

Presentation to:

Alaska Council of School Administrators

Regarding State Managed Health Plan Report

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Background

Alaska superintendents and business officials submitted questions to Hay Group regarding its State Managed Group Health Insurance Program for Alaska Public School Employees report

- The following slides address the content from the questions

Agenda

- 1 Costs (Methodology & Approach)
- 2 Structure
- 3 Provider savings
- 4 Legal Considerations
- 5 Administrative Considerations

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Costs (Methodology &
Approach)

The goal and focus of our study

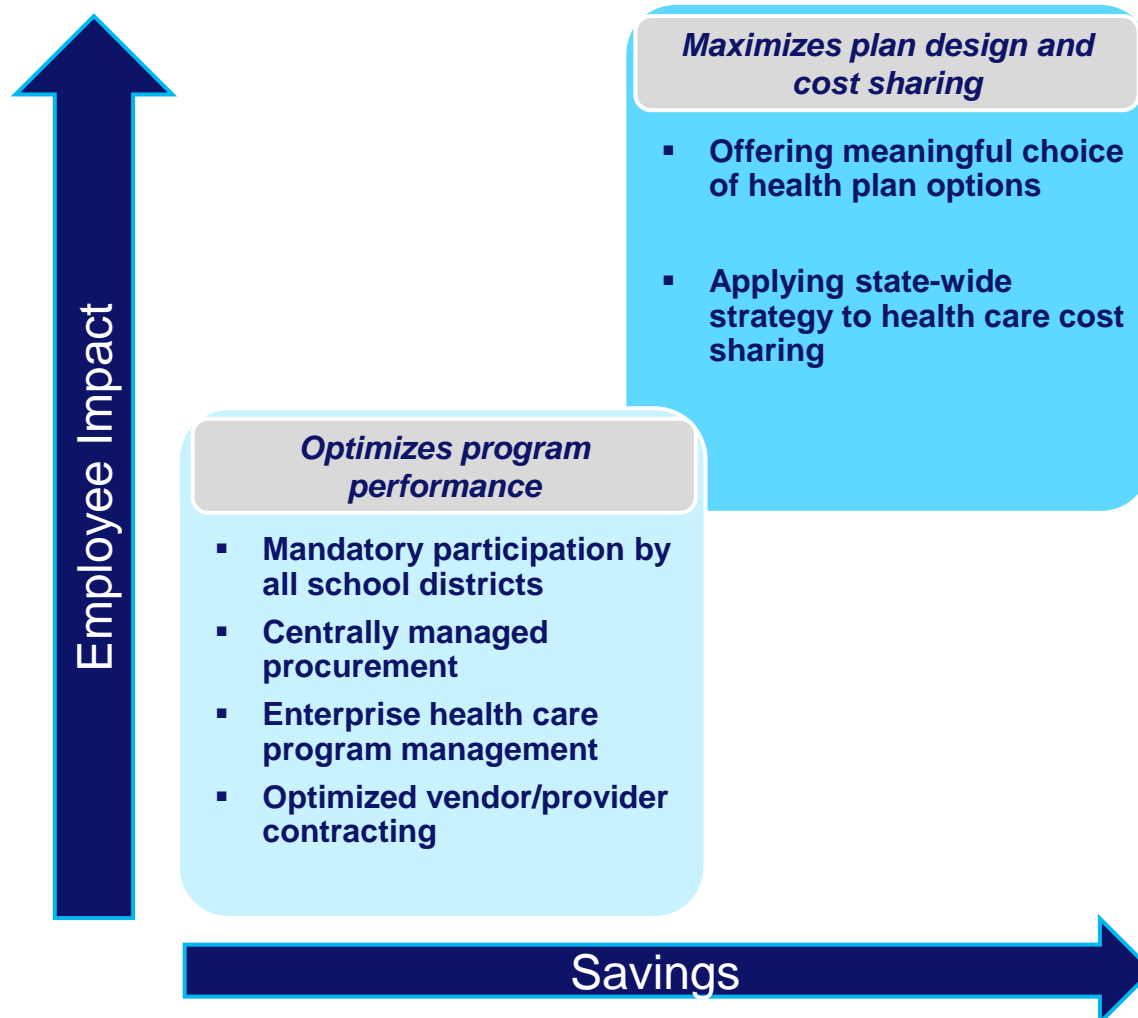
The goal is to sustain the long-term viability of district health benefits for employees and teachers

- Health care inflation continues to outpace general inflation (even salary increase)
- Districts need to offer health care benefits but cannot afford continued increases

Our study focused on costs which can potentially be reduced or eliminated from moving to a State managed health insurance program

- In studying the design, costs, and administration practices of 53 districts, it is important to understand there is significant complexity in analyzing actual district costs which are affected by many factors, for example:
 - Number of dependents covered by plan
 - Contracting arrangements
 - Plan design
 - Health status and demographics of members
 - Geography of district
- The focus of our study was to understand the factors which can be reduced under a state pooled arrangement
- Other opportunities for school districts to reduce costs may exist outside of a state managed program; however, this was not the focus of our study

New structure and design options



Utilize the Department of Administration's AlaskaCare

Option 2

From a pure plan design perspective, moving to the State's AlaskaCare Premium or Standard plans can add cost; moving to the AlaskaCare Economy plan can create savings

- We compared plan designs on an actuarial, “common cost” basis
- A positive percentage indicates that the AlaskaCare plan is more generous. On average, the AlaskaCare Premium plan is 9% richer than the average district plan design

State AlaskaCare Plan Relative Values			
Relative Values (From School District Plan to AlaskaCare)	AlaskaCare Premium Plan	AlaskaCare Standard Plan	AlaskaCare Economy Plan
P25	17.3%	13.1%	5.4%
P50	13.6%	9.5%	2.0%
P75	6.1%	2.3%	-4.7%
Average	9.0%	5.1%	-2.1%

Standard health plan options

Option 3

The primary difference under Option 3 is that employees would be offered a different menu of health plan options than the current AlaskaCare lineup that are more closely aligned with current school district offerings

- Offer three plan options to employees: High deductible plan, Basic plan (median) and Enhanced plan (P75)
- Because AlaskaCare plans are, in general, more generous than school district plans, this option provides greater opportunity for savings
 - The variability in plan selection creates an uncertainty in the financial impact of this change

Individual district impact

- Until all legislation, procurement, and implementation decisions are final, it is very difficult to provide a estimate of individual district impact
- Proportional allocation of savings estimates across districts does not consider:
 - Plan design
 - Cost sharing
 - Insurance status
- Under Options 1, 2, and 3, districts maintain the ability to set contributions which empowers districts to determine a portion of their own cost savings

Rural vs. urban costs

In aggregate, it's difficult to say whether a rural district has higher or lower claims cost than an urban district

- Rural health care costs per procedure are significantly higher than costs in an urban area such as Anchorage
- Utilization of health care services in rural areas of Alaska varies
- If a rural district has lower medical costs than an urban district, this could be due to a number of factors:
 - A “healthier” population
 - Lower utilization of health care services
 - More effective use of health care services (traveling for cheaper procedure, utilizing mail order drugs, etc.)

Health care costs per procedure are significantly lower in the lower 48 states due to better provider network discounts

- Alaskans travel to other states for care, especially in the summer, and for more advanced procedures

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Structure

Other considerations associated with the options

In addition to cost reductions, there are numerous benefits to establishing a State-run health plan for school districts and their employees

- Provide sophisticated vendor selection and monitoring across the entire state
 - The vendor selected to administer the health plans has health management processes in place
- Reduce administrative burdens on school districts
- Simplify collective bargaining
- Create a dependable pool of employees and eligible dependents, creating stable rates
- Additional opportunities to reduce costs and improve health outcomes
 - Among the many options to maximize the effectiveness of health benefits are medical travel programs which enable people with certain health conditions to fly to the lower 48 states for treatment

Enrollment

We recommended mandatory participation in the State plan by school districts, but employees could decline coverage and pay nothing

- Legislation should address:
 - whether school districts could opt out and under what conditions
 - whether limited-hours staff could obtain coverage, and at what cost
- Districts would pay only for employees who enroll in the state managed coverage. Employees who choose alternative coverage (Indian Health Services, spouse's health insurance, opt-outs, etc.) ultimately save the district money
- Our analysis assumed no change in the number of people covered
- The decision of school districts having the option of enrolling employees by tier (employee only, employee + spouse, employee + child(ren), employee + family) or as one aggregate rate is decided by the Department of Administration
 - Spouses in the same district will enroll based on the option administered by the Department of Administration

District employees vs. State employees

We recommended having separate premium rates for AlaskaCare and the school district employees because

- the groups have different demographics and experience, which could substantially skew health insurance rates
- creating separate rates will not prevent overall savings
- separate rates gives the State more flexibility in tailoring plans for school districts
- make it easier to design health plans similar to existing school district plans

Long-term experience could suggest combining the groups for rate-setting

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Provider Savings

Bradners' report (January 15, 2014)

There are several misleading or incorrect statements made in this digest which are generalizations of very complex issues

- Bradner Statement: There is no competition among Alaska providers
 - Although rural areas have little healthcare provider competition, travel or urban areas and lower 48 for major medical care is common
 - There is provider competition in urban areas where providers can take advantage of economies of scale of more patients which increases discounts
 - The use of a Pharmacy Benefit Manager (PBM) presents significant savings opportunity
 - Through aggressive competitive contracting the State can obtain better pricing on many cost factors

Bradners' report (January 15, 2014) (cont'd)

There are several misleading or incorrect statements made in this digest which are generalizations of very complex issues

- Bradner Statement: Group size doesn't get you much without provider competition
 - This largely ignores administrative costs such as broker revenue, stop loss fees, risk pooling charges, state premium tax, as well as insurance profit, not to mention the ability to implement a benefits strategy
 - Group size provides sophisticated vendor selection and monitoring across the entire state, reduced administrative burdens on school districts, the ability to holistically manage compliance, and additional opportunities to reduce costs and improve health outcomes
- Bradner Statement: What this is about is downgrading teacher coverage
 - The intent of our report is to highlight the potential for savings under a State managed plan. Under all proposed options, savings is achieved with no reduction in plan design, or increase in cost, for district employees
 - Goal is to maintain current levels of coverage despite increasing costs

Other states

Many states have conducted this type of study, although few have implemented

- Washington, Oregon, Georgia, North Carolina, New Jersey, New York, Minnesota, Michigan, Pennsylvania, Texas, Utah and Indiana are among states who have studied moving school district health plans to a single state plan
- **Washington** is actively considering similar changes
- **Texas** requires small school districts to participate in state plan. Larger districts can opt-in, but are not permitted to opt-out
- **Oregon** implemented a state plan for school districts which has produced estimated savings of more than \$40 million per year

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Legal Considerations

Legal considerations

Legal Review of Mandatory School District Participation

- We agree that a legal review should be conducted by the State. Typically this would be done by the State's Attorney General or by legislative counsel. Hay Group could assist in the research and analysis, but we do not provide legal opinions

Trust Reserves

- Hay Group did not indicate or suggest that the assets held by self-insured groups (e.g., NEA Public Education Health Trust) could be extracted from those trust accounts. It is our understanding of applicable Federal law that the assets held in a VEBA trust are subject to the terms of the trust document and the decision of the trustees

“Local Control State”

- We suggest that any question regarding the legality of requiring participation in a state-run health plan and the interaction with a “local control” provision be referred to the State's Attorney General

Legal considerations (*cont'd*)

Exceptions to Mandatory Participation

- Whether a school district that could opt out of the State plan if it could purchase health insurance at a lower cost is a plan design question to be resolved in State legislation.
- Generally, the more opportunities that school districts have to opt out of the State plan the lesser the potential savings for all school districts as a whole. For this purpose, savings must be considered over several years

ACA, Grandfathering, and Minimum Essential Coverage

The new State plan

- Would be in compliance with all ACA requirements
- Would not be grandfathered under ACA rules – more advantageous to employees and their families
- Would satisfy ACA minimum essential coverage requirement

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Administrative Considerations

Reduced Administrative Burdens at School District Level

The State (through a TPA) would take over many of the administrative duties currently performed by each school district

- Compliance with HIPAA, COBRA, ACA, etc.
- Staying up-to-date with new compliance requirements
- Setting up and executing enrollments – open enrollment, new enrollments and changes
- Vendor monitoring and vendor contract enforcement

Estimated staff needs was a rough estimate assuming

- coordination with existing state staff
- most of the administrative responsibilities handled by vendors (e.g., TPA)
- no reduction in school district support for health plan administration