

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

January 19, 2016

1:29 p.m.

**MEMBERS PRESENT**

Senator Mia Costello, Chair  
Senator Cathy Giessel, Vice Chair  
Senator Kevin Meyer  
Senator Gary Stevens  
Senator Johnny Ellis

**MEMBERS ABSENT**

All members present

**COMMITTEE CALENDAR**

Presentation by the Division of Economic Development on the Tourism Marketing Program.

HEARD

Presentation by the Alaska Seafood Marketing Institute

HEARD

Presentation by the Division of Insurance

HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record.

**WITNESS REGISTER**

CHRIS HLADICK, Commissioner  
Department of Commerce, Community and Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** Offered opening remarks and introduced the presenters.

BRITTENY CIONI-HAYWOOD, Director

Division of Economic Development  
Department of Commerce, Community and Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** Delivered a presentation on the Tourism Marketing Program.

TYSON FICK, Communications Director  
Alaska Seafood Marketing Institute  
Department of Commerce, Community and Economic Development  
Juneau, Alaska

**POSITION STATEMENT:** Delivered a presentation on the Alaska Seafood Marketing Institute.

LORI WING-HEIER, Director  
Division of Insurance  
Department of Commerce, Community and Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** Delivered a presentation on the state of the health insurance market in Alaska.

#### **ACTION NARRATIVE**

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**CHAIR MIA COSTELLO** called the Senate Labor and Commerce Standing Committee meeting to order at 1:29p.m. Present at the call to order were Senators Ellis, Giessel, Stevens and Chair Costello.

#### **Presentation by the Division of Economic Development on the Tourism Marketing Program.**

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**CHAIR COSTELLO** welcomed Commissioner Chris Hladick and Division Director Britteny Cioni-Haywood.

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**CHRIS HLADICK**, Commissioner, Department of Commerce, Community and Economic Development (DCCED), informed the committee that the department is trying to think outside the box on how it delivers services and prioritizes essential functions. They are looking at compromises to protect Alaska's best interests moving forward toward a fiscally responsible future. He introduced the presenters and welcomed further discussions throughout the legislative session.

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BRITTENY CIONI-HAYWOOD, Director, Division of Economic Development, Department of Commerce, Community and Economic Development (DCCED), reported that the Alaska Tourism Marketing Program has been efficient in growing tourism year-round. Over the past four years, winter tourism has increased eight percent and summer visitation has increased 12 percent. In the summer of 2015 alone, cruise ship passengers increased three percent.

CHAIR COSTELLO stated that the presentations are focused on programs that help grow the economy.

MS. CIONI-HAYWOOD stated that, on average, domestic visitors spend \$941 and international tourists spend \$1,103 per visit. The Alaska Visitors Industry Report estimates the economic impact of tourism to be \$3.9 billion

SENATOR STEVENS asked if "economic impact" represents more than just the money that's brought in.

MS. CIONI-HAYWOOD confirmed that it includes direct, indirect, and induced effects. For example, someone who works in the tourism industry turns money over in the economy by purchasing goods and services from other businesses.

CHAIR COSTELLO asked who conducted the study.

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MS. CIONI-HAYWOOD replied it was a research-based study by the McDowell Group. She noted that the division also works with the Alaska Tourism Marketing Board (ATMB), which Chair Costello serves on, and the meeting tomorrow will focus on program metrics and unit costs.

Directing attention to a table of conversion rates, she explained that for each person responding to the state's tourism marketing program, 26.3 percent will actually travel to Alaska within a four-year period.

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SENATOR MEYER joined the committee.

MS. CIONI-HAYWOOD relayed that DED gathers information through the vacation planner and then sends a newsletter to people to keep visiting Alaska fresh in their mind. People are also directed to the travel website which is continuously updated.

CHAIR COSTELLO asked who Alaska is competing against to attract visitors.

MS. CIONI-HAYWOOD explained that competition comes from other U.S. states and international destinations such as Australia and New Zealand.

She displayed a graph of the tourism marketing budget since 2004 to illustrate its importance. "If Alaska's tourism message is not delivered globally and on a consistent basis, we believe the numbers will decline."

CHAIR COSTELLO asked if the state can expect the current increase in summer and winter tourism to deteriorate as the tourism budget drops.

MS. CIONI-HAYWOOD said yes. "Typically we would estimate two to three years for that to occur because of that timing where we're still having people who have decided they want to come and they're actively planning that vacation." If the message isn't out there, vacationers will eventually select destinations other than Alaska.

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SENATOR STEVENS asked where the tourism marketing dollars come from in addition to state investment.

MS. CIONI-HAYWOOD replied the money comes from program receipts and general fund dollars that have been allocated to the fund.

SENATOR STEVENS requested a pie chart that shows where the moneys come from and the state percentage.

MS. CIONI-HAYWOOD explained that the program receipts vary annually, but they average \$2.7 million per year. Responding to a further question, she estimated that the total last year was \$10 million, \$7 million of which was from the general fund. She offered to provide exact numbers but further estimated that the prior general fund allocation was about \$15 million.

CHAIR COSTELLO offered her understanding that tourism operators volunteer the program receipts in order to appear in the vacation planner.

MS. CIONI-HAYWOOD agreed and added that cooperative marketing programs with Yukon, British Columbia, and Alberta also bring in money that is included in the program receipts.

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CHAIR COSTELLO asked if low gasoline prices might cause travelers to take road trips to nearby states instead of flying to Alaska.

MS. CIONI-HAYWOOD offered her expectation that the decline in oil prices might also result in lower cost flights. "That might offset the lack of marketing dollars for a little while but this is a complex formula that includes global economics, the price of oil, consumer confidence in addition to the active marketing the program does," she said.

SENATOR MEYER asked if she had seen any correlation between low fuel prices and more reasonable cruise ship fares.

MS. CIONI-HAYWOOD answered no but she expects that lower priced fuel will encourage more people to take a cruise, a plane ride or drive to Alaska.

SENATOR MEYER asked how DED coordinates marketing efforts with municipal convention and visitor bureaus.

MS. CIONI-HAYWOOD explained that the state tends to do larger projects such as television advertising, public relations working with national journalists that potentially wouldn't be done through individual visitor centers. She noted that cruise ships are the only other entity large enough to take on that national role.

MS. CIONI-HAYWOOD displayed a pie chart showing the tourism marketing program allocations. She explained that the intent is to allocate tourism marketing dollars in a broad spectrum, but domestic consumer advertising accounts for 53 percent of the budget because most visitors come from the United States. Ten percent of the budget is allocated to international advertising, which is an important component because those visitors tend to spend more and stay longer than domestic visitors.

She informed the committee that the public relations program sponsors media events on an annual basis to assist about 600 journalists with travel stories to increase global exposure for Alaska tourism. "They provide very rich content about a wide range of experiences across the state." The average value of each article is \$91,000, and each dollar invested in public relations returns an estimated \$68 in promotional value. She explained that the public relations program also works with

broadcasting networks. Last year this included work with PBS. "The state spent just under \$10,000 on this project and allowed us to reach an audience of over a million people with two episodes focused on Alaska."

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CHAIR COSTELLO asked how the \$91,000 per article was calculated and how many articles were written about Alaska.

MS. CIONI-HAYWOOD explained that it's based on what it would cost to purchase the same advertising through print or other media. She offered to follow up with specifics on the number of articles and other measures.

She said television advertising has been beneficial because it boosts overall interest in the state. These ads run on national cable networks and account for \$1.53 billion gross impressions, which means households exposed to the same commercial on multiple occasions. For every dollar spent on television advertising the return is \$22.54 in visitor spending, she said. Research on the effectiveness of the state tourism program shows that 72 percent of those who saw a television commercial expressed increased interest in traveling to Alaska.

MS. CIONI-HAYWOOD recounted that the direct response advertising is designed to encourage consumers to take advantage of requesting a vacation guide or visiting the official website TravelAlaska.com. These sources consolidate travel information statewide and allow consumers to view all options and make travel decisions. The "YOU DON'T WANT TO MISS THIS" campaign was designed to create a sense of urgency and encourage potential visitors to move forward with travel plans. The average cost to generate a consumer response to a magazine, online ad, or direct mail package is \$9.67. The average cost conversion to get that person to actually travel to Alaska is \$30. For every dollar spent on direct response advertising the return is \$114 in visitor spending.

She relayed that research shows that consumers still use printed travel brochures as they plan trips. To cater to overseas markets, the state also prints several foreign language guides for distribution in Germany, Japan, Korea, and China. The state tourism website has been translated into five languages. The cost to produce and distribute each guide ranges from \$0.73 to \$0.93.

She continued to say that social media is a relatively small but influential part of the budget. Alaska tourism is active on Facebook, Pinterest, YouTube, Twitter and Instagram, and has connected with more than 2.3 million people through these venues. More than 973,000 people have viewed YouTube videos about Alaska and 18.8 million people have been exposed to Alaska content on Facebook. This translates to about \$0.04 per view.

MS. CIONI-HAYWOOD stated that travel trade marketing is important to many Alaska travelers, especially in international markets. These visitors rely more heavily on travel agents and tour operators to book their trips. DED estimates that each trade show lead costs about \$800 and product development tours cost about \$1,370 per participant. The latter marketing consists basically of one-on-one meetings with people in international markets, but online training is provided as well. These meetings boost familiarization and training and are based on the notion that people sell what they know.

She stated that international marketing boosts the Alaska visitor portfolio, enabling the state to weather global economic volatility as well as providing significant growth opportunities. The International Marketing Program generates leads for tourism organizations through one-on-one meetings with tour operators and media. She noted that communities throughout the state are given a voice in those international markets. These sales missions cost about \$155 to generate a lead and trade shows costs translate to about \$691 per lead. Each of the distributed foreign language vacation planners costs \$2.10. The top producing international markets are the United Kingdom, German-speaking Europe, Australia & New Zealand, Japan, South Korea and China

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SENATOR STEVENS asked if the fact that Alaska is a safe travel destination could be part of the marketing scheme.

MS. CIONI-HAYWOOD agreed it would be a good selling point.

CHAIR COSTELLO asked what challenges she sees in the current, historic budget environment.

MS. CIONI-HAYWOOD offered her belief that the ATMB and the program would again work together to prioritize efforts recognizing that maintaining revenue generating sources such as the travel planner, joint marketing programs, and websites are

important. Consumer trade shows were cut because they aren't as beneficial as some of the other elements.

CHAIR COSTELLO asked if there are opportunities to work with the seafood industry and other areas where the state has reached out to international markets.

MS. CIONI-HAYWOOD answered yes that is already being done and combining resources will be more important going forward. She mentioned coordination with ASMI and the program to promote things made in the state.

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At ease

### **Presentation by the Alaska Seafood Marketing Institute**

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CHAIR COSTELLO reconvened the meeting and welcomed Mr. Fick.

TYSON FICK, Communications Director, Alaska Seafood Marketing Institute (ASMI), Department of Commerce, Community and Economic Development (DCCED), explained that ASMI is a public corporation that fosters alignment with industry marketing efforts. It has a governor-appointed board of directors comprised of five processors, two commercial harvesters, and ex-officio members from the administration and each house of the legislature. ASMI markets Alaska seafood generically; they are prohibited from marketing specific to a region or a particular company.

The ASMI mission is to increase the economic value of Alaska seafood through collaborative marketing programs, aligning with industry, and supporting the sustainability efforts of the state. The focus is on increasing value.

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MR. FICK reviewed the FY 2017 proposed budget noting that the general fund contribution is about one quarter of the total budget. The request for \$3.428 million in general fund match is down from \$4.9 million last year and about half of the total three years ago. ASMI has 20 full-time exempt employees residing in Juneau, Kodiak, and Seattle. The .5 percent voluntary industry tax (SDPR) on ex-vessel value, which is levied across all species and regions, is estimated to bring \$16.495 million. Federal funds through the Market Access Program account for \$4.5 million.

SENATOR STEVENS commented that the budget changed significantly when ASMI was changed from primarily a fisherman's organization to one in which the processors play a major role. He highlighted the difference between the tourism and ASMI general fund budgets now and before the reorganization when they were relatively similar.

MR. FICK said the big change occurred in 2003 when the industry tax was changed to .5 percent across all species and regions. That was a good change for industry buy-in and stable funding. He acknowledged that he didn't know much about the tourism market and its budget but the industries are fundamentally different and the ex-vessel tax doesn't have a correlation in tourism.

SENATOR STEVENS expressed hope that the state could stay involved.

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MR. FICK displayed a bar graph showing ex-vessel value and harvest volume from 2004 to 2014. He noted that over ten years the same volume of fish now produces \$0.7 billion more, which can be attributed to marketing. He highlighted that the fishing industry is the largest private sector employer in the state; that Alaska catches more fish than all other states combined; and that it would be the 6th largest seafood exporter in the world if it were a country. However, he said, the playing field isn't level when the Norwegian Seafood Export Council has a budget of \$60 million, \$10 million of which is allocated to marketing salmon in the U.S.

CHAIR COSTELLO drew a parallel to the tourism marketing efforts in states such as Hawaii and commented on the importance of striking a balance.

MR. FICK reviewed Alaska's seafood export markets. ASMI exports to more than 120 countries. Groundfish accounts for 55 percent and salmon for 25-33 percent. China is the largest single trading partner but more product is sold in the U.S. Europe and Japan combined. The EU and Japan are the largest export markets accounting for about two-thirds of the value.

He emphasized that global factors dramatically impact value. Negative factors include the strong dollar versus buyers and competitors; Russian Pollock certification; competition from farmed salmon; the Russian embargo and Ukrainian conflict; and more Atlantic cod. Positive factors include competing surimi

supply; long term demand vs. supply; and the strong Alaska seafood brand that's been built since ASMI started in 1981.

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SENATOR MEYER asked if there is still a labeling requirement for wild salmon and pen raised Atlantic salmon.

MR. FICK confirmed that it is still required adding that seafood typically has to be labeled as wild and with the country of origin. He noted that requirements for GMO labeling shows that people want to know where their food comes from. "Our story fits in very well with that and we'll continue to push for always requiring labeling and some knowledgeable origin or provenance," he said.

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MR. FICK discussed domestic foodservice marketing. He reported that Alaska seafood is the second most branded item on menus in the largest chain restaurants in the country. "We are ahead of Oreo cookies and behind Angus Beef." He displayed some of the logos of companies that ASMI's food service program works with to illustrate that there is a place for every product and that the same could carry through to the international program.

CHAIR COSTELLO asked where school nutrition would fall.

MR. FICK explained there are programs through food aid, universities, and public schools.

CHAIR COSTELLO asked where Alaska seafood and school nutrition fit in.

MR. FICK replied it is part of the institutional foodservice program. ASMI has programs with genuine Alaska Pollock producers making sure it is a USDA food and therefore allowed into the system. There are also programs through the food aid program getting seafood approved for WIC and foodbanks. They are also looking at universities and public schools even though they aren't specifically included in the list of food service operators.

CHAIR COSTELLO asked if Alaska seafood is served at his children's school.

MR. FICK answered yes; there are fish sticks that are a Pollock produce and pink salmon tacos.

CHAIR COSTELLO expressed a desire to expand that program in schools.

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MR. FICK reported that ASMI competes every year for federal grant funding through the U.S. Department of Agriculture's Market Access Program. Every year they get about \$4.5 million to fund their international programs. This year ASMI was awarded additional USDA Emerging Markets Program funds to do a trade mission to develop new markets in Thailand, Vietnam, Indonesia, Malaysia, and the Philippines. He noted that media relations is another metric that is used to promote Alaska seafood. ASMI is also shifting to digital advertising because that is where the market is.

CHAIR COSTELLO commented that tourism advertising still uses print material.

MR. FICK posited that deciding what to have for dinner calls for a more immediate decision than planning for a trip to Alaska which is more long-term.

He continued to say that he found the frozen sockeye promotion very interesting this last year. Following on a huge sockeye run in Bristol Bay, ASMI put together nearly 5,000 in-store demos of Alaska sockeye salmon in retail outlets across the country. The average cost per demo was \$54.31 and the year-to-date sales increase is 56.2 percent. This program was very successful in moving product and elevating value. ASMI expanded the program to Japan and ran promotions with food service or retail partners. They also ran a smoked salmon promotion in Germany and promotional sales quadrupled reaching \$2.3 million in three months. He noted that the prize winners accompanied a trade/press mission to Ketchikan, Juneau and Kodiak in August.

The record run of salmon in 2013 combined with the record poundage in 2015 put a huge strain on the canned salmon market so ASMI worked with the UK's Tesco and other large retailers to advertise the product. As a result, sales increased more than 1,000 percent. The value of the sales increased 859 percent over the time of the promotion.

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SENATOR STEVENS commented on a study that recommended canned salmon as a value food, and asked if less is being produced today.

MR. FICK confirmed that there has been a move away from canned salmon, but when there are huge runs the fallback is to put the fish in cans. Promotions to sell the excess product has been instrumental in leveling the playing field for the value.

ASMI has worked with major e-commerce sites in China to promote as many as 12 Alaska species per promotion. This is expanding to the United Kingdom and is seen more and more in the U.S. with things like *Fresh Direct*. The buy-in is low at \$5,000 per promotion and the sales generated range from \$1 million to \$2.4 million. When Alibaba went public, the CEO touted Alaska seafood as a great example of opportunities for e-commerce in China.

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CHAIR COSTELLO commented there are unique differences between tourism and seafood marketing but everyone is still eager to look for areas of co-promotion.

MR. FICK, noting that the Seafood Expo Global in Brussels is the largest seafood tradeshow in the world, he relayed that ASMI hosts a pavilion that supports 20 companies from Alaska. In 2015 the \$50 million in on-site sales were up 400 percent from 2014. The projected annual sales for those companies that attended is \$650 million.

SENATOR STEVENS commented that when he attended the Seafood Expo Global in Brussels he was impressed to see that ASMI's booth was alongside Norway's.

MR. FICK discussed the Eat Alaska Program. ASMI worked with 20 chefs in Alaska to produce recipes that featured both seafood and Alaska grown vegetables. This supported local growers, restaurants, farmers markets and tourism.

CHAIR COSTELLO thanked Mr. Fick for the presentation.

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At ease

### **Presentation by the Division of Insurance**

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VICE-CHAIR GIESSEL reconvened the meeting and announced the next presentation would be from the Division of Insurance. She expressed interest in learning about some of the reasons that Alaskans have seen such a steep climb in the cost of their health insurance.

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LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), stated that the Division of Insurance is tasked with regulating the insurance industry to protect consumers. Insurance companies file rates and the division looks to see that they aren't excessive, inadequate or unfairly discriminatory. The division looks at the rates to ensure that they are adequate for the company to remain solvent. The rate has to make sense for the exposure, but it can't be excessive for profit or include a means for medical care that isn't based on historical data. For the first time the division has three years of data for the Affordable Care Act (ACA), which will make it possible to know what to expect in that market in the state of Alaska. Finally, the division looks to make sure the rates are not unfairly discriminatory. "You can rate on age, you can rate on location, but you cannot be unfair in how you are rating. And we do check those factors," she said.

She clarified that the statute does not allow the division to disapprove a rate because of the financial impact to the consumer. "If the rate does double and that's close to what the rates were this year in the individual market - the 2016 rates - the impact it has on someone's budget is not a criteria that can be used. Again, insurance companies need to remain solvent," she said.

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SENATOR STEVENS asked if there can be gender discrimination.

MS. WING-HEIER explained that there are different rating guidelines depending on the particular insurance product.

SENATOR ELLIS asked if the division conducts a detailed financial review of an insurance company that requests a rate increase.

MS. WING-HEIER explained that the division looks at a company's profitability and what they are returning to shareholders through both financial and rate examinations. "In the ACA there are what is known as medical loss ratios so that we can look to see how much of the premium they are actually spending on medical care as opposed to other costs that the insurance company may have," she said.

SENATOR ELLIS asked if it is solely up to her as director to determine what is reasonable and allowable, because there is outrage statewide about how little the Division of Insurance stands up for the consumer. He requested a more detailed look at how she is making these decisions.

MS. WING-HEIER provided an example of how the division justifies the rates it approves. If an insurer on the exchange had \$60 million in losses over 18 months, the cost of those claims would be divided by the number of enrollees. "That doesn't allow any money for adjudicating those claims for processing. That is just paying the cost of the claim itself. There's no profit, there's no processing. That is just paying the cost of the claim itself," she said.

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SENATOR ELLIS asked if she and the Walker Administration had any ideas for statutory or regulatory changes to strike a better balance between Alaska consumers and the insurance industry.

He recalled that preceding the ACA, federal money was available to investigate the significantly higher costs for medical care and procedures in Alaska compared to other states. Former insurance director Linda Hall turned the money down so the study was never done. He asked if she would accept those federal dollars and conduct an investigation if they were still available.

MS. WING-HEIER stated that the division has struggled to figure out how to get providers to the table, and looked hard at what Rhode Island has done in that regard trying to justify the cost of the medical services that are passed on to the consumer. The division has also looked at trade practices and restraint of trade, the impact it would have on the small medical community in Alaska, and whether it would stifle growth. She said she didn't know that she had the answer on where to draw the line or who should draw it, but to her knowledge there are no federal dollars available to investigate the cost of healthcare and medical procedures in Alaska.

SENATOR ELLIS responded "I guess we missed that opportunity for the research and study to figure out why we're so out of whack compared to other jurisdictions on the cost of healthcare. We're a captive audience, apparently."

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SENATOR GIESSEL disclosed that she is a healthcare provider who is particularly appalled with the cost of specialty care in Alaska. She referenced an APRN article that cited two large orthopedic practices in a discussion about the 80<sup>th</sup> percentile rule. Those practices have since merged and like many others now have little competition. She asked how the 80<sup>th</sup> percentile rule plays into that issue in terms of healthcare costs.

MS. WING-HEIER explained that the 80th percentile rule was established about 15 years ago in response to complaints from consumers who had insurance but still received a large bill after the procedure or service was performed. The resolution was to establish the 80th percentile rule as a threshold for what insurance companies would pay. Now there are negotiated rates for in network services and most people are happy with the negotiated rate of their providers. It's a preferred rate and there's generally no bill due. However, anyone who goes out of network is subject to what the physician charges and the insurance company is only going to pay that 80<sup>th</sup> percentile. Providers that are among the "only game in town" have learned that they can set the 80<sup>th</sup> percentile and get what they want. The fees have gone up and it's now appearing in the rates. The question now is whether the 80<sup>th</sup> percentile has outlived its usefulness. The division doesn't want to undo the rule if it's going to do harm to consumers, but if it's going to bring down rates then it should be eliminated. "We're looking at it to say what would the claims be paid at out of network if it wasn't the 80<sup>th</sup> percentile."

SENATOR GIESSEL asked who is doing the research.

MS. WING-HEIER replied it is being done in-house working with insurers and the broker community - the Alaska Association of Health Underwriters.

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SENATOR GIESSEL asked when she anticipates a conclusion to the study.

MS. WING-HEIER replied she would like to see it done before the 2017 rates are set in late August or early September 2016.

SENATOR GIESSEL asked if the chair would keep in touch with the director to track this research and distribute the conclusion to the committee.

CHAIR COSTELLO agreed.

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MS. WING-HEIER displayed a chart of the progression of the ACA plan requirements and noted that some key dates are coming up. She recapped that President Obama signed the Affordable Care Act on March 23, 2010 and the first enrollment was January 1, 2014. In late 2013 certain employers were allowed to keep their insurance plan because of problems with the exchange. There became grandfathered and non-grandfathered plans.

Health Insurance Plans written prior to March 23, 2010 are considered grandfathered and not subject to all of the ACA criteria.

Health Insurance Plans written after March 23, 2010 and before January 1, 2014 are considered non-grandfathered and must be rewritten to comply with ACA as of January 1, 2014. This requirement was amended by the original transition and the extended transition which allows these plans to remain as-is until October 2016 provided insurers will renew.

Health Insurance Plans written after January 1, 2014 must be ACA compliant. Individual market non-grandfathered plans will sunset in Alaska on December 31, 2016. Small market non-grandfathered plans may continue until June 30th, 2017 or TBD Continuous changes and updates as needed/recommended by states and others.

CHAIR COSTELLO warned that the committee would adjourn in just five minutes.

MS. WING-HEIER displayed the different insurers for 2014 and 2015 to illustrate that Alaska is a small market.

She displayed slide 7 showing the numbers of grandfathered, non-grandfathered and the ACAs that are QHP - Qualified Health Plan (compliant). She noted that Aetna and Assurant have left Alaska. For 2016, those plans have rolled into the Premera and Moda markets. She again highlighted the small group numbers.

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MS. WING-HEIER reviewed the ten potential premium drivers in 2017: 1) healthcare costs and utilization; 2) Changes to Essential Health Benefits and the CMS Actuarial Value Calculator; 3) Additional data - 3 years; 4) Continued

migrations; 5) Insurers merging and exiting markets; 6) Ongoing uncertainty with court cases and the 2016 elections; 7) Transitional Reinsurance; 8) Risk Corridor; 9) Risk Adjustment; and 10) Changes in fees and taxes.

She displayed the potential cost drivers for Alaska: 1) Cost of healthcare is amongst the highest in the nation; 2) Limited providers and challenges with provider networks; 3) Individual market remains at 20,000 - 22,000 and may have settled; 4) National cost drivers do impact Alaska - we are not immune;

She reviewed the potential cost drivers looking forward: 1) CMS has issued over 100 revisions for the 2017 plan year. 2) Medical trends - increasing at 10 percent or more; 3) Reinsurance and risk corridor; 4) Transitional or non-grandfathered plans will enter the market increasing enrollees; 5) Mergers and acquisitions of insurers will tighten the market even further.

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MS. WING-HEIER reviewed The Three Rs, Risk Adjustment, Reinsurance, and Risk Corridor:

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. Risk Adjustment is only:

- Applied to the individual and small group market; and
- The only permanent program to help stabilize the costs of the ACA.

Reinsurance is one of the taxes associated with the ACA and is applied against health insurance policies and employer group health plans. Proceeds are used to provide the individual market plans with additional subsidies for higher-cost enrollees. The program sunsets in 2016

- Attachment point in 2014 is \$45,000 but will increase to \$70,000 in 2015.
- Coinsurance decreases from 80 percent in 2014 to 50 percent in 2015.

Risk Corridor provides a range for profits or losses for insurance on the FFM. If an insurer has higher than expected profits, the federal government will "claw back" some of the premiums. Conversely, if an insurer has higher than expected losses, the federal

government will pay the insurer additional subsidies to offset those losses. This program sunsets in 2016

MS. WING-HEIER said the latter two sunset in 2016 which will almost certainly influence rates in 2017. Focusing on the Risk Corridor, she explained that the insurance companies that lost money and expected to get some of it back received just 12.5 percent of what they anticipated. That led to insurance companies and co-ops (none in Alaska) becoming insolvent. The amount that they will be paid going forward remains to be seen but it will likely have an impact on the rates.

MS. WING-HEIER said the division is looking at a Section 1332 Innovation Waiver much like Colorado, Minnesota, Hawaii, and Massachusetts once the market stabilizes. This waiver would allow the state to withdraw from the ACA if it could provide the same benefits to consumers without any additional cost to the federal government.

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Other solutions include a possible reinsurance program administered by ACHIA; regional exchanges; and combining the individual and small group markets to spread the risk among more enrollees.

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SENATOR STEVENS asked if there is a similar shortage of property and casualty insurers in Alaska.

MS. WING-HEIER replied that market and the rates are relatively stable. "All things being equal, we're pleased with the fee status of the property and casualty market," she said.

CHAIR COSTELLO thanked the presenters.

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There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 3:03 p.m.