

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

January 23, 2018

1:39 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Kevin Meyer
Senator Gary Stevens
Senator Berta Gardner
Senator Peter Micciche

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION: UPDATE ON THE HEALTH INSURANCE 1332 WAIVER

- HEARD

PRESENTATION: PACIFIC NORTHWEST ECONOMIC REGION

- 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
Anchorage, Alaska,

POSITION STATEMENT: Presented an update on Alaska's Section 1332 Health Care Innovation Waiver.

STEVE MYERS, Senior Program Manager
Pacific Northwest Economic Region
Seattle, Washington

POSITION STATEMENT: Presented an overview of the Pacific Northwest Economic Region (PNWER).

MATT MORRISON, CEO
Pacific Northwest Economic Region
Seattle, Washington

POSITION STATEMENT: Presented an overview of the Pacific Northwest Economic Region (PNWER).

ACTION NARRATIVE

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CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 1:39 p.m. Present at the call to order were Senators Stevens, Meyer, Gardner, and Costello. Senator Micciche arrived during the meeting.

Presentation: DCCED Health Insurance Innovation Waiver Update

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CHAIR COSTELLO announced the business before the committee is to continue the discussion about economic opportunities. The specific question today is "How are Alaskans Innovating?" She welcomed Ms. Wing-Heier to give an update on the state's innovation waiver and noted that Commissioner Navarre was in the audience.

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LORI WING-HEIER, Director, Division of Insurance, Department of Commerce, Community and Economic Development (DCCED), Anchorage, explained that Section 1332 of the Affordable Care Act allows states the opportunity to innovate in the delivery of the individual and small group market to consumers. Alaska took advantage of this to apply for a waiver to fund the reinsurance program. The things that can be waived are benefits and subsidies, marketplace and qualified health plans, the individual mandate, and the employer mandate.

Alaska reallocated premium tax credits to receive the aggregate value of those tax credits or subsidies to implement an alternative approach. Each waiver application must satisfy four criteria: the coverage must be at least as comprehensive; the coverage must be at least as affordable; the scope of coverage must reach a comparable number of residents; and the waiver must not increase the federal deficit.

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MS. WING-HEIER explained that the legislature appropriated \$55 million to fund the first year of the reinsurance program. The market began to stabilize, and the individual market only increased seven percent. The prior two years saw close to a 40 percent increase each year. With the reinsurance program, the average decrease this year was over 24 percent.

The silver plans did not go down as much as the gold and bronze plans because President Trump decided not to fund the cost-sharing reductions. This did not mean that qualified moderate to low income residents did not receive the cost-sharing reductions. It's just that the funding had to come from somewhere else. She noted that the silver plans were also loaded so they didn't see the reduction that the gold and bronze plan saw.

MS. WING-HEIER explained that last year the legislature appropriated a second \$55 million to cover the state's portion of the reinsurance program for the five-year period of the waiver (2018-2022). It amounts to about 15 percent a year.

She said the benefits of the reinsurance program are not just the high-risk claimants. The rate decreases are applicable to everyone regardless of their age, where they live, or their health status. As a result, Alaska is no longer the highest health care insurance for the individual market. Idaho, Nebraska, and Iowa are higher and depending on the plan, so is Tennessee.

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CHAIR COSTELLO reconvened the meeting.

SENATOR STEVENS asked what happened to the coverage for people in the high-risk pool. He noted that age, race, income and other demographic characteristics. He asked what is included in "other demographic characteristics."

MS. WING-HEIER explained that anyone who applies to the individual market is insured by Premera, including those in the high-risk pool. When Premera receives a claim from someone who has an expensive event or chronic condition, they transfer the claim to the reinsurance program. The consumer/patient never knows they been transferred. She clarified that in 2017 the

state paid for the reinsurance program and in 2018 will be a combination of state and federal funds.

SENATOR STEVENS asked what "other demographic characteristics" means.

MS. WING-HEIER responded that there is nothing in the plan that discriminates against an Alaskan who qualifies for the coverage to begin with.

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MS. WING-HEIER continued to explain that Alaska did not waive any aspect of the Affordable Care Act that would reduce coverage to obtain the lower rates. The essential health benefits are still in the plans. Alaska did waive the single risk pool, which ceded high risk claimants to the reinsurance program, and requested pass-through of the advanced premium tax credits (APTC).

She explained that Alaska was getting a lot of money to pay for the premiums for people with low and moderate incomes. When the state did the reinsurance program, the rates went up just 7 percent in 2017, which was 33 percent less than the estimate. The federal government would have paid the premiums regardless of the increase. Because those rates are basically subsidized, the state asked the federal government to send the money it wasn't spending back to the state. Over a five-year period, the waiver to fund the reinsurance program is an estimated \$322 million.

SENATOR GARDNER asked if the elements of the waiver plan were her original ideas.

MS. WING-HEIER said this is homegrown. She said she has an incredible staff and they brainstorm a lot.

SENATOR GARDNER asked if other states are looking at what Alaska has done.

MS. WING-HEIER said she and her staff have worked with 15 states and they know that this model has been in almost every bill that has come out of D.C.

CHAIR COSTELLO asked if other states are introducing similar legislation to apply for a waiver.

MS. WING-HEIER said yes, but there are some quirks to applying for a waiver which makes some legislatures reluctant. For example, Washington State has a waiver application but because their population is not as highly subsidized, they are expecting to receive just 15 percent from the federal government and fund 85 percent. Another impediment to some states is that they need the capital to participate in the program. She reminded members that the state paid the full amount of the reinsurance program in 2017 and forward paid its share for the five years of the waiver.

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CHAIR COSTELLO recalled that some people characterized the legislation as a bailout of the insurer.

MS. WING-HEIER said it's not a bailout; it stabilizes the market so that consumers can afford to participate. The insurer is still responsible if the claims for the diagnoses that were listed in the statute go over \$55 million and the money doesn't go directly to the insurer.

SENATOR GARDNER asked if she'd say it is successful in keeping insurers in the Alaska market.

MS. WING-HEIER admitted that when this process started, she thought Alaska would have another insurer in the market by 2019. That could still happen once it's clear what will happen with the ACA, she said.

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MS. WING-HEIER reviewed the timeline starting in June 2016 when the legislature passed HB 374 that provided the statutory authority for a Section 1332 Innovation Waiver. The waiver was awarded in July 2017 and a contract was sent to the Governor for a signature. In the next week or so the state will know the exact dollar amount of what it will receive for 2018, but the expectation is about \$48 million.

The cost of the waiver included \$136,226 for the actuarial report from Oliver Wyman, \$16,844 for the economic impact study from ISER, and staff time. The total cost to the state was about \$250,000. She displayed an excerpt from former Secretary Price that indicated that DHHS is interested in working with states on Section 1332 waivers for high-risk pools. Centers for Medicare & Medicaid Services (CMS) published a checklist in 2017 - with input from the division, about how to streamline the program. She said July 11, 2017 was a good day for the division; CMS

issued a news release announcing the approval of Alaska's 1332 innovation waiver application.

MS. WING-HEIER reviewed the Oliver Wyman actuarial analysis that was submitted with the division's initial waiver application. It shows what would have been paid in premium tax credits (baseline). For 2018 that would have approached \$234 million. With the waiver the anticipated cost was \$182 million. The state went after the \$51 million difference and will probably receive \$48 million. Enrollment fell short of the estimated 21,000 by about 3,000. A great deal of the shortfall likely had to do with the uncertainty associated with the Affordable Care Act.

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CHAIR COSTELLO asked what triggers participation in the reinsurance program.

MS. WING-HEIER explained that an enrollee is not ceded to the reinsurance program until they are treated for a chronic condition or they have a traumatic incident that qualifies them for the reinsurance program.

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SENATOR STEVENS referenced the actuarial analysis on slide 11 and asked why the advanced premium tax credit (APTC) baseline costs and the difference between that and the APTC waiver nearly doubles in eight years.

MS. WING-HEIER replied that reflects the division's projection for claims to go up due to medical inflation. The consequence is that premiums also increase.

SENATOR STEVENS commented that that is scary.

MS. WING-HEIER agreed.

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MS. WING-HEIER displayed slide 12 that shows Alaska's estimated award that was part of the 1332 approval letter from CMS. The five-year total is [\$322.65 million]. She noted that the estimated net for 2018 is \$48 million and the division had estimated \$51 million.

CHAIR COSTELLO asked her to summarize the totals since viewers were unable to view the PowerPoint realtime due to technical difficulties.

MS. WING-HEIER recounted that in 2018 the division anticipated getting \$51.6 million from the federal government to fund the reinsurance program. The federal estimate was \$48.3 million. The reinsurance amount in 2018 is slightly over \$59 million, so the state contribution this year is about \$11 million. In 2019, the division anticipated receiving nearly \$56 million and the federal government is anticipating \$61 million. In 2020, the division anticipated getting \$60 million and the federal government is anticipating \$65 million. In 2021, the division anticipated \$65 million and the federal government anticipates \$71 million. In the final year of the waiver, the division anticipated receiving \$69 million and the federal government anticipates \$75 million.

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MS. WING-HEIER highlighted the local and national media coverage following the announcement that Alaska's Section 1332 waiver was approved. Other states wanted to file an application the next day but didn't realize the details involved or that there is a six-month waiting period after the application is conditionally approved.

SENATOR GARDNER asked the rationale for the six-month delay.

MS. WING-HEIER said the regulations provide a six-month public comment period and the waiver could potentially change based on those comments.

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MS. WING-HEIER displayed a list of the states that have asked the division to share its process and experience in setting up a reinsurance program. She noted that Minnesota and Oregon have structured their 1332 waivers on Alaska's program and CMS approved those states' waivers. Iowa and Oklahoma withdrew their applications for similar waivers because they could not come to agreement with the federal government. Other states continue to work on the legislation and the program. She further noted that most federal health care bills that were introduced in 2017 referenced Alaska's reinsurance program as what should be done to stabilize the individual market. The bill that came the closest to passing grandfathered Alaska for the term of the waiver.

The waiver application is available online.

MS. WING-HEIER reviewed examples of how the waiver affects consumers. In 2014, a 55-year-old individual on a gold plan paid

\$887 per month. That increased to \$1,837 in 2017. The rates in 2018 are \$1,325. In 2014, a 35-year-old on a gold plan paid \$486. That increased to \$1,059 in 2017, but this year it has decreased to \$763.

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CHAIR COSTELLO suggested everyone stand and applaud Ms. Wing-Heier.

MS. WING-HEIER credited the legislature and her staff. "This was a team effort and it was good for Alaska and we're pretty proud to have brought it home."

CHAIR COSTELLO thanked Ms. Wing-Heier for her commitment to making things better for Alaskans. She opined that this was an example of the power of innovation and a proud moment for the State of Alaska. "The fact that you are so credible was part of that unanimous support," she said.

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At ease

^Pacific Northwest Economic Region

PRESENTATION: PACIFIC NORTHWEST ECONOMIC REGION

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CHAIR COSTELLO reconvened the meeting and welcomed Matt Morrison and Steve Myers from the Pacific Northwest Economic Region.

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MATT MORRISON, CEO, Pacific Northwest Economic Region, stated that PNWER is a \$1 trillion public-private partnership that was chartered by Alaska, Washington, Idaho, Montana, Oregon and the Canadian provinces of British Columbia, Alberta, Saskatchewan, Yukon and Northwest Territories. Its mission is to increase the economic wellbeing and quality of life for all citizens of the region, while maintaining and enhancing the natural environment. The federal governments of both countries have recognized PNWER as the gold standard for U.S./Canada relations. However, things are more challenging now than at any time in the last 28 years because the future of NAFTA [the North American Free Trade Agreement] is unclear.

He discussed the economic trade between the two countries speaking to the following points:

- \$2 billion (USD) in goods and services crosses the Canada-United States border every day. \$451 Million USD to Canada
- 380,000 people cross the border every day.
- Economic watersheds flow North and South and East and West across the border.
- Canada and the U.S. are each other's largest source of direct investment.
- PNWER works with stakeholders to identify and reduce trade impediments.

He highlighted that Alaska will be impacted if President Trump rescinds NAFTA and TN visas disappear. These are the visas that Canadians use when they work in Alaska temporarily. He noted that since NAFTA has been in place, agricultural trade among PNWER partners has tripled.

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MR. MORRISON expressed appreciation to the Alaska legislators who serve as delegates and co-chairs of PNWER working groups. He noted that former Secretary of Homeland Security John Kelly visited PNWER and spent several hours discussing cross-border efforts related to economic security and resilience. He mentioned the earthquake last night that demonstrated the vital importance of safe and secure shipping lanes. To that end, PNWER recently received two grants. One is to work with the maritime community to enhance cyber security and cyber resilience in the shipping arena. The second is to look at ways to use drones for post-earthquake assessments. He hopes to develop protocols to encourage the private sector to work with the public sector to speed reporting of the magnitude of an earthquake. The use of LIDAR technology is also invaluable following an earthquake to assess potential damage hidden deep inside steel and concrete structures such as bridges.

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MR. MORRISON displayed a chart of the 14 PNWER working groups. He noted there is an active Cross-Border Livestock Health group that is looking at things such as maintaining the health of the Porcupine Caribou Herd. He also mentioned the groups that focus on Mining, Border Issues, and Tourism. He related that for the past 2.5 years a task force has been working on an initiative to allow a more seamless flow of legitimate tourism between Canada and the U.S. He highlighted that the chair of the Energy & Environment group has educated state and provincial legislators on how the energy system is built, functions, and is regulated. This initiative is to help secure the resilience of the energy

system in the region. He noted that infrastructure funding will be a major part of the president's upcoming State of the Union address.

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SENATOR MICCICHE joined the committee.

MR. MORRISON described a trip about five years ago when PNWER took its president on a tour of Saskatchewan, Alberta, and British Columbia to learn about major infrastructure projects that were public/private partnerships. In one example Alberta built 20 school buildings of the same design and saved \$40 million. This process has also been used for other large-scale infrastructure and transportation projects, but a major challenge has been dwindling access to traditional funding mechanisms and few resources to explore innovative procurement methods. About three years ago Congress authorized the Regional Infrastructure Accelerator Demonstration Program to help municipalities and states understand federal funding opportunities for large-scale projects and the potential for using public/private partnerships. If this program is included in the omnibus budget bill, PNWER will apply to be a regional accelerator for creative infrastructure finance. Some of Canada's methodology will be used.

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SENATOR STEVENS questioned the benefit of shelving or doing away with NAFTA.

MR. MORRISON pointed out that Congress has a clear say in what happens with NAFTA. The Trade Promotion Act of 2015 authorizes Congress to request information about any trade agreement that is being negotiated from the Office of the United States Trade Representative. NAFTA falls in that category. PNWER has been advocating that member states ask their delegations how a rescinded NAFTA would impact their states, because there would be a lot of unintended consequences.

SENATOR STEVENS asked the dollar amount in goods and services that cross between Alaska and Canada every day.

STEVE MYERS, Senior Program Manager, Pacific Northwest Economic Region, replied it's \$451 million; Canada is Alaska's fourth largest export partner.

SENATOR GARDNER asked if the Congressional delegation is aware or if the legislature should do something to emphasize the impact that NAFTA has on the state.

MR. MORRISON said he isn't sure anyone is aware of the impacts of a rescinded NAFTA. He reiterated that Congress reserved a lot of rights for itself when it passed the 2015 legislation. "One of them is to be informed throughout the process - before, during, and as the trade negotiations are taking place. And I'm just encouraging them to use it."

CHAIR COSTELLO expressed interest in hearing about robotics and their impact on the workforce.

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MR. MYERS highlighted examples of best practice workforce initiatives. The Oregon Manufacturing Innovation Center brings industry into the classroom to teach students the importance of engineering in the real world. The second example is the skilled trades and apprenticeship program. Washington state recently awarded \$6.4 million to 11 communities to bolster apprenticeship programs. The goal is to have about 100,000 apprenticeships in the state over the next ten years. He highlighted PNWER's Innovation Working Group that Senator Costello co-chairs; and the Cascadia Venture Accelerator Network. The latter is a group of 50 organizations in Washington, Oregon, and British Columbia that have agreed to work together to share resources to foster innovation.

He concluded his comments pointing to information about the 2018 annual summit and highlighted the need for input on issues important to Alaska at this year's summit. University presidents who attend share outside the box thinking about best practices and collaboration techniques related to university research, management, and ways to better engage students.

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SENATOR STEVENS asked what the advantage would be if University of Alaska President Jim Johnson attended the summit.

MR. MYERS said it would be an opportunity to showcase the university system and find areas where collaborating with other universities would be beneficial. He mentioned the Drone Project as an example.

SENATOR MICCICHE referenced the summit attendance breakdown and asked what makes up the 15 percent "other" category.

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MR. MORRISON replied people from all walks of life have attended so it varies. Sometimes it's local governments.

SENATOR GARDNER added that it can be spouses.

MR. MORRISON related a conversation he had with Senator Hughes about opportunities in Alaska to take hold of the new technologies of 3D and virtual reality when the bandwidth is available. He summarized events at the last summit where there was interaction between gamers and builders/architects - sectors that don't generally intersect. Gamers came up with some remarkable solutions to issues in the construction industry. He emphasized that the notion of bringing the best and brightest young people to legacy industries is very exciting.

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CHAIR COSTELLO said she found the Hackathon fascinating and saw firsthand the value of virtual training. She noted that she co-chairs the legislature's innovation caucus.

She thanked the presenters.

MR. MORRISON concluded that Alaska is the top of the world and it has endless potential.

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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 2:49 p.m.