



State of Louisiana

Division of Administration
Office of the Commissioner

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Commissioner Rainwater testimony on Office of Group Benefits

BATON ROUGE – Commissioner of Administration Paul Rainwater testified this morning before the Senate Retirement Committee about the potential sale and privatization of the state's Office of Group Benefits. His opening statement to the committee appears below:

Thank you, Senator Gautreaux and members of this committee for holding this hearing today. I'm grateful for the opportunity to be here today, because it's important to lay out the facts.

The simple fact of the matter is that a sale and privatization of OGB will have no negative impact for those covered. Let me say that again: a sale and privatization of OGB will have no negative impact for those covered. We will maintain quality service to plan members. And we plan to continue to provide an HMO and PPO product with the same or better benefit structure of those currently offered.

The real question at issue, then, is: Should Louisiana state government – fairly unique among all states – continue to function as a health insurance company?

Currently, OGB already uses third-party private contractors for various health plans, but unlike other states, it makes administering its PPO plan a function of state government. Louisiana is one of only two states in the country (the other being Utah) that is in the business of running a health insurance company. Because of this, OGB has over 300 state employees, while the number of positions in comparable offices for other states includes 75 in Alabama, 50 in Georgia, 37 in Arkansas, and 23 in Florida.

Pursuing a public-private partnership would mitigate risk by providing the state with instant access to state-of-the-art technology improvements, a higher probability for reduced claims costs, and additional flexibility in program management. More importantly, this partnership will allow the state to focus on oversight and administration of health coverage, as opposed to the day-to-day activity of running a large health insurance enterprise.

It would also help us to continue to streamline the size and cost of Louisiana state government's comparatively large bureaucracy: The transition is expected to result in the reduction of 149 state government positions, and recurring savings of \$10.2 million, which could increase in future years.

The \$150 million value for OGB previously cited publicly was a preliminary estimate reflecting the present value of future cash flow. It does not, however, incorporate the value of related assets, such as OGB's approximately \$500 million fund balance. OGB's fund will continue to be used as it is now, for purposes that are necessary and reasonable for the provision of health insurance for state employees.

The procurement of a financial adviser to help the state evaluate a potential sale of OGB was undertaken in accordance with applicable law. An RFP for that service, which was issued by OGB, can be found on OGB's website.

https://www.groupbenefits.org/portal/pls/portal30/ogbweb.get_latest_news_file?p_doc_name=4E7A41334F5445324C6C4245526A51324E54453D

Citigroup and Goldman Sachs notified OGB of a preliminary Interest to Submit a Proposal, but only Goldman did so. Unfortunately, we were not able to finalize a contract. But we will not be deterred from this effort and plan to issue a new RFP in the near future.

Of course, the whole point of procuring a financial adviser for this initiative is to obtain expert analysis with which to form the basis of a fully-informed proposal to present to the legislature, in a public forum, at the appropriate time of seeking its approval.

In closing, this proposal represents a practical, common-sense approach that will maintain high-level health insurance coverage for state employees and retirees, while at the same time streamlining the size and cost state government and leveraging assets through a public-private partnership.

There's a value here that we're not tapping into – and, whether the final valuation is \$150 million or more, it's an opportunity that I hope the legislature will not want to pass up, which is to tap into that value, to alleviate pressures on the taxpayer-supported General Fund, and to utilize it toward services that benefit all taxpayers.