



Alaska State Legislature

Please enter into the record my testimony to the _____ HFIN _____
Committee on _____ HB 164 _____, dated 3/22/11 _____
Bill/Subject _____

Denali Alaskan Federal Credit Union serves 55,000 members as well as more than 500 sponsor employers, the vast majority of which have fewer than 50 employees. We try to create value to both groups.

Section 79 of HB 164 addresses "Individual Health Care Insurance Policies in the Group Market."

It is our view that the language in this Section severely limits both employer and employee choice of health care insurance and will leave employees without insurance options for extended periods of time.

To illustrate, consider an employer that is forced to drop group health insurance coverage due to declining profitability, increasing cost of insurance, or a combination of both factors.

According to the proposed language, no insurer could issue a policy to those employees for 6 months after the group plan's coverage ended. Clearly this restriction is quite onerous and, indeed, we believe constitutes poor public policy on several levels.

Instead of restricting access to health insurance we believe that employers and employees should have MORE options to obtain health insurance in the circumstances I just described, not less. The language of Section 79 is so broad as to seemingly prohibit even the discussion of individual health insurance policies with employers.

One solution would be to enact legislation that expressly permits the use of federal, tax-favored programs such as Health Reimbursement Accounts when employers eliminate group health insurance benefits. From an employer's perspective HRAs are easy to administer and allow flexibility in determining contribution levels.

From an employee's perspective HRAs allow ultimate flexibility in how those dollars are spent because they can be used for

- a specific list of medical expenses
- Co-insurance, copays, or deductibles in conjunction with health insurance
- Individual health insurance premiums.
- And, there is no 'use it or lose it' provision like Flexible Spending Accounts have.

In some ways individual policies are better than group policies:

- They are portable and not tied to employment which benefits seasonal, part time, temporary workers
- They typically have more stable pricing because the risk rating group is much larger than, say, a 10 person group plan.
- Individuals can currently choose from more than 40 plan designs to optimize coverage and costs.
- In the event that pre-existing conditions prevent a private insurer from issuing coverage, the option remains for individuals to apply to the Alaska Comprehensive Health Insurance Association at which time the employer has the option of increasing the contribution to that employee's HRA.

In conclusion, our view is that Section 79 creates more problems than it solves for working Alaskans and establishing additional alternatives for employees and employers to obtain health insurance would constitute better public policy. Specifically, we believe a statute that absolutely confirms that employers of any size may establish HRAs that may fund individual health insurance expenses without triggering small group health insurance regulation will ably and better serve both employees and employers.

Thank you,

Dale Fosselman

Senior Vice President Corporate Development
Denali Alaskan Federal Credit Union
907-257-9494

March 22, 2011

29

TO: House Finance Committee

RE: Comments on Section 78 of HB 164

FROM: Dale Fosselman, SVP Corporate Development
Denali Alaskan Federal Credit Union

Denali Alaskan Federal Credit Union believes all Alaskan workers and their employers should have freedom of choice when it comes to choosing health insurance coverage. Employees should have unrestricted access to all types of health insurance coverage, and should not be deprived of insurance coverage for months at a time when their group plan is terminated, or when they move or change jobs. Employers should also have unfettered access to information on all types of health insurance coverage, so they may make an informed decision on which type of health insurance is best for the company and its employees.

Section 78 of House Bill 164 severely limits both employer and employee choice of health care insurance, may leave employees without any coverage whatsoever for extended periods of time, and will deprive some employees of health insurance coverage altogether.

Section 78 of HB 164 will adversely affect both employees and employers in several ways:

- **It may leave employees without any health insurance whatsoever for six months or longer.** Unfortunately, the high cost of health insurance has caused, and will continue to cause, many employees to lose their group health insurance plans. Section 78 of HB 164 expressly prohibits an insurance company from issuing an individual health insurance policy to an employee for six months after the employee's group health insurance plan has been terminated. This leaves the employee without any health insurance whatsoever for at least six months. If the employee is also required to complete a probationary period before replacement insurance becomes effective, or if the replacement policy has a pre-existing conditions waiting period, the employee could be entirely deprived of health insurance coverage for a year or longer. This will occur even if the employee *wants* to use his or her own funds to purchase an individual health insurance policy, since the proposed law does not allow an insurance company to issue an individual policy to the employee.
- **It may prevent an employee from obtaining supplemental or additional health insurance coverage.** Section 78 prohibits an insurance company from issuing an individual health insurance policy to an employee who presently has group insurance coverage. This would prevent an employee from obtaining supplemental coverage (additional cancer coverage, for example) or from obtaining additional coverage from other sources. An employee who wants to purchase an individual health insurance policy for whatever reason should not be deprived of the right to do so.

- **It may prevent full time seasonal employees from obtaining group health insurance coverage.** The section prohibits an insurer from issuing an individual health insurance policy to an employee if his or her employer offers group health insurance coverage. Because of this, a full time seasonal employee who is not eligible for coverage under the employer's group policy may not be able to obtain an individual health insurance policy, even if the seasonal employee was willing to pay for the coverage out of his or her own pocket. This leaves full time seasonal employees without any health insurance coverage whatsoever.
- **Section 78 limits employer choice, by limiting employer access to health insurance information.** Section 78 broadly prohibits a person from selling, soliciting or negotiating an individual health insurance policy to an employee if the employer offers a group health insurance plan. Arguably, this restriction would prohibit an insurance agent from even discussing individual health insurance policies with the employer. Without this information, the employer may not understand the benefits individual health insurance policies may offer to both employees and the employer. Such benefits include:
 - **Portability.** When an employer terminates its group health insurance plan, individual employees may be left with no insurance coverage whatsoever. Employees who wish to change jobs, or who are involuntarily terminated also lose their health insurance coverage, after their COBRA benefits expire. Individual health insurance policies, on the other hand, are completely portable, and "go with" the employee regardless of where the employee works.

The employee gets to decide whether he or she wants health insurance coverage- the decision is not left entirely to the employer.

- **Guaranteed renewals.** Individual health insurance policies provide for guaranteed renewal and ~~no~~ ~~carrier~~ ~~may~~ ~~not~~ ~~be~~ ~~able~~ ~~to~~ ~~raise~~ ~~the~~ ~~premium~~ ~~based~~ ~~solely~~ ~~on~~ ~~the~~ ~~health~~ ~~of~~ ~~the~~ ~~insured~~ ~~individual~~.

- **Stable pricing.** Individual health insurance policies are less susceptible to the significant premium increases which seem to occur yearly with small group health insurance plans, because the rate is based upon a larger population of insured individuals. Individual health insurance policies are often less costly than group insurance plans, as well.

- **Without a doubt, individual coverage is better than no coverage at all.** Throughout the United States, employers are terminating their group insurance plans due to the frequent and ~~large~~ ~~annual~~ ~~increases~~ ~~in~~ ~~insurance~~ ~~premiums~~. It is therefore important that employers are made aware that group coverage may not be the only option available for their employees, and that in many instances group plans may be much more expensive than purchasing individual policies. Under Section 78, however, an insurance agent would not be able to inform an employer about the other insurance or health benefit options available to it. Believing group plans are its only alternative, an employer might cancel its group plan, where it might have funded individual policies through an HRA, instead-if given a choice. This is bad for both employees and employers.

- **Individual insurance policies may benefit both employers and employees.** Individual insurance policies funded through an HRA are more

easier for an employer to administer. Since individual policies are not subject to COBRA regulations, there are no COBRA regulations to be complied with. Also, since the premiums for individual policies are more stable than group insurance premiums, employers can better budget for their health benefit costs. When the cost of individual health insurance premium does increase, the employer has the option of covering the additional cost, or may request that the employee share in the additional cost. This option is not available with group insurance plans. Additionally, in cases where employees are required to pay 30-50% of the cost of group health insurance, all too frequently employees will 'opt out' of the coverage entirely and receive no health benefit contribution from their employer.

We believe the section as written is detrimental to both employees and employers, creates adverse unintended consequences, and seriously impairs Alaskan's ability to obtain quality health insurance at an affordable price.

We suggest the section be amended to delete the six month period during which employees who have lost their group coverage would not be able to obtain individual insurance policies.

We also suggest the section be amended to add a provision which allows the promotion of tax favored federal programs, such as HRAs, which employers may establish in order to enable their employees to pay for variety of direct medical expenses as well as the purchase individual health insurance policies through private providers or,

when pre-existing conditions dictate, through the Alaska Comprehensive Health Insurance Association.

Page 2 of 2