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SENATE COMMITTEE REPORT
FIRST COMMITTEE OF REFERRAL

DATE: 5/19/91

FURTHER: Finance

Date of 5-Day Notice: 2/27/92
(in accordance with Uniform Rule 23)

DATE TURNED INTO OFFICE: 3/4/92

L&C Committee considered SB 308

Provision of group life and health insurance for state employees by means of self-insurance; payment of administrative costs of providing group health and life insurance for state employees.

and recommended:

- replace with _____ CS _____ same title
- attached amendment(s) new title
- _____ letter of intent adopted
- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____

ATTACHES NEW FISCAL NOTE(S):

- | Department(s)/Date: | Department(s)/Date: |
|---|---|
| <input type="checkbox"/> fiscal note(s) _____ | <input checked="" type="checkbox"/> zero fiscal note(s) _____ |
| _____ | Risk mgt DDA / 1-24-92 |
| _____ | Ret. + Benes DDA / 1-24-92 |
| <input type="checkbox"/> appropriation-no fiscal note | <input type="checkbox"/> Governor's bill w/fiscal note |

SIGNING DO PASS:

Shirley Craft

OTHER RECOMMENDATIONS:

Chris [Signature]

1 rule 100 - 10/1/92
Chair: Signature and Recommendation

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

May 19, 1991

The Honorable Richard I. Eliason
President of the Senate
P.O. Box V
Juneau, AK 99811

306

Dear President Eliason:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill that would authorize the state to provide group life and health insurance for its employees by means of self-insurance.

Over the last several years, it has become clear that the state must act to contain the cost of its employee health benefits. The state has considered self-insurance, but the current statute, AS 39.30.090, does not authorize it. See 1989 Inf. Op. Att'y Gen. (March 14; 663-89-230). This legislation is proposed to permit the state to self-insure, thereby increasing its flexibility in addressing the cost of group life and health insurance for its active employees.

The bill also authorizes self-insurance administrative costs to be paid from the group health and life benefits fund, and makes clear that the administrative costs of purchasing insurance are also to be paid from the fund.

Among the potential beneficial effects of self-insurance are (1) the reduction or elimination of insurance charges, (2) positive control of the medical plan by the state (including the use of incentive programs) rather than by the commercial insurance market, and (3) increased competition from medical benefits providers, which could result in decreased premiums and administrative costs.

We believe that this bill will significantly increase the ability of the state to keep the cost of employee benefits under control, and increase as well the state's bargaining power when it negotiates with its insurers. In view of its importance to approaching reviews of insurance policy renewal proposals, we urge your prompt and favorable action on this measure.

Sincerely,

Walter J. Hickel
Governor

STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

JAN 30 1992

WALTER J. HICKEL, GOVERNOR

P.O. BOX C
JUNEAU, ALASKA 99811-0200
PHONE: (907) 465-2200
FAX: (907) 465-2135

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January 30, 1992

The Honorable Drue Pearce, Chair
Labor and Commerce Committee
Alaska State Senate
P.O. Box V
Juneau, AK 99811

Dear Senator Pearce:


This is to request your consideration in scheduling SB 308 for hearing before the Senate Labor and Commerce Committee as soon as possible.

This bill will permit the State to self-insure its employee health and life insurance benefits, and thereby provide greater flexibility in continuing efforts to contain the rising cost of this insurance. The ability to self insure will also strengthen the State's position when it negotiates with insurers. Under current law, the State is required to provide its health/life insurance coverage by purchasing policies from insurers.

The provisions of Senate Bill 308 are important to our ongoing review of health insurance proposals, and we are, therefore, anxious to secure their passage during this legislative session.

Thank you.

Sincerely,



Nancy Bear Usera
Commissioner

NBU/nl

SB 308
Sectional Analysis

February 21, 1992

"An Act relating to the provision of group life and health insurance for state employees by means of self-insurance; and to payment of administrative costs of providing group health and life insurance for state employees."

Section 1. Current law requires DOA to obtain health coverage from an insurance company or HMO licensed in Alaska.

The proposed language extends the "licensed in Alaska" requirement to the procurement of excess loss insurance. Excess loss insurance is commonly used in self-insurance situations.

Section 2. Current law requires the State to request bids from Alaska licensed insurance carriers for health coverage at least every five years and that the carrier with the lowest responsible bid shall be the winning bidder.

The proposed language would mandate the same five year bid cycle and "licensed in Alaska" requirement for excess loss coverage procured in the event of self insurance.

Section 3. Current law requires the health insurance benefits to be provided by insurance companies as outlined in Section 2.

The proposed language authorizes DOA to self-insure health insurance benefits as an alternative to using insurance companies. The language also requires that any excess loss coverage be procured the same as health insurance.

Section 4. AS 39.30.095

(a) Current law establishes the group health and life benefits fund as a special account in the general fund to provide carrier insured health and life coverage. Current language describes what money the fund shall consist of and requires the commissioner of administration to maintain accounts and records for the fund. Inasmuch as payment of premium has been made directly to insurance carriers, this fund has not been used. However, it would be necessary under a self-insurance arrangement.

Proposed language would expand the purposes of the fund to include self-insurance arrangements.

(b) Current law requires the commissioner to obtain an actuarial determination of the estimated cost of the insured coverages and to set the contribution rate to the fund for both employer and employee. The current language further requires that premiums and claims for carrier insured benefits be paid with money in this fund.

The proposed language broadens the kinds of payments that can be made from the fund to include self-insurance arrangements. The proposed language would also allow administrative costs of the health program to be paid from the fund.

(c) Current law allows the State to receive reimbursement of its administrative expenses from insurance carriers.

The proposed language would allow the department to contract with a third party administrator to pay claims and payments. A third party administrator is normally used in a self-insurance situation.

(d) Current law allows the commissioner to have the surplus of the fund or some part of it invested by the commissioner of revenue.

The proposed language would allow administrative costs to be included in the makeup of the fund when determining whether a surplus existed. This fund would become more relevant if the State were to implement self-insurance.

FISCAL NOTE

BILL NO. SB 308

STATE OF ALASKA
1992 LEGISLATIVE SESSION

Revision Date: _____
Title: An Act relating to the provision of group life and health insurance for state employees by means of self-insurance

Department Affected: Administration
BRU: Retirement & Benefits

Component: Retirement & Benefits

Sponsor: Senate Rules Committee
Requestor: Governor

COMPONENT SERIAL NO. 64

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: None

ANALYSIS: (attach a separate page if necessary.) This bill would authorize the Department of Administration to utilize self funding for health insurance in addition to the competitive bid process for insurance carriers. Self-insurance could then be undertaken assuming that savings or other advantages could be demonstrated.

Prepared By: Garv Bader *Nancy M. Bader*
Division: Retirement and Benefits

Phone: 465-4470
Date: _____

Approved by Commissioner: Nancy Bear Usery *Nancy Bear Usery*
Agency: Department of Administration

Date: 1/24/92

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB & Impacted Agency(ies).
Rev 10/90

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. SB 398

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 Usery
 Agency: Administration

Date: 1/24/92

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

CONTINUATION OF FISCAL NOTE ANALYSIS
Senate Bill No. 308

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.