



THE STATE  
*of* **ALASKA**  
GOVERNOR BILL WALKER

DEPARTMENT OF COMMERCE, COMMUNITY, AND  
ECONOMIC DEVELOPMENT

**INSURANCE & REINSURANCE  
BUDGET UPDATE  
HOUSE FINANCE SUB-COMMITTEE**

Director Lori Wing-Heier

February 14, 2017



# FY2018 Operating Budget

	FY2015	FY2016	FY2017	FY2018
<b>Expenditure Authority</b>				
Personal Services	5285.1	5,013.0	5,008.9	5,058.9
Travel	175.5	160.6	160.6	200.6
Services	2,093.2	2,093.2	2,093.2	2,093.2
Commodities	59.2	59.2	59.2	59.2
Capital Outlay	35.3	35.3	35.3	35.3
Grants and Benefits	-	-	55,000.0	-
<b>Total</b>	<b>7,648.3</b>	<b>7,361.3</b>	<b>62,357.2</b>	<b>7,447.2</b>
<b>Revenue Authority</b>				
1061 CIP Receipts	360.6	259.5	258.8	259.2
1108 Statutory Designated Program Receipts	-	-	-	40.0
1156 Receipt Supported Services	7,287.7	7,101.8	7,098.4	7,148.0
1248 Alaska Comprehensive Health Insurance Fund	-	-	55,000.0	-
<b>Total</b>	<b>7,648.3</b>	<b>7,361.3</b>	<b>62,357.2</b>	<b>7,447.2</b>
<b>Positions</b>	<b>54</b>	<b>48</b>	<b>46</b>	<b>46</b>



# FY2018 Operating Budget

Component	Description	Trans Type	\$	Funding
Insurance Operations	<b>National Association of Insurance Commissioners (NAIC) Training Reimbursement</b>  The Division of Insurance expects to receive a grant from the National Association of Insurance Commissioners (NAIC) of up to \$40.0 for calendar year 2018. The purpose of the grant is to promote educational and training opportunities to division staff, primarily those who need to obtain or maintain specialized certifications needed by the Insurance Specialists, Financial Examiners and Market Conduct Examiners. The division has experienced turnover of experienced staff in specialized positions in recent years, and has encountered recruitment challenges when hiring for those positions since many Insurance positions require specific credentials, certifications, or experience. This grant will allow division staff to participate in educational and training opportunities to ensure that continuing education and credential requirements are met.	Inc.	<b>40.0</b>	1108 SDPR



# FY2018 Operating Budget

Component	Description	Trans Type	\$	Funding
Alaska Reinsurance Program	<b>Alaska Reinsurance Program for Calendar Year 2018 (FY18-FY19)</b> (Language)  The Alaska Reinsurance Program was created in May 2016 with the passage of HB374. Under this program, certain high-cost health insurance claims that would otherwise increase insurance rates for all Alaskans are reinsured by the state. This reinsurance program avoided a predicted 42% increase in insurance rates for Alaskans. Under the program, Premera, the state's only remaining health insurer in the individual market, will continue as the primary insurer, and will seek reimbursement from the Alaska Comprehensive Health Insurance Fund for those high-cost claims paid. Specific covered conditions are established in regulation. The success of the program was immediately apparent when 2017 rates were released; the average rate increase for 2017 was 7.3%, down over 30% from the prior two years.  The Reinsurance Program went into effect on January 1, 2017. Insurance rates are set on a calendar year basis, while the State operates on a fiscal year basis. This multi-year increment funds the calendar year 2018 Reinsurance Program, from January 1, 2018 through December 31, 2018.  Requests to repeal the current fiscal note appropriation and replace it with a multi-year appropriation for calendar year 2017 are included in sections 10(h) and 28 of the operating bill.	MultiYear	55,000.0	1248 ACHI



# FY2017 Supplemental Requests

Component	Description	Trans Type	Amount	Funding Source
Insurance Operations	<b>Health Insurance Enforcement and Consumer Protection Grant (FY17-FY19)</b> (Language)  The Division of Insurance was awarded \$630.0 from the Department of Health and Human Services, Centers for Medicare and Medicaid Services, on October 31, 2016. The grant will have a project and budget period of two years, from October 31, 2016-October 30, 2018.  This federal authority will be used to plan and implement select Affordable Care Act federal market reforms and consumer protections, including bringing the appeals process up to the National Association of Insurance Commissioners standards, developing consumer outreach related to provisions of the Affordable Care Act, providing staff training, and development of internal manuals and training materials.  The division does not currently have budgeted federal receipt authority to receive and expend this award.  This is a one-time multi-year request.	MultiYear	<b>\$630.0</b>	1002 Federal



## The Passage of HB 374

The 29<sup>th</sup> Legislature passed HB 374 in June of 2016.

This bill:

- Created the Alaska Reinsurance Program within the Alaska Comprehensive Health Insurance Association (ACHIA)
- Created the Alaska Comprehensive Health Insurance (ACHI) fund
- Directed all collected Insurance Premium Tax receipts be deposited in the fund
- Authorized the Division of Insurance to apply for a 1332 waiver under the Affordable Care Act

The fiscal note for this bill appropriated \$55 million from the ACHI fund to the Division of Insurance for the ARP.



# Alaska Comprehensive Health Insurance Association

- ACHIA is a non-profit legal entity incorporated under Title 21, Chapter 55 on January 1, 1993.
- ACHIA was created to provide Alaskans who were denied health insurance the opportunity to purchase coverage.
- Many Alaskans previously enrolled with ACHIA are now covered under the Affordable Care Act.

Year	Total Enrollment	Comprehensive Enrollment Only
2013	498	421
2014	211	125
2015	145	66
2016*	130	49





# Necessity for Alaska Reinsurance Program

- The ACA required “guarantee issue” which means that all Alaskans could purchase health insurance regardless of health status.
- Insurers could not deny consumers coverage for a history of or current status of such conditions as diabetes, cancer, multiple sclerosis or cystic fibrosis.
- Due to this change in the market, consumers who previously did not have coverage and many in ACHIA shifted from the high risk pool to the individual insurance pool.
- This shift resulted in significant increases in costs to insurers and premiums for consumers.





# The Alaska Reinsurance Program

The Alaska Reinsurance Program is designed to remove the highest cost individuals from Alaska's individual health insurance market in order to reduce costs for the remainder of the pool.

Claims received by an insurer for one of the 33 highest cost codes are paid by the insurer, and then sent to ACHIA to be reimbursed under the Alaska Reinsurance Program.



# Alaska Comprehensive Health Insurance Fund

- The Alaska Comprehensive Health Insurance Fund was created within the general fund in 2016.
- Insurance premium tax dollars are deposited in the fund.
- The fund is invested by the Treasury division and earnings are returned to the general fund.
- The Legislature may appropriate money from the fund to pay for the Alaska Reinsurance Program.
- The fund is set to sunset on June 30, 2018.



## Impact on Insurance Rates

- \$55 million was appropriated from the Alaska comprehensive health insurance fund for Fiscal Year 2017.
- Premiera, Alaska's sole remaining provider on the individual market, projected over 40% rate increases for 2017 plans in late spring of 2016.
- Actual rate increases were held to an average of 7.3% as a result of the reinsurance program being created and funded by the legislature.



# ARP Multi-Year Appropriation

Insurance policies operate on a calendar year, not a fiscal year.

The Governor's budget includes request to align the FY2017 appropriation with calendar year 2017, and a new appropriation to fund the Alaska Reinsurance Program for calendar year 2018.

FY2017				FY2018				FY2019											
7/1/2016	12/31/2016	1/1/2017	6/30/2017	7/1/2017	12/31/2017	1/1/2018	6/30/2018	7/1/2018	12/31/2018	1/1/2019	6/30/19								
Existing Appropriation HB374 Fiscal Note																			
7/1/2016 – 6/30/2018 Requested Reappropriation for Calendar Year 2017																			
No Activity		Calendar Year 2017 First Reinsurance Program Year										Final payments and closeout							
												7/1/2017 – 6/30/2019 Multi-year Appropriation for Calendar Year 2018							
												No Activity		Calendar Year 2018 Second Reinsurance Program Year			Final payments and closeout		



# Alaska's Section 1332 Innovation Waiver

Section 1332 of the Affordable Care Act provides that:

“a State may apply to the Secretary for the waiver of all or any requirements described in paragraph (2) with respect to health insurance coverage within that State beginning on or after January 1, 2017. Such application shall-

- (A) be filed at such time and in such manner as the Secretary may require;
- (B) contain such information as the Secretary may require, including-
  - i. a comprehensive description of the State legislation and program to implement a plan meeting the requirements for a waiver under this section; and
  - ii. A 10-year budget plan for such plan that is budget neutral for the Federal Government; and
- (C) Provide an assurance that the State has enacted the law described in subsection (b)(2).”



## Waivable items

- **Benefits and Subsidies:** Rules governing covered benefits, as well as the subsidies that are available through the marketplace. States reallocating premium tax credits and cost-sharing reductions may receive the aggregate value of those subsidies to implement their alternative approach
- **Marketplace and Qualified Health Plans:** States may replace their marketplaces or supplant the plan certification process with alternative ways to provide health plan choice; determine eligibility for subsidies and enroll consumers in plans
- **The Individual Mandate:** States may modify or eliminate the requirement that individuals maintain minimum essential coverage
- **The Employer Mandate:** States may modify or eliminate the requirement that large employers offer affordable coverage to their full-time employees



# The “Guardrails”

Each waiver application must satisfy four criteria:

1. **Comprehensive Coverage:** coverage provided to consumers remains “at least as comprehensive” as coverage absent the waiver
2. **Affordable Coverage:** “coverage and cost-sharing protections against excessive out-of-pocket spending that are at least as affordable” as coverage absent the waiver
3. **Scope of Coverage:** coverage to “at least a comparable number of residents” as would have been covered without the waiver
4. **Federal Deficit:** The waiver must not increase the federal deficit





# Getting to a Waiver

Before applying for the waiver, the division of insurance and their contractors:

- Performed an actuarial analysis showing the savings to the federal government resulting from the Alaska Reinsurance Program
- Contracted with ISER to evaluate the budget neutrality of the Alaska Reinsurance Program on the federal budget including revenue losses from lower premiums
- Compiled an in depth application package (183 pages)

<https://www.commerce.alaska.gov/web/Portals/11/Pub/Alaska-1332-Waiver-Application-with-Attachments-Appendices.pdf?ver=2017-01-05-112938-193>



# Why did the Division pursue a waiver?

- The legislature urged the Division to find an alternate funding source for the ARP
- Section 1332 Waivers from the Patient Protection and Affordable Care Act allow states to seek federal pass through funding through Internal Revenue Code 36B



# Alaska's Innovation Waiver

The Alaska Reinsurance program is expected to save the federal government \$51.6 million in premium tax credits for 2018, and increase enrollment in the individual market by nearly 1,650.

Under Alaska's 1332 waiver, the federal government would partially fund the Alaska Reinsurance Program beginning in 2018 in the amount of the premium tax credit savings.



## Five Year Federal Funding Projection

Federal funding for the ARP is dependent on approval of the 1332 waiver and federal appropriation.

Potential future federal funding may be over 80% of program costs.

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<b>Calendar Year</b>	<b>Projected Alaska Reinsurance Fund<sup>(1)</sup></b>	<b>Final Savings Federal Pass-Through Funds<sup>(2)</sup></b>	<b>Estimated State Funding</b>
2018	\$59,983,000	\$48,973,684	\$11,009,316
2019	\$64,126,326	\$52,260,335	\$11,865,991
2020	\$68,950,229	\$56,108,411	\$12,841,818
2021	\$74,137,010	\$61,486,732	\$12,650,278
2022	\$79,789,956	\$65,612,014	\$14,177,942

<sup>(1)</sup> Oliver Wyman Actuarial Analysis

<sup>(2)</sup> ISER Economic Analysis



## Current 1332 Waiver Status

On January 17, 2017 the Departments of Health & Human Services and the Department of the Treasury deemed the application “complete”.

“I would note that before the Departments can approve the waiver as proposed, legislation appropriating the funds for the ARP, contingent upon approval of the waiver, must be enacted in Alaska” – Secretary Burwell



## Next Steps for the ARP

- The Governor's FY2018 Budget Request includes a \$55 million dollar appropriation to fund the Alaska Reinsurance Program for Calendar Year 2018.
- DCCED is working to develop intent language to submit to Secretary Price.
- Federal funds to reimburse the state for some ARP costs may be available in FY2018, following federal approval of the waiver.
- If federal funds become available, DCCED will pursue federal receipt authorization from the legislature.



## Conclusion

# Questions?

Lori Wing-Heier

Director, Division of Insurance

[Lori.Wing-Heier@alaska.gov](mailto:Lori.Wing-Heier@alaska.gov)

(907)-465-2515