

**ALASKA STATE LEGISLATURE**  
**HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

February 24, 2003

3:15 p.m.

**MEMBERS PRESENT**

Representative Tom Anderson, Chair  
Representative Bob Lynn, Vice Chair  
Representative Nancy Dahlstrom  
Representative Carl Gatto  
Representative Norman Rokeberg  
Representative Harry Crawford  
Representative David Guttenberg

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Sharon Cissna

**COMMITTEE CALENDAR**

HOUSE BILL NO. 10

"An Act amending the definition of group health insurance, and allowing the Department of Administration to obtain a policy or policies of group health care insurance for employers that are small businesses, nonprofit organizations, special services organizations, or small associations for insurance purposes; and providing for an effective date."

- HEARD AND HELD

**PREVIOUS ACTION**

BILL: HB 10

SHORT TITLE:GROUP HEALTH INSURANCE FOR PRIVATE GROUPS

SPONSOR(S): REPRESENTATIVE(S)HEINZE, ROKEBERG

Jrn-Date	Jrn-Page		Action
01/21/03	0033	(H)	PREFILE RELEASED (1/10/03)
01/21/03	0033	(H)	READ THE FIRST TIME - REFERRALS
01/21/03	0033	(H)	L&C, HES
01/21/03	0033	(H)	REFERRED TO LABOR & COMMERCE

01/29/03	0088	(H)	COSPONSOR(S): HAWKER
02/07/03	0152	(H)	COSPONSOR(S): FOSTER, STEVENS
02/07/03	0152	(H)	WILSON, SEATON
02/10/03	0172	(H)	COSPONSOR(S): WEYHRAUCH
02/14/03	0218	(H)	COSPONSOR(S): MOSES
02/18/03	0231	(H)	COSPONSOR(S): KERTTULA
02/24/03		(H)	L&C AT 3:15 PM CAPITOL 17

**WITNESS REGISTER**

REPRESENTATIVE CHERYLL HEINZE

Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Spoke as the sponsor of HB 10.

HELEN BEDDER, M.D., Staff  
to Representative Cheryll Heinze  
Alaska State Legislature  
Juneau, Alaska

POSITION STATEMENT: Answered questions on HB 10.

MARIE DARLIN, Coordinator  
Capital City Task Force  
AARP Alaska  
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 10.

BOB TAYLOR, Acting Executive Director  
Alaska Commission on Aging  
Division of Senior Services  
Department of Administration  
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 10.

KEVIN MURPHY, President  
Substance Abuse Directors Association of Alaska  
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 10.

PAMELA LaBOLLE, President  
Alaska State Chamber of Commerce (ASCC)  
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 10.

GUY BELL, Director  
Division of Retirement & Benefits  
Department of Administration

Juneau, Alaska

POSITION STATEMENT: Described how the division would implement HB 10 if it passed.

DUSTY SILVA

Palmer, Alaska

POSITION STATEMENT: Questioned the feasibility of HB 10.

MARY RAYMOND

Homer, Alaska

POSITION STATEMENT: Applauded the intent of offering insurance through HB 10.

JAMES FISHER

Kenai Peninsula Food Bank;

Soldotna Senior Center

Soldotna, Alaska

POSITION STATEMENT: Described the need for affordable health benefits for employees of nonprofit organizations during the hearing on HB 10.

JEFF JESSEE, Executive Director

Alaska Mental Health Trust Authority

Anchorage, Alaska

POSITION STATEMENT: Testified that the trustees support the intent of HB 10 but have not yet committed start-up funds.

BOB HAGEN

Anchorage, Alaska

POSITION STATEMENT: Expressed concern that the pool proposed in HB 10 would not succeed.

STEPHEN CONN

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 10.

JUDY MILLER

Valdez, Alaska

POSITION STATEMENT: Testified on the need for insurance coverage for sole proprietor businesses during the hearing on HB 10.

KATIE CAMPBELL, Life & Health Actuary

Division of Insurance

Department of Community & Economic Development (DCED)

Juneau, Alaska

POSITION STATEMENT: Answered insurance questions during the discussion of HB 10.

**ACTION NARRATIVE**

**TAPE 03-12, SIDE A**

Number 0001

**CHAIR TOM ANDERSON** called the House Labor and Commerce Standing Committee meeting to order at 3:15 p.m. Representatives Anderson, Lynn, Gatto, Crawford, and Guttenberg were present at the call to order. Representatives Dahlstrom and Rokeberg arrived as the meeting was in progress.

HB 10-GROUP HEALTH INSURANCE FOR PRIVATE GROUPS

Number 0050

CHAIR ANDERSON announced that the only order of business would be HOUSE BILL NO. 10, "An Act amending the definition of group health insurance, and allowing the Department of Administration to obtain a policy or policies of group health care insurance for employers that are small businesses, nonprofit organizations, special services organizations, or small associations for insurance purposes; and providing for an effective date."

The committee took an at-ease from 3:17 to 3:18 p.m.

Number 0078

REPRESENTATIVE CHERYLL HEINZE, Alaska State Legislature, as one of two joint sponsors of HB 10, testified that HB 10 allows small businesses, nonprofits, and others groups to join a pool for a health insurance plan. The Department of Administration would obtain the policy, and then employers would purchase the insurance through the private plan. The legislation also permits the recovery of the initial cost for setting up the group. She said the cost recovery would be spread over a five-year period, and the Alaska Mental Health Trust Authority ("Mental Health Trust") would provide the upfront money.

Number 0170

REPRESENTATIVE ROKEBERG, the second joint sponsor, noted a small change in the committee substitute (CS) in the members' bill packets.

Number 0197

REPRESENTATIVE ROKEBERG moved to adopt the proposed CS for HB 10, Version 23-LS0030\I, Craver, 2/12/03, as a work draft. There being no objection, Version I was before the committee.

Number 0243

REPRESENTATIVE ROKEBERG explained that the proposed CS contained a new sentence on page 5, lines 4-6, which read: "The commissioner shall distribute the administrative costs recovered pro rata to any funds, including the mental health trust settlement income account, from which initial funding was made." He said this is the only change in the proposed CS and was added at the request of the Mental Health Trust to clarify the source of the [start-up] funds for this legislation. He suggested that Guy Bell, Director, Division of Retirement & Benefits, Department of Administration, can explain his division's costs and the amount the Mental Health Trust would contribute.

Number 0369

REPRESENTATIVE GATTO asked why the state is getting involved in insurance for private businesses when the private sector provides this product.

Number 0407

HELEN BETTER, M.D., Staff to Representative Cheryll Heinze, Alaska State Legislature, explained that HB 10 is based on a model, which assembles an insurance plan for small businesses. Currently, Alaska law allows political subdivisions to work with the state in developing an insurance plan similar to the one in this bill. Political subdivisions such as Kotzebue and Nome are using a health insurance plan that is administered by the state. She said it's important for the [State of Alaska to be involved as an organizer] because it has been impossible for small businesses to gain health insurance on their own. State government can create [a program] and spread the cost over a large group of people. She said even if the state cannot significantly lower the cost of the insurance, it may be able to arrange better options for the small businesses and nonprofits.

Number 0545

REPRESENTATIVE ROKEBERG commended Representative Gatto's question and explained the rationale behind HB 10. He reported that there are precedents for this bill in Alaska statutes and elsewhere; Alaska has a small group provision in its health insurance statutes. It's challenging for these small enterprises, particularly nonprofit organizations that have difficulty finding insurance coverage, to form a larger pool. Last year the legislature passed a bill enabling MEWA (Multiple Employers Welfare Associations); MEWA is a federal provision that allow groups or businesses with certain affinities to form self-insurance with lower than normal solvency requirements. He stated that trade organizations throughout the country pool together for insurance purposes.

REPRESENTATIVE ROKEBERG said HB 10 has two goals: to lower the cost of monthly premiums and to expand the options that are available to these folks. There could be an economy plan, a Chevy plan, and perhaps a Cadillac plan. A very small group or an individual business or nonprofit organization cannot get this type of coverage.

Number 0750

REPRESENTATIVE ROKEBERG cautioned people against expecting too much from HB 10. He said the legislature and everyone in this country wants to find the magic solution to lower health insurance premiums. He declared that health costs are a continually growing part of an individual's budget and the country's gross domestic product. If the legislature can help citizens lower these costs, this is a small step forward. He said the Mental Health Trust agreed to fund the start-up because of the large number of nonprofit organizations with whom they deal that are unable to obtain insurance at a reasonable rate.

Number 0835

REPRESENTATIVE ROKEBERG returned to Representative Gatto's question. He explained that HB 10 does not involve the state in the insurance business. In this case, the state would invite a group of different [enterprises] to form a pool; the state would be merely the conduit. The state would develop the bid process that would go out to private insurance underwriters. The state would not underwrite nor pay for the insurance. House Bill 10 would not expand the state health insurance program to other folks. Once this program gets established, it would be self-financed and operated almost entirely by the private sector.

Representative Cissna joined the committee.

Number 0894

REPRESENTATIVE HEINZE reiterated that the state, through the Mental Health Trust, would fund the upfront costs, which would be paid back. This is a big helping hand, she said.

REPRESENTATIVE GATTO observed that if the state is merely a conduit for gathering people together, that role is unnecessary because individuals can do that themselves. He said the state has a poor record of taking on projects to help others; many such projects ended in a deficit. He said the bill goes way beyond gathering the names of interested individuals and letting someone bid on the service.

REPRESENTATIVE HEINZE explained that the project is not quite so simplistic, that the state doesn't just gather the names. The state would prepare the project for bid, and then the two companies in Alaska that underwrite small group health insurance policies would bid on it.

Number 1063

DR. BETTER explained that someone has to develop the plan. The state would develop the plan as it did for the political subdivisions. The state would design a plan that works for the insurance companies and works for the individuals in the pool, and then it would come up with a cost. Insurance plans can vary from minimal to extensive coverage; they are not simple documents. When an individual seeks insurance, an insurance agent or broker would lay out potential plans, and then the individual would make a decision. No one is currently providing this service [to business and nonprofits as a group]. Agencies like United Way have not been able to assemble a large enough pool. She said that's why the sponsors included small businesses and other associations in this bill.

REPRESENTATIVE GATTO cautioned that the state would be actively approaching insurance companies, getting bids, and signing up individuals at different levels of risk. He recalled the Delta Barley projects and the Mt. McKinley Dairy Farms, in which the state lost its investment. He said he is concerned that the state won't [recoup its money].

Number 1245

REPRESENTATIVE ROKEBERG said he shares Representative Gatto's concerns about government adventures in private enterprise. He said the legislature's real power is derived from the purse. The state would venture \$42,900, less than the cost of one door in one [grain] silo. The additional \$89,900 would come from the Mental Health Trust, which is not general fund money. The provisions of the bill allow for the recoupment of all these funds, in the underwriting cost of the third-party administrator or the insurance underwriter. The words "may obtain insurance" allows the department to avoid entering into any insurance contracts. He said the sponsors do not intend to get the State of Alaska into the insurance market anymore than it already is, for example, providing the structure for the political subdivisions to operate their insurance plans. There are provisions in the insurance statutes now that allow groups to get together to do some of their own underwriting and become self-insured. However, that rarely happens. As indicated in past public testimony, a large number of people in this state are interested in joining a pool. Combining nonprofits with some small businesses creates a bigger base and hopefully realizes some economies not possible otherwise.

REPRESENTATIVE ROKEBERG cautioned that this committee needs to be concerned about the bill's impact on the small business insurance group market. He stressed that this is no socialized medicine plan in sheep's clothing because with \$42,000, the legislature cannot do a lot of damage.

Number 1390

REPRESENTATIVE CRAWFORD declared that he supports HB 10, which he characterized as a great first step. He expressed concern that it leaves single-person companies out of the equation. He asked why the legislation only addresses companies with 2 to 50 employees.

REPRESENTATIVE HEINZE answered that HB 10 uses the definition for small business in AS 21.54.500, which is at least 2 but not more than 50 employees.

DR. BEDDER said that the definition [in HB 10] is traditionally used throughout the United States. A single individual who has not been able to obtain affordable health insurance would be interested in joining this plan because there would be no limit on pre-existing illnesses or conditions. Therefore, this feature would draw persons with particularly difficult insurance

issues, which would create a higher risk pool, resulting in higher premiums.

REPRESENTATIVE CRAWFORD noted that the state already has a high-risk pool, the Alaska Comprehensive Health Insurance Association (ACHIA). He suggested that the bill direct those [single-person businesses] with serious pre-existing conditions into the ACHIA pool while the other [entities] would come in under this pool. He cautioned that leaving out single operators without health problems excludes a large segment of the population.

Number 1568

REPRESENTATIVE HEINZE warned about the need to [develop a suitable plan on which insurance companies would bid]. The Alaska [insurance market] is unique because of the state's small [population], she said.

REPRESENTATIVE ROKEBERG pointed out that individuals can join the ACHIA pool [for health insurance coverage] and it was thus not necessary to include individual businesspersons in HB 10. He noted his proposed amendment that narrows the scope of eligibility for the pool. Narrowing the risk pool would encourage health insurance underwriters to enter the market in Alaska, not leave it. Currently, the state has three major underwriters that carry more than 52 percent of the market. He explained that the small business policies amount to 55 percent of the market. Representative Rokeberg echoed the need to be sensitive about Alaska's market condition. If HB 10 is expanded and made open-ended, [the State of] Alaska would be competing against the industry. He cautioned that if [the legislature] isn't careful with this bill, the state will [end up with] a single insurance underwriter.

REPRESENTATIVE CRAWFORD said he understood [the market problem], but asked if [healthy single proprietors] could be brought into this pool. He reiterated his concern about excluding healthy single proprietors.

REPRESENTATIVE ROKEBERG noted that going into the individual market would almost certainly impact the number of underwriters writing business in the state. He explained that the fifty underwriters in the state that do write low-premium policies are the ones writing individual policies. Expanding HB 10 to individual business people would risk running 50 insurers out of the state at one time, he warned.

Number 1847

CHAIR ANDERSON directed attention to the sponsor statement which reads, "The intent of this bill is to provide quality health insurance by creating a large pool of covered lives, and generate more choice of coverage not a lower cost." However, he noted that document also includes the following sentence: "The entities described in this legislation often cannot afford to provide employees with adequate health insurance coverage." He asked if the purpose of HB 10 is to lower costs, offer more choice, or both.

REPRESENTATIVE HEINZE answered "probably both." She expressed hope that more accessible and more affordable coverage could be provided to small businesses through this legislation.

CHAIR ANDERSON said that one of his constituents from the Alaska Association of Health Underwriters has expressed some salient concerns in a letter. He quoted the letter as follows:

Entities that are already experiencing affordable rates in the private market due to low loss ratios will not be interested in joining the pool. However, unhealthy small employer groups with bad medical experience and high claims could flock to a state plan with low rates. These groups might initially benefit from lower rates, but eventually the state pool will be forced to react to the bad claims experienced from these groups and increase premiums. Other states that have implemented such pools have found that rates for smaller businesses did not drop over time. Instead they have remained the same or higher than the traditional small group market.

REPRESENTATIVE ROKEBERG said that he agreed with that analysis. He said that HB 10 doesn't specify a higher standard or threshold and thus runs the risk [described in the above quote]. Bringing nonprofits and small businesses together would hopefully spread the risk to a larger covered life pool, he said.

CHAIR ANDERSON remarked that Representative Rokeberg's proposed amendment covers some of the concerns expressed in the letter from the Alaska Association of Health Underwriters.

REPRESENTATIVE ROKEBERG agreed.

Number 2044

MARIE DARLIN, Coordinator, Capital City Task Force, AARP Alaska, noted that the committee's bill packet should include a letter of support for HB 10. She said AARP's main concern is for nonprofit agencies that are having difficulties offering their employees health insurance, which is necessary to retain staff. She said the letter also conveyed AARP's concern for many citizens who don't have health insurance at all.

REPRESENTATIVE DAHLSTROM asked whether nonprofits such as Native associations, which may be eligible under other programs, could be covered under this plan also.

REPRESENTATIVE ROKEBERG said that he would research that question.

Number 2138

BOB TAYLOR, Acting Executive Director, Alaska Commission on Aging, Division of Senior Services, Department of Administration, announced support for this legislation. When the commission wrote a state plan covering the years 2003-2007, staff held a series of hearings throughout Alaska in order to obtain public comment on key issues to senior citizens. He said there was a lot of public comment related to this state plan, and workforce issues came up repeatedly. The state plan advocates for systems and strategies that will help senior citizens stay in their communities and homes as long as possible. This aging-in-place system is composed of many home and community services such as adult day care and personal services. He said the Commission on Aging strongly supports HB 10 to the extent that it would provide health insurance for those nonprofits and small businesses.

Number 2250

KEVIN MURPHY, President, Substance Abuse Directors Association of Alaska (SADA), noted that SADA represents approximately 44 programs across the state. He announced that SADA is in favor of HB 10, although SADA had hoped it would make available insurance for many of SADA's members who can't currently afford health insurance. He said that he hoped the passage of HB 10 would stem the flow of personnel from the field.

Number 2310

PAMELA LaBOLLE, President, Alaska State Chamber of Commerce (ASCC), testified in support of HB 10. She related that the [inability to assess health insurance] has been a significant problem for small businesses. She informed the committee that ASCC is a nonprofit and until three years ago, ASCC was covered through the American Chamber of Commerce executives in a nationwide pool for which John Hancock was the provider. However, John Hancock pulled out of Alaska, and ASCC has been searching for comparable and affordable insurance. Currently, ASCC has a policy with a high deductible. Ms. LaBolle emphasized that ASCC is just one example. She noted that she has a professional position to fill, and there have been some interested candidates. Although ASCC is competitive with its salary, the health insurance is not competitive.

**TAPE 03-12, SIDE B**

Number 2365

MS. LaBOLLE indicated that the lack of accessible health insurance for small employers eliminates them from competition in the job market. This situation is common throughout the state, she said. [Having health insurance available for small businesses] is one of ASCC's top priorities, she added.

Number 2342

REPRESENTATIVE ROKEBERG mentioned his concern with the impact of HB 10 on the competitive marketplace. Representative Rokeberg expressed concern that without an amendment, the state may lose one or more of its major underwriters.

MS. LaBOLLE agreed that Alaska is a small pool for these national companies. She noted that a recent Department of Health & Social Services survey showed that the costs of medical services in Alaska is 25 percent higher than elsewhere in the nation. For those reasons, Alaska is not an attractive place for insurance companies to do business. Because [ASCC] doesn't want to run anyone else out of the state, she suggested an exemption [from certain mandates] for insurance companies that offer coverage to businesses up to a certain size. She observed that although mandates are important, one must review whether those mandates are cutting Alaska out of the insurance market.

Number 2230

GUY BELL, Director, Division of Retirement & Benefits, Department of Administration, informed the committee that the division would run the program HB 10 were to pass. This legislation would allow the commissioner, through the division, to obtain fully insured health insurance policies to cover qualified entities. He said that qualified entities are defined as Alaska small businesses that employ 2 - 50 eligible employees, Alaska nonprofit organizations, sole proprietorships or corporations that operate childcare facilities, residential childcare facilities, foster homes, assisted living facilities, or provide adult daycare or home care services.

MR. BELL explained that under HB 10, the commissioner would be given quite a bit of discretion in designing policies. No state subsidy would be involved. Only seed money would be available, and it would be used to work with interested groups developing the plans. He explained that the division envisioned using a benefits consultant who would work with focus groups through surveys in order to develop plan design options and a request for proposals (RFP). The division would choose the best price bid from those products offered; most likely, he said, there would be multiple policies.

Number 2125

MR. BELL advised that the most likely types of plans would be "first dollar" plans, policies in which [the plan] would cover up to a certain amount of medical expenses and nothing beyond, with the understanding that these nonprofits and others would be able to obtain catastrophic coverage elsewhere. The catastrophic or major medical plan could be chosen and thus [the plan] wouldn't cover the first \$5,000 in claims but would cover the costs beyond that. He said there could also be a comprehensive policy, similar to a standard plan with a deductible and co-pay requirement.

MR. BELL explained once those plans were in place, qualified entities would be allowed to come to the commissioner and apply to participate. Once the authorization was given, the group would be passed on to the insurance company, which would provide the entire service. At that point, the service, the premium collection, and the liability would be in the hands of the insurance company. He noted that [HB 10] includes a requirement that the cost of implementation be recovered, and the division's plan maintenance would be paid through the plan premiums.

Number 2067

REPRESENTATIVE GATTO asked about pooling.

MR. BELL commented that the state may have some role in creating a pool, and it could use that economy of scale to make the insurance available and perhaps more affordable. He said the philosophical question is how that pooling arrangement is developed -- whether by the insurance company or by the state. Mr. Bell suggested that the idea behind HB 10 is that value can be added by the state setting up this pool.

Number 2017

REPRESENTATIVE GUTTENBERG applauded the sponsors of HB 10. He pointed out that the bill involves private industry, the insurance underwriters, and the state. He pointed out that the fiscal note shows the cost for hiring a consultant; no pool of [state] money would be set up. He asked why this market isn't more attractive to underwriters. He noted that the pool would have many high-risk people in it, causing the [insurance companies] to pull out. Representative Guttenberg said that he was trying to [identify the advantages] of the private sector or the state [developing such a pool].

Number 1929

MR. BELL answered that part of the answer involves the division's flexibility in working with the groups on plan design. He said that other states have developed plans similar to that proposed in HB 10, and they have reviewed some unusual and creative plan designs. There is no guarantee that this pool will be successful, he said; one must be realistic in what might be achieved. He said that medical insurance is becoming more costly and less available, and HB 10 is an effort to address that. The question is whether HB 10 is worth a small amount of seed money and some effort to see if this pool can work in Alaska.

REPRESENTATIVE ROKEBERG stressed that in the private sector an individual or very small company cannot buy insurance that is [comparable to large group health insurance]. He related his own experience 10 years ago in the private sector, seeking individual insurance coverage. He was paying a premium, after the age of 50, of over \$800 a month for a no-frills plan with a \$5,000 deductible. He received less coverage then than he does now as a legislator, and it cost more 10 years ago than his current coverage. He credited these factors to the large group

discount. He explained that with large groups, there are various methodologies available to drive costs down. He said the point of HB 10 is to provide a pool for small businesses and nonprofit organizations, giving them access to the lower cost plans that have more options.

Number 1755

REPRESENTATIVE GATTO stated that in a large group plan, everyone is included: the healthy and young, and a few of the older and sick. However, if such a group is reduced to individuals, he predicted [problems would arise]. In the example of auto insurance, high-risk individuals with driving violations would be attracted to the pool. When that happens, the insurance company would seek balance with good drivers, however, he questioned whether good drivers would join the pool and voluntarily pay a higher premium. Representative Gatto asked if the state, with passage of HB 10, would be part of the program. He said if the state has nothing at risk, then the plan won't work.

REPRESENTATIVE CRAWFORD said that Representative Rokeberg's story is a perfect example of why this [bill] is necessary. This pooling would have allowed Representative Rokeberg and others to pool for affordable health care. He refuted the notion that only unhealthy individuals would enter the pool. He stressed that health care insurance in the U.S. is obtained through employers and thus there needs to be a group for small employers and nonprofits in order for the overall system to work. Otherwise, many people are left [without insurance].

Number 1557

REPRESENTATIVE HEINZE related that she is paying almost \$1,000 a month for insurance. There are hundreds of individuals doing the same, she said. The point of HB 10 is [to provide coverage] with minimal risk.

REPRESENTATIVE ROKEBERG turned to the fiscal note.

MR. BELL explained that the first year of costs is higher than subsequent years, due to implementation issues. The total cost is estimated at \$132,800. He noted that last year the Mental Health Trust had offered to contribute \$89,900 to [implement a similar bill which did not pass the legislature].

REPRESENTATIVE ROKEBERG addressed Representative Gatto's concern about the lack of an exit strategy if the plan isn't working. He asked if the department would favor an exit strategy in the bill.

MR. BELL answered that an exit strategy would be addressed through the contract and the RFP. The department would consult with the attorney general's office to insure that the contract protected the state and allowed for an exit strategy. He said he wasn't sure whether the language in the legislation has to be modified to accomplish that.

REPRESENTATIVE ROKEBERG asked if intent language could include [an exit strategy].

MR. BELL said that sounds reasonable.

Number 1282

DUSTY SILVA informed the committee that although she is testifying on her own behalf, she works in the insurance industry and is a member of the Alaska Association of Health Underwriters. Ms. Silva said that she has reviewed the state's health benefit program, which covers 5,500 state employees, not including their dependents. The state's premium plan has a monthly rate of \$1,102 and the economy plan costs \$716 per month. [Given the size of those premiums under a large group plan], she questioned how this bill would work.

REPRESENTATIVE HEINZE responded that other states have been very successful [with this type of pool], although she acknowledged that some states have not. The Health Insurance Plan of California has done this [and been successful] as has the Connecticut Business and Industry Association. She related that HB 10 would not offer lower premiums but would rather make insurance available for people to purchase.

MS. SILVA said that small employers can purchase insurance, but the rates are based on the demographics of the group. Therefore, a younger healthier group would have lower rates than a group with older and unhealthy individuals. Therefore, the healthy people in the pool subsidize the premiums for those who are not so healthy. She asked if HB 10 is trying to lower premiums.

REPRESENTATIVE HEINZE said she hoped that the rates would be lowered through this pool. However, the main reason for the

legislation is to offer something to people who can't get insurance now.

MS. SILVA said that she reviewed the California [pool], which she discovered offered subsidies to the employers as well.

REPRESENTATIVE HEINZE offered to research that model.

Number 1037

REPRESENTATIVE GUTTENBERG asked whether HB 10 would prevent an underwriter who carries an employer with high-risk employees from dropping that employer.

MS. SILVA replied no and pointed out that such an action cannot be done now.

Number 0963

MARY RAYMOND informed the committee that she is the coordinator of a small assisted-living home. She applauded the efforts to offer health insurance. She said that offering this to small businesses and nonprofits doesn't necessarily mean that it will [enroll employees who are] old and sick. She cited a report that the U.S. Department of Health & [Human] Services will fund three to five states for 10 years to cover virtually everyone in the state, if the state proposes a good plan.

Number 0731

JAMES FISHER, Kenai Peninsula Food Bank; Soldotna Senior Center, informed the committee that both of these groups need help offering their employees group health insurance at an affordable cost. He pointed out that lack of such health benefit coverage leaves the supervisors with a nagging concern for their employees. He said the lack of such health insurance is considered by some people to be exploitation of employees. Mr. Fisher urged the legislature to craft an appropriate solution.

Number 0660

JEFF JESSEE, Executive Director, Alaska Mental Health Trust Authority (AMHTA), applauded the efforts of the bill's sponsors. He said that at this point, the trustees have not officially authorized trust income to be used for this legislation. He explained that the trustees want the current administration to evaluate this issue and this legislation. He noted that during

Governor Murkowski's campaign, he identified the health insurance crisis as an important issue on which he intended to take action. Mr. Jessee noted that he has encouraged the administration to create a group to review this issue and this legislation. Mr. Jessee said that the trustees are very supportive of the legislation's intent and want to be part of any solution addressing these issues. However, no one wants to raise expectations beyond what is reasonable or to take an undue risk with trust resources.

REPRESENTATIVE ROKEBERG asked whether the trustees would fund 100 percent of the fiscal note if the governor blessed HB 10.

MR. JESSEE said that he could not speak for the trustees, although he related his belief that the trustees would be more interested in a sharing of the contribution and thus the risk. However, he said he wouldn't rule out a different level of contribution, particularly with the state's current fiscal situation.

REPRESENTATIVE ROKEBERG reminded Mr. Jessee that a general fund fiscal note might have a negative impact [on the bill's passage]. He said the [pool] could be set up like a loan. He requested Mr. Jessee's help in avoiding general fund expenditures.

MR. JESSEE mentioned that the trust is prepared to do what it can to see that legislation accomplishing these goals is successful.

Number 0321

BOB HAGEN said he was testifying on his own behalf but is an independent insurance agent. Mr. Hagen noted that he has studied health insurance purchasing cooperatives such as the one proposed [in HB 10]. Mr. Hagen said that he is convinced that purchasing pools will not do any good. He said several studies have shown that purchasing pools have had a negative impact on the insurance rates in the states that have tried this. None of the studies found that the purchasing cooperative rates were lower than those on the open market nor did they increase the availability of insurance. He pointed out that since the early 1990s, groups have been guaranteed access regardless of whether they are purchasing cooperatives. However, he acknowledged that purchasing cooperatives have increased choice in states with health maintenance organizations (HMOs). For example in California, the cooperative premiums are about eight percent

higher than those on the general market; but this [arrangement] is moderately successful because it offers choice. However, this scenario isn't applicable in Alaska [because there are no HMOs], he said.

Number 0178

MR. HAGEN stated that it's not true that large group rates are always lower than small group rates. If one reviews the plans of the State of Alaska and NEA-AK [National Education Association - Alaska], one will find that the per contract charges are higher than many of the rates in the small group markets. Mr. Hagen pointed out that 80-90 percent of a group premium goes to pay claims, and pooling doesn't reduce that. He explained that by combining 100 three-person groups, there are still 100 groups not one 300-person group. The availability of nondiscriminatory rates is already guaranteed by AS 21.56 [Small Employer Health Insurance], and the Division of Insurance is doing a good job enforcing it, he opined. He advised that if the legislature doesn't think the division is doing a good job, then it should look there rather than creating legislation that may add complexity to the regulatory job. Mr. Hagen said that it is instructive to review the profit margins of the companies that write [policies] in Alaska: Blue Cross has a profit margin of 1.2 percent, and AETNA shows profit returns of 3-4 percent.

**TAPE 03-13, SIDE A**

Number 0010

STEPHEN CONN applauded HB 10 and informed the committee that he could not have worked as the executive director of the Alaska Public Interest Research Group (AkPIRG) had he not had access to the benefits of the teacher retirement system. He pointed out that everyone knows people who struggle with paying medical bills and prescriptions. He added that the state [population] is aging. Mr. Conn described HB 10 as a perfect example of the state trying to do new things and experiment with possible solutions. He acknowledged that some of the state's experiments have succeeded while others have not. Mr. Conn related that AkPIRG and the Alaska Injured Workers Alliance are in dire need of health insurance benefits in order to attract and retain employees. Mr. Conn concluded by noting his support for HB 10.

Number 0240

JUDY MILLER informed the committee that she is interested in developing a sole proprietorship [business], but she noted that she cannot obtain health insurance. She indicated that without legislation such as HB 10, she will probably have to work for someone else to obtain health insurance. She predicted that a lot of private businesses could [thrive] in this state if something like HB 10 were offered. Ms. Miller related her belief that she would be a desirable candidate for this pool. Furthermore, she noted her willingness to [pay higher premiums] to support older people or people with problems who would be joining this pool.

REPRESENTATIVE ROKEBERG pointed out that those sole proprietors who qualify as a nonprofit under the criteria specified in the bill would qualify [for this pool].

Number 0536

REPRESENTATIVE ROKEBERG noted that in a market share breakdown from the Division of Insurance, Premera Blue Cross has covered lives of 13,369 or 55.9 percent of the small group market.

KATIE CAMPBELL, Life & Health Actuary, Division of Insurance, Department of Community & Economic Development (DCED), confirmed that number.

REPRESENTATIVE ROKEBERG, citing the same source, stated that Principal Life has 4,900 covered lives, AETNA 2,100 covered lives, United Health Care 2,400 covered lives, and Trust Mark Insurance 1,500 covered lives. Those are the top five providers in the state, he added. The remaining small group providers amount to about 24,793 covered lives.

Number 0607

MS. CAMPBELL confirmed those numbers. However, she pointed out that those numbers are provided by the insurance companies on a voluntary basis and there is no way to audit the data on covered lives.

REPRESENTATIVE ROKEBERG asked about the validity of the chief criticism of HB 10 that it could push underwriters out of the state.

MS. CAMPBELL said it's a possibility because without the ability [by current underwriters] to reduce the premiums, there will be people who are already insured who will move [into this pool].

REPRESENTATIVE ROKEBERG related that one of the underwriters for the State of Alaska had warned that if it did not win the bid under HB 10, it might leave the [Alaska] market. Due to the current language in the bill and the size of the market share, Representative Rokeberg said he believes there is some merit to the concern.

Number 0780

MS. CAMPBELL informed the committee that about two years ago both Employers Health and Guardian Life pulled out of the small group market in the state. At the time, they were the second and fourth largest insurers in the state. The companies said that they couldn't make a profit in Alaska. Ms. Campbell said she believes that there is potential for shifting [of insurers out of the Alaska market] with HB 10, and shifting is probably the largest concern. In this case, the pool wouldn't be operating under the same rules that the insurance companies have in terms of deciding who will be insured under the pool. Therefore, there will be people coming into this pool that the insurance companies will underwrite, or rate up, or perhaps not even write at all, and thus it would be expected to be a somewhat higher risk [pool].

REPRESENTATIVE ROKEBERG requested that Ms. Campbell speak to the problem the state has in attracting [insurance companies] to write health insurance in the state. He also requested that she speak to the impact of HB 10 on that market entry.

Number 0875

MS. CAMPBELL pointed out that the entire population of Alaska is like a small city in California; thus Alaska is a really small base for insurance company operations. Therefore, insurance companies need to sell enough business to cover fixed costs of operating in Alaska. With regard to size, Alaska isn't an attractive market. Also, providing coverage in the rural communities has its own complications. Ms. Campbell informed the committee that there was a U.S. General Accounting Office (GAO) report that illustrated that Alaska isn't unusual in terms of the number of insurers or concentration of insurers in the small group market.

Number 0950

REPRESENTATIVE ROKEBERG turned attention to an amendment labeled 23-LS003\I.1, Craver, 2/24/03, which read:

Page 3, following line 10:

Insert a new subsection to read:

"(e) The department shall limit the coverage of businesses as defined in this section to a maximum of 6,000 covered lives, subject to the following:

(1) the division of insurance shall adjust the limitation of coverage every two years so that the limitation is the number of lives in the market represented by businesses multiplied by the estimated percentage of uninsured in that group; lives covered by a policy issued to a business under this section shall be included in estimating the number of uninsured; and

(2) any employees of an employer participating in group coverage as a business under this section may be added to coverage at any time regardless of the maximum number of covered lives set by the limitation of coverage established by or determined under this subsection."

Reletter the following subsections accordingly.

REPRESENTATIVE ROKEBERG said that he reviewed the base line number of 24,793, [the number of lives covered by other insurance companies, as described earlier]. He noted that the insurance companies are curiously absent from this meeting. He explained that from conversations with various insurers, he is concerned that if the size of this pool isn't restricted, there is the risk of running an insurance company out of the state. Therefore, [his amendment] proposes a formula based on the information he has obtained about the small group market from the Division of Insurance. He said that the formula is based on the assumption of 25,000 covered lives in the market, which is then multiplied by the presumed 19 percent of uninsured citizens in the state. The formula uses a number that he derived from his business experience, 20 percent, as a share of the small group market that would apply to this legislation. Therefore, the formula is as follows: "25,000 times 19 percent equals Y; Y is 20 percent of the market; Y equals 6,000 lives."

REPRESENTATIVE ROKEBERG stated that the amendment specifies that the department shall set the limit of coverage of businesses to the maximum of 6,000 covered lives. However, he said he didn't believe that the drafter [of the amendment] had accomplished

that. He explained that the formula specifies the extent of the small business portion. Therefore, there would be no restriction on the nonprofits as qualified entities, only the small business portion. He said he hoped that this would leave 80 percent of the small business market available for private sector underwriting and allay fears [about harming the insurance industry].

REPRESENTATIVE ROKEBERG described his amendment as conceptual.

Number 1280

REPRESENTATIVE CRAWFORD related his anecdotal belief that more small business employees are uninsured than large business employees. He said that until he sees the [division's] numbers, he would have to dispute Representative Rokeberg's formula. He reiterated the need for HB 10 to help those who aren't covered by health insurance. However, [this amendment] limits the number of people covered.

REPRESENTATIVE ROKEBERG said that HB 10 could cover 6,000-12,000 people in nonprofit entities for a total of 18,000 covered lives. He said he is trying to find a balance between meeting the needs of people without risking the insurance underwriter market in the state. Without an amendment such as the proposed conceptual amendment, the chances of HB 10 passing are slim, he said.

REPRESENTATIVE CRAWFORD expressed the desire to revisit [the issue of limiting the number of people covered] if the market is realigned to the point that an insurance company pulls out. He noted his preference not to place limits before it is known if the market realigns.

REPRESENTATIVE ROKEBERG remarked that this bill isn't a pilot program with [room for] experimentation. He noted that he wanted to include this amendment in a CS in order to smoke out the insurance companies so that they would talk with the committee.

[House Bill 10 was held over.]

#### **ADJOURNMENT**

Number 1489

REPRESENTATIVE ROKEBERG moved that the committee adjourn.

REPRESENTATIVE GATTO objected.

A roll call vote was taken. Representatives Guttenberg, Crawford, Dahlstrom, Rokeberg, Lynn, and Anderson voted in favor of the motion to adjourn. Representative Gatto voted against it. Therefore, by a vote of 6-1, the House Labor and Commerce Standing Committee meeting was adjourned at 5:15 p.m.