

March 13, 2025

Senator Forrest Dunbar
Chair, Senate Health & Social Services
Alaska State Legislature
State Capitol Room 125
Juneau, AK 99801

RE: SB 121

Chair Dunbar:

Thank you for the opportunity to transmit the concerns of Premera Blue Cross Blue Shield of Alaska regarding the large affordability impacts that would be borne by Alaska businesses and consumers, should this ill-considered legislation be enacted.

At Premera, we feel that efforts to promote the affordability of our products are key to continuing to be able to provide care for our customers. This is because affordability has become the highest bar a person must clear, in order to gain access to health insurance and health care services.

Background:

While well intended, the 80th percentile rule (in effect, nearly identical to SB 121) had a profoundly negative impact on affordability in Alaska – arguably now the most expensive health care market on the planet. The 80th percentile strongly contributed to this inauspicious designation.

A description of how the 80th percentile worked helps explain why it was inflationary:

If we were to list ten bills from providers in an area in order from the lowest to the highest amount billed for a particular service, the top three get paid at the level of the third highest (the 80th percentile). The rest get paid billed charges. So, if you are a provider that got paid billed charges, the clear message to you is to bill more next time because others are making more money than you are for that service. And if you're the only specialty provider of your type in an area, you can name your price.

These inflationary pressures would be identical under SB 121.

Prices are higher for virtually every service in Alaska relative to Washington state. This chart illustrates the matter, depicting the degree to which common commercial procedures are more expensive in Alaska than in Washington (these are within a typical range):

Code	Description	AK as % of WA Paid Amounts
74177	CT Scan Abdomen & Pelvis	223%
77067	Screening Mammography, Bilateral	229%
80053	Comprehensive Metabolic Panel	257%
99284	Emergency Department Visit Moderate Level	185%

Rates for specialty procedures are even more egregious. One reason often given for the medical cost discrepancy is cost of living. However, a 2024 report from the U.S. Bureau of Economic Analysis placed the cost of living in Washington state over 6% higher than in Alaska.* The bottom line is, the inflationary impacts of the 80th percentile have negatively impacted the affordability of all medical services. Unwinding these impacts will take time and effort. We strongly suggest that these efforts are vital to the health of Alaska and that SB 121 would be a disastrous step in the wrong direction.

During the extensive public hearing process conducted by the Alaska Division of Insurance, opponents of repealing the 80th percentile argued that providers would leave the state if the regulation was repealed. This hasn't happened. Conversely, Premera has seen our network grow. Over 95 percent of the claims we see are in-network and we have more in-network providers than ever before. This further enhances the experience of our members.

After the repeal of the 80th, we have only seen one provider close two locations: Fresenius. Under the 80th percentile, they charged Premera members between 2,500 and 4,000 percent of Medicare! After the repeal, we are paying 300 percent of Medicare and the privately held monopolist, based in Germany, has scaled back its presence in Alaska.

Opponents of repealing the 80th percentile suggested that insurers will simply pocket the savings that stem from repealing the 80th percentile regulation. This is not possible. The Division of Insurance reviews and approves our products before we can bring them to market. In addition to the regulation from the Division of Insurance, there is a little-known feature of the Affordable Care Act that requires insurers to refund premium when the cost of care for our members is less than 80% of premium over a three-year period. Let me say that again, we refund premium. This is known as medical loss ratio rebates. The entire operation of our business is limited to a maximum of 20% of premium. No one else in the entire health care ecosystem has a government agency reviewing and approving their rates, nor

do they pay refunds when they have excess profits. All this to say, insurers, unlike others in the market, do not have the latitude to simply “pocket the savings”.

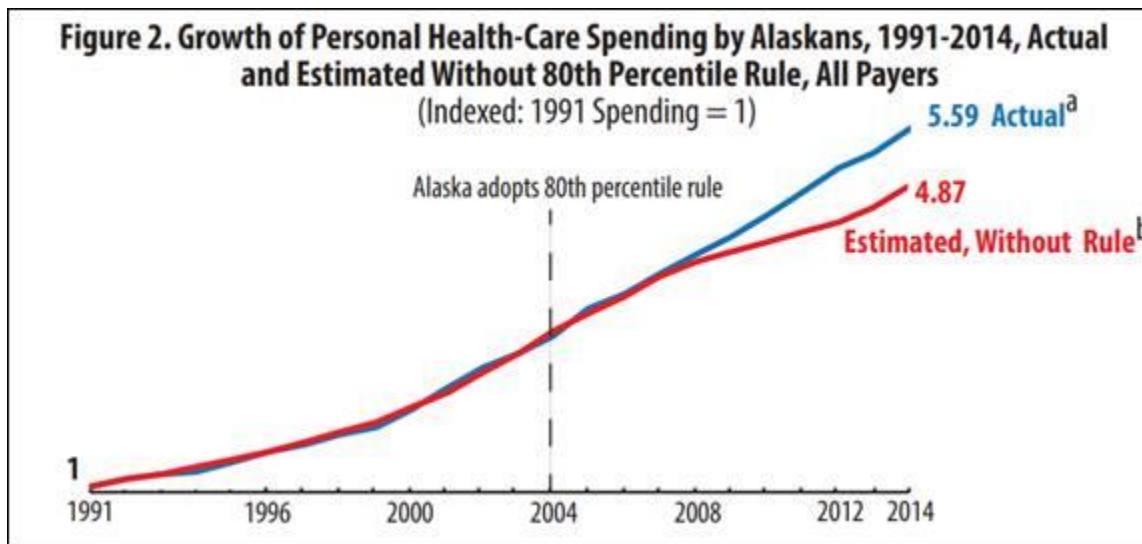
The 80th percentile rule was enacted in 2004 to protect people from surprise billing. Congress enacted the federal No Surprises Act in 2020 also protecting people from surprise billing but with the key distinction that the federal NSA has a dispute resolution system that is not inflationary.

SB 121 Impacts:

The marketplace is just beginning to realize the benefits of the repeal of the 80th percentile. And if the legislature does not pass SB 121, these benefits are poised to grow.

To use our individual insurance line as an example, our 2024 filing to the Insurance Division submitted in May of 2023 included a reduction of 3% attributable to the 80th percentile repeal. Similarly, the subsequent filing for 2025 included a further reduction of 6%. Other marketplace factors were even larger (Covid-19 aftereffects, increased hospital and labor demands, etc), in the opposite direction, so overall, premiums still went up, but less than they would have by nearly 10%. In 2024, the marketplace settled down, so we are expecting to be able to see increased favorable impacts to future rates in the absence of SB 121.

When UAA studied the 80th percentile, they produced the illustration below depicting how the rule impacted health care spending in Alaska vs. how spending would have behaved without the rule. If SB 121 is enacted, Alaskans will not see the benefits of repealing the 80th percentile.



Source: “How Has the 80th Percentile Rule Affected Alaska’s Health-Care Expenditures?” Prepared for Alaska Office of Management and Budget, by the Institute of Social and Economic Research and Department of Economics and Public Policy University of Alaska Anchorage

Conclusion:

SB 121 would re-establish the marketplace imbalance that was in place during the 80th percentile years, leading once again to outsized health care cost inflation and in the name of health care affordability, we urge you to set SB 121 aside.

Sincerely,



Gary B. Strannigan
Vice President
Congressional/Legislative Affairs

*: "Real Personal Consumption Expenditures by State and Real Personal Income by State and Metropolitan Area, 2023." *U.S. Department of Commerce, Bureau of Economic Analysis* – December 12, 2024