Memo

To:	Director Carpenter, Alaska Division of Insurance
From:	Becky Sheppard, Actuarial Manager, Risk & Regulatory Consulting, LLC
Date:	1/28/2026
Subject:	Review of SB 121 Related to Out-of-Network (OON) Reimbursement and SB 122 Related to Provider Network Adequacy with January 2026 Update

Scope

The Alaska Division of Insurance (DOI) requested assistance from Risk & Regulatory Consulting, LLC (RRC) to analyze the financial impact of proposed Senate Bill No. 121 (SB 121) as amended on 3/27/2025 in committee and published on 3/31/2025 and proposed Senate Bill No. 122 (SB 122). There are two primary components of SB 121 as it relates to Out-of-Network (OON) reimbursement. In summary, SB 121 proposes setting OON reimbursement at a rate that is the greater of the 75th percentile or 450% of Medicare rates and reimbursing all OON providers (regardless of provider level/designation) at the same rate based on Current Procedural Terminology (CPT) code. SB 122 proposes minimum provider network standards such as requiring insurers to include in their network every hospital, skilled nursing facility, and mental health or substance abuse facility licensed in the state and each physician, physician assistant, or advanced practice registered nurse employed or contracted by one of the hospitals or facilities.

Since both SB 121 and SB 122 relate to provider networks, the two bills interact with each other. SB 121 sets requirements for OON reimbursement and SB 122 sets requirements for provider networks which impacts in-network costs. If both bills are enacted, we anticipate that there could be a potential increase in both in-network and OON costs. It is reasonable to assume that providers would not accept a lower reimbursement in-network compared to OON and therefore would expect equal or higher in-network reimbursement. Our scope is focused on evaluating the potential direct impact of SB 121 on OON costs. We did not further evaluate the potential impact of SB 121 and SB 122 on in-network costs. The scope of work agreed to by the DOI is as follows:

1. Regarding setting OON reimbursement at a rate that is the greater of the 75th percentile or 450% of Medicare rates –
    - RRC will collect information about total health care claim costs and what percent of claim costs are OON (based on data provided by insurers and publicly available data)
    - RRC will collect information related to current reimbursement rates for OON claims

- RRC will provide a range of impacts for this component of the bill

2. Regarding reimbursing all OON providers at the same rate regardless of level/designation based solely on CPT code – RRC will use data provided by the insurers to estimate this impact.

Our estimates are performed at a high level and intended to provide insight regarding the potential impact of the bills. The actual impact may be higher or lower than our estimates based on changes in utilization and claim cost which is volatile. Our estimates are based on aggregate individual and small group market information provided by the insurers. Although large group fully insured data was not used due to challenges in obtaining it, SB 121 and SB 122 will still apply to the large group fully insured market.

Our initial report *(RRC_AKDOI_SB121ResponseMemo_041025.pdf)* was provided to the DOI in April 2025 and is documented throughout this report. Unless otherwise noted, the information in this report is based on our April 2025 analysis. The DOI asked us to provide an update to our analysis in January 2026. This report has been updated to include a "January 2026 Refresh" which is indicated in blue text throughout the report.

Background

Adopted in 2004, AK's 80th percentile regulation (3AAC 26.110(a)) was repealed on January 1, 2024. The 80th percentile regulation stated that final payments for amounts less than the actual amount billed shall be determined based on an amount that "is equal to or greater than the 80th percentile of charges" under "a statistically credible profile of covered health care services and supplies on which to base payment."

On March 5, 2025, Senate Bill No. 121[1] "An Act relating to settlement of health insurance claims; relating to allowable charges for health care services or supplies; and providing for an effective date" was introduced. The bill was amended in committee on March 27, 2025, and our review is based on the amended bill as published as a committee substitute on 3/31/2025.

The bill states that in the absence of a contract that sets allowable charges between a health care insurer and health care provider (i.e., an OON provider), the Director shall set by regulation the standards that the insurer must follow to determine charges. The Director shall require the insurer to use a statistically credible methodology, and charges must be based on the most current data available that shows amounts charged by health care providers in the state for the service over a 12-month period. The bill is silent on reimbursement for services received out-of-state which creates ambiguity. Charges must be the same across the state. Charges must be the greater of allowed charges (which may not be less than the 75th percentile of charges in the state for the service as defined by the CPT adopted by the American Medical Association (AMA) or other industry standard methodology of coding) and 450% of the federal Centers for Medicare and

[1] https://www.akleg.gov/PDF/34/Bills/SB0121B.PDF

Medicaid Services (CMS) fee schedule for the state at the time of service. The bill authorizes the Director to set reimbursement based at a higher percentile.

The bill instructs the Director to audit the insurers' methodologies periodically and directs insurers to review and update charges at least every 5 years but no more than every 3 years.

Finally, the bill states that the insurer should uniformly and equally apply reimbursement rates as described above for all OON providers who are practicing within the scope of their licenses and who are authorized to bill for the service under the CPT code. This would eliminate reimbursement differentials by provider class (such as advanced practice registered nurses, physician assistants, and physicians).

Estimated Potential Impacts & Overview of Methods

We created high-level estimates of the potential impact of SB 121 as amended on 3/27/2025 and published on 3/31/2025 on OON costs. Our estimates are primarily based on publicly available information as well as rate filings and insurer specific data. Based on our assumptions, we found:

1. Increasing OON reimbursement to 450% of Medicare could have the potential impact of increasing 2026 total claims by $39.9M to $137.9M which is approximately $94 to $326 per member per month. Based on the January 2026 refresh, the potential impact is $35.1M to $100.5M which is approximately $79 to $226 per member per month.

2. Reimbursing all OON providers at the same rate based on CPT code could have the potential impact of increasing 2026 total claims by $2.2M to $6.5M which is approximately $5 to $15 per member per month. Based on the January 2026 refresh, the potential impact is $2.0M to $6.7M which is approximately $4 to $15 per member per month.

We used three methods to estimate the impacts listed above. Method 1 uses calendar year 2023 data (which includes the 80th percentile) and adjusts for the estimated impact of SB121/122. Method 2 uses calendar year 2023 data (which includes the 80th percentile), backs out the estimated impact of the 80th percentile and adjusts for the estimated impact of SB121/122. Method 3 uses calendar year 2024 data (which does not include the 80th percentile) and adjusts for the estimated impact of SB121/122.

Additional details of our review can be found in the following section titled, Actuarial Review.

Actuarial Review

To help the DOI analyze the potential financial impact of proposed SB 121 as amended 3/27/2025 on OON costs, we performed the following procedures. Our review was performed at a high level, primarily using publicly available information as well as rate filing information and insurer specific data.

1. Setting OON reimbursement at a rate that is the greater of the 75th percentile or 450% of Medicare rates

As a point of reference, we first considered the differences between the impact of the 80th percentile regulation and SB 121 on allowed charges. AK had an 80th percentile regulation in place from 2004 through 2023 for OON reimbursement. The 80th percentile regulation was not applied if the insurer reimbursed the provider at the billed charges. The 75th percentile component of SB 121, as written, states that an allowed charge may not be less than the 75th percentile. It does not differentiate for situations where the billed charges are less than the 75th percentile. We asked insurers to provide their total OON billed and allowed charges for 2023 and to state what percentage of these OON charges had billed charges equal to allowed charges. The table below summarizes their response:

2023 Percentage of Billed Charges Equaling Allowed Charges		
Insurer	**Individual**	**Small Group**
Moda	14.1%	21.0%
Premera	52.6%	62.6%
Market*	41.4%	54.7%

*Weighted by billed charges. This table has been updated since the initial report due to an error identified by Premera in their submission. Their initial submission indicated a percentage of 77.1% for Individual and 83.0% for Small Group.

As shown in the table above, a significant amount of OON billed charges were not adjusted due to the 80th percentile rule (the actual allowed amount was the billed amount).

January 2026 Refresh:

The insurers provided updated data for 2023 and 2024 based on claims paid through December 2025.

2023 & 2024 Percentage of Billed Charges Equaling Allowed Charges		
Insurer	**2023**	**2024**
Moda	16.6%	4.8%
Premera	47.8%	6.6%
Market*	40.3%	6.0%

*Weighted by billed charges.

As shown in the table above, after the repeal of the 80th percentile, there was a significant decrease in the percentage of OON billed charges that were paid as billed.

Under SB 121, any OON billed charges below the 75th percentile would also be adjusted, therefore implementing a minimum requirement of the 75th percentile would impact more claims than were impacted by the 80th percentile rule. We did not attempt to quantify the impact of the proposed 75th percentile rule, as we assumed that the 75th percentile would be below 450% of Medicare rates.

We developed two methods for estimating the potential impact to OON reimbursements rates of using a minimum of 450% of Medicare rates. For the Method 1, we collected the following information and made the following assumptions.

Total Health Care Costs – Our baseline data is 2023 actual experience. We collected total 2023 health care costs for the Individual and Small Group fully insured markets from publicly available rating filing data. The plan year 2025 rate filings are the most recent available and contain actual experience for calendar year 2023. This information is provided in Public Use Files (PUFs) from the Center for Medicaid and Medicare Services (CMS) and contain data from the Unified Rate Review Tool (URRT)[2]. For the January 2026 refresh, the CMS PUF files for the URRT are not yet available but we received the 2026 URRT information for each carrier from the DOI. These filings contain actual experience for calendar year 2024.

Annual Claim Cost Trend - We developed an annual claim cost trend assumption to account for claim cost trend from 2023 (the baseline) to 2026 (the projection period when SB 121 is proposed to be effective). Our midpoint trend assumption is 7% with 6% assumed for our low estimate and 8% assume for our high estimate to reflect that future trend is subject to uncertain. The trend assumption is based on consulting trend surveys from PwC[3] and Segal[4] as well as a review of insurer filings (from the CMS PUFs). For the January 2026 refresh, we reviewed publicly available trend reports and decided to maintain the same forward-looking trends when projecting the 2024 baseline to 2026.

Percentage of health care costs spent OON – We developed an assumption of the percentage of health care costs spent OON using historical data. Premera and Moda, who make up the Individual market and the majority of the Small Group market, provided estimates of the percentage of total health care costs that were OON for their Individual and Small Group separately. For the January 2026 refresh, Premera and Moda submitted updated data for calendar year 2024. We reviewed the data they submitted and summarized it across the two insurers. We used the weighted average OON percentage (weighted by claim costs) for Premera and Moda as our midpoint estimate of the OON percentage for the market. We used the minimum and maximum OON percentages reported by Premera and Moda as our low and high estimate to reflect that the percentage of claims OON may vary in future years. For the January 2026 refresh, we used the 2023 and 2024 OON percentages reported by Premera only (given their large market share and because they did not

[2] https://www.cms.gov/marketplace/resources/data/rate-review-data
[3] https://www.pwc.com/us/en/industries/health-industries/library/behind-the-numbers.html
[4] https://www.segalco.com/consulting-insights/2025-health-plan-cost-trend-survey

provide separate Individual and Small Group information in the January 2026 refresh) as our low and high estimates.

OON reimbursement as a percentage of Medicare – We developed an estimate of the OON reimbursement rates as a percentage of Medicare under the 80th percentile using an industry study. A 2023 study[5] conducted by Milliman (using 2021 data), estimated that Alaska's commercial rates for all types of service (not just OON) were 271% of the Medicare Fee-for-service (FFS) rates, which compare to the Nationwide average of 190%. We note that the 2023 Milliman study does not specify if the geographic rates were adjusted for the GPCI (geographic practice cost index). The Milliman report did not provide an estimate specific to OON reimbursement only, therefore we used 271% of Medicare as our estimate of the average OON reimbursement in Method 1 below. This assumption is applied to the baseline (2023 health care cost) which includes the impact of the 80th percentile regulation.

Based on the data and assumptions above, we created the following estimates of the potential impact of increasing OON reimbursement to 450% of Medicare under Method 1. These estimates are dependent on the assumptions (which are based on data provided by the Companies or from publicly available sources) used and are meant to provide a high-level estimate of the potential impact. The actual impact may be higher or lower than the estimates. We provided a total dollar impact as well as a per member per month impact. We used the 2023 baseline member months of 422,890 and assumed no change in enrollment in our projection.

[5] https://www.milliman.com/en/insight/commercial-reimbursement-benchmarking-payment-rates-medicare-fee-for-service

Method 1 – Adjusts the 2023 baseline (under the 80th percentile regulation) assuming market average reimbursement rates (under the 80th percentile regulation)

Potential Impact of Increasing OON Reimbursement to 450% of Medicare	Low Estimate	Medium Estimate	High Estimate
A. Total Health Care Cost $M (for 2023 under 80th Percentile)	$523.8	$523.8	$523.8
B. Assumed Annual Claim Cost Trend (2023 to 2026)	1.06	1.07	1.08
C. Assumed % of Health Care that is OON	9.7%	13.6%	15.2%
D. Estimated OON Cost $M (=A x B^3 x C)	$60.5	$87.4	$100.5
E. Assumed adjustment to OON from 271% to 450% of Medicare (=450%/271%-1)	0.66	0.66	0.66
Estimated Incremental Health Care Cost $M (=D x E)	**$39.9**	**$57.7**	**$66.4**
Estimated Incremental Health Care Cost PMPM (=D x E / Member Months)	**$94.43**	**$136.52**	**$156.95**

Table Note: Rows highlighted in gray (B, C, and E) reflect assumptions made in the estimate as described above.

Under Method 1, we move directly from the baseline (80th percentile) to the projection (under SB 121). Since the Milliman estimate of reimbursement rates does not differentiate between in-network and OON, we also created a second method that evaluates the impact using filed OON reimbursement rates. In order to complete the estimate under Method 2, we had to first back out the impact of the repeal of the 80th percentile before applying current OON reimbursement rates.

Estimated Impact of 80th Percentile Repeal – The estimated impact of the repeal of the 80th Percentile regulation was developed from insurer pricing estimates and the CMS PUF files. The development of this estimate can be found in Appendix A of this report.

OON reimbursement as a percentage of Medicare –185% of Medicare was the OON reimbursement approved for Premera, the largest insurer, when the 80th percentile was repealed. We note that 185% of Medicare does not apply to dialysis claims, but we expect this to be immaterial to our estimated impacts. Based on the data and assumptions above, we created the following estimates of the potential impact of increasing OON reimbursement to 450% of Medicare under Method 2. These estimates are dependent on the assumptions (which are based on data provided by the Companies or from publicly available sources) used and are meant to provide a high-level estimate of the potential impact. The actual impact may be higher or lower than the estimates. We provided a total dollar impact as well as a per member per month impact. We used the 2023 baseline member months of 422,890 and assumed no change in enrollment in our projection.

Method 2 – Adjusts the 2023 baseline (under the 80th percentile regulation) by removing the estimated impact of the 80th percentile repeal and then applying current OON reimbursement rates

Potential Impact of Increasing OON Reimbursement to 450% of Medicare	Low Estimate	Medium Estimate	High Estimate
A. Total Health Care Cost $M (for 2023 under 80th Percentile)	$523.8	$523.8	$523.8
B. Estimated Impact of 80th Percentile Repeal (from 2025 pricing)	$25.8	$25.8	$25.8
C. Annualized Claim Cost Trend (2023 to 2026)	1.06	1.07	1.08
D. Assumed % of Health Care that is OON	9.7%	13.6%	15.2%
E. Estimated OON Cost $M (= [(A x C^3) -(B x C^1)] x D)	$57.8	$83.7	$96.3
F. Adjustment to OON from 185% to 450% of Medicare (=450%/185%-1)	1.43	1.43	1.43
Estimated Incremental Health Care Cost $M (=E x F)	**$82.8**	**$119.8**	**$137.9**
Estimated Incremental Health Care Cost PMPM (=E x F / Member Months)	**$195.82**	**$283.35**	**$326.03**

Table Note: Rows highlighted in gray (B, C, D and F) reflect assumptions made in the estimate as described above.

January 2026 Refresh

Based on the data and assumptions above, we created the following estimates of the potential impact of increasing OON reimbursement to 450% of Medicare under Method 3. These estimates are dependent on the assumptions (which are based on data provided by the Companies or from publicly available sources) used and are meant to provide a high-level estimate of the potential impact. The actual impact may be higher or lower than the estimates. We provided a total dollar impact as well as a per member per month impact. We used the 2024 baseline member months of 443,668 and assumed no change in enrollment in our projection.

Method 3 – Uses a 2024 baseline (which does not include the impact 80th percentile regulation) and then applying current OON reimbursement rates

Potential Impact of Increasing OON Reimbursement to 450% of Medicare	Low Estimate	Medium Estimate	High Estimate
A. Total Health Care Cost $M (for 2024 not under the 80th Percentile Rule)	$514.8	$514.8	$514.8
B. Annualized Claim Cost Trend (2024 to 2026)	1.06	1.07	1.08
C. Assumed % of Health Care that is OON	4.0%	6.9%	10.8%
D. Estimated OON Cost $M (= (A x B ^2) x C)	$23.1	$40.5	$64.9
E. Adjustment to OON from 185% to 450% of Medicare (=450%/185%-1)	1.43	1.43	1.43
Estimated Incremental Health Care Cost $M (=D x E)	**$33.1**	**$58.0**	**$93.0**
Estimated Incremental Health Care Cost $PMPM (=D x E / Member Months)	**$74.56**	**$130.65**	**$209.68**

Table Note: Rows highlighted in gray (B, C, and E) reflect assumptions made in the estimate as described above.

2. Reimbursing all OON providers at the same rate regardless of level/designation based solely on CPT

We anticipate that there will also be a potential cost impact from reimbursing all providers at the same rate regardless of their credentials and based solely on CPT code. To create a detailed estimate of this impact, we would need to obtain claims data by provider level and CPT. We could not find this data in the public domain, but we did identify several data points that highlight the potential impact of this change on health care cost, and we requested additional data from the insurers.

Premera reported that providers are currently reimbursed at the same rate regardless of level/designation for professional care both in-network and out-of-network. However, the DOI provided a news brief from Premera that announced that Premera will be reimbursing APRNs and PAs at 85% of physicians beginning 4/1/2025. We used this information in our modeling for 2026.

Following the Method 1 and Method 2 described above, we created an estimate of the impact of reimbursing all OON providers based on the CPT code regardless of provider class and reimbursing at 450% of Medicare.

Percentage of health care costs spent on OON professional – We developed an assumption of the percentage of health care costs spent on OON professional services using historical data. We used the same methodology described above for OON costs adjusted to only included professional services.

Adjustment for Reimbursing Providers Based on CPT Code – We developed an assumption regarding the percentage of non-physician providers and the amount the reimbursement differential applied to non-physicians using historical data and known differentials. We used data provided by Premera and Moda regarding the distribution of OON professional services by provider class and the reimbursement differential by provider class. For the January 2026 refresh, Premera and Moda submitted updated data for calendar year 2024. Premera announced that they will be reimbursing APRNs and PAs at 85% of physicians beginning 4/1/2025. This information is in our modeling for 2026. We used the weighted average (weighted by claim costs) for Premera and Moda as our midpoint estimate. We used the minimum and maximum distributions reported by Premera and Moda as our low and high estimate to reflect that the percentage of professional OON claims by provider class may vary in future years.

Based on the data and assumptions above, we created the following estimates of the potential impact of paying all OON provider classes based solely on CPT and 450% of Medicare under Method 1 and 2. These estimates are dependent on the assumptions (which are based on data provided by the Companies or from publicly available sources) used and are meant to provide a high-level estimate of the potential impact. The actual impact may be higher or lower than the estimates. We provided a total dollar impact as well as a per member per month impact. We used the 2023 baseline member months of 422,890 and assumed no change in enrollment in our projection.

When adjusting for the impact of changing the reimbursement to 450% of Medicare in the estimates below, we backed out the current assumed reimbursement level (divided by the current percentage) and applied the proposed reimbursement level (multiplied by the proposed percentage). This ratio is applied to the estimated incremental costs associated with paying all providers the same rate based on CPT code regardless of provider class. In the estimates above (where we estimated paying all OON services at 450% of Medicare), we first estimated the total OON cost under the current reimbursement level and applied an adjustment for the incremental impact of reimbursing at 450% of Medicare (in that case we subtracted 1 from the ratio to back out the current OON costs and leave only the incremental costs).

Method 1 – Adjusts the 2023 baseline (under the 80th percentile regulation) assuming market average reimbursement rates (under the 80th percentile regulation)

Potential Impact of Paying OON Providers Based on CPT Code & 450% of Medicare	Low Estimate	Medium Estimate	High Estimate
A. Total Health Care Cost $M (for 2023 under 80th Percentile Rule)	$523.8	$523.8	$523.8
B. Annual Claim Cost Trend (2023 to 2026)	1.06	1.07	1.08
C. Assumed % of Health Care that is OON Professional	2.8%	3.9%	4.3%
D. Estimated OON Professional Cost $M (=A x B^3 x C)	$17.6	$25.0	$28.7
E. Adjustment for Reimbursing Providers Based on CPT Code	0.07	0.08	0.10
F. Estimated Incremental OON Professional Costs Based on CPT Code $M (=D x E)	$1.3	$2.0	$2.8
G. Adjustment to OON from 271% to 450% of Medicare (=450%/271%)	1.66	1.66	1.66
Estimated Incremental OON Professional Costs Based on CPT Code and 450% of Medicare $M (=F x G)	**$2.2**	**$3.3**	**$4.6**
Estimated Incremental OON Professional Costs Based on CPT Code and 450% of Medicare $PMPM (=F x G / Member Months)	**$5.16**	**$7.79**	**$10.91**

Table Note: Rows highlighted in gray (B, C, E and G) reflect assumptions made in the estimate as described above.

Method 2 – Adjusts the 2023 baseline (under the 80th percentile regulation) by removing the estimated impact of the 80th percentile repeal and then applying current OON reimbursement rates

Potential Impact of Paying OON Providers Based on CPT Code & 450% of Medicare	Low Estimate	Medium Estimate	High Estimate
A. Total Health Care Cost $M (for 2023 under 80th Percentile Rule)	$523.8	$523.8	$523.8
B. Estimated Impact of 80th Percentile Rule (from 2025 pricing)	$25.8	$25.8	$25.8
C. Annualized Claim Cost Trend (2023 to 2026)	1.06	1.07	1.08
D. Assumed % of Health Care that is OON Professional	2.8%	3.9%	4.3%
E. Estimated OON Professional Cost $M (= (A x C^3)- (B x C^1) x D)	$16.8	$24.0	$27.4
F. Adjustment for Reimbursing Providers Based on CPT Code	0.07	0.08	0.10
G. Estimated Incremental OON Professional Costs Based on CPT Code $M (=E x F)	$1.3	$1.9	$2.7
H. Adjustment to OON from 185% to 450% of Medicare (=450%/185%)	2.43	2.43	2.43
Estimated Incremental OON Professional Costs Based on CPT Code and 450% of Medicare $M (=G x H)	**$3.1**	**$4.6**	**$6.5**
Estimated Incremental OON Professional Costs Based on CPT Code and 450% of Medicare $PMPM (=G x H / Member Months)	**$7.22**	**$10.93**	**$15.31**

Table Note: Rows highlighted in gray (B, C, D, F and H) reflect assumptions made in the estimate as described above.

January 2026 Refresh

Based on the data and assumptions above, we created the following estimates of the potential impact of paying all OON provider classes based solely on CPT and 450% of Medicare under Method 3. These estimates are dependent on the assumptions (which are based on data provided by the Companies or from publicly available sources) used and are meant to provide a high-level estimate of the potential impact. The actual impact may be higher or lower than the estimates. We provided a total dollar impact as well as a per member per month impact. We used the 2024 baseline member months of 443,668 and assumed no change in enrollment in our projection.

Method 3 – Uses a 2024 baseline (which does not include the impact 80th percentile regulation) and then applying current OON reimbursement rates

Potential Impact of Paying OON Providers Based on CPT Code & 450% of Medicare	Low Estimate	Medium Estimate	High Estimate
A. Total Health Care Cost $M (for 2024 not under the 80th Percentile Rule)	$514.8	$514.8	$514.8
B. Annualized Claim Cost Trend (2024 to 2026)	1.06	1.07	1.08
C. Assumed % of Health Care that is OON Professional	1.9%	2.8%	3.9%
D. Estimated OON Cost $M (=(A x B ^2) x C)	$11.1	$16.7	$23.4
E. Adjustment for Reimbursing Providers Based on CPT Code	0.07	0.08	0.12
F. Estimated Incremental OON Professional Costs Based on CPT Code $M (=D x E)	$0.8	$1.4	$2.7
G. Adjustment to OON from 185% to 450% of Medicare (=450%/185%)	2.43	2.43	2.43
Estimated Incremental Health Care Cost $M (=F x G)	**$2.0**	**$3.4**	**$6.7**
Estimated Incremental Health Care Cost $PMPM (=F x G / Member Months)	**$4.47**	**$7.61**	**$15.03**

Table Note: Rows highlighted in gray (B, C, E and G) reflect assumptions made in the estimate as described above.

Disclosures

I, Rebecca Sheppard, FSA, MAAA am associated with Risk & Regulatory Consulting, LLC (RRC) and independent of AK DOI. I am a Fellow of the Society of Actuaries (FSA) and a Member of the American Academy of Actuaries (MAAA). Based upon examinations, experience and continuing education requirements, I meet the American Academy of Actuaries Qualification Standards for issuing the actuarial opinion contained herein. Andrew Larocque, ASA, MAAA and Beth Verticchio, FSA, MAAA of RRC assisted with my review. Dave Heppen, FCAS, MAAA and Partner at RRC reviewed this report.

This actuarial report outlines the general scope and limitations of our analysis and provides an executive summary of our findings. I relied on information provided by AK DOI and the insurers. I reviewed the information for overall reasonableness but did not verify the accuracy of the underlying data used. Unless otherwise stated in the report, I have assumed that the data, analyses and information provided was complete and accurate. This review was performed at the level of detail as I deemed professionally necessary to determine reasonableness. There may be individual parameters or assumptions which could be considered unreasonable by another actuary, and which could or would have been discovered by employing an exhaustive, detailed study of the underlying data and formulas. Such a study was outside the scope of this review.

Determination of health care utilization and cost in the current environment is subject to significant uncertainty. The actual health care utilization and cost for Alaska could differ materially from that anticipated in this analysis due to a range of factors including, but not limited to changes in provider mix, changes in mix of service, changes in networks, changes in demographics, and changes in morbidity.

We have utilized generally accepted actuarial procedures and methodologies in completing the tasks outlined in the Scope section. However, we do not guarantee that our conclusions, opinions or estimates provided in this report are accurate in their expressed or implied predictions of future events. This conclusion is not a guarantee that the results will materialize as anticipated; the results reached in this analysis are dependent on the assumptions used.

This report was prepared for the exclusive use of the AK DOI to assist in its review of SB 121 and SB 122. Any other reader understands that this report was provided exclusively for the AK DOI's sole benefit and use, and not for the benefit or use of the reader or any other third party. The reader acknowledges that this report was prepared at the direction of the AK DOI and may not include all procedures or information deemed necessary for the purposes of the reader. The reader further acknowledges that RRC makes no representations as to the sufficiency, accuracy, completeness, or appropriateness of this report for the reader's purposes. The reader agrees that it does not acquire any rights as a result of access to this report that it would not otherwise have had and acknowledges that RRC does not assume any duties or obligations to the reader in connection with such access to this report. The reader of this report agrees to release, indemnify and hold harmless RRC and its affiliates and their respective partners, principals, officers, directors, employees, contractors and representatives from and against any and all claims, actions, liabilities, damages, losses, costs or expenses (including reasonable attorneys' fees) incurred or suffered by or asserted against RRC as a result of the AK DOI permitting the reader to access to the work or the reader's breach of the agreements herein. Any distribution of this report must be in its entirety.

I am available to discuss the contents of this report further at a mutually convenient time, please contact me by e-mail at Becky.Sheppard@RiskReg.com.

Appendix A - Impact of 80th Percentile Regulation Repeal

The DOI provided us with copies of the plan year 2024 and plan year 2025 rate filings for the Individual and Small Group market. We also used Public Use Files (PUFs) from CMS which contain data from the Unified Rate Review Tool (URRT). We reviewed the filings to assess the pricing impact of the repeal of the 80th percentile regulation. The table below summarizes what each insurer implemented for OON reimbursement following the repeal of the 80th percentile rule, their estimated pricing impact for 2024 and 2025 as a percentage of claims, and their market share.

Insurer/Market	OON Reimbursement	2024 Pricing Impact %	2025 Pricing Impact %	2024 Market Share*
Moda Individual	80th percentile up to 400% of Medicare	0%	0%	26%
Premera Individual	185% of Medicare	-4.0%	-6.2%	74%
Aetna Small Group	80th percentile	0%	(left market)	0%
Moda Small Group	80th percentile up to 400% of Medicare	0%	0%	5%
Premera Small Group	185% of Medicare	-2.2%	-4.5%	94%
UHC Small Group	250% of Medicare	-0.7%	-3.2%	1%

*Based on 2024 current enrollment reported in the Plan Year 2025 URRTs (CMS PUF) Rate Review Data | CMS

- As shown in the table, Aetna and Moda effectively retained the 80th percentile regulation therefore there was no impact from the repeal, and we'd anticipate little impact from implementing a 75th percentile rule for these insurers.
- UHC changed their OON reimbursement to 250% of Medicare and anticipated a 0.7% ($12.9k) reduction in claims in the first year which they increased to a 3.2% ($69.4k) reduction in claims in the second year.
- Premera, which has the majority of the market share, changed their OON reimbursement to 185% of Medicare (300% of Medicare for End Stage Renal Disease) claims. They anticipated a 4.0% ($12.3M) reduction in claims for their Individual market and a 2.2% ($2.7M) reduction for the Small Group market in the first year. As actual experience emerged, they increased their estimate to a 6.2% ($19.4M) reduction for Individual and a 4.5% ($6.3M) reduction in claims for Small Group.

Aggregating the amounts from the insurers above, the total market impact to 2024 pricing for removing the 80th percentile was approximately a $15.0M reduction and for 2025 was approximately a $25.8M reduction.

January 2026 Refresh

The DOI provided us with copies of the plan year 2026 rate filings for the Individual and Small Group market. Since these rate filings use calendar year 2024 as the baseline, carriers did not need to make an explicit adjustment for the repeal of the 80th percentile rule because the rule was not in place for 2024.

Below we have included related information provided by the carriers in their 2026 rate filings:

- Moda – Stated in their Individual filing that "the decided basis of payment to replace the 80th percentile rule for out of network claims is to use 300% of the Alaska specific CMS allowable. This is expected to have **minimal impact on rates**." No comment was made in their Small Group filing.

- Premera – Stated in their Individual filing that:

  "The repeal of the 80th percentile rule significantly affected premium costs in Alaska. Following this change, Premera implemented a cap on out-of-network reimbursement rates, setting them at 185%–300% of Medicare's fee schedule. Premera also reported a reduction in high-cost out-of-network utilization, which is likely attributable to the repeal. Premera has not faced obstacles in reducing out-of-network reimbursement since repeal; however, the overall effect of the repeal is moderated by network adequacy requirements, which ensure a specific level of provider availability.

  If the 80th percentile rule had not been repealed, Premera would have requested **premiums for 2026 that were 10% higher than the current proposal**.

  Premera does not expect further reductions in the out-of-network costs as we have no plan to further lower out-of-network reimbursement. Also, since the reimbursement for out-of-network providers is a multiple of Medicare's reimbursement, as Medicare increases their reimbursement so would our costs.

  As long as the 80th percentile rule remains repealed, Premera can keep premiums lower than they would be otherwise. This repeal helps prevent out-of-network and out-of-state costs from rising excessively. Additionally, over time, it also may support future negotiations with contracted providers to prevent excessive reimbursement requests. This measure does not stop the growth of health care costs, since providers will continue to seek higher reimbursement rates and utilization of services will increase. Consequently, it is anticipated that premiums will increase in the future."

- Premera – Stated in their Small Group filing that:

"As of 1/1/2024, Premera discontinued the 80th percentile reimbursement payment. Out of networks providers are reimbursed as follows:

- For providers outside AK and WA - 300% of CMS for ESRD-related claims during the Medicare waiting period and 125% of CMS for all other out of network claims.
- For providers in AK and WA - 300% of CMS for ESRD-related claims during the Medicare waiting period and 185% of CMS for all other out of network claims.

With this change Premera observed **$2,193,168 in savings for 2024**. Savings in 2025 as of April 30th is $318,631 and **projected savings for the remainder of 2025 is $1,796,492**."

- UHC – Stated in their Small Group filing that "after the repeal of the 80th percentile rule on 1/1/2024, the basis for reimbursement of out-of-network claims will be 250% of the published rates allowed by the Centers for Medicare and Medicaid Services (CMS) for Medicare for the same or similar service within the geographic market. The impact of this change, **approximately a 4.8% reduction**, has been incorporated into the experience period."