Nix replied that the configuration of the lobby would make it impossible to get from the Hearings side to the Appeals side with any practicality. Mr. Nix explained that there were always two separate hearing rooms in Las Vegas before the Division had moved into the Grant Sawyer Building. The Division had not been allocated enough space in the Grant Sawyer Building, but had been able to configure the space to function with one consolidated waiting room. When the Division had located new office space, their first approach had been to request that the architects design a consolidated waiting area. The architects had been unable to accomplish a design to consolidate the waiting areas without encountering major problems. Mr. Nix explained that the dual waiting areas were only part of the reason for the need for additional staff. He also noted that this was the first request for additional staff in eight years.

Senator Beers commented that over the period of eight years he would have expected technology to have provided tremendous efficiencies in the field of hearings and appeals. Mr. Nix replied that the system that had been implemented in the past year had indeed made a difference. However, with the

new technology came more responsibility, because data had to be entered to receive the advantage of the technology. The Division had realized efficiencies that had allowed them to keep up with the caseload, and the increasing complexities of that caseload, without adding staff for a number of years. Mr. Nix said that even with the added technology the Division still needed people to process the paper. Huge numbers of notices were still sent out every day, because each case required three or four notices. Mr. Nix maintained that it was a high volume, extremely efficient system where an injured worker or an employer could request a hearing and be before an independent hearing officer in a matter of four to five weeks.

Senator Beers asked if Worker's Compensation hearings and appeals were not the function of the courts and private attorneys in most states. Mr. Nix replied that he was not familiar with all states, but he believed that most states had a process to adjudicate Worker's Compensation claims. He understood that many of those states were using a judicial type of system where the entire case was resolved at one time. Nevada had a system where a claimant could appeal virtually any decision of the insurer. Mr. Nix stated, for example, in Nevada, if a \$30 claim for mileage were denied, it could be appealed. In other states, a case would be adjudicated all at one time, all issues were included, and the case would be resolved a year or two after it began. Mr. Nix said the Hearings and Appeals Division heard thousands of issues on a daily basis and resolved cases within a very short period of time.

Mr. Nix continued his presentation by addressing Decision Unit E-252, which requested a contract security guard position for the Las Vegas building. Mr. Nix stated the Division had been planning to split the cost of the requested position with the Nevada Attorney for Injured Workers (NAIW), but it was his understanding that those funds might not be included in their budget. The Division's portion of the enhancement was not sufficient to fund the entire position. Mr. Nix felt the position was necessary because two weeks before, an armed robbery had occurred on the steps of the Las Vegas office building. The Hearings and Appeals Office was housed in a building not owned by the State and therefore the Division could not avail itself of the services of the Capitol Police. The Hearings and Appeals Office sometimes had disgruntled people who appeared before them in hotly contested cases, and the Division had requested a security guard to be on the premises between the hours of 8:00 a.m. and 5:00 p.m. when the office was open.

Mr. Arberry wondered if the owner/landlord of the Las Vegas building would possibly help financially with the hiring of a security guard. Mr. Nix opined that he did not believe the owner was interested in spending any more money on the building. It was always possible, if the Division could negotiate a longer lease, that the landlord might be willing to pick up some of the other costs, however, Mr. Nix did not believe that the landlord would ever be willing to supply a security guard for the building.

Senator Coffin commented that as a veteran of the battle of the privatization of SIIS, and finally losing after approximately eight or ten years of fighting, the State still owed an obligation to the employees who were attempting to handle this duty. Senator Coffin said that in the past, because SIIS was a State agency, there was a lot of trust involved. What should have been foreseen, when private agencies began taking over, was that tempers would rise and tensions would increase. According to Senator Coffin, it was in the interest of third party administrators not to pay, whereas when SIIS was the insurer there was at least an evenhanded approach. Senator Coffin went on to say he did

not think the Division had enough employees, in general, not counting the security element. Mr. Nix agreed, and said before the SIIS had been privatized, there had been a presumption in favor of the injured worker. The government agency had been a fairly benevolent agency. If the decision of the SIIS had been appealed, SIIS representatives would attend the hearing, they would accept the outcome of the hearing, and usually not appeal it further. Private insurers had a profit incentive, making the cases much more aggressively litigated. Mr. Nix said the insurer was not as willing to accept a loss and, therefore, they were much more likely to proceed with an appeal through the administrative process, and even into the district court. The reality of privatization made it much more complicated for a State agency to operate than it was when there was only one insurer. Mr. Nix commented that the Hearings and Appeals Division had, in his opinion, done a remarkably good job at being efficient without "throwing staff at the problem."

Senator Coffin stated that was why he was concerned about the current staffing level. Mr. Nix replied that the hearings were expedited proceedings but they brought together the parties to a dispute almost immediately, and many of those disputes were resolved, almost immediately. The disputes that were more complex would work their way up to the Appeals officers. Mr. Nix noted that the three cases per day, which had been commented upon, were actually three trials per day with attorneys on both sides, testimony, motions, and discovery. The cases at the appeals level were much more complicated than those at the hearings level. Senator Coffin commented that the decision to privatize had been made and everyone would live with that, but something was owed to the workers.

Chairwoman McClain asked who would be liable for any problems if the requested electronic-assisted doors were not installed in the Las Vegas office. Mr. Nix replied that probably everyone would be sued, but he had not given it any thought. The only difference between the present ADA approved doors and the new requested doors, was a button that could be pushed to open the doors without using the handle. Chairwoman McClain suggested that Mr. Nix ask the landlord about installing the electronic-assisted doors. Mr. Nix responded that if the Legislature did not fund those doors, he would probably go to the landlord about extending the lease and try to get him to fund the doors.

Chairwoman McClain asked if the Division was on the four-year replacement schedule for computers that DoIT recommended. Mr. Nix replied that they were.

Chairwoman McClain asked why Decision Unit E-710 requested 54 computers since the Division had only 45 full-time employees. Mr. Nix responded that each of the Hearings and Appeals officers had a separate courtroom; an officer could access the database from the courtroom if he or she had a computer terminal there.

Chairwoman McClain noted that the Division was requesting to replace all their computers. Mr. Nix replied those computers would be replaced on the four-year schedule recommended by DoIT.

Chairwoman McClain asked how many computers the \$78,000 requested for each year of the biennium in The Executive Budget would purchase. Mr. Nix said he had a list which included a wide variety of items, such as, hardware, software, anti-virus software, and desktop PCs with software. All of those items had been reviewed by DoIT and replacement had been recommended

according to their schedules. Chairwoman McClain requested that Mr. Nix provide the detailed list to staff.

Chairwoman McClain asked if the requested salary increases for Hearings officers and Appeals officers included the recommended 2 percent cost-of-living increase. Mr. Nix replied that the 2 percent cost-of-living increase was included in the budget.

Chairwoman McClain inquired as to how salaries for the Hearings officers and Appeals officers compared with attorneys' salaries in the Attorney General's Office. Mr. Nix replied, in his opinion, not favorably. He believed that the Hearings officers' and Appeals officers' salaries were on the low side, considering that they were administrative law judges with considerable experience.

DEPARTMENT OF ADMINISTRATION
VICTIMS OF CRIME (BUDGET ACCOUNT 287-4895)
BUDGET PAGE - ADMIN-132

Mr. Nix provided a brief overview of the Victims of Crime (VOC) program, Budget Account 287-4895. The VOC program was responsible for assisting innocent victims of crime. Funding for the program was received from a variety of sources: court levied fees, assessments, penalties, forfeited property proceeds, undistributed court-ordered restitution, inmate wage assessments, and a federal grant under the U.S. Victims of Crime Act. Those funds were used for compensation for costs incurred by the victim, such as medical bills, counseling, lost wages, and funeral and burial expenses. Mr. Nix said that one of the most important things the Division had done was to develop an Internet-based client database that allowed tracking of all cases on the Internet, and the processing of claims in a much more efficient manner. The system had been installed in July 2004 and had already realized some savings for the Division. A compensation officer had retired shortly after the installation of the system and it had been decided not to replace that position, but to downgrade it to a clerical position because of the efficiencies realized from the database. Mr. Nix commented that the database was the first of its kind in the nation. It was completely paperless; all documents were scanned and processed through the computer system. The time for payment of a claim had been reduced from six to eight weeks to approximately one week, because of electronic processing.

Mr. Nix said the only real enhancement in the VOC budget was in Decision Unit M-501, which requested \$30,000 to reconfigure interview rooms which did not work out because of a privacy issue. The interview rooms were modeled after medical offices with small, open interview cubicles, which offered no privacy to the clients. Mr. Nix remarked that the new plan would turn the small interview rooms into one large conference room where interviews could be conducted in privacy.

Chairwoman McClain asked for information regarding possible cuts in federal grants and how the VOC planned to replace those funds. Mr. Nix commented that the VOC always lived in fear of cuts to federal grants. Chairwoman McClain said it would probably become a fact of life in the next few years. Mr. Nix acknowledged that could be the case, but the VOC was also anticipating potential increases in federal grants. Currently, the federal government would fund up to 40 percent of what the VOC spent out of their own dollars on providing services to victims. Mr. Nix stated that number

fluctuated because the federal dollars had to be spent first. When the VOC received a federal grant those dollars were exhausted first, then state dollars were spent, and then, the next year's award was based upon how many state dollars had been spent the year before. Mr. Nix said the VOC expected a grant of approximately \$1.6 million, which had been the average amount received previously. Mr. Nix mentioned that there was a possibility that the federal government was planning to increase their share from 40 percent to 60 percent of dollars spent, but no final decision had been reached. He reiterated that the federal government was not expected to go below the 40 percent of dollars spent at the present time.

Chairwoman McClain inquired as to whether the VOC program was expecting a decrease in court assessments. Mr. Nix replied that it had been difficult for the VOC program to project the amount of funds that would be forthcoming from those programs. Because the Division had no ability to audit the various courts or programs that sent money, it was never known how much money would be received, or even if the amount received was correct. Mr. Nix admitted that the amount received fluctuated, but it appeared to him that it should be increasing, not decreasing, in light of the population growth and the increase in crime.

Senator Beers asked Mr. Nix if the VOC had ever sent letters to the courts, explaining what the VOC did with the funds and pointing out how important those funds were to the program. Mr. Nix said that was not a bad idea, but they had never done it. He was not certain that the individual judges had much control over what their courts did with the assessments; that was probably an administrator's function.

Chairwoman McClain asked why the VOC program needed 10 desktop computers, 12 printers, 4 chairs, and upgrades of Microsoft Office for 8 full-time employees. Mr. Nix stated that volunteers worked in the VOC office and the extra computers were for their use.

Chairwoman McClain asked if there was a plan in the future to raise the maximum victim payment to \$50,000 from \$35,000. Mr. Nix responded that while there was no immediate plan, they would like to do that. The VOC program had instituted a number of cost containment measures in FY2003 because revenues were not keeping pace with expenses. Mr. Nix said the VOC program received very few claims that reached the maximum level, which minimized the impact to the victim. Because of cost containment strategies, Mr. Nix maintained that "\$35,000 spent like \$100,000." The VOC program was able to discount medical bills for victims, which allowed them to spend \$400 to satisfy \$1,000 worth of medical bills. Even at \$35,000, the VOC program had one of the higher caps in the country. The Board of Examiners had the authority to increase or decrease the cap. Mr. Nix noted that while it was a goal to increase the cap, 15 years ago the cap had been \$15,000. The cap had been increased largely as a result of the savings accrued through cost containment strategies.

Senator Beers referred to the remodel requested for the interview rooms and stated that staff was concerned because someone in the VOC program had mentioned that it was rare to have multiple victims interviewed at the same time. Mr. Nix replied that it was not rare; each of the Compensation Officers had appointments throughout the day. The original idea for the interview rooms had been to create a space where the client could be interviewed without taking them into the inner workings of the office. Mr. Nix said they had been led to believe by the designers that those were state-of-the-art interview rooms.

When placed in a large open space the cubicle would actually provide privacy, but the cubicles in the Las Vegas office had been placed in a closed space so there was no privacy between the cubicles. Senator Beers asked if the proposal was to remove the cubicles and provide one large room. Mr. Nix said the design called for removing the cubicles and using the remaining large room for interviewing one person at a time. The other option that had been explored was to divide the space into two interview rooms, but the cost would have been prohibitive. Senator Beers suggested leaving the cubicles in place and interviewing one victim at a time, essentially the same thing as had been planned, but without the cost. Mr. Nix agreed, but said by removing the cubicles some other advantages would be gained, such as a conference room.

Assemblyman Hogan asked if setting performance indicators, based upon the gross number of cases, gave the Division an accurate and specific idea of their performance. Mr. Nix replied that, as far as he was concerned, the real purpose of performance measures was to identify areas for improvement. Because of the database that had been recently implemented, monthly reports were being generated that tracked myriad cases. The database had made it possible to compare individuals to individuals, individuals to the norm, and identify patterns. Mr. Nix said the standards that had been put into The Executive Budget were based upon the standards required in state law, so those had been addressed first.

Chairwoman McClain opened the hearing on Budget Account 716-1371.

DEPARTMENT OF ADMINISTRATION
ADMINISTRATIVE SERVICES (BUDGET ACCOUNT 716-1371)
BUDGET PAGE - ADMIN-17

Mary Keating, CPA, Administrator, Department of Administration, introduced herself for the record. Ms. Keating stated that Budget Account 716-1371 was the fiscal unit for the Department of Administration. That account provided all fiscal, budgetary, and accounting services, not only for the Department of Administration, but for the Governor's Office, Board of Examiners, the Deferred Compensation Committee, and the Ethics Commission.

Ms. Keating stated that there were two main enhancement units included in the budget. Decision Unit E-250 requested the addition of two new positions, an Administrative Services Officer II, and an Accounting Assistant II. Ms. Keating said she would be unable to maintain the workload with the existing staff. Prior to this biennium, Administrative Services had been responsible for the Printing Office, which created many accounting transactions. When the Printing Office was transferred to the Legislative Counsel Bureau, approximately 30,000 transactions had been eliminated from Administrative Services. Ms. Keating said that because of that transfer she had envisioned a decrease in the workload, unfortunately, the opposite was true and the workload had increased.

Decision Unit E-710 requested funding for replacement equipment, which was on a normal four-year replacement cycle.

Senator Beers asked if Administrative Services performed job costing on an Excel program. Ms. Keating replied that they had no choice at the present time. The Advantage accounting program worked very well when books were closed every year, but books were not closed in the Capital Improvement Program (CIP), as CIPs were tracked throughout the life of the project. Ms. Keating said many functions had to be tracked that the Advantage accounting program was

incapable of tracking. Senator Beers asked if Administrative Services had to enter transactions twice. Ms. Keating replied that was presently the case, but the goal of Decision Unit E-225 in the Department of Administration's Information Technology Projects budget was to eliminate the need for double entries.

Ms. Keating stated that the goal was that Advantage, as posted, would still be the ultimate answer, because Administrative Services would still close books every year with balance forward. An interface would be added to Advantage to allow for multi-year tracking. Each transaction would be posted only once, but it would sit in different places on Advantage Financial and the CIP; added to that, Public Works needed to use the program for projecting in their budget. Ms. Keating said, hopefully, there would be only one system in use that would process everything only one time and she would not be reconciling multiple sets of books.

Assemblyman Seale asked where the new positions would be placed if the request was approved. Ms. Keating stated that currently Administration Services was housed in the Blasdel Building on the first and second floors. Remodeling was taking place on the third floor, and the new positions would be placed there.

Chairwoman McClain asked if, even with the new computer system, Administrative Services would still have need for two new positions. Ms. Keating noted that one of the positions she was requesting was for an Administrative Services Officer (ASO). Administrative Services was responsible for 82 budgets at the present time, which meant 82 weekly reconciliations, and additionally, prepared 31 budgets before the legislative session. Ms. Keating said that was a tremendous workload for her to oversee and she needed additional higher-level help to review the budgets. As for the Accounting Assistant, every transaction that went through the State system had at least three people review it for internal control purposes. Hundreds of thousands of transactions were processed, according to Ms. Keating, and more staff was required to handle the workload.

Chairwoman McClain adjourned the meeting at 10:46 a.m.

RESPECTFULLY SUBMITTED:

Anne Bowen
Committee Attaché

APPROVED BY:

Assemblywoman Kathy A. McClain, Chairwoman

DATE: _____

Senator Bob Beers, Chairman

DATE: _____

<u>EXHIBITS</u>				
Committee Name: <u>Assembly Committee on Ways and Means and the Senate Committee on Finance Joint Subcommittee on General Government</u>				
Date: <u>February 24, 2005</u>			Time of Meeting: 8:00 a.m.	
Bill #	Exhibit ID	Witness	Dept.	Description
	A			Agenda
	B	Public Employees' Benefits Program		FY2006-2007 Biennial Budget
	C	Department of Administration, Hearings Division		Memorandum