

HB 348

# SENATE FINANCE COMMITTEE REPORT

DATE: 5/10/92

FURTHER:

DATE TURNED INTO OFFICE: 5-12-92

The Finance Committee considered CS FOR HOUSE BILL NO. 348 (STATE AFFAIRS)

"An Act relating to the provision of group life or group health insurance for state employees by means of self-insurance; relating to the administrative costs of providing group health or group life insurance for state employees; and permitting the state to purchase group health or group life insurance from certain organizations."

and recommends:

- replace with \_\_\_\_\_ CS \_\_\_\_\_ (FINANCE)
- or  adopt previous \_\_\_\_\_ CS \_\_\_\_\_
- attaches amendment(s)

- same title
- new title
- technical title change (HB only)

adopts \_\_\_\_\_ Letter of Intent

further referral to the \_\_\_\_\_

- do pass
- do not pass
- no recommendation
- individual recommendations

**NEW FISCAL NOTES:** Dept/Date

zero fiscal notes \_\_\_\_\_

fiscal notes \_\_\_\_\_

appropriation--no fiscal note

**PREVIOUS FISCAL NOTES:** Dept/Date

zero fiscal notes DDA 1-27-92

fiscal notes \_\_\_\_\_

**DO PASS:**

*[Signature]*  
*Rick Helms (DO PASS)*

**OTHER RECOMMENDATIONS:**

*[Signature]*  
*[Signature]*

1. \_\_\_\_\_  
Co-Chair: Signature/Recommendation

2. *[Signature]* *W. R.*  
Co-Chair: Signature/Recommendation

STATE OF ALASKA  
1992 LEGISLATIVE SESSION

FISCAL NOTE  
REPORTED OUT OF  
SFC 5-12-92

No. 2  
Bill Version: HB 348  
(H) Publish Date: 2-26-92

Revision Date: \_\_\_\_\_  
Title: An Act relating to group life and health insurance for State employees by means of self-insurance.  
Sponsor: Rules Committee  
Requestor: Governor

Department Affected: Administration  
BRU: Risk Management  
Component: Risk Management

COMPONENT SERIAL NO. 

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE FUND SOURCE:	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER FUND SOURCE:	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

Estimate of current year impact: 0

ANALYSIS: (Attach a separate page if necessary.)

See attached.

Prepared by: Donald J. Hitchcock  
Division: Risk Management

Phone: 465-2180  
Date: 12.11.91

Approved by Commissioner: Nancy Bear Usura  
Agency: Administration

Date: 1/27/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Cfc., & Impacted Agency(ies).

CONTINUATION OF FISCAL NOTE ANALYSIS  
House Bill No. 348

This bill is enabling legislation to allow the State to self insure state employee medical and/or life insurance benefits. It is anticipated that any possible increased state administrative costs for such a program should be ~~more~~ than offset through increased income from cash flow and other cost savings. In other ~~words~~ a self insurance program would be implemented only if cost savings is possible.

Potential benefits of a self insurance program would be elimination of certain insurance company charges; positive control of the insurance program which might include use of employee incentives to reduce costs; and increased competition from bidders for administration and/or aggregate loss (excess) insurance policies.

The present medical benefits program for active state employees costs the State approximately \$65,000,000. a year therefore cash flow and interest earnings may become an important fiscal consideration.

Possible problems due to a catastrophic increase in claims costs for any one year may be controlled through purchase of aggregate loss policies to pay excess costs either on an individual claim basis or in the aggregate.

Passage of this enabling legislation is fundamental to making all options available to the State in the administration and implementation of a cost effective group health and life benefits plan for its employees.

CS FOR HOUSE BILL NO. 348 (STATE AFFAIRS)  
 IN THE LEGISLATURE OF THE STATE OF ALASKA  
 SEVENTEENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE STATE AFFAIRS COMMITTEE

Offered: 3/25/92  
 Referred: Judiciary

Sponsor(s): HOUSE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the provision of group life or group health insurance for state  
 2 employees by means of self-insurance; relating to the administrative costs of providing  
 3 group health or group life insurance for state employees; and permitting the state to  
 4 purchase group health or group life insurance from certain organizations."

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

6 \* Section 1. AS 39.30.090(a)(4) is amended to read:

7                   (4) In procuring a policy of group health or group life insurance as provided  
 8 under this section or excess loss insurance as provided in AS 39.30.091, the [THE]  
 9 Department of Administration shall comply with the dual choice requirements of AS 21.86.310,  
 10 and shall obtain the insurance policy from an [ANY] insurer authorized to transact business in  
 11 the state under AS 21.09, a hospital or medical service corporation authorized to transact  
 12 business in this state under AS 21.87 [AND AS 21.90], or [FROM] a health maintenance  
 13 organization authorized to operate in this state under AS 21.86. An excess loss insurance policy  
 14 may be obtained from a life or disability insurer authorized to transact business in this state

1       under AS 21.09.

2   \* Sec. 2. AS 39.30.090(a)(5) is amended to read:

3               (5) The Department of Administration shall make available bid specifications for  
4       desired insurance benefits or for administration of benefit claims and payments to (A) all  
5       insurance carriers authorized to transact business [LICENSED] in this [THE] state under  
6       AS 21.09 and all hospital or medical service corporations authorized to transact business  
7       under AS 21.87 who are [AND] qualified to provide the desired benefits; and (B) to insurance  
8       carriers, hospital or medical service corporations, and third-party administrators licensed  
9       to transact business in this state and qualified to provide administrative services. The  
10       specifications shall be made available [ON OR BEFORE JULY 1, 1965, AND] at least once  
11       every [SUCCEEDING] five years. The lowest responsible bid submitted by an insurance carrier,  
12       hospital or medical service corporation, or third-party administrator with adequate servicing  
13       facilities shall govern selection of a carrier, hospital or medical service corporation, or third-  
14       party administrator under this section or the selection of an insurance carrier to provide  
15       excess loss insurance as provided in AS 39.30.091.

16   \* Sec. 3. AS 39.30 is amended by adding a new section to read:

17               Sec. 39.30.091. AUTHORIZATION FOR SELF-INSURANCE. Notwithstanding  
18       AS 21.86.310 or AS 39.30.090, the Department of Administration may provide, by means of self-  
19       insurance, one or more of the benefits listed in AS 39.30.090(a)(1) for state employees eligible  
20       for the benefits by law or under a collective bargaining agreement. The department shall procure  
21       any necessary excess loss insurance under AS 39.30.090.

22   \* Sec. 4. AS 39.30.095(a) is amended to read:

23               (a) The commissioner of administration shall establish the group health and life benefits  
24       fund as a special account in the general fund to provide for group life and health insurance under  
25       AS 39.30.090 and 39.30.160 or for self-insurance arrangements under AS 39.30.091. The  
26       commissioner shall maintain accounts and records for the fund. The fund consists of employer  
27       contributions, employee contributions, appropriations from the legislature, and income earned on  
28       investment of the fund as provided in (d) of this section.

29   \* Sec. 5. AS 39.30.095(b) is amended to read:

30               (b) After obtaining the advice of an actuary, the commissioner of administration shall  
31       determine the amount necessary to provide benefits under AS 39.30.090, 39.30.091, and

1 39.30.160 and shall set the rate of employer contribution and employee contribution, if any.  
2 With money in the fund, the [THE] commissioner of administration shall pay premiums, [AND]  
3 claims, and administrative costs required under [IN ACCORDANCE WITH] the insurance  
4 policies in effect under AS 39.30.090 and 39.30.160, or required under self-insurance  
5 arrangements in effect under AS 39.30.091 [WITH MONEY IN THE FUND].

6 \* Sec. 6. AS 39.30.095(c) is amended to read:

7 (c) The commissioner of administration or the designee of the commissioner is  
8 administrator of the fund. The commissioner may contract with

9 (1) an insurer authorized to transact business in this state under AS 21.09,  
10 or a hospital or medical service corporation authorized to transact business in this state  
11 under AS 21.87 [INSURANCE CARRIER] to reimburse the state for the cost of administering  
12 group insurance provided under AS 39.30.090 and 39.30.160; and

13 (2) a life or disability insurer authorized to transact business in the state  
14 under AS 21.09, a hospital or medical service corporation authorized to transact business  
15 in this state under AS 21.87, or a third-party administrator licensed to transact business in  
16 this state for the administration of benefit claims and payments under AS 39.30.091.

17 \* Sec. 7. AS 39.30.095(d) is amended to read:

18 (d) If the commissioner of administration determines that there is more money in the  
19 fund than the amount needed to pay premiums, [OR] benefits, and administrative costs for the  
20 current fiscal year, the surplus, or so much of it as the commissioner of administration considers  
21 advisable, may be invested by the commissioner of revenue in the same manner as retirement  
22 funds are invested under AS 14.25.180.

CSHB 348(State Affairs)

This bill would authorize the the Administration to self-insure the health and life programs for State employees. Current law is not clear that self-insurance could be utilized by the State. The Attorney General has recommended this authorization. While the administration has no immediate plans to implement a self-insurance program, the bill is important in that it would provide another option that has cost saving potential.

Self-insurance has shown itself to be a cost saving mechanism for many entities. 34 of the 50 states now self-insure their health benefits and over 80% of large private sector firms utilize self-insurance. The administration has no estimates of how much might be saved through self-insurance and does not intend to proceed until that can be determined.

The bill also authorizes ancillary services of self-insurance such as the use of a third party administrator to pay claims and the purchase of excess loss insurance to protect the State in the event of catastrophic losses in the group plan.