ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE HEALTH, EDUCATION AND SOCIAL SERVICES STANDING COMMITTEE
SENATE LABOR AND COMMERCE STANDING COMMITTEE
Anchorage LIO
September 10, 2007
1:33 pm

D R A F T

MEMBERS PRESENT

SENATE HEALTH, EDUCATION AND SOCIAL SERVICES

Senator Bettye Davis, Chair
Senator John Cowdery
Senator Kim Elton
Senator Fred Dyson

SENATE LABOR AND COMMERCE

Senator Johnny Ellis, Chair
Senator Gary Stevens, Vice Chair
Senator Bettye Davis
Senator Lyman Hoffman
Senator Con Bunde

MEMBERS ABSENT

SENATE HEALTH, EDUCATION AND SOCIAL SERVICES

Senator Joe Thomas, Vice Chair

SENATE LABOR AND COMMERCE

All members present

OTHER LEGISLATORS PRESENT

Representative Carl Gatto
Representative Lindsey Holmes
Representative Wilson
Representative Harry Crawford

COMMITTEE CALENDAR

SENATE BILL NO. 160

"An Act establishing an Alaska health care program to ensure insurance coverage for essential health services for all residents of the state; establishing the Alaska Health Care Board to define essential health care services, to certify health care plans that provide essential health care services, and to administer the Alaska health care program and the Alaska health care fund; establishing the Alaska health care clearinghouse to administer the Alaska health care program under the direction of the Alaska Health Care Board; establishing eligibility standards and premium assistance for persons with low income; establishing standards for accountable health care plans; creating the Alaska health care fund; providing for review of actions and reporting requirements related to the health care program; and providing for an effective date."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 160
SHORT TITLE: MANDATORY UNIVERSAL HEALTH CARE
SPONSOR(s): SENATOR(s) FRENCH

04/23/07	(S)	READ THE FIRST TIME - REFERRALS
04/23/07	(S)	HES, L&C, FIN
09/10/07	(S)	HES AT 1:30 PM Anch LIO Conf Rm

WITNESS REGISTER

SENATOR HOLLIS FRENCH
Alaska State Capitol
Juneau, AK 99801-1182
POSITION STATEMENT: Sponsor of SB 160

MICHAEL TANNER, Director of Health and Welfare Studies
The Cato Institute
Washington, D.C.
POSITION STATEMENT: Offered expert perspective on health care policy as it relates to SB 160

KARLENE JACKSON, Commissioner
Department of Health and Social Services
Juneau, AK
POSITION STATEMENT: Commented on SB 160

DUANE HEYMAN, Executive Director
Commonwealth North Alaska Health Care Roundtable
Anchorage, AK

POSITION STATEMENT: Commented on SB 160

LAILE FAIRBAIRN, Managing Partner
Snow City Café
Anchorage, AK
POSITION STATEMENT: Supported SB 160

JESSE COLLENS, Employee
Snow City Café
Anchorage, AK
POSITION STATEMENT: Supported SB 160

JOEL GILBERTSON, Regional Director for Strategic Development & Administration
Providence Health Systems Alaska
Anchorage, AK
POSITION STATEMENT: Commented on SB 160

PATRICK HIGGINS, Human Resources Director
North Star Behavioral Health System
Anchorage, AK
POSITION STATEMENT: Commented on SB 160

KAREN RHOADES, Owner/Operator
Northern Living Centers
Anchorage, AK
POSITION STATEMENT: Commented on SB 160

WAYNE STEVENS, President
Alaska State Chamber of Commerce
Anchorage, AK
POSITION STATEMENT: Commented on SB 160

VINCE BELTRAMI, Executive President
Alaska AFL-CIO
Anchorage, AK
POSITION STATEMENT: Commented on SB 160

PAT SENNER, MS, RN, ANP
Alaska Nurses Association
Anchorage, AK
POSITION STATEMENT: Offered suggestions on SB 160

ACTION NARRATIVE

CHAIR JOHNNY ELLIS called the joint meeting of the Senate Health, Education and Social Services Standing Committee and the

Senate Labor and Commerce Standing Committee to order at 1:33:26 PM. Present at the call to order were Senators Con Bunde, John Cowdery, Chair Bettye Davis and Chair Johnny Ellis. Senators Gary Stevens and Kim Elton attended on line and Senator Joe Thomas was represented by his staff. Other legislators in attendance were Representatives Mike Doogan, Carl Gatto, Lindsey Holmes Harry Crawford and Peggy Wilson.

SB 160-MANDATORY UNIVERSAL HEALTH CARE

CHAIR JOHNNY ELLIS announced the consideration of SB 160.

1:35:25 PM
SENATOR HOLLIS FRENCH, Sponsor of SB 160 , acknowledged Chair Davis and Chair Ellis for their years of leadership in the area of health care. He also thanked staff members, Dana Owen, Richard Benavides, and Andy Moderow for their excellent efforts.

SENATOR FRENCH introduced SB 160 by giving an overview of the problem, an overview of the bill, and a review of a web site created as a guide for Alaskans.

Overview of problem:
Fifteen percent or 100,000 Alaskans do not have health insurance. 60,000 of that uninsured population do have jobs; they are simply working for employers that can't afford to provide or choose not to provide health insurance. Uninsured people receive health care by paying out-of-pocket for what they can afford and what they can't afford is passed on to someone who can pay. Alaskans who do have insurance help pay for those who are uninsured by paying about 14 percent more for their health care than they should. That translates to about $1,000 more per year for a family of four. The State of Alaska pays about $19 million more than it should each year for health care for its employees to help pay for those who don't pay. He noted that Mark Foster from the Institute of Social and Economic Research spoke about the disadvantages Alaska experiences when competing for health care business with other states and nations because of the high cost of medical care in the state. Part of that high cost is due to the high population of uninsured in the state.

1:38:36 PM
Overview of the bill:
SB 160 is roughly modeled on the Massachusetts plan. He explained that the bill is not socialized medicine and it is not single payer both of which are usually features of government-

run health systems. SB 160 embraces the American values of competition and individual responsibility. The bill would require Alaskans who do not have insurance to get a policy that would be affordable due to a combination of market reforms and subsidies. Those who are currently covered by an insurance policy would not be affected other than to potentially see a decrease in their premiums.

SB 160 has three key features. It would create the Alaska Health Care Board, which would be comprised of 11 members who are appointed by the governor and confirmed by the legislature. The board would define essential health care services and certify the private insurance plans that meet the basic criteria that the board has set out. The second feature is the Alaska health care fund, which would be made up of state, federal, and employer contributions. The fund will issue vouchers to assist qualified individuals in purchasing a health insurance policy. The third key feature is the health care clearing house, which is where individuals would take their vouchers to select an insurance policy. Essentially that's a marketplace that efficiently matches buyers of insurance with sellers of policies.

SENATOR FRENCH referenced a chart dividing the uninsured Alaskan population into three categories: those whose income falls below 100 percent of the federal poverty line; those whose income falls between 100 and 300 percent of the federal poverty line; and those whose income falls above the federal poverty line. Alaskans who are below 100 percent of the federal poverty line and are not covered by Medicaid would qualify for a voucher from the health care fund to go to the clearinghouse and purchase a health insurance policy. Alaskans who are between 100 and 300 percent of the federal poverty line would be on a sliding scale where the fund would issue a voucher for part of the policy cost and the rest would come from out-of-pocket. Alaskans who are over 300 percent of the federal poverty line would be on their own to buy a policy but they could be the recipient of a beneficiary fund that is deposited by employers.

SENATOR FRENCH gave a brief overview of the web site that, among other things, has a calculator that uses the Massachusetts plan to help individuals determine their expected monthly out of pocket costs for a policy. For example, a family of three that has no health insurance and has a gross income of $3,000 per month would pay about $120.

1:46:25 PM

SENATOR CON BUNDE asked three questions: if the board members would be state employees or like the Board of Regents who are reimbursed for expenses; how essential services would be defined; and if there would be credit for a health lifestyle.

SENATOR FRENCH said the members would be more like Board of Regents members; rationing is not anticipated because the bill doesn't use socialized medicine or single payer; and healthy lifestyles should be rewarded.

SENATOR COWDRY asked what has caused the increase in the cost of medical care.

SENATOR FRENCH said he didn't have a short answer but litigation amounts to about 1 percent of the total national spending on health care so it's probably not that.

1:49:53 PM
MICHAEL TANNER, Director of Health and Welfare Studies, The Cato Institute , noted his written testimony. [A copy may be found in the bill file.] He said that when considering health reform it's important to recognize that the United States provides the best health care in the world. To a large extent the quality stems from the free market health care system. He cautioned members to take care when making reforms to deal with the real problems such as cost, numbers of uninsured, and uneven quality so as to not damage our high quality system. In many ways we should be guided by the Hippocratic Oath, which is to do no harm, he said.

MR. TANNER said SB 160 takes good steps and is particularly valuable because it is not a single payer system or a government run health care system. Every government run system in the world rations care and denies care, which has a cost in terms of human lives. In 2005 the Canadian Supreme Court struck down part of its health care system stating that many of the 800,000 people on the Canadian waiting list would live in chronic pain and/or die while waiting for care. "That is not the type of system that you want to bring to Alaska," he said.

1:52:51 PM
MR. TANNER expressed serious question about the employer mandate in SB 160. As a matter of economics, employers are indifferent to the type of compensation they provide their workers, he said. It doesn't matter if it's wages, health insurance, or retirement benefits; the employer simply pays a certain sum per worker. But if the cost per worker rises and the productivity per worker doesn't increase, the employer will have to find some way of

reducing the cost. That can be done by cutting other benefits, not paying as much into retirement, lowering wages, or reducing the number of employees. Ultimately, the increased cost to the employer will be borne by the employee.

MR. TANNER expressed concern with the individual mandate, calling it a serious intrusion on individual liberty. Prior to Massachusetts instituting its plan, no state had required its citizens to purchase a specific government-designed product, he said. Citing mandatory auto insurance as a good analogy, he reported that 47 states have mandatory auto insurance and that in most of those states the number of people driving without insurance is almost as high as the number of people who don't have health insurance. Obviously that mandate isn't very effective and it's relatively easy to enforce. Describing an individual mandate for health insurance as the first in a line of dominoes, he said it will be very difficult to enforce. Inevitably it will require a series of new regulations leading to greater government control and involvement in health care, he cautioned. Although SB 160 establishes a board that will determine what constitutes essential health services, he guaranteed that once that's done special interest groups will descend. "You will find every disease constituency at the door, every provider group will be here asking for inclusion saying that it is not essential health insurance unless their particular disease is covered." As a result, the cost of that health care product will rise and either the subsidy will need to be increased or premiums will need to be capped. Capping premiums leads to rationing care, he stated.

MR. TANNER said he also has trouble with the subsidy level going up to 300 percent of the federal poverty. That amounts to about $62,000 for a family of four, which is above the median income in Alaska. Essentially that expands welfare well into the middle class. "Doing so you create an enormous constituency for people who want ever more subsidies." Citing Medicaid as an example, he said there's a "crowd out" effect when subsidies are moved to that level. People who buy their own insurance or employers who offer health insurance to low wage workers simply stop doing so.

MR. TANNER described the proposed health care board as a huge regulatory agency, which will ultimately add to the cost of insurance. It would be similar to the Massachusetts board that has already used its regulatory power to require that all state health insurance offers prescription drug benefits. Also it has prohibited health insurance to offer high dollar deductible plans, which is the type of insurance people should really buy.

MR. TANNER said although the problem with health insurance is real, there is a limited amount that state government can do about that. The real problems with health care come from Washington D.C. in the federal tax code and federal antitrust laws. There's a limited amount that state governments can do, but he suggested that Alaska can do the following: repeal mandates rather than add them; make the purchase of insurance across the boarder legal; allow associated groups to band together to get benefits available to large employers; and try to bring down the cost of insurance. Most people don't have insurance because they can't afford it. You don't have to offer just Ford Lexus caliber insurance when a Ford Pinto caliber policy will do. Unfortunately, in this state…the mandates and other regulations that you add on to these policies makes everyone go out and buy a Lexus." Very few people in Alaska would have a car if the only one you could buy was a Lexus, he said.

2:03:39 PM
REPRESENTATIVE CARL GATTO asked how preexisting conditions are handled and if it's correct that about 90 percent of a person's lifetime health expenses occur in the last year of life.

MR. TANNER said the figure is about 50 percent, but you never know when that last year will be. With regard to preexisting conditions, he said there are two answers. First, you want people to buy insurance when they're young and healthy so that they'll have it when they're old and sick. The young healthy population won't be inclined to buy health insurance if it's expensive so make it affordable. Second, take the small number of people who are medically uninsurable out of the insurance pool and subsidize them separately.

SENATOR BUNDE asked if he is endorsing a health savings plan.

MR. TANNER said partially, but in essence he's saying that you must recognize that insurance is supposed to spread catastrophic risk. Today we expect health insurance to pay for routine costs and that needs to be turned around so that catastrophic insurance is at the top of the scale and routine low dollar expenses are paid out of pocket. We don't currently do that because of the tax code, which rewards first-dollar insurance coverage and penalizes those who pay out-of-pocket. Health Savings Accounts are a way to equalize the tax burden, he said.

2:08:23 PM

EDMUND F. HAISLMAIER, Senior Research Fellow, Center for Health Policy Studies, The Heritage Foundation, commended Senator French and the committee for considering consumer directed healthcare. Next, he warned against looking at the Massachusetts Plan as a detailed template because Alaska is very different from Massachusetts and its problems are very different.

MR. HAISLMAIER said the basic concept outlined in SB 160 is to shift from a payer-centered system to a consumer-centered system. The hierarchy of a payer centered system has the employer or payer on top that may or may not interact with an insurer that may or may not be interacting with a provider. In theory all this is done for the consumer but they aren't in control. Single-payer systems are payer-centered where the consumer is off to the side and in no more control than the dog that is taken to the vet. Realize, he said, to make a real difference a fundamental shift in the system is necessary. Simply cutting the number of payers to one doesn't change the dynamic.

MR. HAISLMAIER explained that in a consumer-centered system the consumer is in control. The "payers" help with the funding but they don't run the system. He said there are two reasons the state might look to this type of model. First, it changes the incentives because everyone would be working for the consumer. Second, it introduces the concept of value, which is the relationship between cost and benefit. Although value is inherently subjective, everyone can probably agree that they aren't getting very good value out of today's health care system either as individuals or collectively. "Either we feel we're paying too much for what we're getting or we're not getting enough for what we're paying." Ideally we'd like to pay less and get more, but the real question is how to devise a system that rewards people for delivering better and cheaper health insurance. The easiest way to control cost is not treat people, but that doesn't deliver value. The second easiest way is to cut payments to the provider, but that doesn't produce value.

MR. HAISLMAIER said the most important reason to move to a consumer-centered system is to create incentives to seek value and reward doctors or insurance companies that provide value. Also, consumer-centered systems make it easier to accommodate economic realities. People no longer work for the same company throughout their entire working career. In Alaska there are part-time workers, seasonal employees, people with more than one job, and people moving jobs. That's a dynamic part of the economy and as legislators you want to encourage that because

that's where job growth and economic vitality is. A system where insurance moves with the person deals with that, he said.

MR. HAISLMAIER said that the national data on the uninsured over a four year period shows that few people are uninsured all the time. Indications are that if insurance moves with the person instead of sticking to the job, about 40 percent of that uninsured problem might go away. It's intuitively obvious that when people stop losing their insurance we stop creating uninsured people, but we haven't been thinking about it longitudinally, he said.

2:21:34 PM
MR. HAISLMAIER suggested several revisions. First, he warned against regulating employers because it's contrary to federal law. Although the Massachusetts Plan requires employers to do certain things, "they were artfully designed to be a political compromise that had no meaningful effect on a business." Second, he said that with regard to low income premium support it's important to remember that this is not an entitlement approach; it's a defined amount of money. The idea is to take that pot of money, identify the target population, and figure out how the money can go the furthest. Third, the health plan standards should be set to, at a minimum, comply with federal law. State government already regulates insurance so there's no need to duplicate that.

2:26:06 PM
MR. HAISLMAIER said there's a sort of logic to asking what you want the insurance market to look like in a consumer-centered system. Today there's a group and an individual market and creating a hybrid would take the best of each. This would be offered to employers through an exchange that's much like a large human resource department. An advantage to this is that the state would have one place to send extra money as a subsidy without having to design and run a plan.

2:29:37 PM
SENATOR FRENCH asked him to expand on Governor Romney's point that allowing people to go without health insurance when they can expect someone else will pay the bill for their treatment, is essentially a de facto mandate on providers and tax payers.

MR. HAISLMAIER explained Governor Romney's approach was to address the mandates last. His first point was to say that he was going to make insurance more affordable for middle class people. Second, insurance was going to be easier to get. Third,

it would be subsidized with money that was going to hospitals with no accountability. The people that were being treated would be identified and they would receive a subsidy for their treatment. At that point he said there wasn't any excuse for people not having health insurance. Although he didn't require compliance, he wanted to make sure that the people receiving treatment paid their bill so they had to either put up a bond or put money in an escrow account. If they didn't do that, their state income tax refunds would be held back until the escrow account was filled. Plan provisions also made it easier for providers to collect by providing things such as automatic wage garnishments. The legislative didn't agree and instead said that people who didn't buy a policy would get an income tax fine equal to half the value of an average policy. That requirement will be phased in next year. That's the way Massachusetts did it, he stated.

MR. HAISLMAIER said that his point is that there is an inherent tradeoff between the parameters you set for the insurance and the need for the mandate. If the insurance that's sold is age and geography adjusted then it's a better value for younger healthier people to buy and therefore the need for a mandate is reduced. The tradeoff is that you will need separate legislation for reinsurance to address concerns that insurers have with the high risk population. "It's like…a high risk transfer pool, but instead of sending people over to a pool you send the claims over and they're evenly distributed."

MR. HAISLMAIER said Massachusetts had community rating and that wasn't going to change. He wouldn't recommend that though because it artificially overprices the product for younger healthier people. He prefers age-adjusted ratings with an accompanying risk transfer pool to address the concerns that insurers have about getting stuck with a disproportionate share of diabetics, for example, once people can pick and choose. "At the end of the day, that kind of selection in the properly designed market might actually be a good thing. If you're an insurer and you're really good at getting the best results at the best price for cancer care, it would be a good thing if all the people with cancer went to you."

CHAIR ELLIS said his concept of a consumer-driven system would depend on consumers being well informed about health care resources. He asked if government's role is to educate consumers about which provider is the most reasonable and then noted that in Alaska there isn't much opportunity to shop around. "For most of us, flying to Seattle is the cheap option."

MR. HAISLMAIER agreed that people in Alaska already fly places for treatment so the question is whether or not you're flying to the right place for that treatment. The second point is that simply creating the ability for people to choose changes the market dynamic from seller-driven to buyer-driven. Making that fundamental change creates a demand because the consumer makes the choice about which plan to pick and which provider to go to for treatment. There's still a role out there for those experts to help the consumer make those decisions. "We do have experience in this area," he said. The Federal Employee Health Benefits Program has run that way since 1960. The government invites carriers in and people make selections aided by a variety of private entities.

MR. HAISLMAIER said his final advice is to forget about designing the ideal system at the onset. Instead, put the information you have out there and invite interested entities to suggest improvements.

2:43:17 PM
JEFF RANF, President, Alaska Association of Health Underwriters (AAHU) and Broker, Wallace Group Services, said SB 160 addresses a true need in the state, but unlike Mr. Tanner, he doesn't believe that the solution lies in Washington D.C.. Alaska is a diverse state with needs that can only be answered by Alaska citizens, he stated.

MR. RANF said AAHU agrees that monitoring the insurers will bring forth quality and affordable products. The Alaska health care board is a crucial element for the success of SB 160, but it must have the authority to make hard decisions along with solid recommendations. It would need to include employers, providers, federally funded program officials, public health officials, state chamber officials, the insurance industry, legislative members, and executive branch members. Furthermore it must have a clear and concise agenda capable of making unbiased decisions based on the true needs of the state. A big problem in our health care system is that everyone is protecting their own turf so we're going in a number of different directions rather than just one.

MR. RANF said that as a society we really what's driving up the cost of health care. The uninsured population is just the beginning. Other factors include an aging population, increased longevity, rising pharmaceutical costs, increased technology spending, the cost of medical malpractice, and a lack of managed

care in the state. Once we understand what's driving costs it'll be easier to determine what it'll cost to cover the uninsured, but don't kid yourself that it'll be moderate, he said.

MR. RANF said that funding is the largest concern and he doesn't believe that there will be a decrease in premiums if this goes through, but if premiums increase moderately instead of the steady 15 percent trend we've seen it'll be a huge step in the right direction.

2:50:59 PM
CHAIR ELLIS said he remembers working on this same issue 18 years ago when the insurance industry opposed every step so it's gratifying to have a productive conversation. "You've been a constructive positive voice and we want to continue that with you."

REPRESENTATIVE GATTO asked about a system where everyone received 100 percent cost coverage for any kind of treatment and questioned whether that would be devastating to a state or if it's something like what is done now.

MR. RANF said right now people who want treatment but don't have insurance go to the emergency room and the cost for that is very high. However, covering the uninsured isn't going to be cheap. "Once everyone has coverage, the costs are going to be high." The reason health care is so expensive isn't because of the system, it's because we're not healthy as a nation. "We're not as healthy as other nations are and I thing that's what's driving a lot of this."

2:53:40 PM
CHAIR ELLIS said he looks forward to working with the executive branch on health care issues.

2:54:53 PM
KARLENE JACKSON, Commissioner, Department of Health and Social Services , introduced herself and Dr. Jay Butler. She advised that the department is grateful to Senator French for bringing the issue forward. She wasn't prepared to take a position on actual points in the bill, but she did have several comments. She said she particularly appreciated the discussion about value in terms of cost/benefits and that the department will be focus on that carefully. She noted that the governor's health council is also working to identify short and long-term strategies to balance the health care system in terms of access, cost, and

quality. When the council finishes its work in January it may help this and other bills on the same topic.

COMMISSIONER JACKSON advised that DHSS and other departments are doing fiscal analysis on the fiscal note. We expect to have future conversations when those are complete, she said.

COMMISSIONER JACKSON said previous speakers raised some of the same questions she had on the bill including employee and individual mandates. Those are concerns that need further conversations, she said. She said she agrees that Alaska is unique and that it's important to craft a program that works for Alaska. Noting that the department isn't too reliant on federal funding or federal policies, she said that Congress is still making decisions on the SCHIP [State Children's Health Insurance Program] and that that will certainly impact SB 160. Also, she asked the committee to ensure that access is more than an insurance card. Make sure it's actual access to health care for Alaskans, she said. Finally, she asked the committee to consider changing the structure of the health care board. The bill places it within DHSS as a division and she suggested the committee look at the Mental Health Trust Authority model instead. This is particularly important given that the Department of Administration has the Division of Insurance as well as responsibilities for the state health benefit plan, she said.

2:58:37 PM
DR. JAY BUTLER said he has two comments. First, he hadn't heard any discussion about what perspective a physician might bring. He noted that the American Medical Association recently published criteria for a well-functioning health care system. It provided that there should be care for all, responsible stewardship of community resources, and personal responsibility. Second, he said it will probably be impossible to reduce costs and improve health for Alaskans unless prevention is addressed.

2:59:52 PM
REPRESENTATIVE GATTO commented on the shortage of healthcare providers in Alaska and said they can't be penalized or the situation will get worse. He asked if that doesn't figure into the formula for apportioning health care.

DR. BUTLER said that there is a profound and escalating shortage of health care providers in Alaska and there are no easy answers. Current data suggests that physicians take up practice close to where they completed residency training. Currently there's only one such program in Alaska and that's in Anchorage.

3:02:00 PM

DUANE HEYMAN, Executive Director, Commonwealth North Alaska Health Care Roundtable , said the roundtable has been working on these issues for two years now and the hope is that SB 160 will be a catalyst to focus attention on the health of Alaskans, how it can be improved, and how affordable quality care can be offered to all Alaskans. He referenced a handout titled Principles, Elements and Specific Steps and highlighted it as a good resource. [Copy in bill file.]

MR. HEYMAN urged members to keep two points in mind. First, do no harm. Significant reforms are needed but don't jeopardize those who already have reasonable access to health care, he said. Second, the real goal is healthy Alaskans and not just insurance coverage. Improving the health of Alaskans is a long-term many faceted situation. Insurance is just one important part.

3:05:23 PM

SENATOR FRENCH asked which approaches have consensus among the Roundtable members.

MR. HEYMAN said the Roundtable favors universal access to health care, but there are many parts to consider. Insurance, access, knowledge, accessibility, and maintaining a healthier lifestyle all play a part. "Prevention ultimately is the best way to try and stem the increase in costs."

CHAIR ELLIS said he's pleased that the business community is interested in the issue because that was not the case 20 years ago. He said he appreciates the leadership.

3:07:50 PM

LAILE FAIRBAIRN, Managing Partner, Snow City Café, Anchorage , said SB 160 is a promising solution to a significant problem facing many small Alaskan businesses. She said she has been trying to get health insurance for her employees for a number of years but they remain far out of reach. She related specific difficulties she's faced. She noted that many of her employees are young and believe they'll never get sick so when premiums doubled, they either couldn't or wouldn't pay the increase.

JESSE COLLENS, Snow City Café Employee , related the health care problems he's had as a diabetic.

MS. FAIRBAIRN added that the café would be very happy to pay a percentage of its payroll to help fund the proposed program. "It would be far less than any health insurance that we could purchase right now." This bill is an incredible opportunity for our state, she stated.

SENATOR DAVIS expressed appreciation that Ms Fairbairn came forward and congratulated her on the care she shows her employees.

CHAIR ELLIS said it would be helpful if she were to spread the word and talk to Rotary clubs and other local organizations.

3:15:43 PM
SENATOR FRENCH stated that small businesses and young people are particularly difficult to cover, but he and the sponsors are looking for a workable solution.

SENATOR DAVIS suggested that a bill that she had introduced might be of interest to Mr. Collens because it extends the age that young people can be covered by a parent's policy

3:17:42 PM
JOEL GILBERTSON, Regional Director for Strategic Development & Administration, Providence Health Systems Alaska , applauded the sponsors for starting the dialogue in the state. This along with the governor's strategy council has started to put health care reform back on the radar. He mused that the system has become extremely complex since 1902 when the Sisters of Providence came to Alaska and established a hospital in Nome.

MR. GILBERTSON said that Providence Hospital's commitment to improve health care in Alaska hasn't changed in the last 105 years. Referencing the comment about flying to Seattle for treatment, he said it's important to remember that 20 years ago that was the norm for many procedures. Now there are excellent cardiac and neonate services available in Anchorage. The benefits to the patients and their families are obvious but the challenge is that of production. "At the end of the day it always comes down to production." In Alaska it will always be a challenge to decide which services to offer in state. Those value judgments always have to be made so it's difficult to make a bright line comparison between out of state and in state care because of the volume issue, he stated.

MR. GILBERTSON stated that Providence had over 70,000 emergency room visits last year and a large portion of those were self pay

or uninsured. He noted that the volume of self pay has grown rapidly on an annual basis, but something has expedited that in the last 24 months. Those who are unable to pay still get the care, but it's just not in the most efficient manner, he said.

MR. GILBERTSON said when you look at the payer side, there are only three groups of people who receive health care services. There are the uninsured; there are those with a government benefit such as Medicare, Medicaid, or Denali Kid Care; and there are those that have commercial insurance. The first two groups are growing on an annual basis and commercial insurance is shrinking, but the cost of the health care system is constantly being pushed onto that one piece of the pie to keep the entire system afloat. Obviously it's not sustainable, he said.

MR. GILBERTSON stated agreement with Commissioner Jackson. He sees that the largest public health threat in Alaska is limited and inappropriate access to health care services. Therefore, when talking about reform, focusing on access is key rather than focusing on coverage. People can be covered, but if there isn't a provider willing to provide that care or there isn't a provider willing to accept that insurance, the coverage isn't worth too much.

MR. GILBERTSON pointed out that it's too early to know if reforms in other states are working. Health care reform is in its infancy and there will be some mistakes and particular challenges associated with changing the norm. A second point is that state-specific reforms are overwhelmingly focused on access or coverage expansion rather that controlling the actual cost of health care services, but cost control needs equal attention. Noting that many states are holding themselves hostage to federal action, he said he doesn't agree that it's a federal issue. Furthermore, each state has a different starting point and a different set of circumstances. It's a matter of being mindful of where the resources are and making sure that the proposals are right-sized for each state, he said.

MR. GILBERTSON said that the solution will be multi-faceted. It will: require an engaged citizenry; require adequately and appropriately scaled access sites; promote sustainable primary care; raise the bar on clinical quality; increase individual responsibility; address workforce issues. Successful change here in Alaska will depend on whether or not the different groups can compromise. It's not a win-win situation; everyone must be willing to compromise. "Ultimately, cost improvement will come

from decreased utilization and…focusing on ways in which we get more preventative services in the state…will make legislation like this ultimately successful."

3:27:09 PM
SENATOR FRENCH asked what percentage of the 70,000 emergency room visits is self pay.

MR. GILBERTSON said he didn't have that information, but for the entire hospital about 7 percent of the charges are budgeted for self pay individuals. He noted that on the inpatient side, about 3 cents on the dollar is collected for self pay. This year self pay is running well over 9 percent and each percentage point change adds about $9 million more in uncompensated care into the system. "We have normally run at about $65-$70 million. This year we're running at a rate that we'll probably be well over $90 million."

SENATOR FRENCH asked how much of the uncompensated care is reimbursed by the federal government.

MR. GILBERTSON said he didn't have the information but that Providence does receive funding for services. Providence doesn't receive any federal DISH (disproportionate share hospital) funds for Medicaid or Medicare, he said.

SENATOR DAVIS asked if the hospital can identify what percentage of the uncompensated care is for services to people who have insurance but don't use it because they can't afford the co-pay.

MR. GILBERTSON said there's no central database to see if an individual actually has insurance or not.

CHAIR ELLIS asked if Providence makes the distinction between bad debt and uncompensated care.

MR. GILBERTSON explained that it's broken down as charity care and bad debt. The total represents charges that were not recovered.

3:31:29 PM
PATRICK HIGGINS, Human Resources Director, North Star Behavioral Health System , said most of his comments have already been made but he had several points to make. First, the impetus is recognizing that the three groups out there include are individuals with government provided health care, individuals in the insurance group, and individuals who self pay. The self pay

group has people who aren't getting help. In large part they are people who are working but can't afford insurance. They are delaying health care and when they do final receive care it costs more. Obviously, that impacts society in a number of ways, he said.

MR. HIGGINS cautioned that the impact on insurance for employers and being competitive goes beyond the small employer. As more and more employers drop health insurance coverage the insurance pool shrinks and it costs everyone more. When cost estimates for implementing this program are made he hopes that the cost of insurance to state and local employees and the growing numbers in Medicaid are taken into account. Look at the balance between what's out there now, the cost of this program, and the cost consequences if nothing is done, he said. This is vital work for Alaskans and for the country. Something must be done as quickly as possible.

3:35:30 PM
KAREN RHOADES, Owner/Operator, Northern Living Centers , said she is a stakeholder on several levels. She is a health care provider, an employer, and a working Alaskans who is uninsured. She encouraged members not to be afraid of the mandate. If it's reasonable, people won't object, she opined. She cited a study indicating that people are willing to pay into a health care plan if the cost is reasonable. As an employer she isn't afraid of the mandate, but she would suggest placing a cap. She related her particular recruitment and retention difficulties and said that if the state is going to make it impossible to be competitive then it has an obligation to help her as a health care provider. She encouraged the committee to use the good framework provided in SB 160 and pass the bill.

3:42:19 PM
WAYNE STEVENS, President, Alaska State Chamber of Commerce , said the state chamber looks forward to working with the committee for workable solutions that don't place undue financial burden on employers or employees. Health care is a major concern for businesses and the primary concern is cost and affordability. He related that the state chamber has been unsuccessful in putting together simple health care plans over the last several years. Essentially, the program that's available isn't acceptable to the consumer he said. What was offered was a menu of items including routine check ups, dental care, vision care, and catastrophic coverage. Health savings accounts were also encouraged. However, consumers wanted the Cadillac coverage that is offered to state employees. Clearly,

health care issues force businesses to make hard decisions about how to provide benefits to employees while remaining competitive in the market. The fundamental problems are cost, quality, and access.

MR. STEVENS encouraged the committee to look at all the issues across the spectrum: tort reform; medical malpractice; the use of emergency rooms as the primary point of entry to health care; competitive issues; rapidly rising costs of Medicare and Medicaid; cost shifting; personal responsibility; and health savings accounts. Encouraging the use of HSAs is a key part in restoring market discipline, he said. He urged the committee to use caution as it moves through the process and finds solutions. Don't force something on the system that doesn't solve the problem, he said.

MR. STEVENS said that an aggressive public/private partnership is needed to craft a fix and business needs a seat at the table. "Health is a personal choice and no amount of government intervention will fix this portion of the problem," he said. He cautioned that any mandated health insurance needs to raise enough money in new premiums or penalties to justify the cost of investigating employers, determining eligibility, overseeing premium collection, and identifying collecting penalties from the uninsured. Make sure that out year costs don't increase unchecked, he said.

3:47:22 PM
VINCE BELTRAMI, Executive President, Alaska AFL-CIO , presented data showing the critical state of health care in Alaska. He said that while nearly all of the affiliate members of Alaska AFL-CIO have some sort of health insurance, the organization also speaks on behalf of other working Alaskans that are either without a union or without basic health insurance. They are subsidized by those who do have insurance, he said.

MR. BELTRAMI related that when he served as a trustee on the IBEW NECA Health and Welfare Plan, he saw double digit percentage increases in premiums with decreasing benefits. According to recent statistics, retiring elderly couples will need $200,000 in savings to pay for their most basic medical coverage. He emphasized the one thing is certain and everyone agrees, health care costs must be controlled. There's disagreement about the approach to take in solving the problem with some favoring price controls and strict health care spending budgets while others believe that free market competition is best. Public health advocates believe that if

Americans adopted healthier lifestyles, health care costs would decrease. There doesn't appear to be agreement on a single solution but what is known is that if the rate of escalation continues at current trends, the cost of inaction will affect employers' bottom lines and consumers' pocketbooks.

MR. BELTROMI said he believes that the biggest challenge is to de-politicize the issue. Regardless of which side of the aisle you sit on, health care issues are killing all of us. He looks forward to being part of the solution.

CHAIR ELLIS said he's always admired the AFL-CIO for sticking up for the people that are doing without because it's the right thing to do.

3:54:02 PM
PAT SENNER, MS, RN, ANP, Alaska Nurses Association , expressed general support for a bill that shares the cost of health care between government, employers, and individuals. Throwing out what she called a radical suggestion, she said perhaps people should be rewarded for living a healthy lifestyle.

MS. SENNER said that the primary concern she has with SB 160 relates to the makeup of the proposed board. There's been discussion about the importance of having a consumer-driven system, but the board is not consumer-driven. As proposed, the board would have 11 members and just two members would be consumers. All the others have a vested financial interest in the health care system. We need to look at improving that mix or giving the board less power, she said.

MS. SENNER said it's not clear if active and retired state employees, Medicaid, and Denali Kid Care would be merged into the system. If that's the case, it would represent about one-forth of the population in this state. That would be a huge system that would drive what's provided to everyone else. Furthermore, the board would wield a tremendous amount of power.

MS. SENNER noted that nurses are not included and advised that they provide about 850,000 patient visits per year. She mentioned access to care and suggested the committee look outside the box and think about contracting with primary care providers to address the issue of billing. She reiterated her request that nurses be included.

CHAIR ELLIS asked Mr. Tanner and Mr. Haislmaier if they would like to respond to any of the comments that had been made.

3:59:38 PM
MR. TANNER issued a caution about differentiating between charges and actual cost when talking about the cost of uncompensated care. Charges really have nothing to do with the actual cost that the hospital has incurred and they aren't the same as the uncompensated care cost. He also cautioned against saying that more preventative care will save money because preventative care doesn't save money even though it's very good for the individual who receives it. Third, he said he agrees with Mr. Haislmaier that an employer mandated system is problematic and won't survive a court challenge. Finally he urged caution about overusing the argument that people who don't have health insurance cost everyone money. It's undoubtedly true, but if you go too far down that road you'll be mandating certain behaviors, he said.

4:04:16 PM
MR. HAISLMAIER said he believes the bill sponsors are really working on single market reform rather than single payer. It's moving away from trying to get a better deal at someone else's expense and from the government using its clout to get the providers to take a lower rate and then passing it along to the private sector.

MR. HAISLMAIER presented national data on ER utilization that indicates that the Medicaid population is using ERs nationally at twice the rate as the uninsured and elderly and five times the rate of the privately insured. That suggests that if you move more of those people to the privately insured with premium support you may start to see some changes in behavior. It also suggests that something about a state's Medicaid policy when the population is using the ER at that level. He explained that when states are faced with a budget crisis they have three options on the table. They can throw people off the rolls, they can cut the benefits, or they can pay the providers less. None of those solutions is good but paying the providers less is the least ugly, he said. So if the situation is that providers are paid less and they get to the point that they won't accept or can't afford to accept those patients, then they go to the ER. "So my message in some states—maybe here maybe not—is, are you really saving any money in your Medicaid program if that's what's happening?"

MR. HAISLMAIER said one more point is that the Federal Employee Health Benefits Program is the closest thing there is to the consumer choice market and that system has consistently turned

in cost control better than the large employer plans even when adjusted for benefits.

MR. HAISLMAIER said he enjoys being an itinerant consultant to state legislatures because he gets an opportunity to listen to different stories. When he does that he asks himself if the person would be taken care of in the design and the answer is yes. The young man who has diabetes would be covered. Finally, he said that when he listened to Mr. Beltromi he was reminded that some of the most popular plans in the federal employee health benefits plans are sponsored by unions.

4:13:32 PM

CHAIR ELLIS announced that open public testimony would be taken during subsequent hearings and that all written testimony is welcome. He thanked all the presenters and noted that 11 legislators were in and out of the hearing, which is a good sign.

SENATOR DAVIS said this has been a helpful and it sets the stage for when the committee returns to Juneau

REPRESENTATIVE PEGGY WILSON expressed appreciation for the information.

SENATOR KIM ELTON said the hearing was most helpful.

There being no further business to come before the committee, Chair Ellis adjourned the meeting at 4:15:39 PM.