

**ALASKA STATE LEGISLATURE
JOINT MEETING
HOUSE STATE AFFAIRS STANDING COMMITTEE
SENATE STATE AFFAIRS STANDING COMMITTEE**

February 7, 2013

8:04 a.m.

MEMBERS PRESENT

HOUSE STATE AFFAIRS

Representative Bob Lynn, Chair
Representative Wes Keller, Vice Chair
Representative Lynn Gattis
Representative Shelley Hughes
Representative Jonathan Kreiss-Tomkins

SENATE STATE AFFAIRS

Senator Fred Dyson, Chair
Senator Cathy Giessel, Vice Chair
Senator Bill Wielechowski

MEMBERS ABSENT

HOUSE STATE AFFAIRS

Representative Doug Isaacson
Representative Charisse Millett

SENATE STATE AFFAIRS

Senator Bert Stedman
Senator John Coghill

COMMITTEE CALENDAR

OVERVIEW: DEPARTMENT OF ADMINISTRATION HEALTH CARE PLAN

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BECKY HULTBERG, Commissioner
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Presented a PowerPoint overview of the Department of Administration AlaskaCare Employee Plan.

MIKE BARNHILL, Deputy Commissioner
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Responded to questions during the Department of Administration overview regarding the state health plan.

ACTION NARRATIVE

[8:04:54 AM](#)

CHAIR BOB LYNN called the House State Affairs Standing Committee meeting to order at 8:04 a.m. Representatives Keller, Gattis, Hughes, Kreiss-Tomkins, and Lynn, and Senators Giessel, Wielechowski, and Dyson were present at the call to order.

CHAIR LYNN handed the gavel to Chair Dyson.

Overview: Department of Administration Health Care Plan

8:06:00 AM

CHAIR DYSON announced that the only order of business was the Department of Administration's health care plan overview.

[8:06:23 AM](#)

BECKY HULTBERG, Commissioner, Department of Administration, said she would cover national and state trends in health care costs and options being considered to improve the value and cost of the State of Alaska's health care plan. She said the department is not going to be making any significant plan changes this year, but she stated her belief that it is time to start the conversation as to what the state's plan might look like in the future.

[8:08:06 AM](#)

MS. HULTBERG began the PowerPoint presentation. She directed attention to slide 2, which shows national health expenditures (NHE) per capita, which have almost doubled in a decade and show

an alarmingly steep curve between 1960 and 2010. She said this is not a surprise; it is part of the problem the country is experiencing with health care.

[8:08:37 AM](#)

CHAIR DYSON asked, "Are these dollars of the day, or is inflation taken into that?"

[8:08:45 AM](#)

MIKE BARNHILL, Deputy Commissioner, Department of Administration, in response to Chair Dyson, said, "These would be nominal dollars; dollars of the day."

CHAIR DYSON asked for an estimate of what inflation has been over the 50 years depicted on slide 2.

MS. HULTBERG said she does not know, but proffered that slide 3, which shows the average annual growth rates for health spending and gross domestic product (GDP) per capita, offers "an idea of another important variable."

[8:09:16 AM](#)

MS. HULTBERG, in response to Representative Gattis, explained the reason changes would not likely be made this year is partly because of existing contracts and partly because the department is currently occupied with a request for proposals (RFP) for a third-party administrator, a pharmacy benefit manager, a health care management vendor, and a dental network.

[8:10:22 AM](#)

MS. HULTBERG, regarding slide 3, said the problem with health care has less to do with rising costs and more to do with costs rising at a level much greater than GDP, which means that health care costs are "consuming a larger part of our economic pie." She stated that health care inflation needs to be reduced down to the rate of inflation or at least to the rate of GDP growth, so that health care is not consuming more and more of the nation's resources.

MS. HULTBERG turned to slide 4, which shows estimated health care expenditures in Alaska, the source for which is the Institute of Social and Economic Research (ISER), 2011. Ms. Hultberg stated that in 2010, the state was at about \$7.5

billion in health care spending, which equates to half the well head value of oil produced in Alaska in 2010 and half of Alaska wages in 2010. She indicated that the chart on slide 4 illustrates the increase in the cost of health care to Alaska over time.

MS. HULTBERG directed attention to slide 5, which shows health care spending broken down into the following areas in which the state has health care costs: AlaskaCare, which covers a little more than one-third of the Alaska State employees; the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), and the Judicial Retirement System (JRS), which combined is a pretty large healthcare expenditure; Medicaid, which is the lion's share of the state's healthcare spending, although Medicaid provides many services that would not be considered "traditional" healthcare; Corrections, which covers inmate healthcare; Workers' Compensation, which has been a growing expenditure; [and Union healthcare]. In response to Chair Dyson, she explained that JRS covers retired judges.

[8:13:21 AM](#)

SENATOR WIELECHOWSKI said, "I assume these are fixed dollars" He asked if the cost for PERS healthcare is primarily covering Tiers 1, 2, and 3, and thus would "drop off as people age and retire out."

MS. HULTBERG responded that since the state has pension tiers that have been closed, the cost to the state for covering those covered under those tiers will decline; however, that will not be for some time since the state is on the crest of a large increase of retirees, which is going to drive the state's cost higher for the foreseeable future.

[8:14:14 AM](#)

MR. BARNHILL added that those costs are not expected to trail off until after a peak in 2046.

SENATOR WIELECHOWSKI said he would like to see that bell curve.

MR. BARNHILL relayed that he could provide that information.

[8:14:37 AM](#)

CHAIR DYSON referred to "chart 2" and surmised that inflation is at least 50 percent and closer to 100 percent in the last 50

years, but said that does not much affect the last ten years, on which the department has been focusing. He stated, "My guess is the jump here and the decades there would be less if they were constant dollars."

8:15:09 AM

REPRESENTATIVE HUGHES referred to [slide 5] and asked if the department has information regarding the number of participants in each category, the cost of each participant, and "how it compares."

MS. HULTBERG said she could gather that information, which may not be completely consistent but would be directionally correct. She explained that in its retirement systems, the department will often gather participation numbers at a point in time, but it is probably more accurate to get an average across the years. Further, all the data is not collected in exactly the same way.

8:15:55 AM

MS. HULTBERG moved on to slide 6, which shows State of Alaska contributions to active employee health plans. She said that on behalf of every employee, the State of Alaska pays a benefit credit, which goes to the following places highlighted on the right-hand part of the slide: AlaskaCare, which covers legislators, partially exempt employees, and several unions; the Alaska State Employees Association (ASEA) Health Trust, which covers the state's general government unit, which is the state's largest bargaining unit comprising over 8,000 employees; the Labor Trades and Crafts (LTC) [Local 51] Health Trust; and the Public Safety Employees Association (PSEA), which uses a third-party insurance.

8:17:38 AM

MS. HULTBERG, in response to Chair Dyson, explained that LTC Local 51 is a bargaining unit, which has a health trust to which the State of Alaska contributes money. In response to a follow-up question, she confirmed, "It's not just a health trust for those employees; it's a union health trust that has many ... different participants." She said she cannot name the participants, but said she is sure the trust would be willing to provide a list.

MS. HULTBERG continued with the list on slide 6: the Masters Masons Pilots (MMP) Health Trust, which she indicated has many

members, a small number of which are the state's employees; and the Alyeska Central School Education Association (ASCEA) and the Teachers' Education Association of Mount Edgecumbe (TEAME), the latter of which was part of the National Education Association (NEA) Health Trust, but terminated with NEA and came back to AlaskaCare. In response to Chair Dyson, she confirmed that the PSEA includes more than the Alaska State Troopers. In response to Chair Dyson, she confirmed that the PSEA includes more than the Alaska State Troopers. She explained that there are PSEA employees in many jurisdictions that are pooled together in the plan, which she reiterated purchases third-party insurance. She said, "From the state's perspective, we're still just writing the check, we're not managing the care or the coverage."

MS. HULTBERG pointed to the red bars on slide 6, which show that in the course of a decade, the state has gone from spending just under \$100 million to over \$250 million for the aforementioned populations of employees. She said the department is cognizant of this significant growth and working to contain it.

8:20:04 AM

REPRESENTATIVE HUGHES asked if there is any report that would show the employee contributions versus state contributions for all the plans. She said she can see the rate of growth and wonders if the employee contributions have been similar.

MS. HULTBERG replied, "We don't have complete visibility on the union health trusts, although we know what a lot of their employee contributions are." She reported that the State of Alaska funds the AlaskaCare economy plan premium at 100 percent. She said upcoming slides would show the breakdown between the portion the state pays and the portion employees pay in the AlaskaCare plan, and she reiterated that the state has a lot less visibility in the plans it does not manage.

8:21:09 AM

REPRESENTATIVE GATTIS asked if the upcoming slides at least would show what the state paid per person in those plans it does not manage.

MS. HULTBERG answered that the state pays the same amount per person in all the plans, with the exception of the ASEA plan, for which the state pays a higher amount, which was negotiated via contract. In response to a follow-up question, she said she had not listed the ASEA premium contribution separately, except

to note that it is a little bit higher; it equates to about \$2.5 million more for that fairly large group.

[8:22:02 AM](#)

MS. HULTBERG directed attention to slide 7, which lists the following groups under the AlaskaCare Health Plan: the Alaska Vocational Technical Center (AVTEC), which comprises employees in Seward, Alaska; Confidential Employees, an entity which primarily represents human resources employees who have a separate bargaining unit; Correctional Officers; Marine Engineers, an entity which includes those who work on the ferry system; Mt. Edgecumbe Teachers; the Supervisory Union, which is the state's second-largest bargaining unit; the Inland Boatmen's Union, which is another marine union; and the Exempt/Partially Exempt Employees.

[8:23:06 AM](#)

CHAIR DYSON said he would like more information pertaining to "the maritime people."

MS. HULTBERG said she could provide that information.

[8:23:24 AM](#)

MR. BARNHILL directed attention to slide 8, which addresses benefit credit - the health insurance credit the State of Alaska pays on behalf of each of the roughly 17,000 employees in the state. That monthly benefit credit has been roughly the same between bargaining units and partially exempt/exempt employees. The graph on slide 8 shows the increase from \$512 per month in fiscal year 2001 (FY 01) to \$1,250 per month in FY 12. He said the department has proposed in the governor's budget a benefit credit of \$1,389 per month for FY 14. He offered his understanding that the surplus the state pays on the ASEA Health Trust is \$27 per month. Mr. Barnhill said in early 2001-2002, there was some deviation among bargaining units related to that which was paid partially exempt/exempt employees, but more recently there has been a trend toward a uniform amount. He said the typical negotiation is for the benefit credit to equate to the monthly premium of the economy level plan in AlaskaCare.

[8:26:20 AM](#)

MR. BARNHILL said the three [medical] plan options in AlaskaCare are economy, standard, and premium, while the three dental plan

options are preventive, standard, and premium. The benefit credit equates to the economy level in the medical plan and the preventive level in the dental plan.

[8:26:40 AM](#)

MR. BARNHILL, in response to Representative Hughes, said the State of Alaska tends to be among the most generous of states in providing health insurance benefit credits. He offered his understanding that currently Alaska is one of a handful of states that pays all of the base level health insurance, which means that an employee who opts into the economy plan pays nothing for his/her insurance.

MR. BARNHILL turned to slide 9, which shows a trend over time for benefit credits, including alternating plateaus and sharp uptakes. He said currently the benefit credit trend is on a plateau, which has informed the department's internal discussion about managing the health plan. He said the department believes it has an opportunity at this point to become proactive in managing the plan, take advantage of the plateau, and "hopefully be able to mitigate somewhat the next time there's a sharp uptake."

[8:28:59 AM](#)

MR. BARNHILL reviewed those entities covered by AlaskaCare, as previously stated by Ms. Hultberg, and said that is about 6,400 of the 17,000 total employee population of the state. He said AlaskaCare became self-insured about 12 years ago, having been fully insured prior to that. He said Alaska statute conferred upon the Department of Administration the authorization to form self-insurance pools. He related that the general opinion is that self-insurance pools are less expensive to administrator, because they eliminate payment of the profit margin of an insurance company. The state uses HealthSmart, a third-party administrator, to process claims. He said HealthSmart became the state's third-party administrator at the beginning of 2012, when the processing unit of Wells Fargo - the entity that the state had chosen in the last procurement cycle - was acquired by HealthSmart. He said, "That procurement process for a third-party administrator we expect will be completed later this spring."

[8:30:59 AM](#)

MR. BARNHILL, in response to Chair Dyson, said the state puts time and effort into managing all its vendors for AlaskaCare. He said the state reviews a quarterly report and considers statistics. Further, the state considers the number of complaints submitted regarding the third party administrator and how those complaints are resolved. He explained that typically a contract for a third-party administrator is issued for a three-year term with two, one-year extensions. The state exercised the first one-year extension, but has opted to go out for another procurement cycle rather than exercise the second, one-year extension. He explained that because the state did not select HealthSmart in its procurement process, it decided it was prudent to go back out to the market and give everyone an equal chance to bid on the contract.

CHAIR DYSON clarified that he would like to know how the state evaluates proposals.

MR. BARNHILL said a four-person proposal evaluation committee, on which he is a member, will study every aspect of the proposal expected on February 8.

[8:34:21 AM](#)

CHAIR DYSON opined that the U.S. and the State of Alaska are paying for services that do not need to be done and are "probably paying more on some of them." He asked if there is a way to analyze "both our present provider and the ones we're considering."

MR. BARNHILL replied that those are complex questions, which concern the department. He said there is no easy means by which to evaluate whether care is being paid for that is not absolutely necessary. He said the department's data shows the schedule and cost of procedures, and it receives information from its providers suggesting areas in which the department could become more proactive in its management.

[8:36:10 AM](#)

SENATOR WIELECHOWSKI asked if the health care that employees receive under collective bargaining is negotiated as part of the collective bargaining agreement.

MR. BARNHILL answered that the only negotiated aspect of the health care received by employees under a collective bargaining unit is the dollar amount of the benefit credit. In response to

follow-up questions, he said each health trust has a board of trustees, which manage the health trust; the employees themselves do not manage it. He relayed that the bargaining contract period is typically three years.

[8:37:25 AM](#)

MS. HULTBERG, in response to Senator Wielechowski, stated her belief that the department is in its first cycle of having negotiated all the health contracts. She noted that changing established patterns in bargaining methods is difficult. Currently, she said, the department is not proposing significant changes in the way the state has handled health care through bargaining, but it is considering whether to do so in the future.

[8:38:12 AM](#)

MS. HULTBERG, regarding the third-party administrator contract, related that "a significant portion of the scoring for that ... request for proposals is on the network, because the network brings such a significant value, in terms of savings, to the state." She explained that the state currently does not have the capacity to develop its own network. In response to Chair Dyson, she explained that "network" means the negotiated discounts the state has with providers. She said the state has considered providing its own network, but does not have the resources at this time to do so.

[8:39:43 AM](#)

REPRESENTATIVE HUGHES offered her understanding that certain medical provisions can be provided at a lower cost outside of Alaska, and she asked how that factor may weigh into the RFP process.

[8:40:07 AM](#)

MR. BARNHILL confirmed that a large percentage of the score is affected by the discounts that providers in the network can provide. He said there is an Alaska bidder preference, which is 10 percent added to the score. He offered further details.

REPRESENTATIVE HUGHES clarified that she is wondering about preference for the healthcare providers in state versus out of state.

[8:42:27 AM](#)

MS. HULTBERG responded that the State of Alaska has both employees that live and work in Alaska and retirees that live out of state, and the state needs to provide the best possible cost for their care no matter where the employee [or retiree] lives. She stated that through the process of the network, the department is not necessarily comparing one market to another, but rather is looking for the best price it can get in each area. The department looks to the third-party administrator to bring innovative ideas, such as a centers-of-excellence network, which may provide the state with low-cost, high-quality, large medical centers for certain procedures. She summarized that the department looks for which network provides the best value in any location in which the state's members live, including the Lower 48.

[8:43:53 AM](#)

SENATOR WIELECHOWSKI offered his understanding that most of the employees that work for the state are members of the union, which manages the health trust with a flat rate provided by the state. He asked who is on the "self-insured plan."

MS. HULTBERG said the list is on [slide 7]. She said, "It is a number of bargaining units, but it is also our exempt and partially exempt employees." In response to a follow-up question, she confirmed, "That list encompasses the ... 6,400 people."

[8:44:38 AM](#)

CHAIR DYSON stated that a great interest of his has been medical fraud. He offered his understanding that of the estimated \$1.4 to \$1.6 billion spent on Medicare, the fraud in Alaska is between \$200-400 million. He asked if the department evaluates its administrators on their proven capacity to detect fraud.

[8:45:31 AM](#)

MS. BARNHILL responded that he does not recall seeing the word "fraud" in the RFPs, but said he could look for it. Notwithstanding that, he said the state does evaluate on the ability to "appropriately process claims," which not only encompasses fraud, but also "the provision of care that falls short of fraud, but may fall into the medically unnecessary category, may fall into a gray category, [or] may fall into a

medically necessary category but wasn't covered in the initial go-around." He said the department wants to ensure accurate and expedient claim processing.

CHAIR DYSON said the Department of Health and the Department of Law are "trying to work on that."

MR. BARNHILL said his sense is that if there is a tendency towards error on the part of the current claims administrator, it is that it is too conservative on how it grants claims. He said this is known to the department because of "a fair amount of noise from folks who've had a claim denied or reduced for some reason" and "believe it was done inappropriately."

[8:47:15 AM](#)

MR. BARNHILL returned to slide 10, which shows plan highlights, including: there are 6,400 employees and 10,000 dependents covered under the plan; there is an economy, standard, and premium plan, the premium requiring the employee to pay the most; there is a hybrid plan not shown on the slide, which is a premium plan for the employee and standard plan for the family; there is a preventative, standard, and premium dental plan, and by statute employees are required to elect dental coverage; and there is standard and managed care. He said any choice above standard requires the employee to pay through payroll deduction. Mr. Barnhill directed attention to slide 11, which shows the cost structure of the plans, including the deductibles, the co-insurance amounts, and the annual out of pocket maximums. He pointed out that the deductibles are higher in the less expensive plans and lower in the more expensive plans. He said the coinsurance amount is the amount that the plan will reimburse the employee, and it is 70 percent in the economy plan, 80 percent in the standard plan, and 90 percent in the premium plan. He said the out-of-pocket maximums also reflect the entire cost of the plan: \$2,000 per person after deductible in the economy plan, \$1,000 per person in the standard plan, and \$300 per person in the premium plan. He said the plan is grandfathered, but the state complies with the Affordable Care Act, which requires no lifetime maximum. The plan has a co-pay of \$100 for [each incident] for nonemergency use. Recently, he said, the state has added the coverage of preventive care to incent plan members to practice better self-care, and it is monitoring the outcome. The state also complies with the Affordable Care Act in covering dependent children up to age 26.

[8:50:36 AM](#)

MR. BARNHILL referred to slide 12, which shows premium rates for FY 13. He noted that the cost of the economy medical premium plan is \$1,330, equal to the benefit credit. He listed the amount the employee would pay through payroll deduction under the plans: \$0 for economy; \$117 for standard; \$615 for premium; and \$327 for the aforementioned hybrid premium. He said Alaska is one of only four states to cover 100 percent of the premium for the lowest cost family insurance policy. He said one problem the state is facing is that the premium rates do not accurately reflect the cost of the plans; increased utilization of the premium monthly plan has increased the cost to the state, while in the economy plan the costs are considerably lower. He stated, "And so, what's happening functionally is over time we've allowed a subsidy to creep in that runs from the economy plan participants ... to the premium plan participants, and the amount of that subsidy this year is roughly ... \$900 per month." He said there is not easy way to figure out a solution, but the state is working on the issue.

[8:53:13 AM](#)

MR. BARNHILL mentioned the department's involvement with stakeholders and a health benefits evaluation committee, with which the department meets quarterly. He said the stakeholders are aware of the subsidy. He opined that it is unfair to the economy and standard level participants for the state to be subsidizing its premium level participants at the level that it does.

[8:54:10 AM](#)

MR. BARNHILL, in response to Representative Keller, said he thinks the assumption that the premium plan includes people with expensive medical conditions is probably correct. The premium plan also may include people who, for whatever reason, utilize care at a higher rate. He said these are difficult questions regarding fairness, but he suggested the need to address the issue over time. He relayed that the state's actuaries have confirmed that this level of subsidy is outside of the norm. He opined that it crept in because when the premium amount is increased on an annual basis, the factor used to increase it is the same for each plan. For FY 14, the proposed increase to the premiums is 4.4 percent for each level [of the plan]. However, if the utilization of care for each level is not increased by 4.4 percent, the result is that the subsidy spread increases over time, which is what is happening.

CHAIR DYSON expressed appreciation for Mr. Barnhill's frank delivery of information, which he said builds credibility.

[8:56:47 AM](#)

MS. HULTBERG, in response to Senator Wielechowski, clarified that the state does not negotiate the premium or standard plan coverage; it just negotiates that it will cover the benefit credit for the economy [medical] plan and the preventive dental plan. Furthermore, she said the fact that there are several plans is not negotiated.

SENATOR WIELECHOWSKI offered his understanding that the state negotiates just one number, and then the union, through its health trust, negotiates the rest.

MS. HULTBERG indicated that is correct regarding the union health trust. She said, "Their coverage looks very different ... [from] ours, and quite frankly that's kind of problematic." She explained that the state is one employer with employees who move between supervisory and nonsupervisory positions. She stated, "... the ASEA Health Trust has an employee only plan; we don't." She said while there never will be complete plan alignment, the department's more regular meetings with the union health trusts will enable discussion of the current misalignment.

[8:58:53 AM](#)

SENATOR WIELECHOWSKI asked who is doing the better job managing health funds. Regarding the previous report that Alaska is one of only four states to cover 100 percent of the premium [for the lowest cost family insurance policy], he suggested that there are many factors to collective bargaining agreements, such as wages, health care benefits, and pensions, and perhaps the State of Alaska ranks high in what it pays into health care but ranks the worst in the nation for having no social security benefits for public employees.

MS. HULTBERG responded that she completely disagrees with Senator Wielechowski's assessment, but said she does not think now is the time to delve into the issue of the defined benefit pension. She said the department's purpose is not to make a value judgment, but to give the committee a view of what the department's plan is and how that plan compares to national norms.

9:00:10 AM

MR. BARNHILL said he thinks the ASEA Health Trust does a good job in managing health care. He said the state's concern is in managing "the whole." He stated, "When we fragment our employee population like this, you lose the benefit of scale." He said one of the most important aspects to managing risk is the size of the pool. He credited the ASEA Health Trust with being innovative and forward thinking; however, he surmised that it would be more cost effective "if we could all do those things in a single pool."

9:01:15 AM

REPRESENTATIVE HUGHES referred to Mr. Barnhill's previous remark that the subsidy being paid by the state is approximately \$900. She offered her understanding that that means "the premium for the economy [plan] could really be about \$400 and the premium for the premium plan would be around \$2,800-\$2,900." She surmised the reason the state has not increased the amount that the employee enrolled in the premium plan pays through payroll deduction - currently at \$615 - is because there would be an outcry. She recollected that Mr. Barnhill had mentioned a 4.4 percent, across-the-board adjustment. She asked why the state has not raised the amount those on the premium plan are paying.

9:01:57 AM

MR. BARNHILL replied that Representative Hughes is probably right that there would be an outcry if an adjustment was made "to correspond to experience," but in response to the rest of her statement he offered the following clarification:

There isn't a one-for-one. For FY 14, if we did a one-for-one, the premium plan amount would go up to somewhere around \$2,800 a month; the standard plan would go up to \$1,400-\$1,600 a month; the economy plan would go down to somewhere in the range of ... \$800 a month. That would create dislocation. We're not proposing to do that, we're just noting that that's what the relative costs of the plan are, and how you unravel that, I don't have an answer for you.

9:02:49 AM

MS. HULTBERG stated that those who are electing the lowest cost plan premium are subsidizing the higher level plan through their dollars, and she posited that the state has a moral obligation to address the issue and avoid unintended consequences. She related that the department is proposing to make incremental changes to avoid creating significant dislocation; however, she said she cannot say yet what those changes will look like.

[9:04:03 AM](#)

CHAIR DYSON asked if there is a correlation between which plan employees choose and their utilization of the services.

[9:04:23 AM](#)

MS. HULTBERG answered that the department needs to study the premium plan in particular to understand that dynamic. She agreed that many people choose the premium plan because they know they are sick and need it; however, it is also likely that consideration is given to the out-of-pocket amount, which is less in the premium plan. She said the department does not know how much of the plan cost is related to disease profile and how much is related to utilization.

CHAIR DYSON said he thinks that would be a valuable analysis, and he said he suspects the move toward preventative care will impact costs in the future.

[9:05:22 AM](#)

MR. BARNHILL directed attention back to slide 12, and said there are two parties in any medical transaction: the patient and the provider. He stated that historically, whenever government subsidies flow into the marketplace, marketplace participants act rationally by increasing their cost structure. He said this happens in universities and in medical care throughout the country. Thus, he said he thinks it is unfair to focus the discussion primarily on patient utilization.

[9:06:43 AM](#)

CHAIR DYSON said some time in the future he would like details regarding discounts available from various providers in the network.

[9:07:14 AM](#)

MS. HULTBERG stated that overall the department tends to have preferred providers within the network at the primary care level and where there is hospital competition. She said generally specialists within the network tend not to join the network, which makes costs for their services much higher.

9:08:06 AM

CHAIR DYSON noted that pharmacists have claimed that they are at a disadvantage because the state is "going to outside providers," which he surmised gives an advantage to the state. He said he would like to know how much the state saves by going Outside to get providers, even when local providers get a 10 percent credit. He requested the department send that information to his office and the office of Chair Lynn.

9:08:58 AM

REPRESENTATIVE HUGHES, regarding market response, asked if the department has specifically seen charges for preventive procedures rise following the incorporation of preventative care coverage in the plan.

MR. BARNHILL answered that it is too soon to tell, but the department is watching for that.

9:10:05 AM

MR. BARNHILL directed attention back to the coinsurance amounts of 70 percent for economy, 80 percent for standard, and 90 percent for premium, on slide 11, and described a situation in which over time providers would give the state steeper discounts and the state could set the coinsurance amounts at 90 percent across the board. He explained that the providers would win by having higher volume, the state would win by having lower costs, and the plan participants would win by having higher co-insurance amounts. Mr. Barnhill said that is called "steerage," which is what a network can provide, but said, "We don't have that in Alaska." He said the department would like to figure out how to implement effective steerage, but not necessarily by steering participants out of state. He said the department would like to steer participants to providers in the state that can provide high quality care at a discount in exchange for volume.

9:11:22 AM

CHAIR DYSON mentioned that a constituent had received substandard, unethical treatment from a preferred provider and had no choice to see another provider without having to pay a lot more out of pocket.

MR. BARNHILL responded that it is the responsibility of the plan administrator to ensure that the care that is being paid for is required and necessary.

[9:12:15 AM](#)

REPRESENTATIVE KELLER remarked that there are many consumers of health care that are outside of the network. Regarding the RFP process, he asked, "Will it be considered whether or not the pricing will be transparent for all?"

[9:13:03 AM](#)

MS. HULTBERG said the department wants a functioning market, and one factor is how much things cost. There are not many services outside of healthcare where a person would buy something without finding out the cost first, but in healthcare it is very difficult for a person to find out the cost of service ahead of time. She said this is an issue of focus for the Health Care Commission and others around the state. She said she thinks there are larger policy issues regarding transparency and pricing that can be considered at the state level, but from a plan perspective, she said she wants to ensure the state educates its employees to be better consumers and the third-party administrator works to help those employees, as well.

[9:15:04 AM](#)

CHAIR DYSON indicated that his work with Representative Keller on "truth in billing" panicked providers. He said he was told by the largest provider in the state that it does not know what individual things [cost]. He said cost-shifting from the services that do not pay for themselves to those that do is frustrating.

[9:15:56 AM](#)

MS. HULTBERG said the department is seeing some positive signs regarding transparency in pricing outside of Alaska that she thinks are "creeping into the state." She said one solution is a bundled payment plan, which, using the example of a hip surgery, would include the hospital's fee, the surgeon's fee,

and the anesthesiologist's fee wrapped into one payment. She said the state can request bundled payments and innovation in an effort to impact the market. She said the goal of the department is not to get the best deal for [state employees] and have small businesses pay more; it is to be a catalyst in the fundamental transformation of the market into a more transparent one. She opined that although "we" are a relatively small plan, "similar actions by multiple employers can help have that impact on the market."

CHAIR DYSON asked why the department can't just require the desired information in the RFP.

MS. HULTBERG answered she does not think the present RFP includes such language, but she thinks it should be a future consideration.

CHAIR DYSON opined that "getting the information on the cross subsidy" is what the customer needs to know.

9:18:19 AM

MR. BARNHILL directed attention to slide 13, which shows worker and employer premium contributions in a bar chart - information provided by Kaiser Health Consortium. He said the relative level of participation is roughly the same, but private employees tend to pay about \$4,500 a year out of a premium total of just over \$15,000 - 25-30 percent; public employees tend to pay a little less with slightly higher premiums - about 25 percent; non-profit employees pay a little more on average; and employees across the country pay about \$4,300 in premiums out of a total of approximately \$15,700. He said if [Alaska's] economy plan were added to the bar chart, its bar would be all one color to reflect that the entire premium is paid through the employer contribution. He indicated that slide 13 shows that Alaska is currently outside the norm, and said a discussion needs to take place with the legislature and the stakeholders to determine whether the state should "go more into the norm" and how that should happen. He said that may seem threatening to those employees currently paying nothing for [health] care, but it is not intended to be. He expressed the department's desire to have sustainable health care for Alaska employees and retirees and for private citizens in Alaska.

MR. BARNHILL said the current path is unsustainable. Currently, he said, the discussion in school districts is not how to maintain health insurance "and" sustain the teacher count; it is

whether to maintain the insurance "or" sustain the count. He invited the legislature to join the department in the discussion of how to get to a point of sustainability. He said the department believes that where there is "more employee skin in the game" - when subsidies are pulled back - provider costs decrease. He said that is something that also needs to be addressed.

9:21:52 AM

MS. HULTBERG, in response to Senator Wielechowski, said that to a great extent, commercial payers are subsidizing emergency room visits made by those without insurance, as well as the portion of costs that Medicare does not cover; however, she said she does not know the exact numbers.

9:22:56 AM

REPRESENTATIVE KELLER, regarding sustainability, said he read an Internal Revenue Service (IRS) projection that the cost per family for health insurance coverage in 2018 will be approximately \$20,000. He said he appreciates and concurs with the approach taken by the administration, but said he would appreciate knowing what the state anticipates paying per employee in 2018; he estimated it would be another 33 percent.

MS. HULTBERG said that projection could be provided. She noted that there is another slide in the presentation illustrating that by 2037, health insurance premiums will "swallow the average paycheck."

9:25:21 AM

MS. HULTBERG, in the interest of time, moved on to slide 25, which shows the two approaches that the department is considering. The first is a value-based health plan, which uses financial incentives to encourage healthful choices and discourage unhealthful choices. She said that approach is more paternalistic than customarily used in a "government context" or an "Alaska context." She relayed that the State of Nebraska has implemented this model successfully. The other approach is a consumer directed health plan (CDHP), which she described as "a high deductible health plan married with a health savings account." In the CDHP, the money the employee spends is from his/her own account. Further, the plan protects the employee from high-cost events and provides the employee with money to use for health care now and "roll over for future health care."

She said the State of Indiana has implemented this model and seen significant savings. She said the department may consider combining the best from both approaches in the future. She noted that the next few slides offer further details.

[9:27:04 AM](#)

MS. HULTBERG directed attention to slide 30, which lists opportunities for AlaskaCare. The first opportunity is the implementation of an employee wellness program, which includes: monitoring free preventive care as a pilot program; coverage of tobacco cessation, including pharmaceuticals; encouraging "Walk at Work" and other fitness challenges to promote health; and covering the pilot program "Weight Watchers at Work," which has produced life-changing results. Ms. Hultberg said the next opportunity is improved consumerism and appropriate utilization of services by members. She emphasized the importance of employees becoming educated consumers of health care. She said another opportunity is to create a plan for financial alignment between the payer, the patient, and the provider, which she said is necessary to ensure a well-functioning market. She relayed that such alignment currently does not exist, which skews costs in health care. Another opportunity is to consider contracting strategies to get the best network and leverage the best prices for the state. The final opportunity is procurement of a third-party administrator, which will allow the bigger issues previously discussed to be addressed.

MS. HULTBERG said the department is at the beginning stages of improving the health plans, and she encouraged feedback from the legislature.

[9:30:19 AM](#)

CHAIR DYSON thanked the presenters and encouraged committee members to submit further questions to his office or the office of Chair Lynn.

CHAIR DYSON handed the gavel back to Chair Lynn.

[9:30:47 AM](#)

CHAIR LYNN wished Representative Kreiss-Tomkins a happy birthday.

[9:32:05 AM](#)

ADJOURNMENT

There being no further business before the committees, the joint meeting of the House State Affairs Standing Committee and the Senate State Affairs Standing Committee was adjourned at 9:32 a.m.