

HOUSE FINANCE COMMITTEE
February 4, 2013
1:31 p.m.

[1:31:20 PM](#)

CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson
Representative David Guttenberg

ALSO PRESENT

William Streur, Commissioner, Department of Health and Social Services; Becky Hultberg, Commissioner, Department of Administration.

SUMMARY

HEALTHCARE COST CONTAINMENT OVERVIEW

^HEALTHCARE COST CONTAINMENT OVERVIEW

[1:32:27 PM](#)

WILLIAM STREUR, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, highlighted the PowerPoint presentation "Healthcare and Fiscal Sustainability" (copy on file).

BECKY HULTBERG, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, began with slide 2: "By 2037, health insurance will swallow your entire paycheck." She quoted a recent study stating that without major changes in the United States healthcare system, insurance premiums would surpass average household income by 2037. The problem existed at both national and state levels. She voiced that the country must address the significant growth and healthcare costs, since our economy could not sustain it.

[1:33:47 PM](#)

Commissioner Hultburg discussed slide 3: "Healthcare: 43 percent of Massachusetts state budget." She stressed that the state must lower the rate of cost growth of the healthcare plans.

Commissioner Hultburg detailed slide 4: "The State of Alaska is a significant healthcare consumer." She explained that the cumulative impact of spending between the Department of Health and Social Services (DHSS) and Department of Administration (DOA) was significant to Alaska. The graph depicted various components of healthcare spending in the state. The union portion was contributed by the state-to-union health trusts for Alaskan employees within the plans. One trust is the Alaska State Employees Association Health Trust (ASEA), which covered the general government unit employees. The retirement system was detailed in the graph. The AlaskaCare plan was significant in terms of size, but a smaller overall contribution in comparison to Medicaid.

She pointed out the Medicaid portion of the graph, which was the largest area of healthcare spending.

[1:36:16 PM](#)

Commissioner Streur discussed slide 4. He stressed that the state made a significant contribution to healthcare when compared to the total budget. He agreed that a solution to growing healthcare costs was a priority.

Commissioner Hultburg estimated that 25 percent of overall healthcare was state spending. Government spending (including federal) was approximately 60 percent of the total healthcare spending in the state.

[1:37:24 PM](#)

Commissioner Hultburg discussed slide 5: "State Revenue."

TAPS subsidizes much of modern life in Alaska

- Schools - about 66 percent of K-12 spending
- State - about 90 percent of state general purpose unrestricted revenue
- PFDs - over \$900 million in payouts each year
- State capital projects

Co-Chair Stoltze emphasized the gravity of the slide's information. He hoped to thoroughly discuss the issue of the Trans-Alaska Pipeline System (TAPS) subsidy.

Commissioner Hultburg discussed slide 6: "State Oil Production: 2001 - 2010." She noted that healthcare spending increased while oil production declined by approximately 5 percent per year.

[1:38:25 PM](#)

Commissioner Streur discussed slide 7: "State Healthcare Spend: 2001 - 2011." He mentioned Medicaid, AlaskaCare active, AlaskaCare Public Employees' Retirement System (PERS)/Teachers Retirement System (TRS), State Workers Compensation, Department of Corrections and union trusts as pieces of the total spend puzzle. State healthcare costs grew at an average of 9 percent per year during FY 01 (\$886 million) through FY 11 (\$2 billion).

[1:39:24 PM](#)

Commissioner Streur discussed slide 8: "Where does our current path lead?" He expressed his concern. Without an increase in oil or gas revenue, the state would eclipse the current state budget by 2033. He recommended an aggressive approach.

If the state paid health costs continue to increase at 9 percent per year, in FY 2020 they will exceed \$4 billion (before Medicaid reimbursement).

Commissioner Streur discussed slide 9: "AK DHSS 10-year plan operating budget." He stated that the FY 13 operating budget was \$2.6 billion and the projected FY 22 budget was \$6.6 billion. He added that the federal budget was under

close scrutiny. Alaska had seen cuts in grant areas already. He mentioned broad economic problems like financial markets, energy costs, mortgage defaults and medical inflation.

[1:41:15 PM](#)

Commissioner Streur discussed slide 10: "Medicaid direct services beneficiaries and expenditures." He explained that the average cost per recipient had stabilized. He saw the stability as a respite, but not a trend.

[1:42:00 PM](#)

Commissioner Hultburg discussed slide 11: "Challenge: PERS/TRS." She used the retirement plan as an example. She noted that the department's spend was driven by employee plans, retiree plans and contributions to the union health trusts. She illustrated issues regarding cost growth. She echoed that FY 11 and FY 12 were considered good years in terms of healthcare cost growth. She reviewed the past decade where the rate of healthcare inflation had temporarily stabilized, followed by double-digit increases for several years. The chart illustrated that the number of retirees was growing at a significant rate.

Commissioner Hultburg discussed slide 12: "Retiree medical expense growth." The chart illustrated the interaction between price and utilization. The slide compared two periods and the price paid per member per month. The costs rose by 6 percent, but when the components of the growth were broken down, utilization decreased by 6 percent and pricing increased by 13 percent.

[1:44:58 PM](#)

Commissioner Hultburg discussed slide 13: "Controlled growth in AlaskaCare." She illustrated the challenges of addressing the costs. She pointed out the "levers" on the left side of the chart that could be adjusted to manage a health plan. She noted that the levers in the AlaskaCare retirement plan were adjustable, but the plan was covered by the diminishment clause in the constitution. The state had freedom to change the plan, but if the change was a net diminishment of benefits, it would be litigated. Raising the deductible or co-payment was considered a diminishment. Therefore, the plan increased in value to the retiree

because of the impact of inflation. The plan was expensive, unmanageable with gaps in coverage.

Commissioner Hultburg mentioned the AlaskaCare active plan, which was self-insured and the department had the ability to manage the plan. She added that the Union Trusts were unmanageable. Finally, the political subdivisions' coverage was not managed by the state, but the employees were inherited as retirees making their preventative care an interesting subject to the state.

[1:47:51 PM](#)

Commissioner Streur discussed slide 14: "Controlled growth in Medicaid." He noted that eligibility, because of federal requirements, was unmanageable through 2015 for adults and 2019 for children. He added that the covered services were worth detailing.

Commissioner Streur stated that Alaskan rates were good. He shared that Alaska paid rates greater than those of Medicare. The majority of other states paid less than Medicare rates for their Medicaid population. States were encouraged to raise Medicaid rates to Medicare rates of reimbursement with substantial participation from the federal government.

Commissioner Streur discussed utilization controls, which provided the best results. He advocated for increased scrutiny along with prior authorization of radiology and the encouragement of generic medications toward a primary driven system. He mentioned compliance and anti-fraud audits. He minimized the threat of fraud, but remained diligent in its prevention. The federal government assisted with the anti-fraud effort. He was unsure of the results of increases in technology.

[1:52:00 PM](#)

Commissioner Streur concluded with maximizing revenue. "Right cure, right time, right place for the right people," was his adage regarding a maximization of revenue. He proposed the solution in the controlled growth of Medicaid.

Commissioner Streur discussed slide 15: "Medicaid Services."

Mandatory

- Inpatient hospital
- Outpatient hospital
- Physicians
- Nurse midwives
- Lab and X-ray
- Advanced Nurse Practitioners
- Early Periodic Screening, Diagnosis, and Treatment
- Family planning services
- Pregnancy-related services
- Nursing facility (NF) services
- Home Health (NF qualified)
- Medical/surgical dental services

Optional

- MH Rehab/Stabilization
- Diagnostic/Screening/Preventive
- Therapies
- Inpatient psychiatry <21 years
- Drugs
- Intermediate Care Facility for the Intellectually Disabled
- Personal care
- Dental
- Other home health
- Other licensed practitioners
- Transportation
- Targeted Case Management

[1:53:58 PM](#)

Commissioner Streur discussed slide 16: "Payment Comparisons." He stated that Medicaid paid \$221.58 for an office visit while Medicare paid \$177.40. He stated that the commercial mean for Alaska was \$290.64. He compared Alaska to Washington, whose Medicaid plan paid \$76.86 for office visits the commercial mean was \$183.24. He added that North Dakota's Medicaid office payment was \$186.19 and Idaho was \$117.01. He noted that North Dakota and Idaho were selected to provide a comparison because they were small rural states.

[1:55:26 PM](#)

Commissioner Hultburg discussed slide 17: "Payment comparisons: by procedure." The slide was composed using claims data from the former state vendor who determined customary and reasonable charges. She appreciated the data leading to the comparisons shown in the table. She thanked the healthcare commission for the work done regarding the relative cost of healthcare in Alaska compared to other western states. She found the premium paid in Alaska to be illuminating.

Commissioner Hultburg stated that the chart illustrated physician fees for certain procedures and compared Washington to Anchorage. Alaska paid double, and sometimes triple the cost that Washington paid for the listed procedures. She admitted that costs were higher in Alaska and noted the importance of supporting local providers, but the cost growth could not be sustained.

[1:58:10 PM](#)

Commissioner Hultburg discussed slide 18: "The hidden cost of healthcare."

As healthcare costs consume a larger and larger percentage of the state budget, they will crowd out other items, like roads, public safety, schools and other public services

Commissioner Hultburg quoted a study stating that "for every one healthcare job created, 0.85 jobs were lost in other areas of the economy." She maintained that healthcare was not a growth industry.

[2:00:13 PM](#)

Commissioner Streur discussed slide 20: "Innovations in service delivery/payment."

- Medicaid
 - o Medical Home
 - o Tribal Health
 - o Bundled services
 - o Integrated Behavioral Health/Primary care services
 - o Utilization review and management (radiology, Rx)
 - o Community base long-term care

- o Disease/Case Management
- o Managed Care

Commissioner Streur advocated for primary care providers. He credited the tribal health providers for the great contribution they provided. He added that the rapidly aging population contributed to increased costs.

[2:02:57 PM](#)

Commissioner Hultburg discussed slide 21: "Innovations in service delivery/payment."

- AlaskaCare
 - o Better leverage our purchasing power and continue to aggressively pursue contractual discounts
 - o Implement retire "plan B" to provide enhanced benefits and ability to impact steerage
 - o Consider expanded travel benefits or Centers of Excellence for certain services
 - o Develop a robust employee wellness program
 - o Align contracting strategies around innovative care delivery and payment models (patient-centered medical home, bundled payments)
 - o Encourage consumerism
 - o Change benefit design to incent healthy behavior and support contracting strategy
 - o Align plans based on best practices

Commissioner Hultburg recounted a story about a patient requesting a diagnostic test. She opined that overutilization was possible when the entity making the financial decisions was not present. She mentioned patients who had "double coverage" and viewed their services as "free." When a service was free, it was often over consumed. She proposed an alternate path to provide retirees with coverage while creating a better managed plan. She detailed "plan B" as another option for retirees where benefits would be provided with a cost structure that kept pace with inflation. She offered to provide additional details about the plan, upon request.

[2:09:05 PM](#)

Commissioner Hultburg discussed the employee wellness program. The program's purpose was to encourage employees to develop a workplace culture of health. She focused on

the alignment of contracting strategies around innovative care delivery and payment models. She spoke in favor of bundled payments. She echoed Commissioner Streur that health began with a primary care system that was utilized appropriately.

Commissioner Hultburg encouraged conscious consumerism. Many patients refrain from requesting the price of a procedure prior to incurring the cost. She advocated for members becoming better healthcare consumers, which would send the message to providers that people cared about cost.

Commissioner Hultburg discussed the benefit design for the employee plan. A new third party administrator was in the procurement process, which was a complex process. An analysis of the coverage would follow. She wished to align the various plans based on best practices.

[2:13:20 PM](#)

Commissioner Streur discussed slide 22: "The State's approach."

Our challenge:

- We must lower the rate of growth of our healthcare spend. Our current path is not sustainable.

Our approach:

- Work together with the hospital and physician community
- Support high-quality, cost-effective healthcare delivery in Alaska
- Develop and support innovative solutions to our healthcare challenges

[2:14:59 PM](#)

Co-Chair Austerman wondered about the reaction from the providers. He understood that the insurance plan would pay up to 80 percent of the charge.

Commissioner Streur replied that the departments were well received by the providers. The issue was well-established and the message was received.

2:17:22 PM

Commissioner Hultburg noted that the high costs of healthcare could lead to the demonization of providers. She explained that providers were acting rationally within the existing market. She stated that the problem was not with providers, but instead with employers. She stressed that the employers must seek solutions to develop a more sustainable system.

Commissioner Hultburg discussed the Division of Insurance regulation requiring that insurers pay 80 percent of what was considered customary or usual. She noted that the state's plan was exempt from the insurance code. She believed that mandating a payment level could be problematic with respect to specialists.

2:20:16 PM

Representative Gara asked if the 80 percent rule suggested that the state reimburse at 80 percent rather than at the median.

Commissioner Hultburg responded that the commercial plans paid prices that were deemed usual, customary and reasonable in the market. Vendors were hired to make the determinations regarding customary and reasonable payments.

Representative Gara asked if the recommendation was made by statute or by regulation.

Commissioner Hultburg understood that the recommendation was a Division of Insurance regulation.

Representative Gara understood that other states required that the median was paid, while Alaska required an additional 30 percent.

2:22:21 PM

Commissioner Streur concurred.

Representative Gara addressed the issue of preventative care. He announced that he received a small discount when joining a local exercise facility because he was a state employee. He wondered if the state considered negotiations

with other health clubs that might charge their members less money.

Commissioner Hultburg replied that many different gyms were contacted for the potential promotion. Limited staff resources were dedicated to the issue. Only the gyms that responded to the promotions were included as providers.

[2:24:27 PM](#)

Representative Gara disclosed that some chiropractors treated clients four times per week for long periods of time. He wondered if the chiropractic visits were covered by insurance indefinitely.

Commissioner Hultburg responded that the coverage for chiropractors was limited. She opined that the overutilization of chiropractic care was probably specific to provider.

[2:25:47 PM](#)

Co-Chair Stoltze asked about the ongoing contract negotiations and the potential for cost savings. He requested a broad answer regarding potential economic severity.

Commissioner Hultburg agreed that she was unable to divulge the details of negotiations. She noted that healthcare costs were a growing part of the personal services line. The state covered 100 percent of the premium for the economy plan for an employee and family. Alaska was one of only seven states that continued to fund 100 percent of the premium share for a basic plan. The items were negotiated and the status quo was difficult to change.

[2:28:00 PM](#)

Co-Chair Stoltze discussed proposed legislation that would alter the retirement system. The focus of the legislation was medical benefits.

Commissioner Hultburg expressed interest in the issue and had testified in previous sessions about the impact that a change in the retiree plan would mean. According to the department's actuary, the bills would add cost to the existing plan. She noted that of the \$12 billion pension

and health liability, \$4 billion was related to healthcare alone. She did not advocate for layering on costs to a plan if containment was impossible.

[2:29:56 PM](#)

Co-Chair Stoltze asked about medical costs containment. He asked if the healthcare containment would be preferable to litigation.

Commissioner Streur replied that the Healthcare Commission continued to focus on rates and rate structures. He stated that the discussion regarding the cost of litigation versus that of healthcare containment had not been broached.

Co-Chair Stoltze offered information regarding the medical business and its structure. He added that malpractice insurance as well as potential litigation increased costs for providers.

Commissioner Streur believed that the providers involved in the Healthcare Commission were interested in the issue.

[2:32:45 PM](#)

Representative Guttenberg discussed medical care. He found the third party administrator frustrating. Changes in third party administrators led to uncertainty.

[2:34:28 PM](#)

Commissioner Hultburg appreciated the comment. The third party administrator was changed every 3 - 5 years because of the procurement code. She stated that the selection process for a new third party administrator began last August. She spoke to the complexity of the procurement of a third party administrator. She expressed commitment to minimize disruption felt by active employee members and retirees. She stated that she and her management team were aware of the problem and giving it the highest priority.

[2:36:20 PM](#)

Representative Guttenberg discussed the blame game between DOA and DHSS. He suggested a formal structure for departments to interact and problem solve.

Commissioner Hultburg responded that the structure was not formal, but communication was frequent. She repeated that the state's plan was exempt from the insurance code which was under the purview of the Division of Insurance in Department of Commerce, Community and Economic Development. The code impacted the part of the market that was private, but had little effect on the plan. She stressed that the departments communicated well.

[2:38:10 PM](#)

Representative Guttenberg mentioned that he had introduced prescription drug bills with a bipartisan group of legislators to lower the cost of prescription drugs. He stated that the increasing cost of prescription drugs contributed to unfunded liability. He asked if accomplishments were made to lower costs.

Commissioner Streur responded that the state had a pharmacy benefit manager who worked to combine efforts to lower costs. The state received maximum discounts and rebates were received. He added that the increase of generic medication use was the greatest accomplishment. For every percent that generic drug utilization was increased, \$1 million was saved on medications.

[2:41:16 PM](#)

Representative Guttenberg observed that the medical care in Seattle was excellent. He noted that some aspects of the care in Seattle fit the needs of Alaskans. He strived for centers of excellence in Alaska.

[2:42:40 PM](#)

Vice-Chair Neuman asked about the process of contracting medical procedures with private organizations. He assumed that the contractual agreement served to save money. He wondered if the contract would trigger changes in certificate-of-need regulations.

[2:43:52 PM](#)

Commissioner Streur stated that he did not anticipate a change in the certificate-of-need seal resulting from contracting services. He thought that the requests for

certificate-of-needs might change, but the regulations were sufficiently flexible.

[2:44:41 PM](#)

Vice-Chair Neuman discussed slide 7. He wondered about the cost to the state with regard to PERS/TRS. He understood that the unfunded liability was due in-part to increases in healthcare costs. He wondered how the suggested changes would affect the unfunded liability.

[2:45:54 PM](#)

Commissioner Hultburg replied that the state had a \$12 billion unfunded liability with \$4 billion related to healthcare. She noted that the pension side was fixed based on a calculation, but the healthcare side could be manipulated to affect the liability. The actuarial projections by Mercer ultimately led to the lawsuit, where the state recovered some money. A portion of the unfunded liability was the result of those incorrect assumptions. She stressed that the unfunded liability had grown significantly since the projections were made and then changed. She clarified that the initial amount of the unfunded liability following the changed projections was \$5 billion and it had grown to \$12 billion since for many reasons, most significantly the investment market.

[2:47:48 PM](#)

Vice-Chair Neuman discussed the projected retirement growth. He reviewed the payment schedule for the unfunded liability, which peaked in 15 years when payments would then decline. He wondered how the cost to the state would be affected.

Commissioner Hultburg believed that Vice-Chair Neuman was referring to a comparison between the payment schedule for unfunded liability and a chart detailing SB 125. State assistance payment was projected to grow to over \$1 billion by 2026. She agreed that the growth of the state assistance program did correspond to the retirement system growth seen on slide 7. She added that the SB 125 payment was calculated on the percent of payroll.

[2:49:51 PM](#)

Vice-Chair Neuman asked about Tier IV and the resulting changes.

Commissioner Hultburg replied that the state's unfunded liability would have increased further without the incorporation of the fourth tier. She noted that the creation of the new tier included the creation of a new healthcare plan.

[2:50:59 PM](#)

Vice-Chair Neuman asked about tribal health and the contribution to the state's costs. He understood that tribal organizations were facing financial challenges. He asked about the state's responsibility to cover the costs.

[2:51:56 PM](#)

Commissioner Streur predicted many opportunities for reimbursement of tribal healthcare providers. He stated that 40 percent of the healthcare covered by Medicaid was delivered within the tribal system. The reimbursement rate was generous and helped cover tribal community costs. He promoted systems such as telemedicine and the enhancement of the capabilities of rural health clinics. He did not anticipate Indian Health Service (IHS) funding to increase.

Vice-Chair Neuman agreed with the commissioner.

[2:53:33 PM](#)

Representative Holmes appreciated the collaboration between departments. She mentioned that she had served on the DHSS subcommittee for seven years and remained worried about healthcare costs and their impact on the state. She appreciated the information about encouraging consumerism and bundling. She advocated for greater cost transparency.

[2:54:51 PM](#)

Commissioner Hultburg echoed the importance of consumerism and cost transparency in regard to healthcare savings. She mentioned other large employers who had experienced large success by encouraging members to become better consumers through the creation of high deductible health plans. She added that better education on behalf of the department would help create better consumers of healthcare.

[2:56:55 PM](#)

Commissioner Streur responded that Medicaid encountered similar challenges regarding good consumerism. He viewed healthcare as a "three-legged stool" with the consumer, provider, and the payer. He advocated for both reward and punishment for behaviors. The consumer must be enlisted to take responsibility by reducing obesity and smoking while educating about safety.

[2:58:41 PM](#)

Representative Gara asked about medical procedures that offered better outcomes with certain injuries or diseases. He offered a personal story about visiting a reputable doctor in hope of treating his prostate cancer successfully. He hoped that changes in the state healthcare options would not limit consumer/employee choices.

Commissioner Hultburg responded that the highest quality provider could often provide care at the lowest cost. She stated that her husband received complex heart surgery at the Mayo clinic. She did not want to limit other state employees when faced with a similar decision. She supported employees in making the best decisions for themselves and their family members.

[3:02:04 PM](#)

Representative Gara inquired if the term "center of excellence" referred to a center chosen by the state or one chosen by the employee seeking care.

Commissioner Hultburg responded that the department had no intention of preventing excellent care. The department wanted to endorse clinics or centers that provided the best quality at the best value. She noted that other commercial insurers had identified centers of excellence and then waived out-of-pocket fees for the employee if the center was chosen. The state might incentivize certain choices in the future.

[3:03:47 PM](#)

Co-Chair Austerman concluded that it sometimes took more than one branch of government to fix a situation.

3:04:21 PM

#

ADJOURNMENT

The meeting was adjourned at 3:04 p.m.