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Foundation for Social Inventions

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The Forum for Social Inventors

[*Komsomolskaya Pravda*, December 22-25, 1988. Translations by Tanya Khotin]

December 22, 1988

Fund 708 for Social Inventions

Today, in Moscow, was the first day of the Forum for Soviet Inventors. The membership is unusual; never before have creators of unique social projects gathered for their own conference.

What I am bringing to the Forum

Self-government, self-financing... These wonderful words, which protect and heal Life itself, have entered our daily life. Enterprising and independent people, tired of merely their own enthusiasm, often ask themselves the same key question: "How can you self-finance and self-govern" so that it won't be for the last time? Meanwhile, the powers that be have joined together, cunningly taking advantage of our initial problems and the apathy of the general public in order to stand in the way of our progressive action.

How can people with good goals and intentions survive in this situation?

It is well known that a revolutionary army forms only in the course of revolutionary activity. There is no alternative. However, people still ask, "Where are the legal rights for revolutionary actions?"

I read in the Foundation of Civil Law that civil rights should arise "from actions of citizens and organizations, who, although previously not considered lawful, initiate civil rights and obligations for our common goals and the essence of civil law."

However, the legal basis for direct

revolutionary actions that protect our honor and dignity has been forgotten. It is sad that active free expression was suppressed by the thick net of departmental and inter-departmental acts and instructions. Protective measures by anonymous law-makers, prohibiting "everything and everyone", have led to extinction of the spirit of enterprise and creativity, and also to adopting the "permission system." These "protective measures" are exactly what defeats many of us, individually. Because of having inhaled the poison of prohibition from childhood, we automatically wonder whenever we think of a brilliant, new idea, "Where can we obtain permission?"

Try to establish a copy machine in an office of a new inventive company. We have all gotten used to this—in order to distribute ideas and information, we must obtain permission. The organized team of "permission-givers" always includes a doctor, a fireman, and a militia-man. And I won't even mention the other levels of authority.

Even in the era of *glasnost*, a modest amateur group of long-needle knitters can only be created with permission of an intermediary organization.

Involvement of average citizens has not been taken into consideration.

Without new information technology, our ink pens will remain the shining example of our deafening "break into the future". Without broad freedom to unite into unofficial amateur associations, we will never be a civil society.

The prohibiting psychology constrains us at every step. All unsolved problems get swept under the rug; the other "sweepers" find an efficient way to

strengthen a system which not only discourages the intellect, but leads, as the elders used to say, to a "rotting of morality."

I, for example, needed eighteen years in order to create (and protect from the administrative machine of the Novosibirsk authorities) a harmless choreography society, called "Terpsikhora". The central [Moscow] "sweepers" had threatened local authorities: "We will not allow substituting culture organizations!" (unofficial for official)

Three years went by before the Novosibirsk Fund for Youth Initiative was up and active.

Today, the number of funds and centers for youth initiatives exceeds 100—centers for youth initiatives turned out to be a necessity of life.

During the infamous April period, I shared with millions of TV viewers the idea of creating an all-union system of supporting social inventions or inventors of new ideas and projects; I talked about new conceptions of protecting [patenting] intellectual ownership in our country. The authorities took the show off the air, never to air again. Higher responsible persons decided among themselves that all social inventions were achieved in 1917. And that was enough.

Thanks to *Komsomolskaya pravda*, the Fund for Social Inventions was created. Its 708 bank account now has 5 million rubles. That is how our readers voted for the Fund without prior permission.

There were many fears. With whom was this checked? Who did we ask?

I remember Lenin's thought that when something new is first born, the old will

remain stronger for some time. It has always been so in nature and in civilized society. It is important, therefore, to seize that period of time and to create a system to support new ideas, a system that would not allow the new, small beginnings to die.

When a support system exists, the sleepy public (made up of potential enthusiasts-innovators) suddenly awakens; millions of people begin to strive for greater results, rather than only a handful of super-persons. We will not receive support from above; it can only be established in the course of collaborative work by the innovators themselves.

Having faith in such collaboration, I am going to work today on the Forum of Social Inventors.

—Gennady Alferenko, special correspondent to *Komsomolskaya pravda*

A Hundred Ideas—For People

Yesterday, we announced that a press-center will be created with the Forum of Social Inventors. Unfortunately, we did not have an opportunity to interview the workers: the press-center turned out to be the focal point, a real gravitational center for a huge number of ideas that people have accumulated over several generations. The people who work here are forced to listen, convince, argue, take notes, and again, listen... Judging from the hopelessness of competing for attention with social inventors, we proposed to the workers of the press-center to cover for them.

"For how long?" they happily cried out. We looked around, evaluated our own capabilities and endurance, and promised: we can hold out for an hour and half.

In general, the process of talking with inventors has been carefully thought out and appears fairly simple. A person comes in, he is handed a questionnaire—his name, address, idea's essence, brief description, stage of progress... Then the cooperative *Evrka* inputs the data into a computer's All-Union Bank of Ideas and Projects. However, the bureaucracy experts—and inventors, needless to say, are experts—do not have any respect for the authority of paper. It often happens that an inventor, in horror, takes his hand away from the piece of paper and practically sits on our ear, talking about his idea for a long and

grueling time, as if he were talking to a high school flunkie unwilling to learn.

"What is a political party?" asks a man of short stature, carefully looking us up and down and evaluating how prepared journalists are for that question. "At my enterprise, not a single member of our party committee could explain it to me at the party committee meeting."

"And you explained it to them?"

"Yes! I have a conception of society's development which can help people live differently. At least half of the members of the party committee made the decision in favor for it after our discussion."

Inventor Mikhail Dorvolosky is prepared to foretell the future. Unfortunately, a futurologist is a little known field of specialization. Mikhail is ready to give his prognosis of development on any, although limited, area of problems.

"For example?" we asked.

"In Vladivostok, I tried to tell them the future course of events on several islands in Kurilsk."

"What was the fate of your prognosis?"

"Unfortunately, we were politely told to renounce similar prognoses..."

"How can I get to the Forum?" calls a Moscow construction worker, manager of the enterprise.

"Do you have an original idea?"

"I have an idea, but I would first like to talk with the inventors who were successful at getting their ideas through. At work, *perestroika* isn't going anywhere. The trust is trying to become self-financing, but the head director is getting in the way. The workers are not happy. If these problems are not solved now, all our plans will be ruined. We are building residence homes. Who will do the construction work if people won't profit anymore from working with us? So I started thinking: where can we find the strength to break the bureaucratic machine?"

"Aleksandr Starikov, from Riga. They won't allow me to come to the Forum! They say that if I take off independently, it will be an inexcused absence from work. I'm asking you to get in touch with the

Ministry of Construction Material Industry. They would have to let me go if I was invited by the Fund for Social Inventions of *Komsomolskaya pravda*..."

History textbook... So many arguments on this topic recently! By whom and how should it be written? The 26 year-old Radik Semenov believes that he has an answer to this question. Together with the higher research scholars of the Research Institute, PhDs A. Bliudin and V. Cherednichenko, he suggests computerizing the humanities and liberal arts. What is the essence of the idea? All leading scientists and specialists in some science or another put their knowledge into a special computer program. Some scientific works are also put into the computer, those of scholars who truly contributed to the development of their science and lived anywhere from the years B.C. to our time.

The hour and a half flew by without our noticing. Twenty three inventors called the press-center by phone, another nine came by. This work is enviable.

Directors, Unite!

Komsomolskaya pravda carefully follows the Association of Young Enterprise Leaders. Each day, the organizational committee of the initiative group receives letters. They arrive from directors, chairmen of cooperatives, workers and engineers, scholars, young communist league workers, college students, and even high school students...

"As much as I would like, I cannot consider myself among the young—I am 53 years old. But I like the idea of the Association. It is a good thing. But why must it only unite young leaders? The experience of the "old" is also useful. The years of stagnation cost us dearly, and we would very much like to participate in the Association.

It can bring so much good, good we can only dream of today. We could build a special school for the Association, especially for leadership training. Enterprises will be able to recruit their future directors from the school. The school could "sell" its graduates, providing them with objective recommendation letters."

—V. Kvitko, cooperative chairman, Leningrad

"I am convinced that the Association is necessary. An enterprise leader in any area is a difficult job; moreover, this is *perestroika*. As only a beginning leader, I need support."

—A. Nikonenko, co-chairman of a union of diners, Zaporozheskaia oblast

"The Association has to teach, support, help, and protect. We need to be straightforward in saying that we practically have no instruction for leaders. Everything comes down to "benefiting from experience of elders." But what if there are no good examples around you to follow? In that case, a young leader could never fully realize himself."

—A. Baitler, director of a technical repair enterprise, Omskaia oblast

"Even if the organizing committee would invite me to participate in the conference, I have no certainty that the authorities at my work will let me go. The invitation will remain in their hands. That is also one of the ways to fight against people collaborating."

—V. Glotov, head of the tram depo, Naberezhnye Chelny

"I am not a factory director; I am not in any way related to industry. But your article in *Komsomolskaya pravda* inspired me to write to you. I believe that associations such as yours will play the key role in democratization."

—A. Makhlaev, student, Moscow region

"I, personally, got myself a director's position. I moved from Moscow to be a part of a provincial industry that is lagging behind. During the first year, I received approximately ten complaints about my work and the Ministry of Forest Industry attempted to get me out of the job. At present, the factory is stabilizing its work, but it has been in a struggle for independence with the Ministry of Forest Industry for nine months now. We need the Association."

—P. Mirau, director of a factory, Vologodskaia oblast

Letters were prepared by V. Kudriashov, instructor at the Central Committee of the Young Communist League.

Attention! Additional information

about the organizational committee of the Association of Young Leaders:

Scientific coordination of the committee is managed by G. Popov, professor, head of the department at Moscow State University, chief editor of the journal *Voprosy ekonomiki* [Questions of Economics].

If you would like to help: funds to support the Association enter the manager's account #700407 of the Central Committee of the Young Communist League, government budget directors of the Gosbank [state bank] of the USSR (attn: "Association of Young Leaders").

Food for thought: Decisions about nominal financing for the Association were accepted by ten large centers of the NTTM.

The constituent assembly will take place in the second half of January, 1989.

For more information, call these numbers: 206-80-54, 206-80-30.

Due to many requests, we are reprinting the clip-out questionnaire to participate in the constituent assembly of the Association.

1. What knowledge, experience, or contacts do you need in your activity?
2. Do you believe that unions or associations for business leaders are necessary? Why?
3. How could the Association help your work?

Please give your full name and age
Major or field of specialization in college
Title and place of work
Full name and address of your business

Come With Your Ideas

December 23, 1988

Yesterday in Moscow, the Forum for Social Innovators of the USSR began...

Social inventors and innovators is a great and nearly always an unhappy tribe of energetic people. What can you do? But, suddenly it seems that these December days will become a point of departure for a new epoch—an epoch when bulldozers won't ride over new grass.

The press conference on the eve of the Forum showed that it is of great interest to the public. In any case, there were no

available seats in the rather large hall of the Center House of Tourists. Even reporters from Ethiopia asked questions...

The real sensation was people from Finland who came to visit their colleagues, Soviet innovators. Let us introduce them: Ilkka Ronkainen, director-distributor of the FinnIdea company, and workers of the same firm, Hellin Arto and Sato Kari. We ask Ronkainen, "What brought you to Moscow?"

"We know that the Soviet Union has many talented people. Our goal is to help innovators realize their ideas on the basis of a joint venture. The FinnIdea firm helps innovators find contacts."

"Does your firm have direct relations with the Forum?"

"Yes! We already have agreements with the Fund for Social Inventions of *Komsomolskaya pravda* about collaboration and a social prize for the best Soviet innovative idea of this year."

The press conference has ended. The journalists were told that, so far, 174 delegates from 46 cities have come to Moscow. Meanwhile there was an unexpected meeting in the foyer. What is the chief director of the Lenin Young Communist League Theatre doing here?

"Today, politics and economics," answers M. Zakharov, "is the business of people of various different fields. We have a great many problems, and we must seek the solutions together; not only professional economists, scholars, and politicians, but activists in culture as well."

Our old friend, Pavel Zaidfudin, recently came back from the US, where he signed a contract about joint development of residential construction under extreme conditions. From the American side, the participating states are Minnesota, Alaska, and Arizona; from the Soviet side, there is Siberia and the Far East.

What is the purpose of this Forum? To talk everything out? To discuss your own idea and try it out on other inventors? The president of the inter-regional Cooperative Federation, a political organizer of the Bukharin Club from Naberezhnye Chelny, Valerii Pisigin, is here to discuss the possibility of the Young Komsomol League joining the sponsors of the Federation. The Federation considers itself to be a political power which has been called upon to protect the cooperative move-

ment, the leading form of socialist ownership. It unites more than six thousand cooperatives from thirty-five cities.

The Forum opened with reports by well-known economists and publicists G. Popov, N. Shmelyov, and Iu. Chernichenko... They put forth a paradoxical thesis: "The first social inventions, of which we are so proud, are actually merely 'discovering America.'"

"We are slowly discovering things that the world around us has known for a hundred years already," says Nikolai Shmelyov. "What kind of invention is the cooperative movement, for example? These 'new inventions' are normal laws of market farming, the only true road for our economy to follow."

Iurii Chernichenko says, "During the years that I spent at the drawing desk, we spent thousands of millions of dollars that we received for oil. The greatest part went for food products. This horrible exchange of non-reusable resources for reusable ones..."

The Forum, called together on the initiative of *Komsomolskaya pravda's* Fund for Social Inventions is continuing its work.

Truth Is Born Out of Argument

December 24, 1988

Today, in Moscow, the Forum for Social Inventors of the USSR is coming to a close.

How I love human faces when they express light and truth!" The poet's words were remembered yesterday at the Central Chess Club, where participants of the Forum gathered from all corners of the country. It is true that the strength of any nation is determined neither by natural resources nor even by industrial technology.

That is why the door with the sign "Sociology" conceals discussions on the topic of education. In fact, two other work groups at the Forum, "Economics" and "Politics", discussed childhood, school, and teaching a great deal.

Noting down the reports of pedagogical innovators on their ideas and achievements, you catch yourself think-

ing, "If only somebody could get them all together in one place, under one roof, or at least in one city, then one would witness the wonder of how quickly and harmlessly one can learn a second language, a course in mathematics, and do away with medicine forever..." But here is the rub—probably no mayor has yet been born who would bother about getting all these strange, high-strung, and sometimes rude people housed. But why talk about a mayor! Would at least science put in a good word for them? But the inflexible machine of the Academy of Pedagogical Sciences of the USSR has long ago gotten behind; obviously, the speed is not for it. The participants of the Forum, even those far from the area of education, asked us, journalists, with alarm in their voices, "What do you know about the fate of VNIK [All-union scientific-research collective]?"

The temporary scientific-research collective [VNIK], created several months ago, showed how important and needed scientists are today. They work sixteen hours a day, their regime similar to brainstorming. About five people began the business, and then a greater nucleus surrounded them, capable of doing something society has been waiting for and has never gotten from several academic institutes. And now VNIK is at a crossroads. Officially, the deadline for its losing full legal rights is coming up. Does that mean that they will have to return to their permanent jobs where everything is as before? A suggestion came from the hall: what if VNIK "took into their team" a nonprofit scientific institute and showed how you can organize your work in the modern way? We must get busy solving economic problems of the schools immediately. And if the Academy of Pedagogical Sciences still does not allow an alternative scientific institute working parallel to it (i.e. willingly part with their monopolistic position), then what can we do? The "auction" began. The leading speaker turned to the participants of the Forum, including serious bankers and cooperative workers "Who is prepared to invest some capital in order to keep the brilliant group of people doing their work?" We cannot say that propositions from the audience started falling like rain, but the city of Nakhodka said that it will think

about it, the city of Baku raised some hands for support, and the miners promised to do something too...

The next door had "Politics" written on it in a hurried hand. The sign meant that the group in the room were people who wanted to improve something in the political life of society. What are they arguing about? Of course, the discussions are about whether an alternative to the single-party system should exist in the USSR, and about the directions of the political struggle against bureaucrats and bureaucratism.

After a small break for lunch, discussions in the political club of the Forum ignited with new strength—we could hear discussions about an alternative project to a new law on the Soviet press. A special commission of the Union of Journalists of the USSR had already approved it. What is most interesting about this project? The word goes now to the creator of this project, Mikhail Fyodotov, JD: "We are striving to create a precise jurisdiction mechanism on publication activity instead of declarative rights and obligations active today. We came to the conclusion that the rights of journalists to information end where governmental or other rights which are specifically intended to protect secrecy by law, begin. Hiding any other information is a legal act, and the journalists can obstruct through court. The project proposes... to check press activity corresponding to a lawful government.

Valerii Pisigin, from the political working group of the Forum, caught us as we were leaving. Or, rather, it was not us he wanted, but the writer, Iurii Chernichenko, leader of the economics working group and head of the Business club. We had "stolen away" Chernichenko from the meetings with great labor for a brief interview. Valerii was disgusted—how could they separate the political working group from the economics group?! It turned out that "politicians" talked about economics and "economists" talked about politics.

Really, what is cooperation? Team effort? Collective ownership? If it isn't politics, then what is? A delegate of the Forum, Mikhail Dmitrievich Bocharov, freed war veterans from income tax and rent. He also freed veterans of labor, who

work in the most difficult manual labor jobs, such as brick layers. Is that not politics? Bocharov was very excited to talk about the team effort law, which shows that team workers are powerless against any bureaucrat. "Do we really need those publications which pin the loud 'Help needed' label on us? Why, if a factory pays for the team, and some factory or ministry head has to determine how much we will get paid?"

Iu. Chernichenko said, "Correct. Serfdom in economics has not ceased. Having crossed the line to the team effort workers, we have just gone from barter tax to a tax paid by a peasant to the state for the use of land allotted to him."

M. Bocharov, "Let's call things by their proper names. The problems of the team effort are problems of ownership. Let's first separate them: large ownership is railroads, Aeroflot, heavy industry—all governmental. The smaller is collective. And then everything will fall in its own place."

The main goal of the Forum was determined yesterday: based on the results of the work, determining the main problems of the innovators, developing a resolution, and turning to the government with it. That is the concrete political goal.

Courage, Innovators, in Step!

December 25, 1988

Yesterday, the Forum for Social Inventors completed its work. Actually, no—the work has just begun...

Hurrah for electronic technology! Life would be very difficult without it. Yet, with it, each day can bring us a new load of "pamphlets" printed out, by the sweat of the brow of the Forum participants.

This was the deal of an epoch—even without months' preparation, an "electronic stock market" was born, connecting Idea-men with Money-men. If that stock market had been the only product of the Forum, we would still consider the entire effort a success. However, the main thing, it seems, is that the Forum provided a rough sketch of a truly democratic model for meetings. Democracy is when people gather and solve problems together. People do not only move their hands, but their

minds as well, formulating and establishing a strategy for the fight, the battle. We have not been spoiled by an overabundance of such democratic meetings—in the past, our meetings were either performances based on a strict script, or chaos, where everyone yells out his own idea...

The Forum had every chance to turn into a loud demonstration. A great many of its participants have suffered in the struggle with bureaucrats; consequently they had something to yell about. However, it is not said for nothing that humanity is divided into two categories: those who sit down and cry when standing at the edge of a ravine, and those who begin to look around to see if there is, perhaps, a tree which can serve as a bridge, or if they can find another way to get to the other side. The general tone of discussions at the Forum was constructive.

Yesterday, the representative of the Italian company Imago, professor Umberto Solimene, handed the photography prize to Igor Kostin for the films Kostin had made at Chernobyl in the first hours after the catastrophe. Today, Solimene left the meeting hall in a great mood. The atmosphere had affected him...

Umberto Solimene shared his plans for collaborative projects with the Forum and tried to convince us, his listeners, as if he were a rhetorical speaker. "I have lived for almost ten years in the Soviet Union, and honestly speaking, I know very well what immense intellectual, moral, and physical reserves you, Russians have. The future holds this much for Russia..."—and he smiled, spreading his hands widely. "We are especially interested in the development of your cooperatives. They are a completely unique business form, and it is interesting to compare them with Italian companies. What is amazing is how entrepreneurial Russians are. In the West, it has often been said that you have lost the ability for commercial work and your business initiative thinking skills which help us, in the West, to achieve commercial success. But that is not so! Our company would love to collaborate with the Fund for Social Inventors."

It is symbolic that the participants of the Forum held their plenary sessions in the halls of the Central Chess Club of the USSR. Chess players look many turns ahead. And the innovators, like masters of

sport, have marked out their future "turns" as well. The Rules and Regulations of the Fund for Social Inventions of the USSR accepted the establishment that reads as follows, "General director of the cooperative organization Soyuz [Union] and one of the organizers of the country's first cooperative banks, L. Solomin, believes that in the near future, the Fund will need to create a system of banks for the following: financing and bringing to life innovative ideas; organizing a school for managers-inventors; creating an informational agency with its own publication; introducing an All-Union Bank of Inventions (with the guarantee that not a single idea will be left without attention)." All delegates of the Forum agreed with this.

Until today, the Forum has discovered and supported unknown social inventors. How can we, for example, not support Iu. Smimov of the military-patriotic club Iskatel [Seeker]? Iurii told us about what he and his friends are doing. "We are looking for soldiers who have disappeared without a trace in World War II. We are trying to find their names, tell their relatives the date of their death, and find the exact place of their burial.

And director of a Public Economic Center Aleksandr Egorov's heart feels for the fate of the Moscow river. His Center plans to take this river under public control.

And what else did the delegates from twenty-five central, republic, and regional newspapers and Gosteleradio decide in the three days of the conference? A Bank of Risk and Trust was created within the framework of the Fund. The first donation was twenty thousand rubles from the Minister of Light Industry of Moldavia, S. Manukian, initiator of the experiment "Self-financing ministry."

V. Utyokhin, V. Khiltunen, A. Churkin
Fund 708 for Social Inventions

STEVE COWPER
GOVERNOR



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

March 8, 1989

Mr. Gennady Alferenko
Director
Foundation for Social Inventions
Moscow, USSR

Dear Gennady:

It's been only two weeks since we met in Juneau, but I'm pleased to have the opportunity to personally send a message of congratulations.

Alaskans are pleased with the announcement that the Foundation is opening an office in Alaska's capital city. Your task is a challenging one: navigating the rough seas of government bureaucracies is every bit as difficult as the barriers faced by explorers and adventurers who preceded you. I am confident that together, we will meet that challenge.

As you know, Alaskans are anxious to melt the ice curtain that for too long has separated the short distance between us. We look forward to working with your office in Juneau to turn well-meaning proposals into realities.

Your efforts are an inspiration to all Alaskans. I commend your pioneering spirit and wish you the best of luck.

Sincerely

A handwritten signature in black ink, appearing to read "Steve Cowper".

Steve Cowper
Governor

CAMAI-I

1991 Hughes Way, Juneau, Alaska 99801 • (907) 789-0449

What Alaska-Soviet Ice Classic
(For the Bering Strait Breakup)

Begins Spring 1990 -- simultaneously in Alaska and
the Soviet Union's Magadan Province

Ticket sales April 15 - May 25 (Breakup usually occurs from
mid-June to mid-July)

Number of
Tickets 50,000 in Alaska; 50,000 in the Soviet Union

Costs of
Tickets \$2.00 in Alaska; 1 Ruble (\$1.60) in the Soviet
Union

Alaska Run by CAMAI, Inc.

U.S.S.R. Run by the Foundation for Social Inventions, a
Soviet agency.

Where
Tickets Sold Bookstores, Liquor Stores, College Campuses,
General Stores in smaller communities, and
through organizations dedicated to promoting
international understanding.

Use of
Earnings 44% in prizes; 30% in administration and
expenses of the Ice Classic; 26% profit for
CAMAI Cultural Exchange to promote Alaska/Soviet
cultural exchanges with the goal of internation-
al cooperation and understanding.

In the future, CAMAI intends to share a portion
of the net profits with local nonprofit organ-
izations dedicated to promoting international
understanding.

Ticket
Design CAMAI logo of Alaska-Siberia Eskimos





1991 Hughes Way, Juneau, Alaska 99801 • (907) 789-0449

March 8, 1989

Representative Bill Hudson
Alaska State Legislature
Juneau, Alaska

Dear Representative Hudson:

Enclosed are descriptive materials of the activities and projected activities of Camai, a non-profit organization formed in 1985 to encourage diverse cultural exchange between the Soviet Union and Alaska.

In order to raise funds for Camai's continued existence and the existence of similar groups, Camai proposes an international ice classic, where people in countries around the world would guess the exact time the ice melts between the Soviet Union and Alaska, between Little and Big Diomede. Gennadi Alferenko, one of Camai's counterparts in Moscow has agreed to organize this event in the Soviet Union through the Foundation of Social Innovation, of which he is the director. Mr. Alferenko has a U.S. office in San Francisco, and is opening another one in Juneau. Roubles raised in the Soviet Union would be used to host Alaskans and others traveling in the Soviet Union, and other projects that promote international understanding and peace. Camai also plans to approach other states within the U.S. where lotteries are legal to participate.

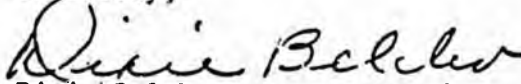
This will bring international attention to Alaska each year, and will raise needed monies to continue to bring Soviets to Alaska, and send Alaskans to the Soviet Union. There are hundreds of projects planned across the State, including an international youth conference, dog sled races, native conferences, student exchange, sports tournaments, tourism, wilderness trips, and exchanges of music, dance and the visual arts. None of these can take place without funding from both sides.

Half of the monies raised in each state or country would be allocated to cultural exchange efforts within their borders, and half would go to a international fund that promotes understanding and peace, administered by an international board of directors. Camai would appoint a Statewide board of directors that would allocate funds raised in Alaska. We feel this should be a private, non-profit effort.

This project would sell tickets internationally from April 15 through May 30, 1990, and would be announced at the first concert of Camai's 1990 world tour, which is planned to take place in Hiroshima, and would be covered by the world press. This tour will include 65 Soviet and 65 American performers and will celebrate the melting of the ice wall and the hope that walls will come down all over the world.

I feel we are at the beginning of a new era in Alaska in the area of trade, cultural exchange and international understanding. All that is needed now is funds. We appreciate your assistance in this project and your continued support.

Sincerely,


Dixie Belcher, Executive Director

Cha-mi ' : "Hello" in Yuo 'ik Eskimo

Brief History of CAMAI
(Formerly known as "Alaska Performing Artists for Peace")

- December 1985 KTOO Public Television and Alascom program aired in the U.S. and the Soviet Union.
- January 1986 Preliminary trip to Moscow.
- April 1986 Two-week tour of Alaska by Gennady Gerasimov; visit to Soviet Embassy in Washington, D.C.
- July 1986 Second trip to Moscow.
- October 1986 "Alaska Performing Artists for Peace" tour of the Soviet Union including a world press conference in Moscow.
- September,
October,
November 1987 Dixie Belcher and Chuna McIntyre tour of Alaska and Lower 48. They present "Melting the Ice Curtain: An Eskimo's Vision of Hope".
- December 1987 Meeting with Soviet and U.S. officials. U.S./U.S.S.R. Summit in Washington, D.C.
- April 1988 Three-week lecture tour of the U.S. by Gennady Gerasimov, Chuna McIntyre, Dixie Belcher, and Pat Van Hoecke.
- May 1988 As a result of lecture tour, Gennady Gerasimov begins one-man campaign in Moscow to open the Bering Straits.
- Dixie Belcher travels to Moscow to meet with officials regarding the opening of the Bering Straits and begins to lay the ground work for a world performing tour.



CAMA-1

1991 Hughes Way, Juneau, Alaska 99801 • (907) 789-0449

- June 1988 Alaska Airlines Friendship Flight to Providenya.
- July 1988 Meeting in Palm Springs with Gerasimov, Sirhupe Conte, and others to discuss fund-raisers.
- October 1988 Receptions in San Diego, Seattle, and Sitka for Gerasimov. Alaska State Chamber of Commerce presents \$25,000 check in Sitka.
- February 1989 Gala performances in Anchorage celebrating the opening of the Bering Straits.



CAMAI



**FROM:
CAMAI
1991 Hughes Way
Juneau, Alaska 99801**



CAMAI

*'Music, dance,
laughter...
these are the voices
of the heart.'*



CAMAI (Yupik Eskimo for "Hello") is a unique, Alaska-based organization whose goal is to promote international understanding through the visual and performing arts. One of CAMAI's major achievements has been to aid in the "melting of the ice curtain" across the Bering Strait.

In 1986 CAMAI took 67 Alaskan singers and dancers throughout the Soviet Union on a performing tour highlighting the mere two and one half miles between the United States and the Soviet Union. Eskimo peoples of both sides are closely related but have been separated since 1948 by the existence of a political "ice wall".

CAMAI sponsored lecture tours in the U.S. to raise consciousness about these issues. In the summer of 1988, the Strait opened with Alaska Airline's *Friendship Flight* to Providenia and the sail boat voyage of Alaska Eskimos to Novo Chaplino. CAMAI lobbied extensively in Moscow for both ventures, and Eskimo families on both sides celebrated a wondrous first reunion.

CAMAI's largest project to date is to gather together a talented group of Soviet and American artists for a world performing tour as a symbol of international cooperation beginning in August, 1989.

Since CAMAI is a non-profit organization, funding is key to its success. CAMAI has the vital spark and a vision of a better future ahead. Come join us!

Contributions are most appreciated! All donations are tax deductible.

Founder	\$5,000	Benefactor	\$2,500+
Sponsor	\$1,000	Sustainer	\$ 500+
Patron	\$ 500	Donor	\$ 100+
Friend	\$ 25		

WHAT IS CAMAI?

CAMAI—the Yup'ik Eskimo word meaning "hello"—is a non-profit corporation established to increase international understanding through the performing arts.

CAMAI evolved from the Alaska Performing Artists for Peace, who in 1986 completed a successful tour of the Soviet Union. Featuring 67 Alaskan performers, the tour focused on reuniting the Soviet and Alaskan Eskimo relatives who had been separated since the closing of the Bering Straits during World War II. The universal language of music and dance was successfully used to bridge geographic, linguistic, cultural, political, and ideological boundaries.

CAMAI was formed in 1987 to continue the work of opening the Bering Straits and to help melt the "ice curtain" that separated our two countries. On June 13, 1988 CAMAI's efforts were rewarded when Alaska Airlines flew the historic half-hour Friendship Flight from Nome, Alaska to Providenia, Siberia.

CAMAI's efforts acted as a catalyst to focus the attention and energies of U.S. and Soviet officials, Alaskan and Siberian native peoples on the importance and potential of reopening the Bering Straits.

HOW WAS THIS DONE?

CAMAI raised consciousness regarding the "ice curtain" separating Alaska and the USSR through:

- 1) performances in the US & USSR;
- 2) letters to Soviet and American officials;
- 3) lecture tours in the United States;
- 4) numerous meetings in the USSR with Soviet officials.

The most recent lecture tour in 1988 featured Ambassador Gennadi Gerasimov, former editor of the Moscow News, and now Head of Information for the Ministry of Foreign Affairs and chief spokesperson for Secretary Gorbachev.

WHAT ABOUT THE FUTURE?

CAMAI is now organizing four outstanding events:

*On February 24, 1989, Anchorage, Alaska will host a gala performance celebrating the melting of the "ice curtain" featuring top Soviet and American performers. The Pakrovsky Singers, a Russian folk ensemble and Stas Namin, the most popular Soviet rock band with over 40 million records sold, as well as Soviet Eskimo performers, have agreed to represent the Soviet Union.

*August 6, 1989, will see a joint Soviet-American World Tour commencing in Hiroshima, Japan. The tour kick-off will coincide with a seven-hour satellite production comparable to "Live-Aid".

*Georgian art, wine, and gourmet food will make their American debuts at a series of special fund raising dinners in cities from coast-to-coast.

*Finally, CAMAI is putting together a tour by Soviet poet, Yevgeny Yevtushenko.

Each of these events has as its goal increasing international understanding through the performing arts. Each of these events also will seek to raise funds for CAMAI activities.

WHAT ABOUT FUNDING?

CAMAI is working to establish a foundation to support its efforts at building international understanding through the performing arts through the 1989 International Tour.

We are also currently developing a base of financial support from major corporations. CAMAI receives broad conceptual support from the State of Alaska, the Soviet Foundation for Social Invention and other influential groups in the United States and the Soviet Union.



purpose is educational in nature and designed to develop the capabilities of individuals by instruction;

(13) "fishing-derby association" means a civic, service, or charitable organization in the state, not for pecuniary profit, whose primary purpose is to promote interest in fishing for recreational purposes, but does not include an organization formed or operated for gaming or gambling purposes;

(14) "fish derby" means a contest in which prizes are awarded for catching fish;

(15) "fraternal organization" means a civic, service, or charitable organization in the state, except a college and high school fraternity, not for pecuniary profit, that is a branch or lodge or chapter, of a national or state organization and exists for the common business, brotherhood, or other interest of its members;

(16) "goose classic" means a game of chance where a prize of money is awarded for the closest guess of the time of the arrival of the first goose in spring to Creamer's Field in Fairbanks or to the Kenai River Flats near Kenai and is limited to the goose classics operated and administered by the Fairbanks Montessori Association and by the Kenai Chamber of Commerce;

(17) "gross receipts" means receipts from the sale of shares, tickets or rights connected with participation in any activity permitted under this chapter or the right to participate, including admission, fee or charge, sale of equipment or supplies, and all other miscellaneous receipts;

(18) "ice classic" means a game of chance where a prize of money is awarded for the closest guess of the time the ice moves in a body of water or watercourse in the state and is limited to the Nenana and Chena Ice Pools in the same manner as they were conducted in 1959 and previous years, a Kuukokwin Ice Classic to be operated and administered by Bethel Social Services, Inc., a Kenai River Ice Classic to be operated and administered by the Kenai and Soldotna Rotary Clubs jointly or by either the Kenai Rotary Club or the Soldotna Rotary Club, and a Yukon River Ice Classic to be operated and administered by the City of Fort Yukon;

(19) "labor organization" means an organization, not for pecuniary profit, constituted wholly or partly to bargain collectively or deal with employers, including the state and its political subdivisions, concerning grievances, terms, or conditions of employment or other mutual aid or protection in connection with employees;

(20) "mercury classic" means a game of chance where a prize of money is awarded for the closest guess of the time the temperature reaches a certain degree and is limited to the mercury classic operated and administered by the Greater Fairbanks Chamber of Commerce;

(21) "municipality" means a political subdivision of the state that is a home rule or general law city or borough or a unified municipality;

(22) "net proceeds" means the gross receipts from an authorized activity less the fee described in AS 05.15.020(b), the expenses authorized by AS 05.15.160, and the prizes awarded at the activity;

(23) "numbers wheel" means any electronic, mechanical, or other device with numbers or other figures that are selected randomly and used in a game of chance in which the outcome is determined by the number or figure selected by the device; not including games in which a hamster or other animal is placed in an enclosure with several numbered exit holes and the winner is determined by which hole the hamster or other animal exits, or slot machines or other devices that operate by insertion of a coin or other object that may entitle the person operating the machine to receive a prize by strict dependence on the element of chance;

(24) "operator" means a natural person who, or a municipality or qualified organization that, has obtained a license to conduct an activity subject to this chapter on behalf of a permittee;

(25) "police or fire department and company" means a civic, service, or charitable organization in the state, not for pecuniary profit, consisting of members of a police department or fire company established by the state or a political subdivision of the state;

(26) "political organization" means an organization or club organized under or formally affiliated with a political party as defined in AS 15.60.010;

(27) "pull-tab game" means a game of chance where a card, the face of which is covered to conceal a number, symbol, or set of symbols, is purchased by the participant and where a prize is awarded for a card containing certain numbers or symbols designated in advance and at random;

(28) "qualified organization" means a bona fide civic or service organization or a bona fide religious, charitable, fraternal, labor, political, or educational organization, police or fire department and company, dog mushers' association, outboard motor association, or fishing derby or nonprofit trade association in the state, that operates without profits to its members and that has been in existence continually for a period of three years immediately before applying for a license; the organization may be a firm, corporation, company, association, or partnership;

(29) "raffle and lottery" means the selling of rights to participate and the awarding of prizes in a game of chance conducted by the drawing for prizes by lot;

(30) "rain classic" means a game of chance in that a prize is awarded for the closest guess of the amount of precipitation which is recorded at a certain location during a certain length of time;

(31) "religious organization" means an organization, church, body of communicants, or group, not for pecuniary profit, gathered in common membership for mutual support and edification in piety, worship,

Camai is a nonprofit organization that has focused on opening the Bering Strait and reuniting Soviet and American Eskimo peoples as a symbol of peace. HB 261 grew out of a frustration in February, 1989 of attempting to fly Soviet Eskimos around Alaska and back to the Soviet Union with zero funds. Camai has continuously raised funds to bring Soviet and American Eskimo people together, and Camai's director, Dixie Belcher, has often personally financed airline tickets for Alaskan Eskimos to meet with their Soviet relatives. She has, in fact, given all of her personal savings to this effort.

Funds raised through the Soviet American Ice Classic will be used to bring Eskimo and other Alaskan Native and non-Native peoples together with their Soviet counterparts, building a symbolic bridge of friendship across the Strait, as a step towards peace, friendship and understanding between our countries.

Camai emphasizes the wisdom of native peoples and initially focused on the Yupik tradition because the only native villages on the Soviet coast with Alaskan relatives were Yupik. The Soviet Inupiat have been scattered and do not live in identifiable Inupiat villages.

The Soviet Alaskan ice classic will be an event of Statewide, national and international importance, and it is vital that all of Alaska's people be represented equally. This event will bring international attention to the peoples of the Bering Strait and the transportation link there, but funds raised need to be allocated fairly to all of Alaska's peoples. This will be an international event, an effort towards understanding and peace, and it is important that it not get bogged down into local issues and politics.

Native peoples all over Alaska have expressed a strong interest in becoming involved with Soviet exchange, and finding their Soviet counterparts. It is Camai's intent to establish an ice classic board of directors that will include a representative from all Alaskan Native corporations which will allocate funds towards these efforts. In addition, it is Camai's intent to allocate a fair percentage of funds raised to the peoples of Little Diomede.

Representative Hudson
April 10, 1989
Page 2

Legislative History of Ice Classics

Prior to 1960, ice classics and other forms of charitable gaming were unregulated. Charitable gaming legislation adopted in 1960 was intended "to permit what has been taking place for approximately 60 years and nothing more but under the most strict controls; no activity can be licensed unless it existed in substantially the same form prior to January 1, 1959. . . . passage of this bill will actually discourage commercial gamblers and likely small nuisance raffles and the like."³ Then Governor Bill Egan vetoed the legislation--the veto was overridden. Excerpts from Governor Egan's veto letter follow.⁴

I share with the Legislature the concern of the vast majority of Alaskans for our uniquely Alaskan events and believe it is proper for our first Legislature to address itself to those classics which are historically Alaskan in nature.

I make one exception, and one exception only, in the matter of gambling, and that is in regard to the Chena and Nenana Ice Pools, which have contributed to Alaskan interest in the peculiarly Alaskan spring breakup for many decades.

Since time immemorial, humans have celebrated the advent of spring. In Alaska this occasion has been celebrated by the "going out" of the ice on our great rivers--rivers which once represented our highways of commerce. The long winter night is broken, the waters are free and productive, and all Alaska is warmed by the thrill of new activity. In my mind these considerations are so great, our custom of such long standing, that the Legislature would be justified in enacting legislation which would permit the continuance of these two ice classics under such terms and safeguards as may be reasonably necessary."

Within a month of the passage of the charitable gaming laws, an attorney general's opinion was issued relating to the limitation of ice classics. "While there may have been other ice pools conducted prior to the date of this Act this language shows that the legislature intended to authorize only those two [the Nenana and Chena] pools and none other."⁵

³Alaska House of Representatives, Report of the Free Conference Committee on SB 143, February 24, 1960, House Journal, p. 276.

⁴March 7, 1960, House Journal, pp. 412-414.

⁵1960 Opinions of the Attorney General, No. 8, p. 2.

Representative Hudson
April 10, 1989
Page 3

In 1976, the charitable gaming laws were amended to except raffles, lotteries and rain classics from the requirement that activities must have existed in substantially the same manner prior to January 1, 1959. Specific events and operators were neither specified nor limited for rain classics.⁶

In 1985, the legislature authorized the Kuskokwim Ice Classic, to be operated and administered by Bethel Social Services, Inc.⁷ During committee consideration of the bill, Representative Mike Davis asked why the operator was designated in statute. Sally Smith, Department of Revenue, did not know and the bill sponsor was not present to respond. The committee discussed allowing the municipality to designate an operator but did not act on the bill at that meeting. I found no further discussion regarding the designation of an operator and the bill passed with the designation.

In 1986, SB 402, adding a Yukon River Ice Classic to be operated and administered by the City of Fort Yukon was introduced. The Senate finance committee substitute, with no designated operator, passed the Senate. The House rules committee amended the legislation by replacing the designated operator for the Yukon River Ice Classic and adding a Kenai River Ice Classic, the Fairbanks Mercury Classic, and a Fairbanks Goose Classic, all with designated sponsors. On the House floor, the bill was amended to add a Kenai Goose Classic.⁸ A salmon classic was added the same session.⁹

* * *

I hope this information is helpful. If you have questions, please call.

⁶Chapter 66 SLA 1976.

⁷Chapter 27 SLA 1985.

⁸Chapter 93 SLA 1986.

⁹Chapter 94 SLA 1986.

THE ALASKA LEGISLATURE



* HONORING *
* FOUNDATION FOR SOCIAL INVENTION *

The members of the Sixteenth Alaska Legislature offers recognition and congratulations for the 1989 opening of the Alaska office of the Foundation for Social Invention..

This office has been established to facilitate continued communication and interaction between the people of Siberia and Alaska. Such exchanges are the building blocks for a solid framework of trust and goodwill between our two countries.

These exchanges serve as a catalyst in generating social, cultural, economic and educational projects benefitting both of our societies.

This Legislature commends the objectives of the Alaska office of the Foundation for Social Inventions and encourages increased cooperative work between the people of Alaska and Siberia.



Jim Gatz
SPEAKER OF THE HOUSE

Tim Kelly
PRESIDENT OF THE SENATE

Date: March 8, 1989

Requested by: Representative M. Davis;
Senators Karttula, Fahrenkamp and Duncan

H B

26 4

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 31, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/10/89

The FINANCE Committee considered:

HB 264

HOUSE BILL NO. 264

[STATE PREMIUM TAX EXEMPTION]

"An Act relating to the state exemption from certain insurance premium taxes; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with _____ the same title
- have attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S): _____
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact _____ fiscal note(s) _____
- (2) zero fiscal note HES/Commerce zero fiscal note(s) _____
- zero with analysis _____ zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not
Pass No Rec Amend

<u>[Signature]</u> HOFFMAN			
<u>[Signature]</u> LARSON			
<u>[Signature]</u> KOPONEN			
<u>[Signature]</u> ULMER			
<u>[Signature]</u> BARNES			
<u>[Signature]</u> WALLIS			
<u>[Signature]</u> SKULTZ			
<u>[Signature]</u> RIEGER			
<u>[Signature]</u> BROWN			

[Signature]
CO-Chairman's Signature
[Signature]

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act...state exemption from
certain insurance premium taxes....
Sponsor: Health Care Cost Containment
Requestor: Task Force

Agency Affected: Health & Social Services
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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

ANALYSIS : (Attach a separate page if necessary)

Prepared by : _____ Phone : _____
Division : _____ Date : _____

Approved by Commissioner : M. RA MI Munson Date : 4-5-89
Agency : Department of Health & Social Services

Distribution (by preparer) :
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Adopted

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: HR 264
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Econ. Dev.
Title: State exemption from certain BRU: Insurance
insurance premium taxes
Sponsor: Rules (Health Care Cost Components: _____
Requester: House Finance /Containment Task Force)

EXPENDITURES / REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

Adopted

FUNDING: (Thousands of dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Paul Roller, Director Phone: 465-2515
Division: Insurance Date: 4-5-89
Approved by Commissioner: Larry Merculieff Phone: 465-2500
Agency: Department of Commerce & Economic Development Date: 4/6/89

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- 3753D/040689a

1 IN THE HOUSE

BY THE RULES COMMITTEE BY
REQUEST (For the Health Care
Cost Containment Task Force)

2

HOUSE BILL NO. 264

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

SIXTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to the state exemption from certain

7

insurance premium taxes; and providing for an effective

8

date."

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

10 * Section 1. AS 21.09.210(i) is amended to read:

11 (i) Premiums paid by the state for insurance policies and con-
12 tracts purchased under the provisions of AS 39.30 are exempt from
13 taxation under this section. An insurer may not include the tax
14 imposed under this section in a premium charged on an insurance policy
15 or contract purchased by the state under the provisions of AS 39.30.
16 An insurer may claim the [CLAIMS FOR] exemption [SHALL BE MADE] on
17 forms provided by the division of insurance.

18 * Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

STATE OF ALASKA HEALTHCARE COST CONTAINMENT TASK FORCE

Provided by: Arthur J. Gallagher & Co.
Aetna Life Insurance Company

April 3, 1989

At its March 29, 1989 meeting, the Healthcare Cost Containment Task Force requested additional information on three financial issues. The following material provides Arthur J. Gallagher's and Aetna's comments on the three issues.

1. Premium Taxes. There is a great deal of confusion on the Premium Tax issue. Currently, premium taxes are paid to the State on the Health plans and then Aetna files for a refund of the taxes. Thus, the net effect on the plan should be zero. In determining the State's premium rates it is assumed there is no tax liability.

In order to recover the 1987 tax credit of \$1,700,000 (\$1,300,000 active and \$400,000 retirees) the following needs to occur:

1. Combine plan financials at year end. This allows Aetna to cross apply Premium Stabilization Account Funds.
2. The State Revenue Department has to issue 1988 premium tax refund to Aetna prior to July 1, 1989.
3. Section 1 AS21.09210 (i) is amended effective January 1, 1989.

Aetna will credit \$1,700,000 as directed by administration.

2. Extended Liability Reserves. Under the State's plan there is an extension of benefits which continues Medical coverage for up to 12 months for employees who are totally disabled at contract termination. This is deferred liability which cannot be measured while the plan is active.

Aetna provides for this liability by establishing reserves at each renewal. The extended liability reserves established as of the July 1, 1988 renewal are as follows:

	<u>Extended Liability</u>	<u>Extended Maturity</u>	<u>Total</u>	<u>80%</u>
Actives	\$2,178,045	\$857,139	\$3,035,184	\$2,400,000
Retirees	1,162,282	27,189	1,189,471	900,000

Note: These reserves were outlined on page 18A of Arthur J. Gallagher's March 29, 1989 Report on the Task Force.

Aetna would be agreeable to transferring the extended liability to the State in the event of contract termination. With the transfer of liability, 80% of the reserves would no longer be required. The remaining 20% of the reserves would be required to provide for extended liabilities while the contract is in force.

To accomplish the transfer of liability, Aetna would need to make a change to the contract with the State. Also, a notice would need to be provided to employees indicating that the State has assumed this liability.

If the State wishes to proceed with this change we would need an effective date. Once implemented, Aetna would credit the State for that portion of the reserves. Aetna will credit Extended reserves of \$3,300,000, as directed by Administration.

3. **Minimum Premium.** Aetna has a minimum premium product available called the Split Funded Group Plan (SFGP). There are two types of SFGP available: one where Aetna retains terminal liabilities and reserves, and one where terminal liabilities and reserves are transferred to the State. All further discussion will assume the State is responsible for terminal liabilities and reserves.

The following table outlines the reserves available to the State:

	<u>Actives</u>	<u>Retirees</u>
July 1, 1988 Reserves:		
Unpaid claim	\$ 7,808,469	\$4,127,414
Extended Liability	<u>3,035,184</u>	<u>1,189,471</u>
Total	\$10,843,653	\$5,316,885
Estimated Float Claims	<u>-2,175,000</u>	<u>-925,000</u>
	\$ 8,668,653	\$4,391,885
Reserve Release Charge	<u>-346,746</u>	<u>-175,675</u>
Net Reserve Release	\$ 8,321,907	\$4,216,210

Note: SBS Option I benefits are combined with basic benefits to avoid producing two separate claim transactions and the expenses associated with two transactions. It is assumed that Option I would also convert to SFGP to continue these expense savings.

Aetna would need to retain a portion of the reserves to cover "float" claims outstanding on the conversion date. Float claims are those claims where a claim check has been issued but not recorded as paid. The liability is estimated to be approximately two weeks of claims.

In addition, if the reserves are released in a lump sum there is a charge made to cover the opportunity costs associated with the conversion of assets to cash. Currently, the charge is equal to 4% of the lump sum payment. The charge would be waived if the reserves were released in 12 installments.

Upon the conversion to SFGP, Aetna's costs would increase as follows:

	<u>Actives</u>	<u>Retirees</u>
Lost Interest	\$ 867,492	\$125,351
Banking and Administration	86,000	37,000
Additional Risk	<u>54,218</u>	<u>26,584</u>
TOTAL	\$1,007,710	\$488,935

Currently, Aetna is crediting interest to the State on the claim reserves at an annual rate in the range of 7.5% to 8.5%. This interest is used to offset some of the expenses under the plan. Once released, the net expenses increase by the amount of the lost interest. Aetna has assumed 8% in this illustration.

State of Alaska Healthcare Cost Containment
Page Three

The banking and administration charges cover the added costs associated with SFGP. Although terminal liabilities and reserves shift to the State, Aetna guarantees payment of these liabilities in the event the State cannot provide the funds. Aetna assesses an additional risk charge for this guarantee. The risk charge could be waived if there is Letter of Credit for 120% of the reserves.

It would be necessary to increase the "conventional " premium rates to provide for these additional expenses.

Under a SFGP arrangement, the following additional documents are required to implement SFGP:

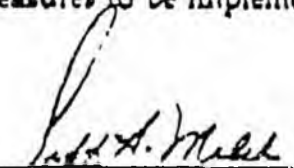
- The Letter of Intent (Exhibit A) outlines the State's desire to implement SFGP and accepts in principal the various Agreements.
- The Banking Agreement (Exhibit B) sets up the wire transfer of funds between the State and Connecticut National Bank.
- The Split Funded Agreement (Exhibit C) amends the insurance contract and outlines the various terms and conditions of the arrangement.
- The Retrospective Premium Agreement (Exhibit D) provides for the call on any unused Claim Liability Limit to fund an accounting deficit.
- The Termination Liability Fund (Exhibit E) is necessary to assure that adequate reserve funding is available at all times.

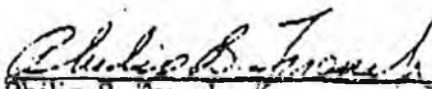
In addition to these documents, a notice needs to be sent to the employees announcing the change to SFGP.

Under SFGP, the conventional premium would be split into two components. A basic premium component equal to the estimated expenses would be developed and paid to Aetna monthly. The basic premium level is not guaranteed and would be "trued up" at year end based upon actual plan costs. The remainder of the conventional premium would be retained by the State's for claim payment.

Due to associated costs and ease of administration, it is recommended that the State review Split Funding where Aetna retains terminal liabilities and reserves. The net impact of this on FY 89, 90 depends upon the actual claims paid and the State's accounting practices.

It is further recommended that the Task Force continue to pursue Cost Containment measures to be implemented in FY 90.


 Jeffrey A. Malek
 Assistant Area Vice President
 Employee Benefits
 Arthur J. Gallagher & Co.


 Philip B. French
 Assistant Vice President
 Western Home Office
 Aetna Insurance Co.

THE FOLLOWING DOCUMENT HAS
NOT BEEN FILMED BUT IS
AVAILABLE IN THE ORIGINAL
FILE

ARTHUR J. GALLAGHER

STATE OF ALASKA
HEALTH CARE COST CONTAINMENT TASK FORCE

CONFIDENTIAL

Arthur J. Gallagher & Company Inc.
Gallagher Heffernan Insurance Brokers
160 Spear Street, Suite 1100
San Francisco, CA 94120
1-800-877-9300

March 29, 1989

AK3/891

March 29, 1988

Dear Task Force Members:

We are pleased to present our findings regarding Cost Containment, Financial Review and Alternate Funding options affecting the State health plan insured by Aetna.

This report is divided into six sections as follows:

- 1.00 Cost Containment
- 2.00 Financial Review
- 3.00 Alternate Funding
- 4.00 Recommendations
- 5.00 Future Cost Containment Considerations
- 6.00 Estimated Financial Impact of Task Force Recommendations on FY 89, 90

Following these sections are supporting documents and literature.

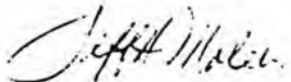
The information contained in this report covers many options and variables. All of these are potential cost saving ideas if the State and participants agree to them.

Please keep in mind that these alternatives are the first step in managing health care costs. The State must take a proactive position from here forward.

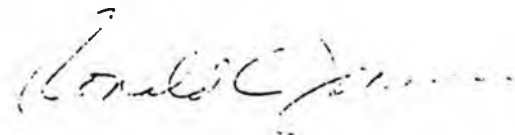
We would like to thank all of the people involved in providing information to prepare this report, especially the State entities and Aetna Insurance Company. The task force's timeframe could not have been met without everyone's complete cooperation.

Arthur J. Gallagher is committed to working with you on Health Care Cost Containment, keeping benefits intact and retaining as much money in the State of Alaska as possible.

Sincerely,



Jeffrey A. Malek
Area Vice President
Employee Benefits



Ronald C. Johnson
Area Vice President
Employee Benefits

cc: Janice Fried

AK3/892

1.00 COST CONTAINMENT 1

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TASK FORCE RECOMMENDATIONS FY 89,90 6**

STATE OF ALASKA
HEALTH CARE COST CONTAINMENT TASK FORCE
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- 1.02 Outpatient Precertification
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- 1.06 On-Site Concurrent Review
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- 5.00 Future Cost Containment Considerations

- 6.00 Estimated Financial Impact of Task Force Recommendations on FY 89, 90

1.00 COST CONTAINMENT

The purpose of this section is to identify components of Health Care Cost Containment provisions that the State could implement in order to control escalating costs while not compromising medical necessity and quality of care on an incentive basis to the employees and covered dependents.

Many major Alaska employers have implemented cost containment provisions, which generally would shift costs to employers plans who do not have cost containment. It is our recommendation that the State take a leading position in managing their health care. Aetna and Arthur J. Gallagher & Company are ready to work with the State on standard cost containment programs along with development of some prototype plans that would make the State a leader in the country, delivering cost effective, participant sensitive health care benefits.

Cost containment has several components: employee communication, systems, plan design, fixed costs and potential savings. We have attempted to outline each of the components and cost savings in this section. The administration of cost containment provisions (i.e., precert, U/R etc.) is available from firms other than Aetna, and could be contracted through the RFP process. However, in the interest of time and knowledge of the situation in Alaska, we feel Aetna is in the best position to show results quickly.

The fixed costs, estimated by Aetna, appear to be on the high side and the savings to be under estimated. Through negotiations, the fixed cost may be lowered and the actual savings may be higher due to positive employee acceptance.

We have not reviewed plan design changes, state contribution caps, or cost containment measures, as these do not contain the cost but merely shift the cost. The pricing of plan design changes are available if you should require them.

1.01 UTILIZATION REVIEW - HEALTHLINE

SCOPE

HEALTHLINE (basic) combines consumer advisory services with pre-admission certification, continued stay review, focused psychiatric review, expanded individual case management and utilization review services. (Attachment A)

EFFECT ON PARTICIPANTS

Through the toll-free telephone number for Aetna's HEALTHLINE, employees have access to health care information ranging from claim status inquiries to advance review of planned hospital stays. This enables them to make informed health care decisions about the appropriateness of the care they receive and help control costs for both the State and the employee. A \$400 reduction is suggested for non-compliance.

EFFECT ON PLAN

Claims are managed on a prospective basis by reviewing care prescribed and recommending alternatives for the participant to make informed decisions and control plan costs.

EFFECT ON ADMINISTRATION

The State must communicate the change in procedures to employees and retirees.

ACTION REQUIRED

The State must enter into an agreement for Aetna to provide these services, and pay service charges.

ASSOCIATED COSTS

\$2.08 per employee per month
Plus the Cost of running new I.D. cards
Actives 12,600 X \$2.08 = \$26,208 per month
Retirees

ESTIMATED NET EFFECT ON PLAN	FY89	FY90
PERCENTAGE SAVINGS:	6%*	6%*
Actives	\$3,131,000	\$3,131,000
Retirees	1,224,817	
Total	4,355,817	

NOTES:

Aetna needs sixty (60) day minimum lead time from date of signed agreement.

RECOMMENDED ACTION

* of medical costs

1.02 **OUTPATIENT PRECERTIFICATION**

SCOPE

Outpatient Precertification operates similarly to a typical hospital precert system.
(Attachment A and B)

EFFECT ON PARTICIPANTS

Employees have a financial incentive (a suggested \$400 reduction for noncompliance) to call Aetna's HEALTHLINE before having specific tests or procedures on an outpatient basis.

EFFECT ON PLAN

The HEALTHLINE nurse identifies those cases where the test or procedure may not be medically necessary.

EFFECT ON ADMINISTRATION

The State must communicate to employees/retirees the change in procedures.

ACTION REQUIRED

The State must enter into an agreement for Aetna to provide these services and pay service charges.

ASSOCIATED COSTS

\$1.55 per employee per month

Actives 12,600 employees X \$1.55 = \$19,530 per month

Retirees

ESTIMATED NET EFFECT ON PLAN

	FY89	FY90
PERCENTAGE SAVINGS:	3%*	3%*
Actives	\$1,252,000	\$1,252,000
Retirees		
	607,409	
Total	<u>1,859,409</u>	<u> </u>

NOTES:

RECOMMENDED ACTION

* of medical costs

1.03 MANAGED SECOND SURGICAL OPINION

SCOPE

Managed Second Surgical Opinion operates similarly to a typical hospital precert system. The program is expected to be available the third quarter of 1989. (Attachment B and C)

EFFECT ON PARTICIPANTS

Employees have a financial incentive (a suggested \$400 reduction for noncompliance) to call Aetna's HEALTHLINE before having specific surgical procedures.

EFFECT ON PLAN

The HEALTHLINE nurse identifies those cases where a second surgical opinion is necessary.

EFFECT ON ADMINISTRATION

The State must communicate the changes in procedures to the employees and retirees.

ACTION REQUIRED

The State must enter into an agreement for Aetna to provide this service and pay service charges.

ASSOCIATED COSTS

To Be Determined

ESTIMATED NET EFFECT ON PLAN

FY89

FY90

PERCENTAGE SAVINGS:

1 - 1.5%*

1 - 1.5%*

NOTES:

RECOMMENDED ACTION

* of medical costs

1.04 MANAGED MENTAL HEALTH

SCOPE

Managed Mental Health is a prototype program offered by Aetna utilizing an Employee Assistance Program to act as a gatekeeper, providing counseling, referrals and pre-authorization.
(Attachment B and C)

EFFECT ON PARTICIPANTS

The employee either calls the EAP directly or is referred by the HEALTHLINE nurse to the EAP.

EFFECT ON PLAN

The claim is managed on a prospective basis by reviewing and recommending alternatives to standard inpatient treatment resulting in lower plan costs.

EFFECT ON ADMINISTRATION

The State must communicate the changes in procedure to employees and retirees.

ACTION REQUIRED

The state must enter into an agreement with Aetna to provide these services, and pay service charges.

ASSOCIATED COSTS

To Be Determined

ESTIMATED NET EFFECT ON PLAN	FY89	FY90
PERCENTAGE SAVINGS:	TBD	TBD

NOTES:

RECOMMENDED ACTION

1.05 HIGH RISK PREGNANCY MANAGEMENT

SCOPE

This program is currently under development and is designed to lower the incidence of low birth weight (LBW) infants born to female employees and dependents. (Attachment D)

EFFECT ON PARTICIPANTS

All female employees and dependents are encouraged to call the Aetna HEALTHLINE nurse.

EFFECT ON PLAN

Care is managed on a prospective basis emphasizing the need for early prenatal care, compliance with the provider instructions, awareness of risk factors and behavioral changes.

EFFECT ON ADMINISTRATION

The State must communicate the changes in procedures to employees.

ACTION REQUIRED

The State must enter into an agreement with Aetna to provide these services and pay service charges.

ASSOCIATED COSTS

To Be Determined

ESTIMATED NET EFFECT ON PLAN	FY89	FY90
PERCENTAGE SAVINGS:	TBD	TBD

NOTES:

RECOMMENDED ACTION

1.06 ON-SITE CONCURRENT REVIEW

SCOPE

The On-Site Concurrent Review program is designed to assure that medically necessary care is being provided in an efficient manner. A registered nurse visits hospitalized patients daily and reviews the patients hospital charts.
(Attachment E)

EFFECT ON PARTICIPANTS

Patients have daily interface with the nurse.

EFFECT ON PLAN

Daily telephone contact between the review nurse and an Aetna Area Medical Director enables the review nurse to negotiate for alternative care, identify ICM necessity early on, interacts with social services and discharge planning departments, to insure maximum benefit of these services.

EFFECT ON ADMINISTRATION

The State must communicate the changes of procedure to employees and retirees.

ACTION REQUIRED

The State must enter into an agreement with Aetna in order for Aetna to provide these services.

ASSOCIATED COSTS

\$130,000 - \$150,000 per site

ESTIMATED NET EFFECT ON PLAN

FY89

FY90

DOLLAR SAVINGS:

\$260,000 -
450,000
per site

\$260,000 -
450,000
per site

NOTES:

RECOMMENDED ACTION

1.07 R & C PROFILES

SCOPE

Reasonable & Customary (R & C) Profiles represent the prevailing charge made by Health Care providers of similar expertise for a similar procedure in a particular geographic area. These are currently set every six months for the State. Aetna states they are paying 85% of R & C.

EFFECT ON PARTICIPANTS

If the provider charges more than the R & C Profile, the employee will have to pay the excess amount.

EFFECT ON PLAN

Health Care expenses will usually be within the prevailing R & C Profiles for the geographic area. By using an alternative to the current month of date, the plan could save some inflationary increases.

EFFECT ON ADMINISTRATION

The State may communicate the changes in procedure to employees and retirees.

ACTION REQUIRED

The State must enter into an agreement with Aetna and pay the associated costs.

ASSOCIATED COSTS

If R & C Profiles are determined on an annual basis: \$50,300 - \$68,000.
 If R & C Profiles revised to the Seattle area (+25%): \$100,000

ESTIMATED NET EFFECT ON PLAN	FY89	FY90
SAVINGS		
● Annualized R & C		
per employee per month	\$3.57	\$3.57
annualized	\$540,000	\$540,000
● Revised Seattle		
per employee per month	\$3.14	\$3.14
annualized	\$475,000	\$475,000

NOTES:

RECOMMENDED ACTION

1.08 WELLNESS PROGRAMS

SCOPE

Wellness Programs are comprised of topics designed to promote safety and good health among employees. Many include physical fitness programs. (Attachment F)

EFFECT ON PARTICIPANTS

To increase worker morale and productivity and lower absenteeism.

EFFECT ON PLAN

This program is a long-term investment in the employees of the State of Alaska which will in the long run reduce the cost of: accidents, ill health (absenteeism), lower productivity, and health care.

EFFECT ON ADMINISTRATION

The State needs to regularly communicate the program to its employees and retirees.

ACTION REQUIRED

Aetna has a Wellness Program available called the Wellness Video Tape Library, where appropriate topics are addressed. The State must enter into a contract with Aetna and pay the associated charges.

ASSOCIATED COSTS

To Be Determined

ESTIMATED NET EFFECT ON PLAN

FY89

FY90

LONG TERM SAVINGS:

Minimum of 2 1/2 years before savings are realized.

NOTES:

RECOMMENDED ACTION

1.09 MAIL ORDER DRUG PROGRAM

SCOPE

The Mail Order Drug Program offers a cost saving, convenient service for obtaining prescription drugs through the mail. Drugs are dispensed up to a 90 day supply instead of a 30 day supply. This program is ideal for patients receiving maintenance treatment, which account for up to 70% of all prescription drug costs. Additional savings may be realized by substituting generic drugs for brand name drugs.
(Attachment G)

EFFECT ON PARTICIPANTS

The plan participants must submit a patient profile form and mail in their prescriptions. The patient profile is maintained on computer to protect against adverse interaction with other drugs. Medications are mailed within two business days of receipt.

EFFECT ON PLAN

The plan can be added without altering the present medical plan, and can be integrated with other health benefits provisions (including deductibles and coinsurance maximums). Coordination of benefits can be administered as well.

EFFECT ON ADMINISTRATION

The State needs to communicate the program to the actives and retirees as benefit enhancements and encourage participation in order to maximize savings.

ACTION REQUIRED

The State must complete the mail order drug program application, enter into an agreement with Aetna and pay the appropriate charges.

ASSOCIATED COSTS

To Be Determined

ESTIMATED NET EFFECT ON PLAN

FY89

FY90

PERCENTAGE SAVINGS:

up to 1%

up to 1%

NOTES:

RECOMMENDED ACTION

PRESCRIPTION DRUG TREND

Over the past few years, the trend experience on prescription drugs has exceeded the overall medical trend average. In part, this stems from earlier hospital discharges and the corresponding transfer of post treatment pharmaceuticals from an inpatient (Hospital Ancillary) basis to an outpatient (Prescription Drugs) classification. It is also due in part to new life-saving drugs with excessive price tags.

Contributing to this development are orphan drugs. Orphan drugs get their name from the Orphan Drug Act which was signed into law in 1983. The purpose of the Act was to encourage drug companies to develop treatments for rare diseases by rewarding such companies with a seven year monopoly on the sale of the drug. Because of the monopoly, drug companies can charge virtually any amount they want. Examples of orphan drugs include Pentam (an inhalant version of pentamidine used to prevent a pneumocystic pneumonia infections in AIDS victims—cost \$100 per vial) and Human Growth Hormone (used to prevent dwarfism in children—cost \$8,000 - \$30,000 per year).

Because of the highly complex technology or biotechnology associated with their development, many other new drugs enjoy a monopoly type status. This status is often furthered by competitors who remove their less advantageous drugs from the market for fear of being sued for marketing an unsafe product. Given that many of these drugs deal with life-threatening situations, the consumer is often faced with the choice of pay or die. Examples of such drugs include Factor VIII (speeds blood clotting in hemophiliacs without the risk of AIDS, hepatitis, or other diseases that are present with other treatments—cost \$25,000 per year), TPA (dissolves blood clots in the treatment of heart attacks—cost \$2,200 per treatment), AZT (treatment of AIDS—cost \$8,000 per year), and Cyclosporine (suppresses the rejection of new organs in organ transplants—cost \$5,000 - \$7,000 per year). Provided by Aetna Insurance Company.

1.10 SUPPLEMENTAL BENEFIT SYSTEM REVIEW

SCOPE

The Supplemental Benefit System (SBS) is available to all eligible active employees of the State of Alaska, where the employee can choose coverage and pay premiums out of The Alaska Social Security Fund. SBS covers the deductible, and Wellness or Preventative Care Programs. Open enrollment occurs in October for the plan year effective the following February.

EFFECT ON PARTICIPANTS

Participants generally perceive the SBS benefits as first dollar coverage. Typically this provides no real incentive for the participant to control the cost of their own health care. This in turn drives up the cost of the plan.

EFFECT ON PLAN

Prior to January 1, 1989 SBS experience was combined with all other plan experience, so that it was impossible to determine what effect the SBS had on the total cost of the plan. It is possible that the SBS may be driving utilization higher on the base plan due to the perceived first dollar coverage discussed above.

EFFECT ON ADMINISTRATION

As of January 1, 1989, the coding of claim data has changed to separate SBS experience from the rest of the plan.

Without separate experience to calculate the premium rates, the premium was an estimated guess. With the changes in coding, SBS experience can be tracked to help identify trends and patterns in utilization, and accurate premium rates can be determined.

ACTION REQUIRED

The State needs to look at experience on an ongoing basis to gain an understanding of the effect of SBS on the true cost of the plan and how it is effecting the base plan.

ASSOCIATED COSTS

To Be Determined

NOTES:

RECOMMENDED ACTION

1.11 ELIGIBILITY/ENROLLMENT VERIFICATION

SCOPE

The active and retired employees of the State need to meet the eligibility requirements (conditions that the employee must satisfy) of the State's Health Insurance Plan in order to participate in the plan and obtain plan benefits. All pertinent data is maintained on magnetic tape by the state via the payroll system and is transferred to Aetna, where Aetna pays claims directly from that information.

AREAS OF CONCERN

At the present time there are several areas of concern to the consultant:

- **Accuracy of the eligibility data.** Is Aetna paying claims on persons who are no longer eligible for coverage, persons who have never been eligible for coverage, or in duplicate (paying claims twice)? Are employees who are eligible for COBRA and who choose COBRA transferred from active status to COBRA continuation status and is this communicated to Aetna, all on timely basis.
- **Timeliness of Data Transfer.** Even under the best scenario (accurate eligibility data for the current month), the timeliness of the data transfer from the State of Alaska is of utmost importance. Untimely transfer of data combined with inaccurate data compounds the accuracy of the eligibility data further.

EFFECT OF INACCURACIES ON THE PLAN

It is more likely that the State is paying claims on ineligible persons and in duplicate. The amount overpaid is difficult to determine without further investigation.

EFFECT ON ADMINISTRATION

Initially, there would be more work for the State to develop a system. However, the results should show substantial savings.

ACTION REQUIRED

We recommend that the State take immediate action to examine these issues, and subsequently initiate a new enrollment process in order to generate current, accurate and verifiable data.

ASSOCIATED COSTS

To Be Determined

NOTES:

RECOMMENDED ACTION

1.12 MANAGEMENT REPORTS/PARTICIPANT DEMOGRAPHICS

SCOPE

Management Reports provide the necessary information for the effective management of the health care program. Effective reports help to identify trends and patterns in charges and utilization; pinpoint specific sources of expense; design plan changes; and monitor the results of plan changes.
(Attachment H)

CURRENT REPORTING

Currently, the State receives a minor recap of claim data which is provided by Aetna's Experience Monitoring Reports (which are available in many combinations). Experience Monitoring Reports includes three report types: Basic Year-To-Date (premium and claim tracking data); Monthly summary (rolling 12 month basis); and Statistical Data Report (an overview of current year experience, claim activity, and prior year run off).
(Attachment H1)

ADDITIONAL AETNA REPORTING AVAILABLE

Access II (Computerized Claim Extract System)

This system provides a look at inpatient utilization, the most expensive type of care, including hospital charges, physician and other inpatient expenses.
(Attachment H2)

Accessor

This is a PC based data reporting and analysis system, offering pre-programmed basic and menu reports, and custom reports as well.

EFFECT ON PLAN MANAGEMENT

Administration

Administration would be responsible for utilizing management reporting to effectively manage the health care program.

Plan

By monitoring plan experience and identifying trends and patterns, management can make informed decisions regarding changes in the plan design to contain costs and monitor the results of those changes.

One result of a change in plan design is cost shifting. As the plan design change contains cost in one area, the cost differential is shifted to another area. A good example of cost shifting internal to the plan is inpatient hospitalization to outpatient surgery. An example external to the plan occurs when public programs cut down reimbursement levels and hospitals shift costs to private payors.

Participant

One result of the analysis of management reports might shift some of the costs from the employer to the employee by changing the deductible and/or coinsurance level (cost sharing).

RECOMMENDATIONS

We recommend that the State obtain the most comprehensive reporting available, and be reviewed by the State and the consultant (Arthur J. Gallagher).

The State should implement a system to track participant demographics and relate it to claim and eligibility data.

ACTION REQUIRED

The State must sign an agreement with Aetna to receive the necessary reports.

ASSOCIATED COSTS

Will be determined based on reports chosen.

ESTIMATED NET EFFECT ON THE PLAN

This will be determined once reports are selected and analyzed.

NOTES:

RECOMMENDED ACTION

2.00 FINANCIAL REVIEW

We have reviewed the financial information on the State plan and have found several areas that need further consideration. These are outlined in sections 2.01 - 2.04.

Regarding the administration charges listed by Aetna, we did not attempt to value them as they are contractually agreed upon and do not come up for review until the end of the calendar year 1989.

It is important to note that the administration charges are broken into two parts.

- 1) Retention charges are made up of the following:
 - Administrative, Claim Settlement, Risk and Profit Charges;
 - Premium Taxes;
 - Non-Recurring Charges;
 - Less Interest Credits;
 - Less Premium Tax Credit;

- 2) Direct Charges are made up of the following:
 - Printing Charges;
 - Watts Line Charges;
 - Management Reports;
 - Tape Charges;
 - Consulting Charges;
 - COBRA, Direct Billing;
 - Miscellaneous.

The total of these two were \$5,363,319 or 7.42% during the 1987 policy year. These charges as a percent of premium appear to be in line with the current market place, especially when you consider Aetna is processing roughly twice as many claims per insured for the State of Alaska versus other Alaska plans. Employee education would lower the volume by suggesting employees batch bills and submit them on one claim form. The State is charged on a sliding scale per explanation of benefits (E.O.B.) regardless how many bills are attached.

The areas that did concern us, were premium tax credits (section 2.01) and the that State bills back through the plan consulting fees worth \$161,424 for the 1987 plan year. If this is an expense, it should be paid separately, and not added to the total cost of the plan.

In addition, it is confusing that the financials are calculated on a July 1st - June 30th basis; and the premium changed on February 1, 1989.

STATE OF ALASKA
EXPERIENCE SUMMARY
AETNA

POLICY PERIOD
JULY 1, 1987 - JUNE 30, 1988

GROUP	CREDITED PREMIUM	PAID CLAIMS	INCURRED CLAIMS	RETENTION*	1987	CUMULATIVE BALANCE	CLAIM RESERVES
					POLICY YEAR BALANCE		AS OF JULY 1988
ACTIVE	47,044,042	46,253,424	47,386,626	3,415,729	(3,758,313)	(5,876,190)	10,843,653
RETIRED	16,849,557	18,400,148	19,881,727	1,311,701	(4,343,871)	5,558,415	5,316,885
TOTAL	63,893,599	64,653,572	67,268,353	4,727,430	(8,102,184)	(317,775)	16,160,538

*Interest credits of \$1,466,940 and taxes of \$1,610,974 are included in the retention figures.

POLICY PERIOD
JULY 1, 1986 - JUNE 30, 1987

GROUP	CREDITED PREMIUM	PAID CLAIMS	INCURRED CLAIMS	RETENTION*	1986	CUMULATIVE BALANCE	CLAIM RESERVES
					POLICY YEAR BALANCE		AS OF JULY 1987
ACTIVE	39,484,110	43,359,389	44,123,343	1,526,215	(6,165,448)	(2,117,877)	9,710,451
RETIRED	15,500,815	12,322,670	12,621,468	568,806	2,310,541	9,902,286	3,835,306
TOTAL	54,984,925	55,682,059	56,744,811	2,095,021	(3,854,907)	7,784,409	13,545,757

*Interest credits of \$2,108,878 and taxes of \$31,725 are included in the retention figures.

STATE OF ALASKA
AETNA
1987 Retention Charge

Paid Claims	\$ 72,314,057
Incurred Processed Claims Transactions	556,158
Average Lives	21,833
Processed Claim Transactions per Employee/Retiree per month	\$ 2.12
Claims Cost per Member/Retiree per month	\$ 276.01

<u>Retention</u>	<u>Dollars</u>	<u>Paid Claims</u>
Ongoing Administrative, Claim Settlement, Risk & Profit Charges	\$4,849,698 *	6.71%
Cash Fund Accounting Interest Credits	<u>-1,656,235</u>	<u>-2.29%</u>
Sub Total (1)	\$3,193,463	4.42%
Non-Recurring Items:		
Revisionary Admin. Charges	6,900	
Direct Charges	340,234	
Premium Taxes	1,822,722	
Premium Tax Refund	<u>0</u>	
Sub Total (2)	\$2,169,856	3.00%
Net Retention (1+2)	\$5,363,319	7.42%

<u>No. PCT's</u>		<u>Matrix</u>			
	<u>Multiplier</u>				
* 556,158	x	\$8.72	=	\$4,849,698	

State of Alaska

AETNA

Interest and Rate History

Interest Received All Groups

July 1, 1987 to June 30, 1988 \$ 1,656,235
The interest rate applied to the positive cash balance is 7.5%.

July 1, 1986 to June 30, 1987 \$ 2,350,177
The interest rate applied to the positive cash balance is 9.0%.

The interest rate applicable for the 1988 policy year will be between the range of 7.5% to 8.5%.

Rates

Rates effective February 1, 1989

Active Medical

\$431.72 per eligible General Government employee, PSEA employee, IBU employee, and those employees not covered by a collective bargaining agreement;

\$448.78 per eligible Supervisor or Confidential employee, and Masters, Mates and Pilots employee;

\$484.97 per eligible MEBA employee;

\$442.84 per eligible Local 71 employee;

\$12.13 per participating employee of Option 1; and

\$32.99 per participating employee and family for Option 1

Retiree Medical

\$252.83 per eligible benefit recipient for health care coverage

Rates

<u>Effective Date</u>	<u>Active Medical</u>	<u>Retiree Medical</u>
February 1, 1989	+5.0%	+19.7%
July 1, 1988	+33.3%	+50.6%
November 1, 1987	-1.0%	-15.0%
July 1, 1987	+27.0%	Pass

(S1)

STATE OF ALASKA
(ALL PLANS COMBINED)

AETNA GROSS RETENTION COST AS A CHARGE PER PROCESSED CLAIM TRANSACTION

RETENTION GUARANTEE FOR NOVEMBER 1, 1987 - JUNE 30, 1988
MEDICAL, DENTAL, VISION, AUDIO AND SUPPLEMENTAL HEALTH

11/1/87 - 6/30/88
PAID CLAIMS COST
PER EMPLOYEE/RETIREE
PER MONTH

PROCESSED CLAIM TRANSACTIONS PER EMPLOYEE/RETIREE
PER MONTH FOR 11/1/87 - 6/30/88

	0 - 1.64	1.65-1.69	1.70-1.74	1.75-1.79	1.80-1.84	1.85-1.89	1.90 & UP
\$ 0.00 - \$249.99	\$9.02	\$8.95	\$8.88	\$8.80	\$8.74	\$8.67	\$8.60
\$250.00 - \$259.99	\$9.06	\$8.99	\$8.92	\$8.84	\$8.78	\$8.71	\$8.64
\$260.00 - \$269.99	\$9.10	\$9.03	\$8.96	\$8.88	\$8.82	\$8.75	\$8.68
\$270.00 - \$279.99	\$9.14	\$9.07	\$9.00	\$8.93	\$8.86	\$8.79	\$8.72
\$280.00 - \$289.99	\$9.18	\$9.11	\$9.04	\$8.97	\$8.90	\$8.83	\$8.76
\$290.00 - \$299.99	\$9.22	\$9.15	\$9.08	\$9.01	\$8.94	\$8.87	\$8.80
\$300.00 AND UP	\$9.26	\$9.19	\$9.12	\$9.05	\$8.98	\$8.91	\$8.84

NOTE: These retention charges exclude interest credits, premium taxes, and direct expense items (i.e., printing, toll-free telephone lines, and premium tax for Political Subdivisions). These factors will be incorporated at final accounting.

127-18-34-1-200-1-1

2.01 PREMIUM TAXES

Currently, required by State Law (AS 39.30), Aetna charges a premium tax based upon the total premium collected, applies for a tax refund at the end of the year, and then credits the retention charge.

During our review, it was discovered that Aetna had collected the 1987 calendar year refund, but it had not been credited. The 1988 refund has not been applied for as of yet (estimated 1987 credit \$1,650,000, estimated 1988 credit \$1,750,000, for a total of \$3,400,000).

It is recommended that Aetna reduce the premiums due during remaining year 1989 by the amount of the 1987 & 1988 tax credit.

2.01A AS 39.30

This law should be amended to exempt the State from paying this premium tax. It would simplify the administration and retain the money in Alaska.

2.02 RESERVES

Per the agreement between the State and Aetna, Aetna is required to establish reserves for incurred but unreported claims. This also allows Aetna to pay claims after termination of a contract.

A reserve development spread sheet is attached for your review. We feel that the reserves established by Aetna are slightly overstated (Aetna agrees the reserve levels are "conservative"). The fact that the plan may be slightly over reserved does not present a problem because the State earns interest credits on the money and it keeps the plan in a healthy position.

One consideration is to have the State hold the reserves in a separate account. This would keep the money in the State, and if the State's investment performance is better than Aetna's, this would result in an immediate credit.

The reserves as of June 30, 1989 (Excluding Extended Liability)	= \$14,317,095
Aetna's estimated required reserves	= \$12,761,685
Estimated over reserve	= \$ 1,555,410 (+11%)

STATE OF ALASKA

ERG - 392675

AETNA

Reserve Development

ERG		(A) Runoff 7/88 - 9/88	+	(B) Runoff 7/87 - 9/87	x	(C) Runoff 7/87 - 7/88	=	(D) Reserve	Actual Runoff 7/1/88 - 3/1/89
A	<u>Actives</u>								
	Comp. Medical	4,900,657		4,362,820		5,956,475		6,690,774	6,492,100
	Extended Liability							2,178,045 ✓	
	Maternity							857,139	
	Comp. Dental	698,872		727,610		881,740		846,914	827,702
	Vision	218,196		223,679		277,585		270,781	268,508
B	<u>Supplemental Benefits Systems</u>								
	Comp. Medical	54,911		38,739		47,211		66,920	77,182
	Extended Liability							16,413 ✓	
	Maternity							12,750	
C	<u>PoliticalSubdivision</u>								
	Comp. Medical	651,714		544,969		726,162		868,398	793,861
	Extended Liability							249,999 ✓	
	Maternity							122,634	
	Comp. Dental	112,564		81,037		102,849		142,862	129,984
	Vision	29,062		27,498		37,360		39,485	36,594
D	<u>Retiree Medical</u>								
	Comp. Medical	2,563,098		1,903,897		3,065,888		4,127,414	3,772,585
	Extended Liability							1,162,282 ✓	
	Maternity							27,189	
E	<u>Retiree D/V/A</u>								
	Comp. Dental	182,300		117,518		156,875		243,353	228,014
	Vision	64,676		38,617		53,847		90,183 ✓	87,178
F	<u>Polysubs Option II</u>								
	Comp. Medical	2,847		0		471		0	2,977
	Extended Liability							802 ✓	
	Maternity							482	

2.03 EXTENDED LIABILITY

As a part of Aetna's standard operating procedure, a separate reserve is established for "extended liability". Extended liability is for claims incurred by an individual on disability at the time of contract termination (Aetna's). Most plans eliminate the extended liability reserve. If they change from one carrier to another, the new carrier usually accepts the liability.

If a plan is self funded, extended liability is calculated as part of the regular reserve.

Currently, Aetna holds \$3,697,724 for extended liability. By issuing a contract change, this money could be released to the State and reduce premiums for the fiscal year 1989 by this amount.

**2.04 CLAIM FLUCTUATION MARGIN -
PREMIUM STABILIZATION ACCOUNT**

In all insured medical plans, the carrier provides for the ability to recover deficits and usually has a vehicle to pay dividends to policyholders in lower utilization years.

Aetna's procedure is to establish a claim fluctuation margin as a part of the premium calculation (1989 = 3%). The margin is used to cover unexpected claim activity. If there is a surplus or deficit on the plan at the end of a plan year, it is posted on a cumulative basis to the premium stabilization account (P.S.A.).

The premium stabilization account balance as of July 1, 1988 = \$279,636.

Aetna's Maximum P.S.A. = \$706,000.

In previous years the P.S.A. had a substantial positive balance. The State has never requested this credit, instead it lets the monies grow with interest, and uses it to reduce future premium increases.

STATE OF ALASKA
ACTIVE EMPLOYEE EXPERIENCE

<u>Policy Year</u>	<u>Paid Premium</u>	<u>Incurred Claims</u>	<u>Retention</u>	<u>Policy Year Surplus (Deficit)</u>	<u>Cumulative Balance</u>
7/82 - 7/83	27,729,375	25,312,455	1,586,818	830,102	830,102
7/83 - 7/84	27,857,503	23,619,520	684,501	3,553,482	4,383,584
7/84 - 7/85	34,763,000	32,223,711	770,849	1,768,440	6,152,024
7/85 - 7/86	36,756,000	38,378,681	871,457	(2,494,138)	3,657,886
7/86 - 7/87	39,484,110	44,113,812	1,526,215	(6,155,917)	(2,498,031)
* 7/87 - 7/88	47,004,042	47,386,626	2,210,804	(2,593,388)	(5,091,419)

RETIRED EMPLOYEE EXPERIENCE

<u>Policy Year</u>	<u>Paid Premium</u>	<u>Incurred Claims</u>	<u>Retention</u>	<u>Policy Year Surplus (Deficit)</u>	<u>Cumulative Balance</u>
7/82 - 7/83	6,440,213	8,146,246	377,676	(2,083,709)	(2,083,709)
7/83 - 7/84	10,274,521	7,275,641	258,989	2,739,891	656,182
7/84 - 7/85	13,848,779	9,456,773	254,484	4,137,522	4,793,704
7/85 - 7/86	14,011,340	11,092,724	353,460	2,565,156	7,358,860
7/86 - 7/87	15,500,815	12,621,468	568,806	2,310,541	9,669,401
* 7/87 - 7/88	17,296,636	19,881,727	869,340	(3,454,431)	6,214,970

* Estimated figures for the 1987 policy year.

3.01 PREMIUM DELAY

Premium Delay is basically a fully insured plan where the plan sponsor pays the premium thirty (30), sixty (60,) or even ninety (90) days after the original due date. This program is a pure cash flow mechanism. However, it must be understood, if the State changes carriers, the premium deferred would have to be paid up, usually shortly after cancellation.

Also, the carrier charges interest on the amount of premium on delay. The next page is one example of the cash flow advantage and associated charges.

An estimated net first year cash float of \$13,360,114 could result from implementing premium delay.

STATE OF ALASKA

Premium Delay

<u>Actives</u>	<u>60 Day Lag</u>	<u>90 Day Lag</u>
Amount Deferred	5,485,724	10,971,448
Total Charge	658,287	1,316,574

Retirees

Amount Deferred	2,105,250	4,210,500
Total Charge	252,630	505,260

Annualized Interest Rate - 12%

3.02 MINIMUM PREMIUM/SFG FUNDED - NON-FUNDED

One step closer to self funding employee benefits would be minimum premium (split funded).

Minimum premium is a vehicle by which the State would pay the fixed costs of the plan on a monthly basis and claims as they are presented to the bank. This affords the State the ability to hold the reserves, pay claims as they are presented, while the maximum cost of the plan would not exceed the fully insured premium level.

This is a popular way for plan sponsors to receive cash flow, retain reserves, earnings, usually lower costs and not increase overall liability or impair the "insured perception" to employees.

Minimum premium plan design prevents the State from paying two whole premiums on dual covered individuals.

An illustration of the fixed costs associated with minimum premium plans, is included in 3.03.

3.03 SELF FUNDING A.S.O - A.S.C

The State could consider a self funded plan (A.S.O./A.S.C.) whereby the State hires a claims administrator (could be an insurance company or a T.P.A.) and funds the claims as they are presented. Also, most plans purchase aggregate reinsurance to limit their total exposure not to exceed 125% of the insured premium.

In good years, the State would retain the surplus and reserves. In a bad year, they could pay up to 25% more than an insured or minimum premium plan would cost.

Most plans of this size are self funded in some fashion. The State should consider this as a future option.

However, the bargaining units may express concern if the plan is self funded, that is to say there is no insurance company fronting the risk as in insured or minimum premium plans.

1987 Retention Charges
Comparison of Funding Arrangements

Credited Premium \$ 63,893,599
Paid Claim \$ 64,653,472
Average Lives 19,733

Retention	Conventionally Insured	SFGP Funded	SFGP Unfunded	ASC
Ongoing Administrative, Claim Settlement, Risk and Profit Charges	\$ 4,187,517	\$ 4,187,517	\$ 4,187,517	\$ 3,924,185
Cash Fund Accounting Interest Credits	\$ (1,466,940)	\$ (1,466,940)	\$ (451,000)*	\$ (584,000)*
Banking and Admin. Charges	\$ 0	\$ 101,000	\$ 230,284	\$ 101,000
Sub Total	\$ 2,720,577	\$ 2,821,577	\$ 3,966,801	\$ 3,441,185
Direct Charges	\$ 395,879	\$ 395,879	\$ 395,879	\$ 395,879
Total Retention	\$ 3,116,456	\$ 3,217,456	\$ 4,362,680	\$ 3,837,064

Taxes have been excluded due to the Tax exemption status for the State of Alaska.

* Interest earned due to funds in the Premium Stabilization Reserve.

3.04 POOLING CONCEPT

Pooling is basically a self funded plan that has expanded to cover more than one entity. Examples are state, university and municipal employees.

Pooling of employee benefits and property and casualty insurance has become very popular with public entities in the last ten years.

Pooling of coverages is usually undertaken to improve cost effectiveness, provide coverage when they are not available or uncompetitive in the standard insurance markets, and to retain premium money in the state.

Our firm successfully established the JIA for the Alaska Municipal League last year. Although it originally drew criticism, a year later it looks to be a huge success. It has provided coverage that was previously unaffordable or very expensive at competitive rates and has kept \$7,000,000 in the State that would have normally been sent to out of State insurance companies.

3.04A POOLING LEGISLATURE

In order to proceed with pooling, legislation has to be enacted to allow combining employee benefits plans. We recommend that the State take pooling under further consideration as a long range cost management technique.

3.05 AS 21.89.030 AMENDMENT

Alaska State Law requires that an insurance company use a negotiable bank check to settle a claim or pay a judgment. This means that Aetna issues checks on a funded account. Usually minimum premium or self funded plans issue drafts that are funded upon presentation. This change from checks to drafts would result in an additional ten day float on the money, resulting in a net interest credit of approximately \$2,500,000 per year. There are some administrative and banking arrangements that need to be established to take advantage of this.

State Law AS 21.89.03 should be interpreted or modified to allow the State to use drafts for benefit payments.

4.00 RECOMMENDATIONS

Action

- _____ 1.00 Cost Containment
- _____ 1.01 Utilization Review - Healthline (Basic)
- _____ 1.02 Outpatient Precertification
- _____ 1.03 Managed Second Surgical Opinion
- _____ 1.04 Managed Mental Health
- _____ 1.05 High Risk Pregnancy Management
- _____ 1.06 On Site Concurrent Review
- _____ 1.07 R & C Profiles
- _____ 1.08 Wellness Programs
- _____ 1.09 Mail Order Prescription Drug Plan
- _____ 1.10 Supplemental Benefit System
- _____ 1.11 Eligibility/Enrollment Verification
- _____ 1.12 Management Reports/Participant Demographics
- _____ 2.00 Financial Review
- _____ 2.01 Premium Taxes
- _____ 2.01A Premium Tax Amendment
- _____ 2.02 Reserves
- _____ 2.03 Extended Liability
- _____ 2.04 Claim Fluctuation Margin - Premium Stabilization Account

- _____ 3.00 Alternate Funding
- _____ 3.01 Premium Delay
- _____ 3.02 Minimum Premium/Funded - Unfunded
- _____ 3.03 Self Funding A.S.O. - ASC.
- _____ 3.04 Pooling Concept
- _____ 3.04A Pooling Legislation
- _____ 3.05 AS 21.89.030 Amendment

5.00 FUTURE COST CONTAINMENT CONSIDERATIONS

- _____ Preferred Provider Organizations: Medical and Dental
- _____ Managed Care
- _____ Prescription Drug Network
- _____ Plan Design Alternatives
- _____ Flexible Benefit Plans
- _____ Education for Plan Participants
- _____ Employee Assistance Plans
- _____ Electronic Plan Processing

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**6.00 ESTIMATED FINANCIAL IMPACT OF
TASK FORCE RECOMMENDATIONS FY 89, 90**

FISCAL YEAR 1989 IMPACT

Effective Date	Project Premium Paid	\$110,000,000
ASAP	Premium Tax Credit	(3,450,000)
7/1/89	Cost Containment	0
7/1/89	Interest Credit on Drafts	(225,000)
ASAP	Reserve Release	0
ASAP	Extended Liability Amendment	(3,697,724)
	Total	<u>\$ 7,372,724</u>
	Net Effect	-6.7%

FISCAL YEAR 1990 IMPACT

Project Premiums Paid	\$123,200,000
Premium Tax Credit or Amendment	(1,700,000)
Cost Containment	(6,500,000)
Interest Credit on Drafts	(2,700,000)
Reserve Release Interest Credits	(1,360,000)
Extended Liability Amendment	0
Total	<u>\$ 12,260,000</u>
Net Effect	-8.84%
Total Fiscal Years 1989 - 1990	-\$19,632,724

Section 2 Objectives of The HEALTHLINE Program

The objectives of Aetna's HEALTHLINE Program are to aggressively promote cost-effective hospital utilization and informed health care consumer behavior through:

- Direct interaction with providers
- Consumer Counseling and advocacy

We recognize that most consumers do not have the knowledge and experience necessary to prudently purchase health care services. They are not familiar with the options available, the questions to ask their doctors, etc. We also recognize that the advice and assistance of independent experts can be most beneficial with helping consumers find their way through the complexities of the healthcare delivery system. Aetna's HEALTHLINE Program is designed to fill these important needs by combining counseling, pre-certification, second surgical opinion, continued stay review and discharge planning into one comprehensive program.

Resources in Support of the HEALTHLINE Program

Aetna's HEALTHLINE Program is fully integrated, system supported and administered by specially trained nurse and physician advisors.

- Specially trained HEALTHLINE Nurses and dedicated support staff in the Seattle, WA Claim Office.
- Home Office Management and Professional Staffs to manage the programs and assure consistency. This includes our staff of registered nurses, social workers and physicians to provide support as necessary.
- Home Office based Focused Psychiatric Review staff which includes a board certified psychiatrist, a licensed clinical psychologist and 25 masters level psychiatric clinicians (MSN's and MSW's) each of whom has extensive clinical experience in direct patient care.
- Personnel experienced in discharge planning and patient placement are available as Home Office resources.

Resources in Support of the Program (Continued)

- Professional protocols which address the need for admission, length of stay, candidates for ambulatory surgery, candidates for Individual Case Management, etc.
- Reference guides for nurses to assist with the application of protocols, second opinion referral, computerized notice of certification, etc.
- Network of 310 Nurses in Aetna Claim offices throughout the country to draw upon as a resource with knowledge of community programs, facilities, etc.
- Quality Assurance Program administered by medical professionals which ensures that Healthline components are consistently administered in accordance with established procedures and applicable plan provisions.
- Physician advisor network which includes board certified practitioners in all major specialties.
- Outside peer review organizations for impartial advice and on-site review of selected cases.
- Aetna's national directory of 15,000+ Board Certified Physicians for second surgical opinion referrals.
- The insurance industry's largest provider profile database profiling hospital costs for common causes of admission, (i.e., 50 most common admitting diagnoses by hospital, 50 most common surgical procedures resulting in admission by hospital.
- System support through Aeclaims (Aetna's Computerized Claim System).
- Computerized monitoring and reporting of activity and results through Access (Aetna's Computerized Claim Extract System).

Section 3

Message to Employees

In order to receive maximum benefits, the employees of STATE OF ALASKA and their family members must notify the Aetna HEALTHLINE Nurse Consultant of each hospital admission. Compliance with this pre-notification requirement will assure full benefits, assuming the patient remains covered at the time of admission. Notifying the HEALTHLINE Nurse Consultant is required within the following time frames:

Non-Emergencies/Non-Urgent Admissions: Two weeks Prior to Admission

- Admission that is not an urgent or emergency admission.

Maternity Admission: Within 60 days prior to expected date of delivery.

Emergency Admissions: Within 48 Hours Following Admission

- Admission for a disease or injury severe enough to require immediate confinement.

Within two days after the patient notifies the HEALTHLINE Nurse, a system-generated "Notice of Certification" is automatically mailed to the patient's home, physician's office, and hospital. The confirmation will indicate the number of certified hospital days, as well as remind the patient of the need to recertify if an extended hospital stay is anticipated. Refer to Exhibit II to review a sample Notice of Certification.

Pre-certification will not be required for employees and/or their dependents if Medicare provides primary coverage.

The employees of STATE OF ALASKA, their family members, and attending physicians are advised to always contact the HEALTHLINE Nurse under the following conditions:

- Before all surgery
- Before ordering private duty nursing services
- Prior to a hospital discharge which involves transferring the patient to a convalescent facility or providing for home health care

This telephone call will trigger discussion of a second surgical opinion, assistance in identifying a qualified board certified specialist from Aetna's second surgical opinion consultant listing, and consideration of ambulatory care alternatives. The HEALTHLINE Nurse also has authority to waive a mandatory second opinion requirement when it is determined, based on established criteria, that surgery is clearly the treatment of choice.

Additionally, this telephone call will trigger discussion about the extent of coverage and the criteria applied for assessing the medical necessity for private duty nursing, convalescent facility and home health care.

Section 4

Workflow

Telephone System

STATE OF ALASKA employees and their family members will contact the Seattle, WA Etna Claim Office via Toll-Free Telephone Service. The telephone service will be available for both customer relations inquiries which involve claim status or denial questions and HEALTHLINE calls which include pre-admission certification, second surgical opinion assistance, outpatient surgery, plan features and other healthcare related questions.

Review Recent Claim History

The HEALTHLINE Nurse will scan recent claim activity to identify significant recent events, (i.e., prior hospital admissions) and diagnostic-related information. If necessary, claim history screens can also be accessed.

Identify Type of Activity: Pre-Certification or Consumer Advice

Telephone calls will be classified into one of three categories: Pre-certification, Consumer Advice or Both. This will be done by interviewing the caller.

If Pre-Certification

- HEALTHLINE Nurse obtains information from the caller and enters it into Ecclains Terminal: (See Section 5 for Focused Psychiatric Review)
- Proposed surgical operation (if any)
- Name, address, and phone number of attending physician
- Hospital name and address
- Scheduled admission date
- Number of inpatient days requested
- The Nurse Consultant will gather any missing medical information by telephoning the attending physician's office.

Section 4

Workflow

If Pre-Certification (Continued)

- HEALTHLINE Nurse applies severity of illness/intensity of service criteria to determine the necessity of inpatient admission. Hospital certification will be refused if the patient can be safely and adequately treated in an ambulatory surgical or other outpatient setting.
- If the hospital admission is necessary, the Nurse Consultant will add additional information into the Reclaims System to determine if:
 - The hospital or physician is a "red flag" provider.
 - A Preferred Provider Arrangement is in effect and if so, identify the applicable network and determine what services are eligible for preferred benefits.
 - The surgical procedure requires a second surgical opinion.
 - Weekend admission criteria and pre-admission testing edits must be applied.
- If the hospital admission is necessary, the HEALTHLINE Nurse certifies a specific number of hospital days. The emphasis is on certifying an appropriate length of stay based on the individual's medical situation and established utilization review criteria.
- If a second surgical opinion is required, the HEALTHLINE Nurse can provide the caller with the names of three board certified specialists whom they may seek for second surgical opinions.
- A system-generated Notice of Certification will be mailed within two days after the telephone call is received.
- Except for routine maternity admissions, the Nurse Consultant will diary all confinements for concurrent stay review and discharge planning.

Section 4

Workflow

If Pre-Certification (Continued)

Based on system editing of certain diagnoses and his/her own medical judgement, the Nurse Consultant identifies potential candidates for Individual Case Management.

- Potential denials of pre-certification or reductions in requested lengths of stay are referred to a Physician Advisor. The Physician Advisor will discuss this matter with the patient's attending physician and if necessary, bring in a board certified specialist for consultation. When the final certification period is decided, a Notice of Certification is issued with copies to the employee, physician, and hospital, and a diary date is established for follow up review.
- Attending physicians are encouraged to request certification for extended hospital stays by telephone using the HEALTHLINE Toll-Free Number. If approved, an amended "Notice of Certification" will be issued.
- The Reclaims System will issue a daily list for continued stay review and discharge planning. In all cases, the Nurse Consultant will telephone the hospital and/or attending physician the day before the certification expires to determine if the patient is still confined. Additional follow up diaries will be established as necessary.
- When the hospital and surgical claims are submitted for payment, the Reclaims System will automatically display the number of certified hospital days to ensure accurate claim payment.

If Consumer Advice

The HEALTHLINE Nurse is fully prepared to discuss various treatment philosophies, alternate delivery care sites and provide resources for additional health and medical information.

- Inform participants about less costly alternatives to hospitalization, such as ambulatory surgical facilities, home health care, hospices, and birthing centers.
- Encourage the use of other cost containment measures, such as pre-operative outpatient testing, second surgical opinions, and generic drugs.
- Identify candidates for Individual Case Management.
- Provide names of Board Certified Physicians and criteria for physician selection.
- Encourage participants to be more assertive in expressing and defining their health care needs. (Suggest questions callers can ask their physician.)
- Provide addresses and telephone numbers of local chapters of national organizations devoted to specific disease entities, e.g., American Cancer Society, American Diabetic Association, etc.
- Discuss "wellness"/general health issues.
- May steer participants to local suppliers of durable medical equipment, home health care agencies and hospice care which provide high quality care and discount offers, when appropriate.
- The nurse consultant will document the results of all telephone conversations:
 - Telephone calls will be diaried for 90 days. Estimated savings are assigned to each call based on the treatment alternative elected by the patient as a result of the HEALTHLINE advice. Additionally, Aetna will conduct random surveys to monitor consumer satisfaction with the program.
- A list of candidate likely for Individual Case Management will be maintained and the associate savings achieved will be documented.

Determining the Medical Necessity of the Admission

To determine if confinement in an acute care hospital is necessary, or if the proposed treatment could be performed in an alternate less costly setting, the Nurse Consultant reviews the diagnosis and justification for admission against the Severity of Illness/Intensity of Service (SI/IS) criteria.

The ISD-A Review System consists of utilization review and management criteria designed to screen hospital admissions, continued hospitalization, and services provided to patients for medical necessity and appropriateness of level of care. The ISD criteria address the question of medical necessity in terms of the severity of the patient's condition, the intensity of treatment the patient is receiving, the indications that discharge can be safely accomplished. These criteria were developed by Interqual, Inc., a provider consultant organization. They were subsequently tested for validity and reliability at Boston University Medical Center and adopted for the Appropriateness Evaluation Protocol (AEP) criteria used to evaluate acute care for federally funded patients.

Severity of Illness/Intensity of Service-Discharge (SI/IS-D) Criteria

The criteria consist of the following three components:

- Severity of Illness (SI) Criteria - SI criteria are a list of major physiological conditions and signs of acute illness which are sufficiently severe to justify the patient being admitted to an acute care hospital.
- Intensity of Service (IS) Criteria - IS criteria are diagnostic and therapeutic services which generally are available only in an acute care hospital setting.

There are both generic and thirteen body system sets of SI/IS criteria that are diagnoses independent. The two questions answered by the use of these criteria are:

- Why is the patient hospitalized?
- What diagnostic and/or therapeutic services will be rendered?
- Discharge Screening Criteria - Discharge screens which are specific indications of patient stability are included with each criteria set. When these screens are met, a patient generally no longer belongs in the hospital.

If surgery is to be performed, the system will edit the procedure code to determine if the procedure is on Aetna's ambulatory surgery list. If so, the nurse consultant will determine if there are any medical reasons why the surgery could not be performed in an outpatient setting.

In general, a hospital admission is considered appropriate and is certified as medically necessary if at least one SI or IS criterion is met and the procedure cannot be safely performed in an outpatient setting. If neither an SI or IS criterion is met and the procedure can be performed in an outpatient setting, a

recommendation for denial of certification is made. Physician review is then required. However, the HEALTHLINE Nurse may override the criteria, but must provide documentation of conclusions, if either of the following occur:

- No objective criteria have been met, but other clinical factors or a combination of marginal findings make the admission necessary or,
- One or more objective criteria have been met, yet the appropriateness of the admission is not justified.

Preoperative Day Guidelines

Generally, preoperative days are not considered medically necessary and should not be certified. This includes pre-op days requested solely due to the patient's distance from the hospital or due to hospital policy. However, a preoperative day may be certified when specific medical criteria are met.

Ambulatory Surgery Guidelines

Generally, an inpatient hospital confinement is not medically necessary and should not be certified for any procedure on the ambulatory/outpatient surgery list or the office surgery list. However, an admission for postoperative overnight care for a procedure on the ambulatory surgery list may be certified based on specific medical criteria.

Assigning a Length of Stay

If it is determined that confinement is necessary, the following is then assessed:

- Can the required testing be performed prior to admission if scheduled on an inpatient basis, and does the explanation clearly indicate the medical necessity for an inpatient workup?
- If the admission is scheduled for Friday or Saturday, does the explanation clearly indicate medical necessity? (i.e., Are the proposed services available over the weekend?)
- If a surgical admission is not scheduled for early in the morning on the day of surgery, does the explanation clearly indicate the medical necessity for the pre-operative stay?

Days are not certified for the preceding situations unless medical necessity is clearly documented. For DRG cases, the Healthline Nurse addresses the medical necessity for the hospital stay but does not assign a length of stay.

Length of Stay (LOS) norms are used as a guideline in the review process. They are derived from actual hospital stays of patients treated for specific conditions. Characteristics such as patient age, single or multiple diagnoses, and surgical intervention are factored in to establish the LOS. Norms used are taken from the Professional Activity Study (PAS) prepared by the Commission on

Professional and Hospital Activities (CPHA). The PAS data library contains information on approximately 250 million hospitalizations and increases at the rate of about 10 million cases annually.

When the nurse consultant determines that an admission is medically necessary, the Western PAS LOS at the 50th percentile for the admitting diagnosis is used as the guideline in assigning a length of stay.

If a patient is not quite meeting criteria, but it is clear to the nurse that the patient will require inpatient care, the nurse should certify the day without physician review. The nurse should do this only in cases where (s)he can clearly document the medical rationale for certifying, and (s)he feels that this rationale would be upheld if audited. If the nurse is not totally comfortable with a decision to certify, the case should be referred for physician review.

Physician Review - Physician review is required if:

1. Any applicable discharge screens are met and discharge is not scheduled for that day; or
2. Any applicable discharge screens are not met, any applicable IS criteria are also not met, and discharge is not scheduled for that day.

Disagreements

Disagreements will occasionally arise between the Aetna Nurse Consultant and the attending physician about the need for a hospital admission or length of stay. In such cases, the nurse will immediately refer the case by telephone to a Physician Advisor who will determine whether (s)he is qualified to render an opinion or whether the case is of a complex nature requiring an opinion from a specialist. If the physician advisor determines that (s)he has the necessary expertise to give a professional opinion, (s)he will discuss the case with the attending physician. Based on the results of this discussion, the physician advisor will certify a specified number of days and verbally communicate this information to the attending physician at that time. The physician advisor will then contact the referring nurse consultant who will document the file and process a system generated Notice of Certification.

If the case cannot be resolved between the attending physician and the physician advisor, and the attending physician requests a review at a higher level, the physician advisor will refer the case to a second level review by a specialist who will further discuss the case directly with the attending physician.

If there is still disagreement, the physician specialist will refer the case to the Aetna Home Office Regional Medical Director for review and direct discussion with the attending physician. Based on the results of the discussion, the Home Office Regional Medical Director will certify a specified number of days and verbally communicate this information to the attending physician at that time. The Home Office Regional Medical Director will also contact the referring nurse consultant who will document the file and process a system generated Notice of Certification.

Requests for Reconsideration

All Notices of Certification contain detailed instructions to provide the employee an opportunity for review of our precertification determination. All requests for reconsideration involving a question of medical necessity are reviewed at the physician level.

Section 5:

Focused Psychiatric Review

OBJECTIVES

In response to the concern expressed by employers regarding the utilization and cost increases in this area, Aetna has developed a Focused Psychiatric Review Program (FPR).

The primary objective of the program is to assure that employer benefit dollars purchase only necessary, appropriate and cost effective high-quality inpatient psychiatric care.

Psychiatric disorders, and services to treat them, are considerably more varied than other areas of medicine. Diagnosis is not an adequate predictor of the need for inpatient services. Stabilizing an episode of an extremely serious mental illness in one patient may occur very rapidly and lead to a quick and successful discharge. A much less profound mental illness diagnosis may be complicated by symptoms (such as persistent suicidal thinking) and require much more extended inpatient care.

The unique case by case nature of psychiatric disorders and their complications has defied specific categorization or easily understood criteria. The problem of psychiatric care presents an on-going challenge to cost containment techniques and strategies.

Aetna's FPR Program addresses this problem by using a collaborative clinical consulting approach.

Focused Psychiatric Review involves a person to person review process between a Psychiatric Review Specialist (PRS) and the treating practitioner that begins prior to a non-emergency admission or within 48 hours of an emergency confinement. The review focuses on the specific problems that require inpatient care and prompts providers to crystallize their treatment goals and therapeutic strategies to achieve them. The key to achieving the objective is a collaborative participation with the provider of care rather than compliant or adversarial participation.

PROGRAM DETAILS

As a psychiatric case becomes active, the process of concurrent review begins immediately.

Computer system inquiries are made to check information relating to past psychiatric claim hospitalization dates and locations.

During the initial call to the attending physician, the need for inpatient care is discussed in light of the patient's psychiatric history, specific symptoms and proposed treatment. The initial assessment confirms the diagnosis, including possible differential diagnoses, prior psychiatric treatment, pertinent history and findings, and the specific problems for which hospitalization is requested. The practitioner is asked to assess the severity of impairment for each defined problem. Treatment goals are discussed and all aspects of the treatment plan are considered for their potential effectiveness in achieving the maximum therapeutic benefit.

During each subsequent telephone conference, the PRS reviews and analyzes the ongoing degree of severity of each problem that was present upon admission and documents any new issues. The impact of each treatment modality on the desired goals is assessed. If progress is demonstrated, questions are directed, when appropriate, toward influencing possible changes in the choice of treatment. Current trends in psychiatric care, published research results and pertinent case examples are discussed when relevant. The PRS works closely with the practitioner to encourage proactive discharge planning so that it occurs as soon as the maximum benefits of inpatient care have been achieved. Once the patient's discharge status is confirmed, the PRS discusses aftercare arrangements with the attending physician. This process helps to assure continuity of care and also presents an opportunity to influence cost effective treatment alternatives/case management.

Provider attitude is of major importance. Although reviewers cannot control this variable, it can be and will be influenced by the reviewer's attitudes, skills and qualities of interaction. As the provider's attitude becomes more participatory and collaboratively inclines, cost containment becomes a reality.

FPR AS PART OF AETNA'S HEALTHLINE PROGRAM

Claimants covered by HEALTHLINE have the FPR process initiated by HEALTHLINE as they follow standard procedures for hospital admissions. A call must be made to the HEALTHLINE nurse consultant by the patient/family member/attending physician/hospital before a non-emergency admission or within 48 hours following an emergency admission. The HEALTHLINE nurse consultant will obtain details pertaining to the proposed mental health or substance abuse admission in the same manner as other proposed admissions. Preliminary case information is entered into the HEALTHLINE subsystem and the caller is advised that a psychiatric clinician from Aetna's Home Office will be calling the treating practitioner within 24 hours of the initial contact. At that point, referral of all pertinent information is made by the servicing claim office to the Home Office who performs the necessary follow-up. STATE OF ALASKA will be notified as appropriate and always prior to implementation of an ICM case or a benefit reduction.

Individual Case Management

Some illnesses or injuries require prolonged and/or expensive care. In these cases, cost savings, as well as more effective care, may be provided through Aetna's Individual Case Management (ICM) program.

ICM is a creative approach to health care treatment and financing. Specifically, ICM is a flexible program in which Aetna's staff of doctors and nurse consultants work closely with patients, their doctors, their families, and our customers to arrange for quality care in alternative settings.

Alternative settings can include skilled nursing facilities, residential treatment facilities, or even a patient's own home. These alternatives offer emotional advantages for patients and their families, because patients are able to leave the hospital and receive an appropriate level of care in less stressful (and more cost-effective) settings. However, the patient's attending physician always makes the final decision on the treatment plan.

Potential ICM claims are identified as early as possible by a number of sources and evaluated by Aetna personnel. The ICM program is coordinated by the nurse consultant, who is assisted by physicians in Aetna's Home Office and a network of physician consultants, representing a variety of specialties.

Recommendations often involve specially authorized reimbursement for noncovered medically necessary expenses or the use of alternative medical management techniques or procedures. It is estimated that nearly 50% of ICM cases involve coverage beyond that traditionally provided by health benefit plans - coverage for such services as special medical equipment, home modifications, nurses, attendants and even special training for family members.

Each case is continually reviewed to assure that the site and mode of treatment remain appropriate.

ICM savings are usually substantial and can be greater than \$20,000 per month, per case. ICM savings have significantly increased each year since the program began in 1982. In 1987, the savings amounted to over \$122 million and in 1988 ICM saved Aetna customers over \$180 million.

We are constantly seeking opportunities to apply this program. For example:

- ° Through Aetna's Healthline precertification program including Continued Stay Review and Focussed Psychiatric Review.
- ° Through the claim offices' Outreach Program - a program designed to increase the provider community's awareness of ICM and encourage earlier identification of potential cases.
- ° Through customer identification of a potentially serious medical problem.
- ° Through employee education about our program.

Examples:

The following cases are just two of the hundreds of ICM success stories:

- ° Following an automobile accident, a teenager became a quadriplegic. After a lengthy hospital stay, he had progressed to the point where hospital services could be duplicated in his home. ICM provided coverage for the construction of wheelchair ramps, an extended bedroom, enlarged doors and a redesigned bathroom - at a cost significantly less than continued hospitalization.

- ° A teenaged girl was to be confined to a psychiatric hospital for one year or more. The attending psychiatrist felt that a day-hospital treatment program would meet the patient's needs and be more cost effective. Her parents, however, could not afford to pay the 50 percent co-insurance for outpatient therapy. ICM arranged for 80 percent coverage and the patient was able to start day care, and to remain in her own home.

Section 6

Quality Control

Etna has established procedures to assure that HEALTHLINE Nurses follow established utilization review criteria. Cases handled by each HEALTHLINE Nurse are subject to random audits by the nurse's supervisor and monthly audits by the Etna's Home Office professional staff. The audits include a review of a representative sampling of cases to make certain that the appropriate length of stay and Severity of Illness/Intensity of Service guidelines are applied.

- The review also assures that necessary cases are referred to a physician advisor by the HEALTHLINE Nurse, hospital inpatient confinements are really necessary, other treatment alternatives have been considered, turn-around time objectives are met, and correct diagnosis and procedure codes are being used.

Healthline Personnel Credentials

Those individuals who would be responsible for the day-to-day operations of the HEALTHLINE Program, including determining appropriateness of care, will be the HEALTHLINE Nurse(s) in the Seattle, WA Etna Claim Office supported by local and Home Office Physician Consultants. These full time Nurse Consultants will be dedicated to servicing employees.

Nurse Consultants

The hiring criteria for HEALTHLINE Nurses include the following: the HEALTHLINE Nurse must be a registered nurse who has worked in at least two different provider settings for a minimum of five years. Personal qualifications are as important as professional ones. Clearly, the HEALTHLINE Nurse must have the ability to listen, draw out, empathize, counsel and patiently respond.

An essential requirement is at least six months experience in utilization review or discharge planning. Etna's pre-admission certification and length of stay authorization program involves determining medical necessity as well as applying and reviewing medical data as necessary. An individual's knowledge of diagnostic and corresponding treatment protocols is essential to conduct the initial review process.

Prior to working as a HEALTHLINE Nurse, the individual must undergo an extensive utilization review and pre-certification training program.

<u>PATIENT NAME</u>	<u>CLAIM ACCT.</u>	<u>DIAGNOSIS</u>	<u>CARE IN ABSENCE OF ICM AND COST</u>	<u>ICM CARE CHOICE AND COST</u>	<u>DATE ICM STARTED</u>	<u>EST. SAVINGS TO DATE</u>	<u>ACTIVE</u>
Matthew	10-001	Substance Abuse	Charter North \$39,220	Milam \$12,605	12/14/88	\$26,615	No
Margaret	10-007	Pulmonary Disease	Hospital \$53,200	Rehabilitation \$24,874	10/12/88	\$28,326	No
Richard	10-100	Lung Cancer	Hospital \$24,333/month	Comp Homecare \$9,927/month	11/22/88	\$10,261	No
Denise	10-001	Substance Abuse	Care Unit \$24,575	Milam \$12,605	12/8/88	\$11,970	No
David	10-001	Substance Abuse	Hospital \$13,890/month	Provo Canyon School \$4,390/month	9/22/88	\$30,853	Yes
Jeffrey	14-001	Substance Abuse	Charter North \$31,030	Milam \$6,605	11/23/88	\$24,530	No
Wendy	10-001	Substance Abuse	Charter North \$39,720	Milam \$13,105	11/8/88	\$26,615	No
Nicole	10-003	Substance Abuse	Charter North \$39,720	Milam \$12,720	12/2/88	\$27,115	No
Richard	14-001	Renal Cancer	Hospital \$12,045	Skilled Nursing Fac. \$6,912	10/20/88	\$12,045	No
Cheryl	10-002	Renal Failure	Convalescent Facility \$2,190/month	Residential Care \$1,388/month	9/30/88	\$32,612	Yes
Ryan	10-020	Substance Abuse	Charter North \$30,768	Milam \$10,084	9/29/88	\$20,684	No
John	12-001	Substance Abuse	Charter North \$26,300	Milam \$9,288	10/24/88	\$17,012	No
Scott	10-009	Substance Abuse	Charter North \$33,375	Milam \$12,605	10/17/88	\$20,770	No
Calvin	10-001	Substance Abuse	Charter North \$38,960	Milam \$12,605	10/13/88	\$26,355	No

<u>PATIENT NAME</u>	<u>CLAIM ACCT.</u>	<u>DIAGNOSIS</u>	<u>CARE IN ABSENCE OF ICM AND COST</u>	<u>ICM CARE CHOICE AND COST</u>	<u>DATE ICM STARTED</u>	<u>EST. SAVINGS TO DATE</u>	<u>ACTIVE</u>
Melinda	10-001	Head Injury	Hospital in AK \$26,102 per month	Hospital in NJ \$12,874 per month	12/2/87	\$171,964	Yes
Andrea	10-003	Substance Abuse	Hospital \$12,440 per month	Provo Canyon School \$4,500 per month	1/13/88	\$100,172	Yes
Curtis	10-001	Substance Abuse	Hospital \$11,077 per month	Provo Canyon School \$4,350 per month	6/15/88	\$46,391	Yes
Benita	10-006	Substance Abuse	Hospital \$10,091 per month	Provo Canyon School \$5,741 per month	7/8/88	\$76,718	Yes
Jeremy	10-001	Arthritis	Hospital \$27,922 per month	Comp. Home Care \$4,300 per month	6/16/88	\$85,657	Yes
Georgette	10-006	Psychiatric	Hospital \$12,440 per month	Spring Creek Conv. \$2,500 per month	7/4/87	\$172,104	Yes
A19 Bobby	10-001	Head Injury	Hospital \$11,558 per month	Comp Home Care \$5,418 per month	5/23/88	\$29,798	No
Karma	10-002	Psychiatric	Hospital \$29,626 per month	Comp. OP Program \$12,400 per month	4/14/87	\$292,315	No
Robert	10-001	Cerebral Aneurism	Anchorage Rehab \$11,186 per month	Seattle Rehab \$7,720 per month	4/88	\$24,262	No
Rayna	10-001	Substance Abuse	Hospital \$7,286 per month	Provo Canyon School \$4,350 per month	7/28/88	\$15,348	Yes
Kirsten	10-001	Substance Abuse	Charter North \$39,220	Residential \$21,292	12/1/88	\$4,482	Yes
Angela	10-001	Severe Burns	Hospital \$49,800	Rehabilitation \$23,320	10/27/88	\$25,654	No
Kathleen	10-001	Substance Abuse	Charter North \$39,220	Milam \$13,705	11/14/88	\$25,615	No
Jason	10-009	Substance Abuse	Charter North \$39,220	Milam \$12,605	11/11/88	\$26,615	No