
MEMORANDUM

TO: Senator Anna Fairclough

FROM: Hay Group

DATE: Friday, February 21, 2014

SUBJECT: Questions regarding Hay Group's Report (State Managed Group Health Insurance Program for Alaska Public School Employees)

Below please find the questions presented to Hay Group on February 7, 2014 and our responses, with respect to Hay Group's Report on school district health plan consolidation in the State of Alaska.

1. Can you provide the date that each school district's current contract will expire?

According to the responses to our survey, the schedule for collective bargaining agreements (CBA) expiring is:

<u>CBA Expiration</u>	<u># of Districts</u>
6/30/2013	3
6/30/2014	8
6/1/2015	1
6/30/2015	4
6/1/2016	2
6/30/2016	28
7/1/2016	1
6/30/2017	1

There were 5 districts that did not provide a CBA expiration date representing approximately 351 employees.

2. If moving over to a state managed plan were optional for each school district, can you tell us if the largest five school districts do not join if we will still see savings?

According to the information in our report, the five largest school districts, by health care total spending, are:

Anchorage	\$97.7 million
Fairbanks	\$36.1 million
Mat-Su	\$34.2 million
Kenai	\$23.0 million
Juneau	\$11.1 million
Total	\$202.1 million

This represents approximately 69% of the total \$295 million total spent by all Alaska school districts (counting both school district and employee premium/contributions). They also represent the same percentage, 69%, of the covered school district employee population.

The following table outlines the total health care spending by each of the remaining 48 districts:

District	Total Employees Electing Health Care	Total Health Insurance Cost ¹		Employer Cost		Employee Cost		Avg. Employee Cost Share	Insured Arrangement
		Total Spend	PEPY	Total Spend	PEPY	Total Spend	PEPY		
Alaska Gateway	54	\$1,098,360	\$20,340	\$1,098,360	\$20,340	\$0	\$0	0%	NEA-Alaska
Aleutian	6	\$94,826	\$15,804	\$94,826	\$15,804	\$0	\$0	0%	Fully Insured
Aleutians East Borough	48	\$755,739	\$15,745	\$695,280	\$14,485	\$60,459	\$1,260	8%	Fully Insured
Annette	32	\$708,890	\$22,153	\$652,179	\$20,381	\$56,711	\$1,772	8%	Fully Insured
Bering Strait	292	\$5,628,581	\$19,276	\$4,974,101	\$17,035	\$654,480	\$2,241	12%	Partially Insured
Bristol Bay Borough	24	\$516,960	\$21,540	\$467,280	\$19,470	\$49,680	\$2,070	10%	NEA-Alaska
Chatham	15	\$307,260	\$20,484	\$243,630	\$16,242	\$63,630	\$4,242	21%	NEA-Alaska
Chugach	39	\$644,165	\$16,517	\$644,165	\$16,517	\$0	\$0	0%	Partially Insured
Copper River	64	\$1,314,816	\$20,544	\$1,238,016	\$19,344	\$76,800	\$1,200	6%	NEA-Alaska
Cordova City	44	\$903,936	\$20,544	\$831,600	\$18,900	\$72,336	\$1,644	8%	NEA-Alaska
Craig City	47	\$1,013,508	\$21,564	\$1,013,508	\$21,564	\$0	\$0	0%	NEA-Alaska
Delta-Greely	92	\$1,724,568	\$18,745	\$1,427,595	\$15,517	\$296,973	\$3,228	17%	NEA-Alaska
Denali	53	\$1,229,980	\$23,207	\$886,120	\$16,719	\$343,860	\$6,488	28%	Self Insured
Dillingham	80	\$1,458,005	\$18,225	\$1,291,073	\$16,138	\$166,932	\$2,087	11%	Self Insured
Galena City	150	\$2,031,967	\$13,546	\$1,830,247	\$12,202	\$201,720	\$1,345	10%	Partially Insured
Haines Borough	51	\$907,596	\$17,796	\$907,596	\$17,796	\$0	\$0	0%	NEA-Alaska
Hoonah City	38	\$538,233	\$14,164	\$538,233	\$14,164	\$0	\$0	0%	Fully Insured
Hydaburg City	12	\$230,937	\$19,245	\$217,565	\$18,130	\$13,372	\$1,114	6%	Fully Insured
Iditarad Area	38	\$773,747	\$20,362	\$773,747	\$20,362	\$0	\$0	0%	Alaska Public Employees Ins
Kake City	15	\$233,280	\$15,552	\$221,580	\$14,772	\$11,700	\$780	5%	NEA-Alaska
Kashunamit	96	\$1,252,308	\$13,045	\$1,252,308	\$13,045	\$0	\$0	0%	Self Insured
Ketchikan Gateway Borough	220	\$3,248,037	\$14,764	\$2,193,933	\$9,972	\$1,054,104	\$4,791	32%	Partially Insured
Klawock	25	\$631,350	\$25,254	\$601,717	\$24,069	\$29,633	\$1,185	5%	Fully Insured
Kodiak Island Borough	262	\$6,990,213	\$26,680	\$6,147,573	\$23,464	\$842,640	\$3,216	12%	Partially Insured
Kuspuk	79	\$1,522,247	\$19,269	\$1,522,247	\$19,269	\$0	\$0	0%	Partially Insured
Lake and Peninsula Borough	94	\$1,675,904	\$17,829	\$1,517,161	\$16,140	\$158,743	\$1,689	9%	Partially Insured
Lower Kuskokwim	645	\$12,406,154	\$19,234	\$12,406,154	\$19,234	\$0	\$0	0%	Partially Insured
Lower Yukon	391	\$7,865,103	\$20,115	\$7,865,103	\$20,115	\$0	\$0	0%	Partially Insured
Nenana City	51	\$1,037,340	\$20,340	\$1,037,340	\$20,340	\$0	\$0	0%	NEA-Alaska
Nome	137	\$1,274,969	\$9,306	\$1,083,740	\$7,911	\$191,229	\$1,396	15%	Fully Insured
North Slope Borough	426	\$8,459,419	\$19,858	\$8,459,419	\$19,858	\$0	\$0	0%	Partially Insured
Northwest Arctic	364	\$8,382,881	\$23,030	\$8,112,281	\$22,286	\$270,600	\$743	3%	Partially Insured
Pelican City	2	\$49,883	\$24,941	\$49,883	\$24,941	\$0	\$0	0%	Fully Insured
Petersburg Borough	67	\$1,199,568	\$17,904	\$955,752	\$14,265	\$243,816	\$3,639	20%	NEA-Alaska
Pribilof	28	\$609,840	\$21,780	\$609,840	\$21,780	\$0	\$0	0%	NEA-Alaska
Sitka	236	\$2,919,045	\$12,369	\$2,563,434	\$10,862	\$355,610	\$1,507	12%	Fully Insured
Skagway	13	\$243,007	\$18,693	\$243,007	\$18,693	\$0	\$0	0%	Fully Insured
Southeast Island	28	\$603,792	\$21,564	\$603,792	\$21,564	\$0	\$0	0%	NEA-Alaska
Southwest Region	76	\$1,212,079	\$15,948	\$953,048	\$12,540	\$259,031	\$3,408	21%	Fully Insured

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		Total Spend	PEPY	Total Spend	PEPY	Total Spend	PEPY		
Saint Mary's	16	\$196,700	\$12,294	\$170,517	\$10,657	\$26,182	\$1,636	13%	Fully Insured
Tanana	6	\$87,195	\$14,533	\$87,195	\$14,533	\$0	\$0	0%	Fully Insured
Unalaska City	63	\$1,329,610	\$21,105	\$1,329,610	\$21,105	\$0	\$0	0%	Alaska Public Employees Ins
Valdez City	116	\$2,370,774	\$20,438	\$2,265,096	\$19,527	\$105,679	\$911	4%	Partially Insured
Wrangell City	40	\$840,870	\$21,022	\$820,739	\$20,518	\$20,131	\$503	2%	Fully Insured
Yakutat City	21	\$367,500	\$17,500	\$345,900	\$16,471	\$21,600	\$1,029	6%	Fully Insured
Yukon Flats	44	\$821,736	\$18,676	\$821,736	\$18,676	\$0	\$0	0%	Fully Insured
Yukon-Koyukuk	96	\$1,726,473	\$17,984	\$1,726,473	\$17,984	\$0	\$0	0%	Partially Insured
Yup'it	111	\$1,465,369	\$13,202	\$1,401,430	\$12,625	\$63,939	\$576	4%	Partially Insured
Total	4,947	\$92,904,719	\$18,780	\$87,193,130	\$17,625	\$5,711,589	\$1,155	6.1%	

¹Total Health Care Costs include premium rates, any applicable administrative and stop loss fees

In our view, establishing a State-wide health plan for 5,000 school district employees would diminish savings estimates for the following reasons:

- The group is not large enough to be very attractive to a health insurer, and the State would get less favorable pricing than it would if all school districts were enrolled in the State plan.
- The remaining 48 school districts are generally in areas where there is little if any provider competition, so obtaining more favorable discounts for medical services is less likely.
- Administrative costs, as a cost-per-employee, would be higher than it would otherwise be if the five school districts were part of the State-wide plan because the efficiencies that would be obtained by the inclusion of the five largest school districts.
- The opportunities to introduce healthcare enhancements would be diminished because of the lack of efficiencies that would otherwise be achieved with the inclusion of the five largest school districts.
- The costs of administration, on a per employee basis, would be higher without the five largest school districts.

If the State were to exclude the five largest school districts (or any significant school district exclusions), we would recommend that the remaining school districts that would participate be folded into AlaskaCare. Whether it would be advisable to create a separate rate structure that reflects the school districts' claims experience would require a more detailed analysis of the claims experiences of the respective groups.

Despite the diminished group size (i.e., without the largest 5 districts), many of the areas of savings as identified in our report would still apply. The following table outlines our estimates of these savings:

Option 2: DoA's AlaskaCare Excluding largest 5 districts

Source	Potential Savings
Provider Networks	
Medical provider network	-
Pharmacy carve out	\$300,000
Overhead	
Fully Insured Overhead	\$1,200,000
Stop Loss Fees	\$500,000
Broker Revenue	\$2,800,000
Plan Design	(\$4,000,000) - \$5,100,000
Cost Sharing	\$8,000,000 - (\$5,700,000)
Total Savings	\$8,800,000 - \$4,200,000
% of total spend	9.5% - 4.5%

Because employees of these 48 districts only pay for 6.1% of the cost of health care, significant savings could be achieved if the 48 school districts were moved to the AlaskaCare cost sharing structure. This structure allows employees to enroll in the Economy plan at no cost, or employees can buy up to the Standard plan at 10% cost share, or to the Premium plan at 33% cost share. The range of savings attributable to “Plan Design” in the above table depends on whether school districts and their employees would be required to enroll in the AlaskaCare Economy Plan (which is slightly less rich than the average school district plan) or would be allowed to enroll in the richer Standard and Premium plans offered by AlaskaCare.