

April 9, 2013

Senator Mike Dunleavy
Alaska State Capitol, Room 420
Juneau, Alaska 99801

Dear Senator Dunleavy:

I am writing to you on behalf of Northern Economics, Inc. to request that the legislature defer action on Senate Bill 90 in order to allow a joint legislative committee an opportunity to fully consider the bill's economic and fiscal effects. Northern Economics, Inc. is concerned that there are positive and negative implications of SB 90 that the Alaska Legislature may not have fully considered. At a time when the State of Alaska can ill afford to make fiscal errors, we respectfully request you take the time to examine the bill's full effects.

As you know, SB 90 would require the state's school districts to enroll their employees into the State of Alaska's health plan system. In the interest of full disclosure, we note that we conducted membership satisfaction surveys for the NEA-Alaska Health Trust in 2009, 2011, and 2012. This work represents less than one percent of our overall revenues in these years and we are not currently under contract with the Health Trust.

We can think of both positive and negative effects of this bill, but as far as we are aware there is no data telling the public or decision-makers the relative magnitude of the bill's effect. We believe that the following elements of the bill are most in need of further analysis:

- SB 90 caps health care expenditures from the proposed fund at \$100 million without an adjustment for inflation. This amount is likely not enough to cover the individuals currently enrolled in other health plans at their current plan coverage levels given the current rate of medical inflation. We believe that much of these savings will have to come from cutting the quality of health and life insurance benefits received by educational staff and their dependents.
- The bill would centralize insurance for teachers, thus removing an element of local control. One of the benefits of a decentralized system is that school districts can craft programs that fit their budget, the availability of medical services in their area, and medical costs in their area. SB 90's approach would result in a centralized system that would ignore regional differences in health care costs and availability while eliminating local control over these issues.
- SB 90 requires school districts to reimburse the State of Alaska for health care costs while removing the element of plan selection from local control. There is the potential that these reimbursements could come into conflict with local control of revenue generation mechanisms as the state would be requiring municipalities to raise revenue for a program the school districts do not control.
- The idea that the State can reduce costs by large pool purchasing may be flawed as many districts are already effectively large pool purchasing through the use of the NEA-Alaska

Health Trust. There is the strong possibility that the economies of scale have already been achieved by the Trust and that moving constituents from the Health Trust would be significantly disruptive. However, as we note above, there is unfortunately no analysis to confirm or disapprove these expectations.

- The State may not fully understand the administrative costs and difficulties of folding educational staff into the State's insurance systems. The NEA-Alaska Health Trust systems are more sophisticated than the systems used by some State of Alaska health trusts and programs.
- The results of our last survey from November 2012 indicated that 92 percent of NEA-Alaska Health Trust beneficiaries were at least somewhat satisfied with the health plan being provided to them by their districts through the Trust. Of the remaining eight percent of respondents, less than three percentage points were dissatisfied with their health plan overall. In short, for every 1 person who isn't happy with their overall health plan there are more than 24 people who are happy with their coverage. In addition, the Health Trust and their school district clients have improved their satisfaction performance every time we've conducted our survey. We find these results remarkable. We believe that one effect of SB 90 would be to move education staff and their dependents from a plan with a 24-to-1 satisfaction to dissatisfaction ratio to a plan with unknown satisfaction statistics and capped costs. We suspect that an effect of this bill will be to reduce overall plan satisfaction and the personalized attention and commitment to improving satisfaction that we've seen from the NEA-Alaska Health Trust.

This letter marks the first time in the 30-year history of our company that we have written directly to the legislature to ask for work on a bill to be slowed so that the people of the State and their representatives can fully understand the implications of a specific bill. We have a long history of providing the State and its peoples with apolitical, independent, third party analyses. We believe that this bill requires such an analysis.

Thank you for your time in considering this letter and our comments.

Sincerely,



Jonathan King
Principal and Senior Economist

CC: Patrick Burden, President, Northern Economics, Inc.
Marcus Hartley, Vice-President, Northern Economics, Inc.