ALASKA STATE LEGISLATURE
SENATE HEALTH AND SOCIAL SERVICES STANDING COMMITTEE
February 17, 2016
1:32 p.m.

MEMBERS PRESENT

Senator Bert Stedman, Chair
Senator Bill Stoltze
Senator Johnny Ellis

MEMBERS ABSENT

Senator Pete Kelly
Senator Cathy Giessel, Vice Chair

COMMITTEE CALENDAR

PRESENTATION: ALASKA HEALTHCARE MARKETPLACE

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LORI WING-HEIER, Director
Division of Insurance
Department of Commerce, Community and Economic Development
Juneau, Alaska
POSITION STATEMENT: Presented information on the Division of Insurance.

FRED PARADY, Deputy Commissioner
Department of Commerce, Community and Economic Development
Anchorage, Alaska
POSITION STATEMENT: Commented on health insurance.

SHEELA TALLMAN, Premera Blue Cross
Mount Lake Terrace, Washington
POSITION STATEMENT: Presented information on Premera.

JASON GOOTEE, Director
Alaska Sales and Services

Moda Health
Anchorage, Alaska
POSITION STATEMENT: Presented information on Moda Health.

CRAIG ANDERSON, Senior Vice-President
Moda Health
Portland, Oregon
POSITION STATEMENT: Presented information on Moda Health.

BECKY HULTBERG, President and CEO
Alaska State Hospital & Nursing Home Associates (ASHNSA)
Juneau, Alaska
POSITION STATEMENT: Presented information on ASHNSA health care costs.

ACTION NARRATIVE

1:32:04 PM
CHAIR BERT STEDMAN called the Senate Health and Social Services Standing Committee meeting to order at 1:32 p.m. Present at the call to order were Senators Ellis, Stoltz, and Chair Stedman. He said the intent today is to gather data on the healthcare marketplace and the state of health insurance in Alaska.

Presentation: Alaska Healthcare Marketplace

1:34:10 PM
CHAIR STEDMAN announced a presentation on the Alaska Healthcare Marketplace.

CHAIR STOLTZE requested information on the 80th percentile rule, the effectiveness of the Alaska Comprehensive Health Insurance Act (ACHIA) and how the Affordable Care Act (ACA) interacts with it, and the interplay of the size of Alaska's insurance market.

1:37:17 PM
LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), presented information on the Division of Insurance.

FRED PARADY, Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED), commented on health insurance.

MS. WING-HEIER addressed Senator Stoltze's questions. She explained that ACHIA is still active, but has only a few members left as most have gone to the Affordable Care Act (ACA) due to

lower premiums for health care. It exists because there is no market for medical supplements, particularly drugs, in Alaska.

She said the 80 percent rule went into effect about 13 years ago because of consumer concern about huge balance billings on what they perceived should be covered. The rule says that payment shall be made at no less than the 80th percentile out of network. Concern has been raised by various parties that it is time for that rule to be changed. She said the division will look at it after session is over.

1:41:03 PM
SENATOR STOLTZE said the 80th percentile rule was originally for consumer protection and now it is not providing protection due to Alaska's small market and lack of competition.

MS. WING-HEIER agreed that is a concern that physicians not in provider agreements are setting the 80th percentile amount. She said there are two sides to the issue and the division needs to address it.

1:42:55 PM
MS. WING-HEIER said the mission of the Division of Insurance is to regulate the insurance industry to protect Alaskan consumers. The division has the responsibility to review and approve rules, forms, and rates based on an analysis of whether they are excessive, inadequate, or unfairly discriminatory. The division does not have statutory authority to deny rates because of the financial impact to the consumer.

She provided a list of frequently-used insurance terms and acronyms.

1:45:18 PM
MS. WING-HEIER said she wants to focus on risk assessment, risk corridor, and reinsurance - all risk stabilizing mechanisms built into the ACA. Two will sunset and one has not performed as expected. She said she would also discuss the non-grandfathered plans, which will move into the ACA plans and will slightly build the market.

She addressed the progression of ACA and its plan requirements. Prior to March 23, 2010, plans are considered grandfathered and are not subject to all of the ACA criteria. They will not come into the ACA except in several plan-changing circumstances. At the end of 2013 when people decided to enroll, there was frustration and concern, so President Obama made the decision to

allow people to keep their plans for a certain period. Those are called the non-grandfathered plans and they will grandfather this year and must be rewritten to comply with ACA as of January 1, 2014. These plans will enlarge the pool somewhat.

She addressed plans written from January 1, 2014, and forward, which were the first plans to become effective. Numerous changes have been made to those plans.

1:49:28 PM
MS. WING-HEIER drew attention to the timeline of ACA, with a focus on October 1, 2015, and to the risk corridor payments. The insurers participating in the individual market were expecting to be reimbursed at 100 percent of the risk corridor. The program failed and they were reimbursed at 12.6 percent. The request to pay for fixing that has been denied by Congress. It is a great concern for insurers.

1:51:13 PM
MS. WING-HEIER showed who was enrolled in the individual and small group plans in 2014 and 2015: Premera, Moda, Time/John Alden/Assurant, and all others. In 2015 there were 29,007 in the individual market and 21,645 in the small group market. As of January 31, 2016, there are 23,029 in the individual market. She showed the numbers of grandfathered and non-grandfathered members.

Currently, only Premera and Moda are in the individual market; Aetna and Assurant have left as of 2016. In the small group market are Premera, Moda, Aetna, United Health Care, and others.

1:53:19 PM
MS. WING-HEIER turned to sources of health insurance in Alaska by showing a graph. About 16 percent of Alaskans are not yet buying insurance and employers are the largest source at 49 percent. Individual plans are a very small portion at 3 percent.

1:53:35 PM
MS. WING-HEIER addressed the healthcare insurance filing process. The Division of Insurance is given its authority through regulation, the administrative code, and by statute. She listed criteria for rate reviews.

She spoke of three important terms related to rates: they may not be excessive, they must be adequate, and they must not be unfairly discriminatory. The process entails an expected cost of claims, the overhead and administrative costs of the insurer,

and the expected profit of the insurer. Adequacy means they must be able to cover their costs.

1:56:21 PM
MS. WING-HEIER explained that Alaska was approved as an effective rate review state by the U.S. Department of Health & Human Services in January of 2012. The division is doing what it can to keep rates low and has hired an outside consultant to review the rates. The division tries to keep rates low and keep companies solvent.

1:57:22 PM
MS. WING-HEIER addressed the historical loss rations for Premera. Premiums and claims increased after the ACA in 2013. In 2014 Premera was paying out $1.05 in claims for every dollar taken in. Moda had a similar story. The small market is performing better than the individual market, currently.

She went over rate increases for Premera and Moda since ACA. In 2016 Premera had a rate increase of 38.7 percent and Moda had a rate increase of 39.6. She addressed rate increases for Celtic, Aetna, Time, and John Alden.

2:00:04 PM
MS. WING-HEIER related information about the three R's. She explained that risk adjustment transfers money among insurers to adjust for the possibility that some insurers may get more or less than their proportionate share of costly enrollees. It is not working as well as expected and had the opposite effect of what was intended. Reinsurance is one of the taxes associated with the ACA and is applied against health insurance policies and employer group health plans. It will sunset in 2016 causing rates to increase somewhat. The risk corridor provides a range for profits or losses for insurance on the FFM. It did not work as intended and the federal government chose not to fund it. It is money due to insurers, but has not been paid.

2:03:34 PM
MS. WING-HEIER talked about a study on health care costs. She listed the reasons for the high costs; Alaska costs are amongst the highest in the nation and Alaskans don’t utilize health care well. The providers, insurers, and constituents must work together to solve this problem.

2:05:01 PM
MS. WING-HEIER turned to ten potential premium drivers in 2017. She listed healthcare costs and utilization, changes to

essential health benefits and the CMS actuarial value calculator, three years of data, continued migration of plans, concerns about insurers merging and exiting markets, on-going uncertainty about ACA court cases and the 2016 elections, transitional reinsurance, risk corridor, and changes in fees and taxes.

2:06:48 PM
MS. WING-HEIER pointed out that Alaska is a rural state and the cost of healthcare is amongst the highest in the nation. There are limited providers and challenges with provider networks. The individual market remains at 20,000 to 22,000 and may have settled. There is adverse loss experience due to the health status of those enrolled. National cost drivers do impact Alaska.

2:07:50 PM
MS. WING-HEIER spoke of a Section 1332 innovation waiver, which a few states are doing. It would allow Alaska to withdraw from ACA and provide the same benefits to consumers without any additional cost to the federal government. Alaska is looking into it.

2:09:10 PM
MS. WING-HEIER mentioned other solutions being considered, such as a possible Premera and Moda reinsurance program to be administered by ACHIA. Regional exchanges involves partnering with other western states, and combining the individual and small group markets to spread the risk amongst more enrollees.

2:10:24 PM
CHAIR STEDMAN asked about rate increase projections for 2017.

MS. WING-HEIER thought there would be a rate increase based on looking at a stable population, medical trends, and loss of reinsurance and the risk corridor.

SENATOR STOLTZE asked about increasing certificate of need competitiveness.

MS. WING-HEIER said they have not looked at it.

2:12:20 PM
SENATOR ELLIS asked how far along regional exchange discussions are.

MS. WING-HEIER said they are not very far along. They are still in discussion stages. Washington and Oregon are healthier markets than Alaska, so the state is talking more with Wyoming, Montana, and Idaho.

SENATOR ELLIS asked about the advantage health care professionals in Alaska have over insurers and the small number of health care providers in Alaska. He wondered what other factors play into the imbalance between insurers and health care providers.

MS. WING-HEIER said one problem is that there are few providers in rural Alaska. Also, people are going out of state for treatment because it costs less. The division is trying to find the balance and keep those services in Alaska. In order to keep current providers there must be a discussion with insurers.

2:15:56 PM
SENATOR ELLIS commented that the "division does not have statutory authority to deny rates because of the financial impact to the consumer." He maintained that the system is out of balance and the legislature ought to redress this imbalance and provide statutory authority for the division for rate review; to bring more statutory authority to the division and ensure a better balance of consumer interests and private sector company influence.

2:17:50 PM
MR. PARADY said, "Insurance is like a hospital gown, you think you are covered and you're not."

2:18:38 PM
SHEELA TALLMAN, Premera Blue Cross, Mount Lake Terrace, presented information on Premera. She said Premera has operated in Alaska since before statehood in 1052 and provides coverage to over 109,000 Alaska residents. It offers coverage to individuals/families, small employers, and large employers, as well as offering services to larger self-funded employer groups.

She said she would address changes to the market that are impacting Premera's individual plan premiums, describe the overall individual pool experience, and suggest a policy approach to stabilize the individual market.

She said with health reform, in 2014, the major change to the insurance market was guaranteed issue to all individuals without preexisting condition exclusions. This provided access to

several thousands of individuals. Premera priced products estimating the impact of the uninsured purchasing coverage for the first time. Premera experienced a significant influx of new enrollees with very high medical costs leaving the high risk pool and the federal preexisting condition pool, and Premera lost more than $13 million in the individual market.

She continued to say that for 2015 and 2016, Premera had approximately 37 percent to 39 percent average rate increases for the individual metallic plans, impacting 8,000 enrollees. They are expecting to have the same or more in financial losses even with these premiums. Premera is taking in on average $713 in premium per member per month and paying claims at $919, demonstrating the very high claims costs in the individual pool.

She noted that individual purchasers are also older - on average around 40 compared to before 2014 when it was 35. The changes are having a dramatic impact on the individual market.

MS. TALLMAN reported that guaranteed access to private healthcare coverage regardless of health states is available and has increased the size of the market. But, in a very small-sized market like Alaska, there are not enough healthy individual purchasers to offset the costs of enrollees with very high medical needs. There is an unsustainable market with two years of almost 40 percent rate increases for the two insurers.

She related that a premium for a 40-year-old in Anchorage purchasing a Silver or Gold plan is between $860 to almost $1,000 per month. While the majority are receiving subsidies in the Exchange, Premera has approximately 1,600 individuals purchasing coverage off the Exchange who are not getting subsidies.

MS. TALLMAN turned attention to the federal 3 R's programs - federal risk mitigation programs, which were designed to minimize the effects of adverse selection and stabilize premiums in the individual market. They are insufficient at the very high end of the claims costs, which is what Premera is experiencing, and are not able to help spread the risk in a market that is too small. Two of the three R's are sunsetting after 2016. She said the key to addressing this situation is to create a large enough pool to spread the cost of members with the significant medical needs.

Premera and Moda are supporting the concept of a state reinsurance program to help stabilize the individual market from

these significant premium swings. They have met with legislators to discuss this approach. The reinsurance concept would spread the claims from highest cost medical conditions across the entire insured market using the state's high risk pool - ACHIA - to administer the program. Claims costs from the individual market would be spread across a larger base and paid for using the current ACHIA assessment, which is assessed on insured plans. This will help lower individual premium increases. This reinsurance solution was implemented by ACHIA in 2013 to ensure that child-only health policies were available in the individual market. By spreading the costs of very sick patients across a broader pool, insurers were able to continue to offer policies. Using ACHIA, the reinsurance program for the individual market today could be implemented efficiently given ACHIA's experience and with minimal to no administrative costs, since the infrastructure already exists.

She said Premera and Moda have submitted data to the Division of Insurance and ACHIA for a study to evaluate the impact of this proposal on individual premiums as well as the assessment. A reinsurance program would not only help address premium increases, but also stabilize the market, which can potentially attract new competitors into the individual market. It will also provide more financial certainty to consumers about health coverage.

2:24:55 PM
MS. TALLMAN concluded that Premera is very concerned that these continued rate increases to cover the rising medical costs are driving healthier individuals out of the market - resulting in an ever-shrinking pool to cover these very high costs and is not sustainable. Premera is committed to the individual market in Alaska and looks forward to working with the legislature to create a sustainable market for Alaska residents.

CHAIR STEDMAN asked for predictions for 2017.

MS. TALLMAN expected to see rate increases.

2:26:59 PM
JASON GOOTEE, Director, Alaska Sales and Services, Moda Health, presented information on Moda Health. He said Moda is committed to the Alaskan market and has been in Alaska for 12 years. He said Moda administers the state dental contract and works with Central Peninsula Hospital on a pilot program to control costs. Moda is a believer in providing Alaskans with consumer choice and access to health care through the Exchange market.

2:28:20 PM
CRAIG ANDERSON, Senior Vice-President, Moda Health, presented information on Moda Health. He agreed with Mr. Gootee about Moda's commitment to the Alaska market and willingness to work with any interested parties on the financing of health care for Alaskans. He said much of the news recently has been focused on the individual market in Alaska with rate increases and limits in choice for consumers. He suggested to keep that in perspective with the entire medical market in Alaska. He related that most health coverage in Alaska is provided by work places with self-funded plans. That type of health coverage is not as greatly impacted by the ACA as is individual and small group lines of insurance.

He stated that health care coverage is more expensive in Alaska than in Oregon and Washington where Moda also does business. Costs are between 30 percent and 60 percent higher. To address this issue there is a trend toward "medical tourism" where people can get less expensive care out of state. He countered that those programs have clinical and economic implications to Alaskans. Costs are higher in Alaska because providers have significant leverage over insurers compared to other states when negotiating rates. Also, the utilization of services in rural areas is higher and there is a scarcity of health care providers.

MR. ANDERSON reported that the individual market currently has between 20,000 and 22,000 people with coverage, which is about 3 percent to 4 percent of Alaska's population. With the expansion to the federal Exchange, the number of people covered grew from 13,000 to roughly 23,000 in 2014. He said Moda has been a strong supporter and participant in the expansion of individual coverage through the ACA. Part of the concern is the small pool of insured in Alaska. Moda hopes to address this problem with a state re-insurance proposal in collaboration with the Division of Insurance, ACHIA, and Premera. Moda is very supportive of the concept.

2:33:08 PM
He addressed problems related to the three-year implementation of the expansion under ACA. There have been financial losses due to the lack of full funding of the risk corridors, which has put a strain on Moda and has brought regulatory scrutiny. Carriers have left the market and existing carriers, such as Moda, sustained losses. To address these problems, providers need to

work with consumers and the government to help control costs and to ensure that the programs are viable in 2017 and beyond.

MR. ANDERSON concluded that, in spite of the uncertainties, the individual market has grown as a result of the ACA. Even though there have been high rate increases for the carriers participating in the exchange, hhs.gov has published some encouraging facts. He shared that 89 percent of Alaskan consumers who signed up through the Exchange qualified for an average tax credit of $534 per month; 50 percent obtained coverage for $100 or less after any applicable tax credits in 2015, and 86 percent have option to do so.

2:35:12 PM
SENATOR STEDMAN thanked the presenters.

2:35:40 PM
At ease

2:38:56 PM
BECKY HULTBERG, President and CEO, Alaska State Hospital & Nursing Home Associates (ASHNSA), presented information on ASHNSA health care costs. She provided background on ASHNSA, which represents more than 65 hospitals, nursing homes, and other health care organizations and employ over 10,000 Alaskans. She said hospitals are one part of healthcare spending. She showed a graph that compared U.S. healthcare costs with those of other countries, showing that U.S. healthcare costs are significantly higher than in other industrialized countries. She said healthcare is a market-based system that is significantly influenced by government, so it is hard to parcel out the causes of cost increases. She provided examples of wage controls from WWII that led to today's employer-based healthcare system and the influence of Medicaid and Medicare spending.

2:41:27 PM
MS. HULTBERG addressed why health care costs more in Alaska. She listed reasons: workforce costs are higher, geography causes higher transportation costs, there are fewer people to spread costs, provider payments are higher, and the regulatory environment is burdensome. She stated that, "For every complex problem there is an answer that is concise, clear, simple, and wrong." She maintained that the solution is to look at the problems in a different way and understand system-level problems.

She listed more complex, but accurate reasons why costs are high: the health insurance system contains a disconnection of patients from the cost of their care; in the payment system, providers are paid based on volume; there are cultural and social expectations about health care; the regulatory system continues to add to the administrative burden.

She said, "We are getting the health care system we think we want. If we want something different, it will require hard choices."

2:45:01 PM
MS. HULTBERG turned attention to the health insurance and payment systems. She showed a graph of cumulative increases in health insurance premiums and workers' contributions to those premiums, contrasted with their earnings. It shows that the increased cost of health insurance has eaten up much of the wage gain for workers. Employees are bearing most of the burden of the cost of increased premiums. This has led to a growth in high deductible health plans. However, the public sector plans have not changed, nor followed that trend, so efforts to connect employees with the cost of their healthcare is problematic.

2:47:02 PM
MS. HULTBERG addressed aligning provider and payer incentives and she showed the risk continuum. Currently, the fee-for-service system consists of separate charges and is unbundled; there is no provider risk now. The opposite system is the global budget system, one payment for a wide range of services, which has a significant provider-level risk. Under this system, quality and utilization mean much more and the goals of the provider and the patient are aligned; high quality care for low cost. The goal should be to add quality incentives via payment reform.

2:48:55 PM
She reported that Medicare is moving from a volume-based system to a value-based system. It is cutting payments so that hospitals have to live within their means. She showed a table of Medicare's movement to a population-based payment.

2:50:41 PM
She described the volume-to-value healthcare model which has implications for the market. Three goals make up the model: improving individual experience of care, improving the health of populations, and reducing the per capita costs of care for populations. She pointed out that cost and care do not have a

direct link in healthcare. She concluded by predicting that, in the future, payments are going to be more and more based on quality and healthcare providers are going to assume more risk.

MS. HULTBERG shared a dock analogy regarding fee for service and value. The challenge for providers and the state is to get to a place of better outcomes by working together to plan a transition to better value for healthcare in an industry where government has a significant role. It is an on-going and important role for the legislature to help design the transition.

2:54:03 PM
CHAIR STEDMAN thanked Ms. Hultberg and Ms. Wing-Heier. He said healthcare is a revolving issue. He asked the presenters to keep the committee informed and said they would work with the division on this problem.

2:55:25 PM
SENATOR STOLTZE requested more information about limitations due to the size of the market.

CHAIR STEDMAN asked for an analysis on the loss ratio and how small groups are skewing the costs.

2:57:30 PM
There being no further business to come before the committee, Chair Stedman adjourned the Senate Health and Social Services Committee at 2:57 p.m.