

SENATE FINANCE COMMITTEE
ANCHORAGE LEGISLATIVE INFORMATION OFFICE
December 10, 2013
3:06 p.m.

Note: The following meeting convened in the Anchorage Legislative Information Office and was teleconferenced and recorded in Juneau.

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CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 3:06 p.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy

MEMBERS ABSENT

Senator Donny Olson
Senator Lyman Hoffman

ALSO PRESENT

John Hennessey, Senior Principal, Hay Group; Representative Lindsay Holmes; Melinda Riley, Senior Consultant, Hay Group; Justin Frerich, Associate Consultant, Hay Group.

SUMMARY

Presentation: State Managed Group Health Insurance Program for Alaska Public School Employees Report prepared by the Hay Group

^PRESENTATION: STATE MANAGED GROUP HEALTH INSURANCE PROGRAM FOR ALASKA PUBLIC SCHOOL EMPLOYEES REPORT PREPARED BY THE HAY GROUP

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JOHN HENNESSEY, SENIOR PRINCIPAL, HAY GROUP, discussed the PowerPoint, "State of Alaska State Managed Group Health Insurance Program for Alaska Public School Employees" (copy on file).

Mr. Hennessey discussed slide 3, "Agenda."

Why was the study done?

How was the study conducted?

What does the analysis show?

What are the recommended actions?

Appendix

Mr. Hennessey displayed slide 5, "Why was the study done?"

The Alaska State Senate Finance Committee (the "Committee") engaged Hay Group to conduct a study of the group health programs currently managed by the State's 53 school districts with the following purposes:

- Determine the current cost of providing public school employee health benefits coverage in each school district and what benefits each plan provides

- Understand the cost and utilization associated with a health benefit plan administered by a non-profit entity (a trust)

- Estimate the cost and overall impact of consolidating public school employees under a state-managed group health insurance program

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MELINDA RILEY, SENIOR CONSULTANT, HAY GROUP, looked at slide 7, "How was the Study Conducted?"

Working with the Committee Co-Chair, Senator Meyer, and his staff, Hay Group took the following steps:

- Planning and scoping meeting

- Mutual agreement on the constituency to be surveyed and data to be collected
- Design and distribution to all 53 school districts of customized group health plan survey
- Optimize district participation through regular follow-ups
- Analysis of group health program data
- Analysis of program structure and costs
- Development of state-managed health plan options for consideration
- Presentation of this report

Ms. Riley looked at slide 8, "How was the study conducted?"

All 53 Alaska school districts responded to the survey

In addition, Hay Group conducted interviews with various stakeholders within the State regarding the study. Stakeholder organizations included:

- NEA-Alaska Health Plan Trust
- Department of Administration
- Alaska Association of School Boards
- Alaska Association of School Administrators
- Commercial health insurance companies: Aetna, Premera Blue Cross Blue Shield, and Cigna

JUSTIN FRERICH, ASSOCIATE CONSULTANT, HAY GROUP, looked at page slide 10, "What does the analysis show?"

The State's school districts spend roughly \$264 million on group health care programs annually covering almost 16,000 employees. The table below shows the costs by district size:

-The average cost as a percentage of funding is 15.6 percent; however, the range is 14.2 percent to 21.3 percent

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Vice-Chair Fairclough wondered if the funding was used for employees only, not including dependents. Mr. Frerich replied that the presentation did not include dependents.

Mr. Frerich stated that health claims were random events both in frequency and severity. He remarked that smaller school districts tended to experience higher volatility year to year in health claims, because there were a smaller number of people.

Mr. Frerich looked at slide 12, "What does the analysis show?"

The specific features of health plans vary throughout the State.

Plans at P25 or 25th percentile reflect less valuable plans

Plans at P75 or 75th percentile reflect more valuable plans

There is a 12 percent difference in reimbursement levels between the P25 and P75 plan, which indicates there is some alignment among school district plan offerings

Co-Chair Kelly asked for further explanation of a bullet on slide 12 regarding the 12 percent difference. Mr. Frerich replied that the 12 percent referred to the reimbursement percent of allowed charges. He remarked that it was a difficult concept, but through deductibles and copays the member would be required to pay 14 percent of total health claim charges at the median.

Co-Chair Kelly wondered if the 12 percent indicated an alignment among school district plan options. Mr. Frerich responded that deductibles ranged considerably from high to low and out-of-pocket maximums ranged as well. He remarked that prescription copays and specialist visits did not indicate much differential.

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Vice-Chair Fairclough queried the comparison of the analysis with other states. Mr. Hennessey responded that the 12 percent differential was comparable to other states.

Mr. Frerich looked at slide 13, "Premium Cost Sharing."

School district employees pay roughly 11 percent of total health care costs for employees and dependents in aggregate.

21 districts pay for the entire cost of health care

32 districts employ cost sharing with an average employee share is 13 percent

Market norms indicate premium cost sharing closer to 20 percent

Vice-Chair Fairclough wondered if the district versus enrollment provided a different perspective. She surmised that there was no differential between employees and dependents. She wondered if there was a difference in the percentage when examining actual employee numbers versus districts. Mr. Hennessey responded that most of the figures were weighted averages, recognizing that the larger districts would have a disproportionate impact on any of the analysis and conclusions.

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Vice-Chair Fairclough felt that the percentages could be skewed, because some districts had cost-share and some did not. She felt that she was drawing a conclusion that most people were not, by a district percentage, paying anything extra in the form of cost sharing. Ms. Riley replied that that there was an analysis of the cost sharing of the districts, and understanding that the 21 districts represent a smaller percentage of the cost. She believed that 12 percent of costs fell on the 21 districts. She stressed that there were aggregates, and remarked that there could be different cost sharing within one district.

Vice-Chair Fairclough stressed that sometimes percentages looked extreme, and had some or large impacts on the finances.

Mr. Hennessey looked at slide 14, "Plan Funding and Overhead Costs."

Fully insured health plan - school district pays a fixed premium per employee, and the insurance company bears all of the risk (and reward)

Built into the premiums are risk charges, reserves, premium taxes, profit, and often commissions

Self-insured health plan - the school district bears the risk of costs being above those expected. Contributions are based on a best guess of plan costs (claims and administrative costs),

Partially insured health plan - districts that are self-insured mitigate higher-than-anticipated claims through the purchase of stop-loss insurance, which will reimburse the plan sponsor if and when claims exceed a certain level.

As a general matter, large employers (e.g., groups greater than 1,000) are more likely to self-insure than small groups, since anticipated claims become more predictable as group size increases.

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Mr. Frerich looked at slide 15, "Distribution of Plan Funding and Per Employee Total Costs."

-As expected, smaller districts are more likely to be fully insured, while larger districts tend to be partially or self-insured

-NEA-Alaska Health Plan is largest single provider of school district health coverage

-Fully-insured groups are paying more per employee after adjusting for plan design

-School district health care costs are higher relative to national market norms

Mr. Frerich emphasized what the table did not acknowledge or take into account number of dependents, health status, employee age, geography, and how an entity is contracted.

Representative Holmes noted that there were 55 districts, and the last two lines have one more district than any of the other charts. She asked for an explanation regarding that observation. Mr. Frerich responded that there were a couple of unique arrangements in Juneau and Anchorage, who were each enrolled in NEA Alaska.

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Mr. Frerich looked at slide 16, "Overhead by District Size."

Districts are currently paying \$6.2 M in overhead and broker revenue, or 2.4 percent of health care costs

Mr. Hennessey remarked that the expenses were required by insurance underwriters to cover the additional administrative services, and the risk to the charge of the premium.

Senator Bishop wondered how the 2.4 percent overhead cost compared to other states. Mr. Hennessey responded that the average included what occurred in Alaska and other states. He furthered that consultant revenue and broker revenue must be separated. Consultants charged on a per fee basis; and broker revenue was often defined as revenue that was received in the form of commissions. Smaller groups generally had a higher percentage basis, because a level of payment must be remunerated back to the broker. Larger groups would have a smaller percentage, so the 2.4 percentage overhead was determined based on small and large groups.

Vice-Chair Fairclough wondered if the phrase "statistically predictable" referred to the number of beneficiaries inside a particular plan. She queried the number that would create statistically predictable pool. Mr. Hennessey responded that the concept of statistically significant pooling was the point in time that a group was large enough to be 100 percent credible.

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Vice-Chair Fairclough understood that the nexus between 500 lives and catastrophic coverage to mitigate risk. She queried the number of lives that would be covered under the catastrophic coverage. Mr. Hennessey stated that when 8,000 lives are covered, it becomes fully credible.

Ms. Riley looked at slide 17, "Health Program Stakeholders."

Alaska school districts

- NEA-Alaska Health Plan
- Aetna
- Department of Administration
- Premera
- Third Party Administrators (Rehn and Associates, Moda, WPAS and Integrity Administrators)
- Cigna
- Alaska Public Employees Association
- Local 71, Laborers International Union of North America (LIUNA)
- Alaska Teamsters

Vice-Chair Fairclough wondered if the retirement health plans were public or private records. Mr. Hennessey asked if she were asking about annuity.

Vice-Chair Fairclough specifically wondered if the stakeholders had public health care claims, in order to compare to the school districts' challenges. Mr. Hennessey replied that some had some may be open to public record requests, but he could not respond with certainty which organizations provide access to that information.

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Vice-Chair Fairclough asked about claim costs, and wondered if it was proprietary. Mr. Hennessey responded that authorization was required in order to receive the information.

Ms. Riley looked at slide 19, "What are the recommended actions?"

The potential savings of moving to a State managed group health program varies depending on the employee impact

-The lower left portion of the graph represents savings achieved purely through minimizing overhead, optimizing health care program management, and leveraging resources to obtain a better deal in contracting with vendors

-The upper right portion of the graph represents, in some form, cost shifting from school districts to employees and their dependents through reduced choice of plan options, less rich plan designs and increased premium cost sharing

Mr. Riley looked at slide 20, "Hay Group's 4 Options for a consolidated state-managed health plan."

Option 1: Optimize program performance

-Consolidate all school districts into one combined pool with centrally managed procurement, enterprise health care program management, and optimized vendor/provider contracting by a state-managed entity (or "Department").

-Includes gradual reduction and narrowing of the health plan design options available to school districts.

-This Department handles rate setting for all plan designs offered by school districts. School districts can then independently determine how much to charge their employees and dependents.

Option 2: Utilize the Department of Administration's AlaskaCare

-Consolidate as in option 1, but leverage the AlaskaCare program managed by the Department of Administration and adopt the plan options currently available through AlaskaCare. To mitigate risk of increased plan design costs, the State could limit the plan choice to just the Economy and/or Standard plans.

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Co-Chair Meyer surmised that if all the public school districts were combined with AlaskaCare, the health benefits would be more generous to the public school employees. Ms. Riley replied that the current economy plan of AlaskaCare was slightly below the median of school district plans by a couple of percentage points.

Co-Chair Meyer wondered if the school district plan was close to the AlaskaCare standard plan. Ms. Riley replied that the AlaskaCare standard plan was slightly above the median.

Co-Chair Meyer wondered if AlaskaCare would save the school districts money. Ms. Riley replied that employee behavior would factor into the predictions.

Senator Dunleavy asked if the analysis provided an option to keep the status quo. Mr. Hennessey responded in the affirmative.

Vice-Chair Fairclough remarked that there would be benefit to the lives that are covered in association with some benefits in the costs in delivering the benefits. Ms. Riley agreed and furthered that there were various benefits to the employees, districts, and the state.

Senator Dunleavy stressed that both the state and the employees could benefit, depending on what decision is made. Mr. Hennessey replied in the affirmative

Mr. Riley looked at slide 21, "Hay Group's 4 Operons for a consolidated state-managed health plan."

Option 3: Centrally manage school district program with standard health plan options and cost sharing

-Build upon option 2 but employees would be offered a different menu of health plan options than the current AlaskaCare lineup. This new menu would more closely align with the current school district offerings.

-Create a uniform premium cost sharing strategy for school districts to follow.

Option 4: Centrally manage school district program with standard health plan options only

-Variation of option 3 that provides continued discretion to school districts to set their own premium cost sharing levels based on their individual requirements.

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Vice-Chair Fairclough wondered if there was a record in the analysis of individuals who were "double covered", and asked if those individuals were government-to-government covered, or government-to-outside entity covered. Mr. Frerich replied that the analysis did not include that survey.

Vice-Chair Fairclough asked would there be cost savings if there were a group of individuals who were double covered. Mr. Hennessey responded that there was a limiting of the cost mitigation strategies, if the coverage was given to spouses and dependents.

Mr. Frerich looked at slide 23, "Potential savings is a significant factor in any State Managed group health program." He remarked that the group health plan indicated significant savings, because the 53 school districts would be moved to a leveraged procured contract. It would benefit from significant buying power and increased contracting with a Pharmacy Benefits Manager (PBM).

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Ms. Riley stressed that the savings were the same with the provider network and PBM.

Mr. Frerich continued to discuss slide 23. He stated that fully insured overhead related to reserves, risk pools, insurance profit, and state premium taxes. He explained that \$1.2 million could be eliminated by moving to a centrally managed state entity procuring health care services for public school district employees. He stated that the figure would be \$1.1 million for stop loss fees, which could be eliminated by moving to the pool. He remarked that some stop loss insurance may need to be purchased depending on the risk appetite by the managing entity. He explained that broker revenue was currently \$4

million, and it would potentially be removed by moving to a state managed plan. The numbers were the same for all options, and there were no employee disruptions.

Vice-Chair Fairclough wondered how many people in the Public Employees' Retirement System (PERS) chose the economy plan versus the standard plan. She asked if the school district employees would pick the economy plan or the standard plan. Mr. Hennessey replied that the concept was to impact the migration by how the contribution was set. He stated that employees initially examined how their paycheck was impacted. He remarked that the art was based on contribution scenarios, because there was not a desire to implement a program that resulted in \$25.8 million in expense.

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Vice-Chair Fairclough surmised that there would not be a risk variable swing by \$40 million. Mr. Hennessey responded that in option 2, a cost sharing line that was currently zero would change to something other than zero.

Vice-Chair Fairclough wondered if the change would be based on cost sharing for dependent coverage. Mr. Hennessey replied that charging people more would occur under the new environment for the standard and premium plan.

Vice-Chair Fairclough wondered if the public school districts would be paying the same way that the PERS employees were. Mr. Hennessey replied in the affirmative.

Mr. Frerich continued to discuss slide 23, third column Option 3. He remarked that there was a plan design disruption with a 75th percentile plan, a median plan, and a high deductible health plan. He stated that the option was typical in the marketplace, so the employees would have the option of choosing from the three different plans. Additionally, it would be cost sharing that was set by the state.

Mr. Frerich discussed option 4 on slide 23. He explained that it was the same scenario as option 3, but the state would not mandate cost sharing.

Mr. Hennessey highlighted slide 24, "What are the recommended actions?"

Hay Group recommends Option 3 to optimize plan performance, achieve significant savings and provide a better managed health program to school district employees.

-Through a centrally managed school district program with standard health plan options and cost sharing, the State can provide a menu of health plan options that are customized to best suit the needs of school districts.

-In addition, a uniform premium cost sharing strategy would be implemented, ensuring internal equity and ease of administration and communication.

-The estimated financial impact of 7.7 percent to 11.4 percent of current health care costs is significant.

If it is desirable for school districts to retain some discretion in setting employee cost sharing level, Option 4 is a suitable alternative.

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Co-Chair Meyer remarked that the discussion of savings referred to savings for the school districts. Mr. Hennessey replied in the affirmative, and stressed that the focus was on reducing medical and prescription drug health care costs.

Co-Chair Meyer remarked that the state would need to hire more people to administer the program, so there would be an additional cost to the state. He queried the cost estimate for those additional personnel. Mr. Hennessey responded that there were currently 53 independently managed plans that served 53 independent districts. He stated that there was a combination of staffing internally, or adding less staff but looking for external partners. He agreed that there would need to be support to sustain the program, and maintain its viability. He remarked that he had focused on brokerage and consulting revenue, because that would be an expense reduction. He furthered that some percentage of that would be added to the plan to cover the administrative costs. He assumed the cost would be around \$2 million.

Co-Chair Meyer recalled that the report stated that each school district had approximately less than one person dedicated to administering their health care plan. Mr. Hennessey responded that he had not analyzed the workload of the individuals that manage the health plans. He remarked that the proposal would make the administration less complex, because decisions would be made in uniformity.

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Co-Chair Meyer wondered if option 2 would provide more cost saving across the board, by negotiating lower rates based on a higher number of enrollees. Mr. Hennessey responded that consolidation would result in greater purchasing power.

Co-Chair Meyer surmised that option 1 had the least impact to school districts and school employees; however option 1 started the process of a state-managed plan. Option 2 would have a larger impact, because AlaskaCare would be a richer program resulting in more costs. Option 3 was recommended, and asked why option 3 was the best. Ms. Riley responded that option 3 would maximize the savings through a centrally managed program, and would minimize employee disruption in plan design.

Co-Chair Meyer surmised that option 3 would not as beneficial, if a school district chose not to participate. Ms. Riley responded that the program worked best if it were mandatory for everyone to participate.

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Vice-Chair Fairclough remarked that there were four or five school district superintendents who had asked for relief in the cost of health care for their districts. She felt that the analysis must be carefully examined, and asked that the unions also give their perspective. She wondered if there was an expectation of health care premium costs to decrease in the future. Mr. Hennessey replied that there was no reason to expect health care trends to be significantly lower in the future.

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Vice-Chair Fairclough looked at slide 11, and remarked that there were 47 school districts that had 500 employees or fewer. She referred back to a question about statistically significant or predictability, and the response was that 500 lives might carry catastrophic insurance to pool at \$5,000. She felt that those school districts may be disadvantaged at a higher rate than the districts that were larger than 500 employees. Mr. Hennessey agreed, and furthered that the summation applied across the country.

Senator Bishop wondered how the proposals would affect the bargaining unit costs. Mr. Hennessey responded that there were organizations that would need to reevaluate their roles, but was not qualified to address the question further.

Senator Bishop stressed that the work may adversely impact certain groups, and their rates that were a part of their agreements.

Co-Chair Meyer remarked that the bulk of the cost was not the burden of one particular group.

Co-Chair Meyer wondered what other states were doing related to health care plans. Mr. Riley replied that Washington had a different landscape, and the savings potential that was found was not as great as Alaska.

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Senator Dunleavy wondered if the Hay Group expected to find potential savings in the analysis. Mr. Hennessey replied that he expected some savings, but stressed that the analysis revealed where the specific savings could be made.

Co-Chair Meyer discussed housekeeping.

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ADJOURNMENT

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The meeting was adjourned at 4:39 p.m.