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MEMORANDUM

TO: Senator Anna Fairclough

FROM: Hay Group

DATE: Friday, January 24, 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 January 9, 2014 and our responses, with respect to Hay Group's Report on school district health plan consolidation in the State of Alaska.

1. ***The report includes estimated savings for each of the four options Hay reviewed but does not detail at what point those savings will be realized.***

   a. ***Do the savings estimates take into account that due to requirements within existing collective bargaining agreements, it will take approximately five years for all school districts to transition to the new system?***

Due to the random and evolving nature of health care and employer-provided health benefits, the savings estimates in our Report are a result of analyses based on a snapshot in time, assuming all school districts transitioned to the new option on day one (i.e., no phased transition of school districts) and based on the FY2013 cost of benefits and administration to the population enrolled in school district health care coverage as of that date. This allows for a consistent, apples-to-apples comparison when reviewing district health plan designs, premiums, and administration information; in addition, the potential savings from this analysis can be used to make broad, strategic decisions regarding a state-managed plan.

Potential savings for any of the transition years would be reduced from the estimates in our Report due to a gradual phase-in of the school districts into any of the proposed options. The cost of transition would depend on the rapidity with which the transition occurs and the number of employees enrolled during that transition. As noted in our Report, we suggested transitions to the State plan as collective bargaining agreements expire. Based on the information we collected and the current status of implementation, the earliest feasible date for implementation is July 1, 2015 in keeping with the majority of district's July 1 plan year; this would require some phase-in as the majority of bargaining agreements expire on or before June 30, 2016. As an alternative, implementation could be delayed until July 1, 2016, as of which date virtually all bargaining agreements would have expired, including those with the largest share of school district employees. However, the State could accelerate the transition by appropriate statutory changes.

b. ***If so, was the level of potential savings calculated for the first year of transition only? If not, what level of savings is estimated for each year and in which year will the most level of savings be realized?***

As indicated in our previous answer, a phase-in approach would seem reasonable, but we have not attempted to determine the savings in any particular year of that phase in. If, for illustrative purposes, you would like us to make some assumptions about the savings in each year of a phase-in based on a specific implementation date, in terms of FY2013 information, we can provide that to you. However, it would be very helpful for us to gather some additional data from the State, in order for us to provide a useful savings estimate. We recommend having a discussion with Senator Fairclough's office to discuss the legislative plan, and we can then calculate some savings based on those additional inputs.

c. ***If so, is the level of potential savings Hay identified offset at all by the administrative costs the new system will incur; and is there a point where enrollment in the new system will be so low that the administrative costs of the new system will exceed the savings for that year?***

We understand administrative cost in this context to mean the additional burden to be placed on the entity undertaking the state-managed plan (now the Department of Administration). Costs regarding the administration of health plans (fees paid for claims administration, network access, stop loss insurance, etc.) are addressed in our Report. Based on conversations with the Department of Administration, additional resources are needed for this implementation.

Based on our analysis, there are significant savings to be realized from any of the mandatory participation options described in our Report, even after netting out any administrative costs that the State would incur.

In all of our assumptions, a third-party administrator would handle member inquiries which is likely similar to the arrangement many districts already have in place. Those costs would decline, on a per-member basis, due to economies of scale significantly more than the additional cost of added State staff needed to manage the plan for school district employees.

If we assume that the State plan were operational by July 1, 2015 and that, under a phased-in approach, those school districts whose collective bargaining agreements had expired by that date were required to enroll their employees in the State plan, we would expect that a minority of the eligible employees would enroll by July 1, 2015. The full level of administrative support is not needed until all districts have been phased-in. In addition, the level of administrative support provided to district will vary depending on the staffing at the district level currently dedicated to supporting the health plan as well as the administrative support provided internally (Department of Administration) versus hiring an external provider of these services.

d. ***If the transition period is not considered in the savings estimates, please explain why this was not a consideration in developing the potential savings estimate.***

Transitional savings estimates of this nature which depend on implementation are not typically useful when considering multiple broad options potentially being administered by different state entities which would require various lead times, as outlined as options in our Report. Now that options for the state-managed health insurance program have been pared down and more details about implementation are known, Hay Group's support to refine options will include estimates of transitional savings.

2. ***The RFP requires an evaluation of whether there would be an impact to the State Public Employees Retirement System (PERS) or the Teacher Retirement System (TRS) if public school employees were moved to a state-managed health plan. I did not see that issue discussed in the report. Given that the districts pay for retiree health care coverage, please provide a response as to whether there would be an impact to these systems if public school employees were moved to a state-managed health plan.***

Page 57 outlines the effect on PERS and TRS. To further clarify the Report, there is no impact of implementing a state-wide active group health plan on the retiree health care programs administered through PERS and TRS.