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**MEMORANDUM**

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TO: Senator Anna Fairclough

FROM: Hay Group

DATE: Thursday, March 20, 2014

SUBJECT: Response to Optum's review of Hay Group

This memorandum responds to Optum's observations regarding Hay Group's Report on the feasibility of providing a State health plan for Alaska's public school employees.

Given the depth and breadth of our Report, we did not, in every instance, specify every assumption that we used, given that in some instances we applied offsetting assumptions that took into account points raised by Optum. In our view, our assumptions, in the aggregate, fairly and reasonably estimate the potential of savings up to \$64.9 million (M).

With respect to Optum's point that recoveries from stop-loss insurance should be factored into the costs, we agree with Optum that there is an offset, and have taken that into account in our overall analysis of potential savings presented within our Report. Even if we had been more explicit about the offset, the potential savings from the elimination of stop-loss insurance represents a small percentage of the aggregate financial impacts presented in Hay Group's Report.

Optum contends that a \$2M stabilization fund would be needed that would reduce savings. We addressed this issue on page 61 of our Report, but we did not conclude that it would be appropriate, at this level of analysis, to presume that a reserve would be necessary, before knowing more about the stability of claims and other factors that would contribute to determining whether a stabilization fund would be needed and if so the magnitude of that fund. Moreover, we suggested in our Report that perhaps the State could support some of these start-up costs, which could be repaid over time. In our view, attempting to validate and quantify such an unknown cost, given the overarching scope of our Report was not warranted at this time.

As to Optum's perspective on the fully insured overhead, which they claims should be about 5% rather than our 8%, again, our assumption was based on our experience and analysis. It is certainly possible for actuaries to disagree on this point, but a change of \$350,000 does not appreciably alter our fundamental analysis of the range of potential savings.