

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

April 8, 2013

3:17 p.m.

**MEMBERS PRESENT**

Representative Kurt Olson, Chair  
Representative Lora Reinbold, Vice Chair  
Representative Mike Chenault  
Representative Bob Herron  
Representative Charisse Millett  
Representative Dan Saddler  
Representative Andy Josephson

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

HOUSE BILL NO. 196

"An Act relating to group insurance coverage and self-insurance coverage for school district employees; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 96

"An Act relating to chemicals of high concern and to chemicals in children's products; and adding an unlawful act to the Alaska Unfair Trade Practices and Consumer Protection Act."

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 149

"An Act making firefighters employed by the state eligible for the presumption of coverage under workers' compensation for disability due to certain diseases."

- SCHEDULED BUT NOT HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 196

SHORT TITLE: SCHOOL DISTRICT EMPLOYEE HEALTH INSURANCE

SPONSOR(s): EDUCATION

04/02/13	(H)	READ THE FIRST TIME - REFERRALS
04/02/13	(H)	EDC, L&C
04/05/13	(H)	EDC REFERRAL REMOVED
04/05/13	(H)	FIN REFERRAL ADDED AFTER L&C
04/05/13	(H)	BILL REPRINTED 4/5/13
04/05/13	(H)	EDC AT 8:00 AM CAPITOL 106
04/05/13	(H)	<Bill Hearing Canceled>
04/06/13	(H)	L&C AT 3:15 PM BARNES 124
04/06/13	(H)	Heard & Held
04/06/13	(H)	MINUTE(L&C)
04/08/13	(H)	L&C AT 3:15 PM BARNES 124

**WITNESS REGISTER**

DEBI HANSEN, Administrator  
Public Employees Local 71 Trust Fund  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 196.

DENNIS MOEN, Business Manager; Trust Chair  
Public Employees Local 71  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 196.

MIKE ABBOTT, Assistant Superintendent of Support Services;  
Chief Executive Officer (CEO)  
Anchorage School District (ASD)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 196.

ANDY HOLLEMAN, President  
Anchorage Education Association (AEA)  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 196.

RHONDA KITTER, Chief Financial Officer (CFO)  
NEA-Alaska Health Plan  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in opposition to HB 196.

LADAWN DRUCE, Vice President  
NEA-Alaska  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 196.

CARL ROSE, Executive Director

Alaska Association of School Boards (AASB)  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 196.

BRUCE JOHNSON, Executive Director  
Alaska Council of School Administrators (ACSA)  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 196.

MIKE BARNHILL, Deputy Commissioner  
Office of the Commissioner  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 196.

BECKY HULTBERG, Commissioner  
Department of Administration (DOA)  
Juneau, Alaska

**POSITION STATEMENT:** Testified and answered questions during the discussion of HB 196.

RICH RHODES, Superintendent  
Wrangell Public School District (WPSD)  
Wrangell, Alaska

**POSITION STATEMENT:** Testified in support of HB 196.

DAVID BOYLE  
Anchorage, Alaska

**POSITION STATEMENT:** Testified during the discussion of HB 196.

REPRESENTATIVE LYNN GATTIS  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Testified on behalf of the House Education Committee, sponsor of HB 196, which she chairs.

#### **ACTION NARRATIVE**

[3:17:24 PM](#)

**CHAIR KURT OLSON** called the House Labor and Commerce Standing Committee meeting to order at 3:17 p.m. Representatives Reinbold, Herron, Saddler, Josephson, and Olson were present at the call to order. Representatives Chenault and Millett arrived as the meeting was in progress.

#### **HB 196-SCHOOL DISTRICT EMPLOYEE HEALTH INSURANCE**

3:17:40 PM

CHAIR OLSON announced that the only order of business would be HOUSE BILL NO. 196, "An Act relating to group insurance coverage and self-insurance coverage for school district employees; and providing for an effective date."

3:18:10 PM

DEBI HANSEN, Trust Administrator, Public Employees Local 71 Trust Fund (Local 71 Trust), testified in opposition to HB 196. She stated that Local 71 represents a group of 350 custodians who enjoy a really good health benefit plan. The Local 71 benefits coverage includes an 80:20 medical benefits plan, plus good dental, vision, and prescription benefits, including an option for members to select a generic plan. She offered her belief that this group is affiliated with a good union coalition which gives its members a wonderful preferred provider organization (PPO). One of the main reasons to speak against this bill is that currently Local 71 Trust Fund provides medical care flexibility. In fact, Local 71 has been able to customize the health care coverage for its membership to meet individual member needs. The Local 71 Trust Fund provides cost-effective choices and its members provide input to help tailor their plan. For example, the Local 71 Trust Fund offers a cafeteria plan that allows the members to choose from three different plans so they are not over insured. Additionally, the trust offers a members' only plan. She offered her belief that the Local 71 Trust Fund's staff provides excellent customer service to its members. She pointed out that English is not the first language for some of the custodians, but she works hard to explain benefits and assist them in making choices that work for their families. She mentioned that she also works with vendors and explains details so members understand their claims. Rarely do callers get an answering machine, plus their needs are promptly addressed, she said. She concluded that she would hate to see these benefits disrupted and did not see any reason to fix something that is not broken.

3:21:29 PM

REPRESENTATIVE REINBOLD asked whether the Local 71 membership is comprised of 350 employees.

MS. HANSEN, in response to Representative Reinbold, confirmed that the Local 71 Trust Fund represents a little over 350

employees. In further response to Representative Reinbold, Ms. Hansen stated that the state contributes \$1,297 per member per month for health care insurance, but she said she did not have the total cost of the plan.

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DENNIS MOEN, Business Manager; Trust Chair, Public Employees Local 71, said he understood the smaller school districts' dilemma. He stated that the Public Employee's Local 71 Trust Fund (Local 71 Trust Fund) does pool for economy of scale; however, he cautioned against placing everyone in one mandated health care group, which he said is not the solution. The Public Employees Local 71 Trust Fund works hard to provide quality health care and personalized support for 350 plus Anchorage School District (ASD) employees. He compared the Local 71 Trust Fund's health cost to the state's plan and concluded that switching plans would cost the ASD approximately \$400,000 per year, plus employees would spend an additional \$1,068 for the full family plan. In addition to cost savings, this organization provides a personal connection to a group of people whose first language is not English. The employees appreciate being able to talk to Ms. Hansen, he said. The Local 71 Trust Fund provides quality care at a reasonable price since the trust serves 70,000 Alaskans through a health care cost management cooperative. The Local 71 Trust Fund currently has a preferred provider with Alaska Regional Hospital, offers a cafeteria plan, and health care options are tailored to meet individual needs. The group participates in health fairs in multiple locations across the state and recently added acupuncture as a treatment. Further, three critical incidents happened recently and the trust provided grief counselors to help members. Certainly, challenges exist. Perhaps school districts with 4,500 or more students should manage their own health care or elect to have the Local 71 Trust Fund manage their health care. Smaller school districts could opt for the state plan. In doing so, members would receive the best coverage at an agreed to price with health care options that work best for its members. He said that one size does not fit all and moving to a mandate is not a good economic or practical solution for the Public Employee's Local 71 Trust Fund for the Anchorage School District.

CHAIR OLSON remarked that the committee is trying to determine what savings would or would not be enjoyed, as well as considering plan designs.

[3:25:50 PM](#)

MIKE ABBOTT, Assistant Superintendent of Support Services; Chief Executive Officer (CEO), Anchorage School District (ASD), stated the ASD strongly supports efforts to reduce health care costs for employees. He said significant challenges exist for the school district to afford the current costs. In fact, health care cost increases represent the most significant risk the ASD currently faces. The ASD is very pleased that the legislature and the administration is willing to consider opportunities to reduce costs - if not the real cost, the rate of growth of the health care costs. The ASD has worked consistently over the past 25 years with its employees to develop financially sound, reasonably priced health insurance programs. These programs provide good value at a lower than average cost for public employers in the state. The ASD believes that any change in state law should ensure that all participants realize savings through consolidation and allow for participants to opt out or be held harmless in the event a larger program proves to be more expensive. He said he appreciates the committee's interest.

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ANDY HOLLEMAN, President, Anchorage Education Association (AEA), said that AEA represents approximately 3,500 members. He expressed substantial concern about HB 196. He then encouraged the committee to recognize the gravity of both the amount of money involved and the trust of thousands of Alaskans who depend on the details of their health care coverage. He said, "There's no way to put this message for my members than to say, 'This is a really, really big, big, deal.'" Even if changes were carefully made over time, it will still create a lot of uncertainty, angst, and disruption for many of AEA's members. Certainly, it might make sense to make these changes. However, if health care insurance changes are made suddenly without planning, without consideration of the details, and without assurance that real savings will occur, he anticipated the backlash would be negative. He acknowledged that health care coverage is costly and he thinks it is reasonable for the state to provide benefits at a reduced cost, but it doesn't mean the process is simple. Health care options and coverage is never easy, he said. He urged the committee to move forward on this bill in a manner that shows respect, wisdom, and concern for the employees, which he opined could not happen in the closing days of the legislative session while there are still several other major issues to decide. The AEA believes the current plans in Anchorage are competitive in cost and provide superior benefits

to the plans other agencies or the state offer. He asked members to hold the bill and obtain real numbers about cost and coverage in order to have an accurate comparison. He further asked the committee to consider the possibilities of multiple offerings to different agencies and employees and include the AEA in the process. He said, "Please don't rush this, which my understanding is it starts out with a \$100 million ask in order to make it happen."

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CHAIR OLSON asked for the monthly health insurance cost per month per employee.

MR. HOLLEMAN deferred to Mr. Abbott for more definitive figures, but offered his belief that the ASD pays \$1,250 per month per member, plus members also contribute some out of pocket costs to additional benefits beyond what the district provides.

MR. ABBOTT reported the ASD's contribution is \$1,385 per month per member, plus a significant employee contribution.

CHAIR OLSON asked whether the amount varies by bargaining unit.

MR. ABBOTT replied that Anchorage has eight separate bargaining units, including Local 71, which represents about 350 employees, with an employer contribution of \$1,235 per month. He reported the AEA contribution is \$1,385 per month, which is also the contribution for the ASD's self-insurance program.

MR. HOLLEMAN answered that the ASD's responsibilities begin and end with the employer's contribution for member's health care premiums and while he did not want to trivialize this, the ASD does not have any liability beyond that regardless of any costs incurred. In response to a question, Mr. Holleman answered that AEA members contribute \$150 per month or approximately \$1,200-\$1,300 per year for their health insurance plan.

MR. ABBOTT verified the employees' contributions are approximately \$100 per month or approximately \$1,200 per year. He also pointed out teachers don't all work a 12-month schedule.

REPRESENTATIVE SADDLER asked what the additional fees cover.

MR. ABBOTT replied that the primary difference between the NEA-Alaska Plan Trust versus the ASD's self-insurance program is the

level of the deductibles. The NEA-Alaska Health plan has significantly lower deductibles, he said.

[3:34:03 PM](#)

REPRESENTATIVE SADDLER asked for clarification that the extra \$100 per month would reduce the amount of the deductible.

MR. ABBOTT responded that the AEA sets its own pricing with the deductible being the most obvious difference, although there are likely many other differences.

MR. HOLLEMAN answered that the AEA does not have a set benefit for the additional contribution amount since all AEA members contribute. The total cost to the plan exceeds what could be provided from the bargained contribution amount. The employee contribution is added in to provide the type of coverage the member wants.

[3:34:52 PM](#)

REPRESENTATIVE SADDLER asked whether the additional \$100-\$150 would buy supplemental insurance.

MR. ABBOTT stated that basically the AEA's premium is approximately 10 percent more expensive than the ASD's self-insurance program so employees obtain a different plan. The plans do not layer on top of one another; instead, the ASD contributes a monthly dollar amount of \$1,385, teachers make their individual contributions of \$100, arriving at the total plan cost of \$1,485. As a result the AEA builds and provides certain benefits, he said.

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REPRESENTATIVE MILLETT asked again for the per teacher cost for the plan.

MR. HOLLEMAN answered the health insurance premium monthly cost is \$1,385 plus \$100 per member per month or \$1,485 in total. In further response, Mr. Holleman answered that the total cost for a member is \$1,485, of which \$1,385 is derived from contributions by the ASD and the additional \$100 is provided by mandatory member contributions.

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REPRESENTATIVE MILLETT surmised then that the [NEA-Alaska Health Plan] Trust is paid \$1,485 per month.

MR. HOLLEMAN answered yes.

CHAIR OLSON pointed out that the contributions made are regardless of benefits or losses.

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REPRESENTATIVE REINBOLD asked Mr. Holleman for the amount of the deductibles.

MR. HOLLEMAN said he was unsure. He deferred to Ms. Kitter for more precise answers.

CHAIR OLSON asked Mr. Holleman to provide a one-page spread sheet with coinsurance and deductibles.

REPRESENTATIVE MILLETT asked the NEA-Alaska and the [Public Employees] Local 71 [Trust Fund] to also send the administrative costs per person.

MR. MOEN agreed to do so.

[3:39:03 PM](#)

RHONDA KITTER, Chief Financial Officer (CFO), NEA-Alaska Health Plan, related opposition to HB 196. She then explained that the NEA-Alaska Health Plan was formed in 1996 as a self-insured trust for public education employees. The NEA-Alaska Health Plan represents 17,000 members and their dependents, providing coverage to 16 school districts in the state. She indicated she has worked for the NEA-Alaska Health Plan since 1998 and has an in-depth understanding of the complex nature of health insurance, health care delivery negotiations, administrative cost controls, and in providing assistance with benefit-design selection. Ms. Kitter noted she previously submitted a letter to the sponsor in opposition to the bill and greatly appreciated this opportunity to testify. She expressed concern about the speed with which HB 196 has been moving through the committees without thorough research into the impact and risk that the state would acquire through this process.

MS. KITTER said she has often heard concern that the NEA-Alaska's Health Plan is a union trust and the union is benefitting from the NEA-Alaska Health Plan. However, the NEA-

Alaska Health Plan is the plan sponsor for the trust, but NEA-Alaska Health Plan is not linked in any way financially. Instead, a separate board of trustees consisting of public education employees was established for the plan. She clarified that there are no financial connections between NEA-Alaska and NEA-Alaska Health Plan. All premiums collected are only used for the health and welfare benefit of the members, she said. This benefit, she related, is not to the NEA-Alaska, but is to the public education employees in the state who participate with the trust.

MS. KITTER offered her belief that the concept that the state can further reduce its health insurance costs by having a larger pool is flawed since most school districts already purchase insurance through a pooled system. Further, the DOA reported the average health insurance administration costs are 10 percent of the premium. While national benchmarks for administration costs are at 6 percent, the NEA-Alaska Health Plan's trust is operating at 3 percent. Thus the NEA-Alaska Health Plan's trust has successfully squeezed the fat out of the premiums other health insurance carriers were charging school districts. Medical inflation is far outpacing consumer inflation. While she completely understands the frustration school districts have about health insurance costs, this bill would merely transfer the issue from the local municipal level and bring the discord to the state. She referred to the DOA letter from Buck Consultants dated April 5, 2013, which indicates health plan management programs are assumed to reduce the higher claims for school district employees. This assumption would imply that any existing health plan management program is either inefficient or non-existent compared to the state's plan; however, she is not aware of any health care management program the state uses that currently manages both cost and quality.

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MS. KITTER referred to the [memorandum] of April 3, 2013, from Dan Wayne, Legislative Counsel, Legislative Affairs Agency, to Representative Lynn Gattis, in which he says the requirement for all eligible school district employees be covered by the policy does not accommodate the need for individual choice. If an employee has coverage through a spouse's partner plan and doesn't want the additional insurance through the school district, this bill would still require the school district to incur a cost they wouldn't have otherwise had. In short, the NEA-Alaska Health Plan has been very successful in keeping the annual increase of premiums to a level lower than the national

average and significantly lower than Alaska's average. The NEA-Alaska Health Plan's trust invests the premium dollars and uses those earnings to further reduce premium costs. Since 1996, the NEA-Alaska Health Plan's trust has averaged a less than 10 percent increase in premiums. Last year, the NEA-Alaska Health Plan's trust had a 0 percent increase, with no additional cost to school districts, which saved both the district and employees money. Further, the NEA-Alaska Health Plan's trust currently offers school districts a variety of health insurance options with premiums varying from \$1,102 to \$1,712 per employee per month. The differing level of premiums represents the differing underlying benefits, with individual group selections available to save money for the district and the employees.

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MS. KITTER reported that Anchorage educators have selected a benefit plan that is higher than the cost of the monthly school district contribution of \$1,385 per employee per month. In fact, the educators have chosen to pay the additional premium from their paychecks in order to choose a benefit level that meets their needs. She pointed out the ASD is protected since it has no risk associated to claims and has capped its monthly contribution amount. Therefore, the employees as a pool have offered to pay for the additional benefits to receive the benefits they want. However, this bill would require employees to reduce their benefits and pay more for their medical care. As Superintendent Rob Thomason, Petersburg School District (PSD), reported in his earlier testimony, the PSD was facing a 40 percent increase with AETNA's political subdivision pool and requested a quote from the NEA-Alaska Health Plan trust. Mr. Thomason reported that the NEA-Alaska Health Plan's trust was able to save the school district \$450,000, including \$250,000 from the potential increase from AETNA as well as providing the same benefit coverage at \$200,000 less annually.

MS. KITTER suggested, at a minimum, a study should be conducted to get a more accurate understanding of the financial risks. Similar legislation was proposed in Wisconsin and Montana, where school districts are insured through a local trust. However, after comprehensive studies were conducted the results consistently showed that moving all school district employees into a single state health insurance plan was cost prohibitive. She said she strongly believes the state should not impose a mandate that has not been thoroughly studied and actuarial assessed. In conclusion, the risk and benefit analysis to the state has not been adequately defined. This is not the time to

adopt similar approaches as with health care reform, which was a "sign it now" and "read it later" package.

[3:45:36 PM](#)

REPRESENTATIVE MILLETT asked whether the employees pay an additional \$150 per month.

MS. KITTEK answered that the NEA-Alaska Health Plan trust covers 16 employee groups and the additional monthly premium cost in Anchorage for employee contributions is \$150.

REPRESENTATIVE MILLETT asked whether the employee contribution amounts vary.

MS. KITTEK answered that the school district negotiates with the employees the contribution level as well as the benefit-design selection and all eight plans offered are being used.

REPRESENTATIVE MILLETT asked whether individual school districts could opt out or if they are mandated to provide coverage.

MS. KITTEK answered that individual school districts negotiate with the associations. In the majority of the school districts, the employees have the option to sign a waiver to opt out of the plan, but in one school district employees are required to demonstrate proof of other coverage. Other school districts limit coverage to one family member benefit, so if two family members are employed by the school district, the school district would only provide one policy.

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REPRESENTATIVE MILLETT asked whether the supplemental costs are mandated or if employees can take the standard package.

MS. KITTEK answered that the \$1,330 premium is not part of the bargaining agreement between the school district and the associations. Some districts pay 100 percent of the cost of health insurance based on a premium-design plan they have chosen. Other school districts contribute a flat dollar amount, regardless of the benefit-design plan chosen. The liability for many school districts is limited to what the districts have negotiated; however, other school districts contribute a percentage of the premium with the balance paid by the employee. In those instances, the member chooses the plan design that fits

his/her needs in the individual district, which is truly a benefit the [employees] enjoy.

3:48:00 PM

REPRESENTATIVE MILLETT asked whether the \$150 amount Anchorage teachers' pay is mandatory or optional.

MS. KITTEK responded by clarifying that the ASD contributes a monthly premium amount of \$1,385. The AEA has chosen the benefit-design plan that costs more than the school district's contribution per employee. Thus ASD employees can opt to have the coverage through the NEA-Alaska Health Plan trust and pay an additional \$150 monthly premium from their paycheck or waive the plan's coverage by showing the member has additional coverage available elsewhere, and thereby not incur any additional cost.

REPRESENTATIVE MILLETT related a scenario in which she is a single teacher with no other insurance. In such a scenario, she surmised that single teacher would have to pay the \$150 to the [NEA-Alaska Health Plan's] trust.

MS. KITTEK agreed, but clarified that [the \$150 additional coverage if there is no proof of other insurance] applies only to the ASD's employees. These parameters were requested by the school district, she further clarified.

3:49:08 PM

REPRESENTATIVE JOSEPHSON recalled earlier testimony from the Petersburg superintendent [Mr. Thomason] who testified that he liked HB 196. When it was pointed out that the Petersburg School District would not obtain any benefits, the superintendent said he still liked the bill for other [school districts]. He asked whether the PSD school district actually saved \$140,000 by joining the [NEA-Alaska Health Plan] trust.

MS. KITTEK answered yes. She said she spoke to PSD's superintendent, Rob Thomason, to clarify his position. She related Mr. Thomason's comments, such that he really appreciated the NEA-Alaska Health plan trust. He estimated the PSD's savings at \$450,000. However, she said Mr. Thomason's frustration stems from the conversation regarding health insurance. She recalled the PSD's previous carrier, AETNA, had a 40 percent increase which caused considerable concern. Additionally, the PSD was concerned about not having a local pharmacy to address their needs, which the district felt was a

necessity. She offered her belief that if the committee were to speak to Mr. Thomason today, he would report that the NEA-Alaska Health Plan trust had taken care of the PSD's issues. In further response to Representative Josephson, Ms. Kitter responded that the NEA-Alaska [Health Plan trust] was formed in 1996 by three of the largest school districts in the state in order to negotiate their own benefits for a flat amount. Thus, separating out [health care benefits] would allow the school district to negotiate wages with the NEA separately. In further response, Ms. Kitter agreed each of the 54 school districts typically bargain for health care coverage so they have different plans and different insurance coverage.

REPRESENTATIVE JOSEPHSON asked whether it follows that in some instances teachers in one school district may have chosen to give up a percentage of an increment of pay increase in exchange for dental coverage.

MS. KITTER answered yes.

[3:52:01 PM](#)

REPRESENTATIVE JOSEPHSON said it seems to him today that some effort has been made to compare the ASD contributions with what the state would provide the specific benefit costs. He related a scenario in which teacher "X" has health insurance coverage, which is compared to the state's economy plan. He asked whether Ms. Kitter could assess whether the NEA-Alaska Health Plan trust for teacher "X" at West High School in Anchorage is better or worse than the benefits offered in the state's economy plan.

MS. KITTER answered that the teacher at West High School would suffer a significant reduction in benefits under the state's economy plan. In further response, she clarified that the teacher would suffer significant reductions if the West High School teacher's health insurance was under the state's plan.

[3:52:47 PM](#)

REPRESENTATIVE REINBOLD asked for clarification on whether teachers at West High School would also have reductions in the cost of the health insurance under the state's plan.

MS. KITTER answered yes. She explained that teachers at West High School have chosen a richer benefit plan through their association and have agreed to pay a higher premium out of their paychecks, with no impact to the school district. However, if

these teachers opted for the state's economy plan, the premium would be decreased, but the [benefits] would also be dramatically decreased.

[3:53:50 PM](#)

REPRESENTATIVE REINBOLD asked for the deductible for the ASD's contribution of the \$1,385 plus the teacher's contribution of \$150 per month.

MS. KITTER answered that the ASD's employees have a \$100 annual deductible, an 80:20 percent coverage plan, a \$1,000 out-of-pocket cap, which includes a \$2,000 annual dental benefit, a vision benefit, prescription coverage, and a mental health assistance program.

[3:54:50 PM](#)

REPRESENTATIVE REINBOLD asked for the fund balance for the NEA-Alaska Health Plan trust and whether this information is available in public records.

MS. KITTER answered that the financial statements are public records. She offered to forward them along with the eight different plan designs as previously requested by the committee.

[3:55:35 PM](#)

REPRESENTATIVE MILLETT asked for a comparison between the ASD employee's plan and the state's standard health insurance plan since ASD employees pay an additional \$150 for extra benefits. She pointed out that state employees pay \$117 for the [AlaskaCare's] standard plan.

MS. KITTER answered she did not have the information readily available but she offered to provide it.

REPRESENTATIVE MILLETT confirmed she would like a comparison since the state's standard plan may be closer to the threshold that members are willing to pay. In fact, opting for the state's standard plan may be a cost reduction in out-of-pocket expenses for ASD teachers.

MS. KITTER responded that the deductible under the state's standard plan is \$250 plus an 80:20 coverage ratio, which would result in an immediate \$150 additional out-of-pocket deductible

for ASD's teachers. While the out-of-pocket costs match, she believed the dental benefits were also slightly different.

REPRESENTATIVE MILLETT pointed out the DOA suggests it might be able to lower the deductible or health insurance rates depending on how many people are in the pool. Currently, the state can't predict what the plan would equate to if an additional 47,000 members joined the pool; however, it could be a big benefit to teachers if the state could negotiate a \$100 deductible and \$1,000 premium. She asked members to consider that currently, the state has 6,500 employees including dependents for a total of 16,000 lives. She surmised the changes under AlaskaCare might be pretty significant by significantly enlarging the pool. She asked whether the teachers were aware of the possible benefits of joining the state's AlaskaCare plan.

MS. KITTER answered that currently the NEA-Alaska Health Plan trust offers eight different plan-design options, with premiums ranging from \$1,102 to \$1,712 per employee, per month. Therefore, some of the plans offered are below the level of the state's plans. Additionally, each association can select the benefit levels. She said that under the NEA Alaska Health Plan trust the [school district employees] appreciate having an option to annually select one of the eight plans, whether they choose to pay additional premiums or change the deductible amount for medical services.

[3:58:47 PM](#)

REPRESENTATIVE MILLETT offered her belief that the ASD's employees would have these same options under the state's plan, noting that the legislature has not yet narrowed down the options the AlaskaCare Plan can negotiate. She questioned the statement the teachers would absolutely not have comparable or better benefits, since it is possible that school district employees might actually have better benefits if they are pooled with the state plan. She didn't think the [DOA] ruled out offering eight different plans, with one being a Cadillac plan and the rest staggered with other options.

MS. KITTER answered that the NEA-Alaska's Health Plan trust analysis is based on the current plan for the AlaskaCare's plan priced at \$1,330 and the economy plan was referenced as the benefit-plan design being offered by the state.

[3:59:39 PM](#)

REPRESENTATIVE JOSEPHSON related his understanding that the NEA and the AEA receive dues from their members.

MS. KITTER said she is not the chief financial officer for NEA-Alaska, which is a separate entity; however, she said that no dues are directed to the NEA-Alaska Health Plan trust office, just premium health care dollars are received.

[4:00:14 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the NEA-Alaska Health Plan trust takes any proceeds from members and gives a percentage to the NEA or its affiliates.

MS. KITTER answered no. She said that the NEA-Alaska Health Plan trust is prohibited from receiving dues and that every premium dollar can only be used for health and welfare benefits.

[4:00:40 PM](#)

REPRESENTATIVE REINBOLD stated that 90 percent of Alaska's oil revenues cover the state's fiscal notes. She indicated that Alaska has been seeing a decline in oil production and many believe the investment is being driven out due to the current policies on taxes and current policies on permitting. She understood that Ms. Kitter's organization has taken quite an active role in the discussion. She asked whether Ms. Kitter understands that the legislature has reviewed a very alarming chart that shows a growing gap [between revenues and expenses] such that the state will not be able to meet its future liability unless changes are made. She wanted to ensure that the [NEA's] members understand the pressures the legislature is under to resolve these issues. She said if this law does pass that she wants legislators to have the opportunity to detail the steps the [legislature and state] have taken to meet their long-term fiscal obligations and plans. She pointed out the legislature is trying to make important decisions so that long-term sustainable ways exist to pay off future liabilities.

MS. KITTER replied that the NEA-Alaska Health Plan trust is prohibited from participating in the oil tax debate. Thus the NEA-Alaska Health Plan trust has not taken a position on [oil taxes]. Once again, the NEA-Alaska Health Plan's focus is in providing health insurance for members with better outcomes, she said. She expressed concern about HB 196 since the state could take on a greater risk than is currently done at the state level.

4:02:21 PM

REPRESENTATIVE REINBOLD said she stands corrected since it may be the National Educational Association (NEA) and not the NEA-Alaska Health Plan Trust that has been involved in the oil tax debate.

MS. KITTEK responded that HB 196 is of great concern without an actuarial evaluation of the impact. Currently, when a school district purchases health insurance through the NEA-Alaska Health Plan trust, the school district pays the premium and the trust takes on all the responsibilities associated with the premium. By transferring the 47,000 school district employees to the state's health insurance plan without knowing the health of the group, the state would assume the risk for the health claims of the population. She said the NEA-Alaska's Health Plan trust has done a great job in the past 18 years to stay in front of costs and has adopted a healthy outcomes approach rather than to use a cost-shifting measure. The medical cost inflation and the [Patient Protection and] Affordable Care Act (PPACA) present factors and significant overall concern regarding employees' health care costs. She highlighted the choice as between being reactive to claims or being proactive and assisting employees before they are ill. She related her understanding that there has not been an actuarial evaluation on the cost impact to the state to add the school district employees to the AlaskaCare health insurance program.

4:04:14 PM

LADAWN DRUCE, Vice President, NEA-Alaska, speaking on behalf of Ron Fuhrer, President, NEA-Alaska, who is also the chair for the NEA-Alaska Health Plan's Trust that Ms. Kitter just spoke about. He has been a trustee of the NEA-Alaska Trust Plan since its inception in 1996 and understands the complex nature of health insurance and the need to balance premiums and benefits. This bill, HB 196, and its companion bill, SB 90, have been moving quickly through committees without receiving proper vetting needed to assure they would not create an adverse financial risk to the State of Alaska. As a trustee, Mr. Fuhrer has participated in many meetings in which decisions are made on whether or not to enroll a new employee group. These decisions have not been made lightly and include a three-year look back into the experience of the employee group. She said that providing health insurance is about managing risk. She questioned whether the committee understands the risk the state

will incur if HB 196 passes, noting the fiscal note ranges from \$100-\$300 million, which has yet to be vetted. Currently, when school districts purchase insurance through the trust or any carrier the risk is transferred, which means the school districts have paid their maximum liability for coverage. Thus, [under the bill] if claims exceed the funding the school districts carry none of the risk since the risk will reside with the state.

MS. DRUCE said that at a minimum a study should be conducted to obtain a more accurate understanding of the financial risk. Similar legislation has been proposed in Wisconsin, where many school districts are insured through the Wisconsin Education Association (WEA) trust; however, when studies were conducted, the results consistently showed that moving all school district employees into a single state health insurance plan was cost prohibitive. As a private organization, the NEA-Alaska Health Plan's trust collects premiums and invests them, which in turn are used to help reduce the trust's costs. Last year the trust was able to provide a zero percent increase to its participating school districts. It was able to do this while at the same time spending \$.97 of each \$1 collected on health care. In fact, the NEA-Alaska's Health Plan trust spends \$.03 per dollar on administrative costs. Further, the NEA-Alaska Health Plan's trust has been a nimble organization and a good steward of its financial resources. Due to its size the NEA-Alaska's Health Plan trust is able to negotiate very favorable contracts with providers in Alaska as well as with specialists in the Lower 48. Additionally, the NEA-Alaska's Health Plan trust has implemented or piloted programs that work to save costs, including surgical travel benefits, biometric screenings, and seeking preferred relationships with medical providers that measure cost and quality. Unlike the [NEA-Alaska's Health Plan] trust, the DOA has testified that its administrative costs are nearly 10 percent. In addition, the state does not have as much flexibility as the NEA-Alaska's Health Plan trust and can only address its cost every three years at the bargaining table or through a lengthy procurement process, which is not efficient, effective, or affordable.

[4:07:42 PM](#)

MS. DRUCE offered an example, such that the current third-party administrator's (TPA) bid that the state is negotiating has already been underway for four months longer than anticipated. She said the state has had three TPA's in the past four years. She suggested that going with one size fits all would eliminate

the ability of the 50-plus school districts to evaluate the plan that best fits their needs. She stated that rural school districts are different from urban school districts. Thus, rural school districts may want to offer more benefits than those in the state's economy plan since it is a tool for hiring. The state should not impose a mandate that has not been studied, one in which the risk and benefit analysis to the state has not been adequately defined, she said.

[4:08:26 PM](#)

REPRESENTATIVE MILLETT asked whether the NEA-Alaska's Health Plan trust will provide census data to conduct an actuary study. In other words, would the trust be willing to share its data with the state.

MS. DRUCE deferred to Ms. Kitter.

REPRESENTATIVE MILLETT asked who the guarantor of the trust is if the NEA-Alaska Health Plan's Trust goes insolvent or fails in any way, in other words, she asked who would pick up the financial responsibility.

MS. KITTEK agreed the NEA-Alaska is willing to provide its census for the population base. Additionally, the NEA-Alaska's Health Plan sponsor, NEA-Alaska, has the fiduciary responsibility if funds are insufficient to cover any claims since it is not the school district or state's liability.

[4:09:42 PM](#)

CARL ROSE, Executive Director, Alaska Association of School Boards (AASB), testified in favor of HB 196. He referred to a resolution recently passed by the AASB related to health care costs and medical insurance, which speaks about the recent federal health care act, PPACA, and the unknown impact it will have on Alaska. This resolution asks the governor, the legislature, the Congress to carefully review the legislation to determine if any unintended consequences exist or if it will be harmful to school districts, and requests the legislature continue to address ways to look at health care costs. He said the PPACA is an unknown and will not be fully implemented until 2014. The premise is that people who have insurance will pay for people who don't have insurance, which simply says to the AASB that the cost of insurance will go up.

Mr. ROSE said except for energy and transportation costs, school districts have been held static for the past four years. The issue of cost containment falls squarely in the school district's lap, he said. The AASB has evidence that costs are increasing and while he does not have any issue with the testimony given, no one can predict what the costs will be in the future although he anticipated costs will rise. He asked the legislature, the governor, and the Congress to give the school districts a hand with this should an unintended consequence occur.

MR. ROSE concluded by offering the AASB's support for this bill since all avenues need to be exhausted. He reiterated the AASB anticipates the costs will rise, noting tremendous cost increases have been experienced in the past 10 years even without the PPACA so he is concerned about the future. He said anyone who is comfortable with the current coverage should consider what the coverage will look like in three to five years, which he predicted will look very different.

[4:12:35 PM](#)

REPRESENTATIVE HERRON noted Mr. Rose has had experience with insurance pools and asked whether it should be limited to state or to a nonprofit.

MR. ROSE stated that in 1986, the health insurance costs were \$1.25 per hundred since insurance was not available for rural Alaska. By 1992, the losses for his organization totaled \$40 million and property insurance rates dropped from \$1.25 to \$.22 per hundred. He emphasized this is what pooling did for his organization. Since then, the company has divested itself from the Alaska School Insurance Company (ASIC) and created the Alaska Public Entities Insurance (APEI). He explained the APEI offers property, casualty, and workers' compensation and costs have been contained. While these costs are not associated with medical insurance, the APEI believes that pooling works. He offered that the whole concept behind pooling is that the larger number of people in the marketplace, the better chance to negotiate and leverage favorable rates.

CHAIR OLSON remarked it is called the law of big numbers.

[4:14:27 PM](#)

REPRESENTATIVE HERRON assumed Mr. Rose would support the bill if it was offered by the state or a nonprofit pool.

MR. ROSE answered that the goal of the resolution is to reduce costs, educate children, and keep dollars in the classroom. He said he supports HB 196 and is willing to review any derivative.

[4:15:11 PM](#)

REPRESENTATIVE JOSEPHSON recalled his comment that increasing the pool size would be good so wouldn't it follow that taking "free money" from the government and adding Medicaid would be a good thing.

Mr. ROSE said he did not have an opinion.

CHAIR OLSON remarked this is not pertinent to the bill.

REPRESENTATIVE JOSEPHSON asked for the reason a state insurance pool would be a good thing but other pools are not.

MR. ROSE clarified that he believes pooling is a good concept and he is a member of a pool for property and casualty insurance. He thinks that the larger the group is to take to market helps the pool leverage better insurance rates.

[4:16:29 PM](#)

BRUCE JOHNSON, Executive Director, Alaska Council of School Administrators (ACSA), stated the ACSA represents the principals, superintendents, and business officials. He said his members are not in the insurance business since the organization exists to educate children. He characterized [obtaining health insurance] as flying somewhat blind. The escalating cost of health insurance is causing members to urge the ACSA to take action since the costs are not sustainable. He referred to Mr. Thomason's testimony, noting the PSD was initially able to bring down their costs, but now anticipates a 15 percent cost increase next year. He said the ACSA would like to see costs evened out and one way to accomplish this is through a larger pool. He said the ACSA values quality insurance for its members and does not intend to minimize the employee's health insurance. He stated that the ACSA currently directs nearly \$300 million in school district funds at health insurance and would like to get the best value possible. He concluded that the ACSA is very interested in exploring the concept in HB 196. In fact, the five big districts brought this issue to the legislature in late January or early February, he said. In response to a question, he clarified that the \$300

million figure was derived from a survey the school districts reported, which reported the amount ranged from \$280-\$300 million.

4:19:24 PM

REPRESENTATIVE JOSEPHSON asked whether the five larger school districts have analyzed the impact of joining forces with 49 other school districts, some of which are in remote locales where costs are high, such as for Medivacs to Dutch Harbor, which run \$1,000 round trip.

MR. JOHNSON responded the ACSA defers to the state to examine this on their behalf, plus the concept is that the larger the pool, the better off all school districts will be over the long term, even if it doesn't work in the short term.

4:20:30 PM

REPRESENTATIVE HERRON asked whether insurance pooling should be limited to the state or if nonprofit pool should be created.

MR. JOHNSON said he did not know; however, the ACSA is interested in all options that will minimize increased costs for health insurance.

CHAIR OLSON remarked that the PPACA is the 700-pound gorilla in the room. Everyone in this room will be covered or taxed due to gold-plated plans and not because of the coverage. He anticipated increased costs and once the federal law is in place, a whole new series of issues will arise.

4:21:54 PM

MIKE BARNHILL, Deputy Commissioner, Office of the Commissioner, Department of Administration (DOA), offered to review the fiscal notes and to address some of the comments. He indicated the DOA asked Buck Consultants to consider an actuarial study, which is currently possible since the state's active school district employees are also active in the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). Therefore, the DOA has specific information on the school district employees based on demographics; however, the state does not have any claims data on the employees, which will be necessary in order to evaluate the relative health of the population.

[4:23:44 PM](#)

MR. BARNHILL reported based on the demographic information, Buck Consultants reports the school district employees are more heavily female, slightly older than the current active employees and estimates adding the employees would increase health care costs from 2 to 3 percent more than the current active state employees.

[4:24:41 PM](#)

REPRESENTATIVE MILLETT advised that she is interested in the NEA-Alaska Health Plan trust's medical claims to share with the actuary.

MS. KITTEK said she would need clarification on the claims data request from the NEA-Alaska Health Plan's trustees.

MR. BARNHILL turned to the \$100 million fiscal note, explaining the DOA would need some money to start to establish the reserve to pay health care claims as they arrive.

[4:26:36 PM](#)

MR. BARNHILL referred to the fiscal note from the DOA, Centralized Administration Services, Health Plans Administration dated 4/5/13, for \$237,000 in FY 14. He explained this represents the anticipated administrative costs the division would incur in the next fiscal year in order to accommodate inbound school district employees in FY 15, including reprogramming costs, computers, publications, and communication costs. The costs are anticipated to increase in FY 15, when employees would arrive from school districts. He pointed out the services line starts at \$9.8 million and increases to \$13.1 million, which represents vendor and contractor costs the state pays to administer claims. These costs are based on per member, per month charge currently incurred in the active pool, which is trended up to reflect population growth. He referred to the FY 15 miscellaneous column at \$315 million with two components, calculated by multiplying the projected benefit per employee by the population of the school district pool, multiplied by 12 months. Buck Consultants estimated the calculation at \$1,389 per month per employee by 18,300, multiplied by 12 months. However, the figure may be a bit inflated for FY 15 since it assumes all employees would be transferred but under the bill employees can continue to transfer to the health insurance pool in FY 16.

[4:28:34 PM](#)

REPRESENTATIVE SADDLER asked for clarification on the \$315 million.

MR. BARNHILL explained the two components of \$305 million and \$10 million. He reiterated the calculation of  $\$1,389 \times 12 \times 18,300$  equals \$305 million, which is the amount the state would bill the school districts on an annual basis. Again, practically speaking the state would not receive all 18,300 in FY 15. He repeated the calculation, noting the fund source is statutory designated program receipts. In response to Representative Saddler, Mr. Barnhill confirmed the calculation.

[4:30:52 PM](#)

MR. BARNHILL explained the second component of the \$315 million is the \$10 million. He explained the group health insurance pool would require \$100 million in funding to establish a reserve, which would be repaid. This would be accomplished by billing each school district for the first four months of claims. The school districts have up to 10 years to repay these costs, which will be passed through to the public education fund. This mechanism provides \$10 million in receipts authority to collect the repayments and pass them through, he said.

REPRESENTATIVE SADDLER asked whether that would be reflected under services.

MR. BARNHILL answered that it is reflected in "Fund Source 1108 Statutory Designated Program Receipts", for two components, \$305 million and \$10 million totaling \$315 million. He explained the "Fund Source 1017" as the fund source used to pay the third-party administrative fees, referred to earlier. He acknowledged discussions have subsequently been held that characterized the fiscal note as being gigantic. He agreed the figures are large, but noted they would be paid by someone. In FY 12 the school districts had \$282 million in health care costs so it's reasonable to assume an estimated growth to \$305 million, he said. In any event, the health care expenditures will be made, regardless [of whether it is under AlaskaCare or the current NEA-Alaska's Health Plan trust, the Local 71 trust, or other association plan]. At issue is whether the state can save money by consolidating the health insurance into one pool.

[4:33:11 PM](#)

MR. BARNHILL turned to the third fiscal note from the DOA, Division of Retirement and Benefits (DRB) dated 4/7/13. He explained this fiscal note would add the staff positions necessary to implement the pool. The original fiscal note had \$964,000 for FY 14, but in actuality the division wouldn't staff up until after the first of the year, so the fiscal note was cut in half. He stated the costs going forward fund the same 12 positions, including accountants, technicians, call center staff, and an appeals specialist.

[4:34:22 PM](#)

REPRESENTATIVE MILLETT recalled the Local 71 previously noted the necessity for bilingual staff and asked whether the call center would have bilingual staff.

MR. BARNHILL answered he was unsure that the department currently provides foreign language assistance, which would need to be provided to the extent that non-English speaking beneficiaries exist.

[4:34:56 PM](#)

REPRESENTATIVE REINBOLD asked for the total liability to school districts annually.

MR. BARNHILL referred to documents in members' packets provided by the Alaska Association of School [Business Officials], which represent the best estimates and lists the FY 12 health insurance expenses at \$282 million.

[4:35:37 PM](#)

REPRESENTATIVE REINBOLD asked whether this bill would be shifting costs.

MR. BARNHILL answered yes, that initially the costs would be shifted since health insurance claims paid by the school districts would be paid by the state. The state would bill the school districts, which would initially be about the same since it will take time before savings would occur through leveraging down the administrative costs.

[4:36:30 PM](#)

REPRESENTATIVE MILLETT asked when the cost savings under the bill would be realized.

MR. BARNHILL again referred to the consultant's letter, from Buck Consultants dated April 5, 2013, in members' packets. He stated that the state will try to sustain the monthly benefit cost of \$1,389.

[4:37:13 PM](#)

BECKY HULTBERG, Commissioner, Department of Administration (DOA), stated the question is complex since the cost of health insurance is determined by numerous factors, including use and plan design, which has not been discussed much in committee, but is relevant to the conversation. She explained that the plan design and medical claims can contribute significantly to the cost of the health plan. She characterized this as somewhat buried in the design of the plans.

[4:38:00 PM](#)

REPRESENTATIVE MILLETT asked about preventative health care. She asked whether AlaskaCare provides health fairs for state employees.

COMMISSIONER HULTBERG answered yes. She said the state has a vested interest in the health and health care of its employees. First, the state, through its contributions to education is funding a significant portion of the \$282 million being spent for health care insurance for school district employees. Second, which is the bigger financial interest, is that the state pays for health care for its retirees. She reported the current unfunded liability is \$12 billion of which \$4 billion is directly related to health care. Thus the state has a vested interest in ensuring the current employees are healthy since the state will pay the bill now and later, too.

[4:39:19 PM](#)

REPRESENTATIVE MILLETT asked if the DOA would negotiate the union contracts and whether health care is a contractual agreement that is negotiated. She wondered if it would simplify the state's negotiations by taking over health insurance and making it more reasonable, regardless of whether the new plan is better, worse or exactly the same as the NEA-Alaska's Health Plan trust.

COMMISSIONER HULTBERG answered yes; the state negotiates health care. She said that the state typically negotiates the contribution to health care, although the general government unit (GGU) had some complex language, which was simplified through the negotiation process. However, she offered her belief that some school districts negotiate benefits. She said she wished that the employees that are currently in the union health trust were part of the state's plan since it would give the state more leverage and bargaining power; however, she recognized that these benefits are part of the process worked out at the negotiating table.

[4:40:56 PM](#)

REPRESENTATIVE CHENAULT referred to the DOA's Division of Retirement and Benefits fiscal note. He asked whether the costs are spread out for new employees or if costs would be spread out to all employees.

MR. BARNHILL answered the fiscal note is limited to new employees and not existing employees.

[4:41:33 PM](#)

REPRESENTATIVE CHENAULT asked whether all NEA would have to subscribe to the insurance provided by the NEA-Alaska's Health Plan [Trust] fund.

CHAIR OLSON related that question was previously answered.

REPRESENTATIVE CHENAULT related his understanding that there were 452 waivers out of 3,500 employees.

[4:42:45 PM](#)

REPRESENTATIVE MILLETT asked for clarification that everyone in the active NEA-Alaska's Health Plan trust will eventually become a retiree in the state plan.

COMMISSIONER HULTBERG answered yes; so long as the school district employees were vested in the TRS and are eligible for health care.

[4:43:28 PM](#)

REPRESENTATIVE JOSEPHSON said it strikes him that if PPACA is successful and a federal exchange is created with new entrants,

including Medicaid funding, it will be difficult to ascertain five years from now what contributed to any cost containment if this bill passes.

COMMISSIONER HULTBERG responded that she could research this, but she is not optimistic that the state will see reduced costs through the PPACA. In fact, the DOA's experience to date has been increased costs. She suggested the state could review the documentation, but she does not anticipate [the state] will have a better experience due to the PPACA; instead it will have the opposite effect on the state's plan.

MR. BARNHILL offered his belief that one can connect the link of causation. For example, if the state has a current relationship with a provider or a set of providers without any discount for services, but through the pool is able to obtain sufficient volume to obtain a 10-25 percent discount, the state will be able to make the connection to say HB 196 helped the state obtain a better deal.

[4:45:14 PM](#)

REPRESENTATIVE REINBOLD asked whether his view is that this bill is about public funds for public employee health benefits and not necessarily about the [PPACA], which is basically a mandate on the private sector.

COMMISSIONER HULTBERG answered that some provisions of the PPACA apply to the state's active employee plan, which has grandfathered status under the PPACA. If the state loses its grandfathered status, which most large plans believe will happen, then a whole new set of mandates will apply. Thus it does affect the state in terms of costs. The state has seen increased costs already and she anticipated that if the state loses its grandfathered status, the state will see increased costs.

MR. BARNHILL reported that the call center covers four languages, including Russian, Ukrainian, Spanish, and Filipino.

[4:46:41 PM](#)

REPRESENTATIVE JOSEPHSON recalled the DOA's prior testimony is that it took no position on the bill; however, it sounds like the department is "warming" to the bill.

COMMISSIONER HULTBERG answered that the department has not taken an official position on HB 196, but the concept of insurance pooling and adding to the existing pool could help the state mitigate cost escalation. She reiterated that the department has no official position, but conceptually believes that insurance pooling has merit.

[4:47:20 PM](#)

RICH RHODES, Superintendent, Wrangell Public School District (WSD), stated that WSD is a strong supporter of group health insurance coverage and has worked hard to contain costs by increasing deductibles to \$1,000 per individual and \$3,000 per family. All school district members share in the costs and any increases to the health insurance plan, which is currently approximately \$44 monthly with a monthly cap of \$200. The health insurance premiums have been held to \$28,000 for the family plan, \$16,000 for an adult with child, and \$9,000 for an individual teacher. However, these costs do not include a 17.5 percent increase to the premium policy this year.

MR. RHODES said the WSD believes a large state pool would help maximize efficiency and cost. He said that maximizing travel and housing allocations with state contracts, competitive contracts with service providers, as well as focused incentivized wellness plans are all options that provide positive results and lower the overall premium cost. It is commonly understood that participating in a large pool will spread out losses thereby reducing the impact of spikes and peaks of a small group. Health care issues are equally significant for private, state, and local government, he said. In order to be proactive and not reactive, the state must make a change to the current practices. Each year the school district holds its breath trying to determine the health insurance increases. While the school district [did not have an increase] last year, this year the increase was 17 percent. These costs represent nearly 10 percent of the WSD's budget, which are significant, and unpredictable. For example, this year the school district consolidated its superintendent and principal position to reduce ongoing costs. He said the WSD appreciates that HB 196 make a bold step to address the issues. In conclusion, he offered the WSD's support for HB 196.

[4:49:46 PM](#)

DAVID BOYLE said he appreciated the school districts' comments in support of HB 196. He said the cost of health insurance

represents a large percentage of a school district's operating budget, it is imperative that the legislature address ways to reduce costs to improve the state's education. However, several ways exist to decrease costs to the taxpayer, the state, and the school districts. First, the school districts could shift more of the premiums to members. Second, school districts could combine with other groups or join the state's insurance plan. Third, school districts could increase competition, which is difficult at best in Alaska's distorted medical market. He recalled the committee heard testimony from the NEA-Alaska's Health Plan trust that the trust saves school districts money. Certainly, this claim needs to be verified. For example, he referred to the letter from the NEA-Alaska's Health Plan, which read, as follows: "Last year the trust had a zero percent rate increase in its premium." However, the problem with that is that the NEA-Alaska's Health Plan trust did not return any of the premiums to school districts or their members. Further, public records aren't available. The public money spent by the more than 50 school districts is not accountable to the public. The [state] needs to know the administrative costs and overhead costs or the state and local taxpayers are writing blank checks with little, if any, accountability. He recommended the committee obtain more information before acting on HB 196. He further recommended that the committee make a legislative request to the NEA-Alaska's Health trust fund for the information. This is about transparency and accountability to the state, school districts, and local taxpayers, he said. He asked members to trust but verify. He clarified that the ASD contributes its portion of premiums, approximately \$1,450, for its members who choose not to participate in the NEA-Alaska's Health Plan trust, even though these members are not covered by the plan.

[4:52:08 PM](#)

CHAIR OLSON reported that Rhonda Kitter, NEA-Alaska Health Plan trust advised him the trustees will meet Friday evening and will follow up on the committee's request for further information.

[4:52:38 PM](#)

REPRESENTATIVE LYNN GATTIS, Alaska State Legislature, speaking on behalf of the sponsor, the House Education Standing Committee which she chairs, commented that the [NEA-Alaska's Health Plan] trust doesn't typically inform the school districts until April on premium costs, which creates a budgeting issue for the school districts as they try to budget for the following year. She

offered her hope that the state will let school districts know earlier [if HB 196 passes.] She commented that the \$300 million has been discussed. She asked members to do the math, since that represents approximately 25 percent of the school foundation formula funding. She said, "It's a lot of money that we talk about that we spend."

[4:53:44 PM](#)

REPRESENTATIVE GATTIS, in response to Representative Saddler, clarified that the various trusts do not inform the school districts of any [health insurance premium] increases [until April]. She reiterated the intent of HB 196 is to pool public school district employees with state employees for health care coverage. She predicted this will in turn reduce costs and unburden school districts since 53 school districts with their own independent plans or with multiple plans are just not efficient. She said with health insurance costs continually rising, the state must look for a solution outside of the fractured efforts of school districts going to market on their own. She offered her belief this problem cannot be solved by an individual school district.

REPRESENTATIVE GATTIS shared the following facts. She said that over half of the states in the U.S. have some type of pool between state and local employees and at least 19 states include public school employees. She referred to a handout in members' packets, entitled, "Health Cost Containment and Efficiencies, June 2010." In response to Representative Herron's previous question at a prior meeting, she reported that the Alaska Public [Entity Insurance (APEI)] is neutral on this bill. The APEI's executive director, Jeff Bush, indicates that, "... pools are an effective way to reduce insurance costs." She offered her belief that some people speaking against HB 196 have a financial interest in making sure nothing changes. Many school districts don't have access to claims information from NEA-Alaska's Health Plan trust. These are public funds - public benefits for public employees - and the state needs accountability and a means to reduce costs while maximizing benefits. In fact, this is not a union issue, but an issue of state government finding ways to become more efficient with the public funds. She recalled Commissioner Hultberg's earlier testimony reminding the committee that pooling the public school teachers together with the state's health insurance plan makes a lot of sense. In fact, when public school teachers retire, they will come under the state's umbrella of health insurance. She reminded members that school districts testified in support of HB 196 and while

the nuances of the plans are not comparable, savings will be had and these savings will go right back to the classroom.

4:56:04 PM

REPRESENTATIVE HERRON commented that insurance pools request quotes from brokers and the industry for the upcoming year, but often these quotes are not received until May. He suggested that the sponsor ask Jeff Bush, APEI, if this is the same for insurance. He further recalled it is typically late in the fiscal year when quotes are obtained from individual insurance companies.

REPRESENTATIVE GATTIS agreed to ask the question and report back to the committee.

4:56:47 PM

REPRESENTATIVE JOSEPHSON remarked that HB 196 is not without some merit. He referred to Representative Gattis's comment that school districts don't know what adjustments will be made on health care insurance premiums. He pointed out the legislature doesn't have information on the school district budgets, such as how much money the school districts will receive or how many teachers can be retained even though it is the teachers who are being insured. He acknowledged the timing on the health insurance premium information may be accurate, the school districts must contend with mystery after mystery.

REPRESENTATIVE GATTIS agreed that the legislature is part of that mystery. In further response to Representative Josephson's question on how the legislature knows the cost savings will go back to the classroom, Representative Gattis said she has heard legislators comment that any savings, including pupil transportation savings or savings on book purchases, and other savings can go directly back to the classroom. On the one hand, the assumption is that when school districts are not purchasing fuel or insurance, the cost savings can go directly to the classroom. On the other hand, if the cost savings are not had, the money is not available for the classrooms, she said.

4:58:12 PM

REPRESENTATIVE REINBOLD recalled hearing an earlier quote about the constitution and using the resources for the maximum benefit of the people. She said she believes that money is a resource and the state needs to use it for the maximum benefit of the

people. She further said it is only prudent for the legislature to look at ways to streamline and be more efficient and accountable. She pointed out the funds in question are nearly \$300 million per year. She applauded the [sponsor's] efforts to bring the bill forward. She hoped the committee would review this bill appropriately since it has long-term benefits to the state. Therefore, the state could pay off its long-term liabilities. She cautioned that the state is getting itself in a situation in which it cannot pay off the long-term [debt]. She predicted that the impact [of HB 196] on long-term health care benefits will be realized in the future. She applauded everyone who is working to do so for the state's employees and teachers.

[HB 196 was held over.]

[4:59:18 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:59 p.m.