SCOMM

68:1

COMMITTEE TAPE LOG

COMMITTEE: _____ **DATE:** 3-14-89 **TIME:** 8:37

SUBJECT: Health Care Cost Containment Task Force

MEMBERS: Kelly, Duncan, Bayer, Nevan

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
	001	Introduction of members
TK	024	Chair Greg O'Clary
JD	032	Vice Chair Nevan
TK	037	$24000 contract
JD	050	Arthur J Gallagher & Co
TK	069	Will be contracting w A.J. Gallagher 3-29-
	078	Fixed cost review - #3 3-29 #4/6-15
		(Apr 12 meeting) Mar29
		(Thurs 6-16) Will be meeting during Intersession
Greg O'Clary	120	Winfield OK Salem
Barbara Hoff	143	Pre Admission Review - Concurrent review, Surgical & on out patient
	166	disability mgmt "ss, audit
Michell	190	Enrollment into program, Generic drugs - - - manage: abuse, well nears,
Dregg	209	Propose consults high risk preg. Large case mgmt (expanded)
	224	Mgmt reporting
	238	PPO
MB	253	Non govt emp
OClary	257	Private risk pool
Karen Perdue	268	Prices main cost drive Inpatient
TK	289	Draft a letter
JD		Wed Mar 29th

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
JD	308	#2 & #3
TK	315	Consultant
Greg	320	Cogn current carrier agree
Bruce	332	Today
	335	adj 8:57

HEAlTH CARE COST CONTAINMENT TASK FORCE
March 29, 1989
1:05 p.m.

MEMBERS PRESENT

Senator Tim Kelly, Chairman
Alaska State Senate
P.O. Box V
Juneau, Alaska 99811
(907) 465-3822

Representative Mike Navarre, Vice Chairman
Alaska House of Representatives
P.O. Box V
Juneau, Alaska 99811
(907) 465-3779

Senator Jim Duncan
Alaska State Senate
P.O. Box V
Juneau, Alaska 99811
(907) 465-4766

Representative Mark Boyer
Alaska House of Representatives
P.O. Box V
Juneau, Alaska 99811
(907) 465-3466

Bruce Cummings, Director
Division of Labor Relations
Department of Administration
P.O. Box C
Juneau, Alaska 99811
(907) 465-4404

Michelle Castanedo, Representative
Alaska State Employees Association
240 Main Street, Suite 200
Juneau, Alaska 99801
(907) 463-4949

Don Hitchcock, Director
Division of Risk Management
Department of Administration
P.O. Box C
Juneau, Alaska 99811
(907) 465-2180

Barbara Huff, President
Anchorage Municipal Employees Assoc.
P.O. Box 100392

Anchorage, Alaska 99510
(907) 269-4236

Greg O'Claray, Representative
Marine Engineers Beneficial Assoc.
124 Front Street
Juneau, Alaska 99801
(907) 586-6040

Karen Purdue, Deputy Commissioner
Department of Health
& Social Services
P.O. Box H
Juneau, Alaska 99811-0601
(907) 465-3030

COMMITTEE CALENDAR

Report submitted by Jeff Malek

WITNESS REGISTER

Jeff Malek
Author J. Gallagher & Company, Inc.
Gallagher Heffernan Insurance Brokers
160 Spear Street, Suite 1100
San Francisco, California 94120
1-800-877-9300

ACTION NARRATIVE
TAPE 1, SIDE 1
Number 001

Senator Kelly called the Health Care Containment Task Force committee meeting to order at 1:05 p.m. He then introduced Mr. Jeff Malek, Author J. Gallagher and Company.

Mr. Malek said he would give the committee members a preliminary report. Mr. Malek said he has looked at three areas, cost containment, financial review, and alternate funding.

Mr. Malek referred to Section 1.00 of the report he had given the task force members. He said it was his charge to identify things which could be implemented that control escalating health costs while not comprising medical necessity, quality of care, and an incentive bases to employees and covered dependents. Mr. Malek noted that many Alaska employers have already implemented these measures and have done so successfully.

Senator Kelly asked Mr. Malek to explain this in more detail.

Mr. Malek said if there is a plan that is being closely watched looking at how the care is delivered, the provider that is providing services to the participant understands how that works. The person that doesn't understand, there is not any incentive for the doctor to see if he/she is in the hospital three or four days. Whereas, in the first plan there is some stable set so at the end of three days, a decision has to be made whether it is medically necessary for the person to be there a fourth day.

Mr. Malek said cost containment has several components. The first is communication to the employees and their dependents. There also has to be some incentive for employees to use cost containment measures. Mr. Malek said at this time AETNA Insurance Company is in the best position to give the proper premium credits for this, and they also have all the information on the employees. Mr. Malek stated this needs to be reviewed.

Mr. Malek referred to page 1.01 of the report that talks about twelve points of cost containment. He said the first point which needs to be reviewed is utilization review. Under AETNA's terms this is called "health line" which is a tool for the employees to use to get their health care on a most appropriate basis. It is an 800 line based in Seattle. An employee calls Seattle when they have a general medical question about their claims. First, they would speak with a service representative if they have a general medical question, if it is regarding something else they are referred to a nurse. An employee would call the 800 number for preadmission certification. They would call this number before they are checked into a hospital and for what they are going in. Mr. Malek said this also includes continued stay review, focused psychiatric, and expanded large case management. These components put together start to manage the claim as it occurs, rather than on a prospective basis which is what presently happens.

Mr. Malek referred to continued stay review and said if a person is in the hospital, how long do they need to be there, could they use alternative facilities.

Mr. Malek said focused psychiatric review works with mental health substance abuse and alcohol to help that patient get the proper care. The effect on the participants is that they are required to call the 800 number before they go into the hospital or have surgery done. A $400 incentive has been priced in the cost savings numbers. If the hospital stay was three days and there was no medical reason for the person to stay the fourth day, the first $400 of that fourth day would be the employee's portion.

Mr. Malek said these services are outside the current AETNA agreement. There is some preliminary pricing. There are

approximately 12,600 employees at $2.08 per month, per person, which is about $26 thousand per month. The same costs would also apply to 8,155 retirees.

Number 190

Mr. Malek referred to estimate and net effect on the plan said there has been discussion about what this is worth. He said the discount for putting in this program would be 6% of the medical costs which for active employees would be $3,131,000.00 estimated premium reductions. For retirees it would be $1,224,817.00.

The next subject Mr. Malek discussed was out patient precertification. He said many of the services that were being done inpatient now are being done on a outpatient bases. One of the ways to get a handle on these costs is to use outpatient precertification meaning that if a person is going outpatient for certain procedures, the employee would need to call the 800 number to get it precertified if it isn't on an emergency basis. He said if they don't call the 800 line they would have the $400 incentive. Mr. Malek said this has been done and has worked very effectively in other plans.

Mr. Malek said the health line in the outpatient sector looks at just the cases where the test needs to be done; the procedure and whether it is medically necessary; and if there is a better way to do it. The required action is that the state must enter into an agreement with a provider. The associated costs with AETNA would be $1.55 per employee per month. He stated the percentage savings would is about 3% of medical costs for a total of $1,252,000.00 for active employees, for retirees it would be $607,409.00 for a total of $1,859,000.00. The total would be $6.2 million.

Mr. Malek referred to a section of the report titled Managed Second Surgical Opinion. He said this is a prototype plan that AETNA is in the phase of developing. Mr. Malek said they would call the 800 number and, with the doctor and nurse, they determine whether a second opinion is needed. He said in the past there was a problem as people were getting second opinions when it really wasn't necessary. Mr. Malek said the percentage of savings is about 1.5%.

Mr. Malek referred to section 1.04, "Managed Mental Health". He said it is a prototype program. Managed mental health uses an employee's assistance program to work with the employee to work with them through that phase. He noted it is very new and needs some time to be reviewed.

Mr. Malek referred to the section 1.05, "High Risk Pregnancy Management". This would help identify high risk pregnancy cases. He said what happens now is that it may not be identified early enough, and the person may have to be medivaced somewhere else. Mr. Malek noted premature births are very expensive.

Section 1.06, "On-site Concurrent Review," was the next topic Mr. Malek addressed. He said on-site concurrent review facilities are providing large amounts of outpatient or inpatient care. This program is a way to put a nurse in that facility and monitor how participants are getting care. He said for every dollar spent on the program, the savings have been between $3 and $5. The savings would be between $260 thousand to $450 thousand for the program.

Mr. Malek referred to section 1.07, "Reasonable and Customary Profiles (R & C)," and said each person or insurance company in a specific area has a reasonable and customary limit for each medical or dental service that is provided. Mr. Malek said what happens with the present plan is it is updated every six months. Sometimes providers figure out what the maximum allowable charge is and they move right up to it. On the other hand, there may be a provider that needs to charge above that because of the economics of the area. Mr. Malek said what might happen in the long run is, because the providers realize that they can only charge to a certain level, they may adjust their fee schedule accordingly. There has been discussion of revising the plan once a year instead of every six months, he continued. He said this could save about $500 thousand per year.

The next section Mr. Malek discussed was 1.08, "Wellness Programs." He said that education, health fares, discounts at health clubs, etc., are good ways to make participants more healthy and, therefore, reduce costs.

Section 1.09 deals with, "Mail Order Drug Program." Mr. Malek said one of the increasing costs is the prescription drug program which raises very quickly. Mail order drug programs have been very successful. He said if somebody is on a maintenance drug, they would get the prescription and mail it to a company, it is filled an mailed back to them. The costs are considerably less as they are being filled on a wholesale basis. This could have up to 1% savings.

Section 1.10, "Supplemental Benefit System Review," is where the employee is allowed to increase their coverage by paying a premium out the Supplemental Benefit System. It is then perceived as 100% plan. He said until this year, AETNA wasn't able to separate out what part of the plan that is costing. He said this needs to be looked at and the premiums set accordingly. He said the Supplemental

Benefit System could be driving the regular plan up because it drives utilization up.

Mr. Malek referred to section 1.11, "Eligibility and Enrollment Verification." He said there is a question of who is on the plan, who is covered, are they covered twice, are claims being paid twice, which people should be shifted off the plan. He said these all relate to how the data is transferred from the state to AETNA to make sure it is current, accurate, and that claims are being paid on the right people. There is no way to tell if two claims are being paid on somebody. If the state is paying more premium but, because of the design of the rating of the plan, all the claims that are paid under the plan directly effect the premium. He said this needs to be looked at.

Section 1.12, "Management Reports and Participant Demographics" was the next item he discussed. Mr. Malek said another concern that needs to be reviewed is whenever cost containment is implemented, are the costs being shifted somewhere else? The management reports would tell where the trends are. The plan has to have the most comprehensive management reports, and they need to be utilized.

Number 534

Mr. O'Claray referred to the rate quotes in savings and asked if they are quotes from the current carriers. Mr. Malek said they are. Mr. O'Claray asked if the AETNA contract states a time service for review of U & C. Mr. Malek said it is every six months.

Ms. Purdue referred to utilization review and asked what would happen in the case of an emergency when a person wouldn't have time to call the health line. Mr. Malek said when you ask a person to call, mechanisms are built in for emergencies. There is usually a time limit such as calling within forty-eight hours after the emergency incident. There should also be a mechanism if a person couldn't comply or didn't know about the program, he continued. Mr. Malek said it is important that a person record the calls on paper. If there is a problem, there would be the ability to appeal the $400 incentive built into the plan. Senator Kelly asked if this pertains to hospital services only. Mr. Malek said it is for inpatient care, surgery, and outpatient care over a certain level.

Michelle Castanedo said she would like to hear how the AETNA Program works. Mr. Malek said the AETNA Health Line Program does work, there is an 800 line in Seattle. He said there are currently two nurses and AETNA is looking to employ more. They have the ability to refer out to regional medical doctors with questions. The employee

calls and they speak with a claim representative, if it is a precertification outpatient surgery, it is then referred to the nurse who would work on that case from that point forward until completion.

Number 500

Barbara Huff referred to the suggested cost containment ideas in the first section of the report and said she has noticed that each one of the actions required must enter into a separate agreement with AETNA. She said she is assuming this is because currently this isn't a service that is being provided and/or paid for by the state. Mr. Malek said that is correct, because it is an additional service and is an add on to the contract it would be a separate agreement.

Ms. Castanedo asked Mr. Malek if he was aware of any mail order facilities for prescription drugs in Alaska. He said there aren't any to his knowledge.

Ms. Purdue referred to the issue of case management and focused psychiatric review and said the Department of Health and Social Services, for a time, sent difficult children outside Alaska for review. What was learned from that experience is, if there wasn't the attendant aftercare or the associated support service when they returned, there was tremendous recidivism which kept costing more money. Ms. Purdue asked how do you insure that money saved by AETNA (or whoever the carrier might be) would not be money that would eventually be shifted to the state in other costs such as Alaska Psychiatric Institute or alcohol and drug abuse programs, etc. Mr. Malek said the state has to get a grip on how they are purchasing health care within the whole state. He said when the program is being designed, you have to be very careful when the utilization review and the manic psychiatric is developed so that the protocalls, your directives to whoever is doing that work so that they do get the appropriate care so there isn't a reoccurrence.

Number 654

Mr. Malek continued his presentation with section 2 of the report titled "Financial Review." He said this section discusses the plan itself and how the current plan is funded. It is called a fully insured program which means you pay a set premium rate from the state, they pay the claims. At the end of the year they look back at how the claims were versus their estimates and this is how the premiums are set for the next year along with other impacts, he continued.

Mr. Malek said there are two components, retention charges which includes an administrative charge, claim settlement, risk and profit charges, premium taxes, non recurring charges. They then subtract interest and tax credits. Mr. Malek said they also add in direct charges for printing, WATTS lines, management reports, tape charges, consulting charges, any direct billing charges, and miscellaneous. The plan runs on a financial basis, July 1, through June 30, he continued. He noted the figures in the report were for 1987/1988. Mr. Malek said if the employees were to send a number of their claims to AETNA at once, this would save on administrative costs.

Number 700

Mr. Malek referred to page 16-A of the report and said it is a summary of the credited premium, the paid and incurred claims, retention, and other charges through June 30. He continued to explain this to the task force members. Page 16-B was a breakdown of retention charges which are the items that help develop the premium rates that are paid, he continued. Mr. Malek said page 16-C is a breakdown of specific charges. AETNA charges for each claim that is processed and also charges for additional fixed costs such as WATTS Lines, etc. Page 16-D is overall interest in rate history. Mr. Malek continued to discuss the figures with the task force members. 16-E is the matrix of how AETNA charges for claims.

Mr. Malek said section 2.01 deals with premium taxes. He said the Administration needs to look very closely at the premium taxes. He referred to 2.01A AS 39.30 and said the legislature should look at redefining that part of the law.

Section 2.02, "Reserves," was the next area that was addressed. Mr. Malek said AETNA is keeping $14.3 million in reserves as of June 30, 1988. He said this money is set aside for AETNA for incurred but unreported claims. This money is in the plan and interest is earned on it and it could be used for future years. Mr. Malek said on a lot of plans as big as Alaska's, the employer holds the reserves. It could be held in a separate account then the state could get the direct interest credit. Mr. Malek said Page 18-A shows what the reserves are by groups.

Mr. Malek said Section 2.03 deals with extended liability. He stated there are two portions to the reserves, the $14 million is for incurred and unreported claims. In addition to that, there is about $3.6 million dollar in an extended liability reserve which is a separate reserve. The liability reserve is set up so if the state terminates their contract there would be money to pay claims on people that are disabled at termination of contract. Mr. Malek said the state could modify their agreement with AETNA to

eliminate that from the contract and the state could recapture those reserves.

Mr. Malek said section 2.04, page 20, deals with claim fluctuation margin - premium stabilization account. He said the components of the premium are basically administrative charges and added to that are the claims. On top of that AETNA keeps a little margin in case they underestimate. Mr. Malek said if their estimate was better and money was left over, it goes into the premium stabilization account. If the plan is worse, in that account they post a deficit. As of July 1, 1988, including all the groups combined under the plan there is $279 thousand to the positive. AETNA has a maximum of $706 thousand that they can hold in that account and excess money could be refunded to the state. Mr. Malek said on page 20-A there are figures that deal with active and retired employees.

Number 840

Mr. Hitchcock asked what the IDNR is based on. Mr. Malek said it is the incurred but unreported claims. AETNA uses paid clams and a portion of that is set aside.

Representative Boyer asked for an explanation of the $6.2 million in cumulative balance under the retired employees plan. Mr. Malek said it couldn't be done, because even though it is considered a separate account, it should be looked at as part of a whole.

TAPE 1, SIDE 2
Number 022

Representative Boyer asked if the paid premiums are a combination of employee contributions and general funds. Mr. Malek said there are not contributions except from the employees. Senator Kelly asked if it is all general funds. An unidentified speaker in the audience informed the members the retiree portion would come out of the retirement funds, the active employee portion would come out of general funds, federal receipts, or whatever the fund source is for the agency.

Mr. Malek began his review of section 3 of the report. He noted this section discusses alternate funding. He said the larger the plan the more you see the plan sponsor excepting more of the risk. He said section 3 discusses premium delay, minimum premium, self funding and pooling. Premium delay is a cash flow mechanism which would allow the state to pay their premiums late. He continued to give an example. He said this is a financing mechanism. He

noted page 22-A of the report is an example of premium delay and the interest charges associated with it.

Mr. Malek referred to minimum premium and said many employers have used this as a step towards self funding. He said the premium is broken into reserves, claims, and fixed charges. He referred minimum premiums and said what is paid on a monthly basis is the fixed cost or administration cost. The claims are funded as they are presented.

Number 194

Mr. Malek said section 3.03 deals with self funding. He said self funding is a completely self funded plan. A administrator could be hired, they would pay the claims on an ongoing basis and the state would take all the risk above it. Mr. Malek said most clients purchase reinsurance to limit their expose to 125% of the fully insured premium. If the plan has a good year, the state retains that money rather than have a credit posted in the PSA account.

Section 3.04, "Pooling Concept," was addressed by Mr. Malek. He said something his firm did with the Alaska Municipal League was to develop a pool that pulled the municipalities together to start its own mini insurance fund. He said the different organizations that are purchasing health care could be pulled together collectively under one pool. They would have the combined efforts and the cost effectiveness. A statute change would be required to do this, he continued.

Mr. Malek referred to AS 21.89.030 which says that an insurance carrier has to issue a check for claims paid. He suggested issuing drafts that are funded as presented. It would allow a more efficient system. Mr. Malek said because of that mechanism, an interest credit could be picked up at approximately $2.5 million per year.

Number 342

Mr. Malek said he would skip section 4 of the report and continue with Section 5. He said section 5 deals with preferred provider organization, managed care, prescription drug network, plan design alternatives, flexible benefit plans, education for plan participants, employee assistance plans, and electronic plan processing. He said these could help in future overall cost management.

Number 360

Mr. Malek referred to Section 6 and said these are some things that could be done to help on the FY 89 and FY 90 concerns. He continued to discuss figures on page 29 of

the report with the task force members. Mr. Malek referred to FY 90 and said one issue the Cost Containment Task Force and the state needs to review is that without getting cost containment in, the problem next year will be substantially larger. Therefore, the premium increase could be in the range of 25% to 35%. With cost containment the premium will still rise but not as fast. Mr. Malek said he has projected an increase of 12.5% for next year. He continued to discuss interest credit on drafts and reserve release interest credits.

Senator Duncan referred to cost containment and said there is $6.5 for FY 90 and asked if that is only cost containment for the medical portion and it doesn't involve dental or vision. Mr. Malek said yes. Senator Duncan said cost containment can be taken on dental, etc. Mr. Malek said the first step would be to get things going with the medical portion and make dental the next step.

Mr. O'Claray said the task force would like the opportunity to discuss the report and with the bargaining groups to reach a consensus on the issues. He said if that requires a motion, he would make it.

Senator Kelly said he didn't have any objections. The cost containment portion wouldn't go into effect until 1990, but noted an agreement would be needed by April 12, to include it in the budget.

Mr. Malek said something that should be reviewed by the legislature soon would be changes in the check versus draft law and the premium tax amendment. Senator Kelly said there is a supplemental appropriation in House Finance to see how much can be saved in FY 89. He said the problem that needs to be addressed is how much can be subtracted from the supplemental. Senator Kelly said the Administration has decreased the figure to about $12 million.

Senator Duncan said the task force needs to ask the Administration to work with AETNA and Mr. Malek to address immediate concerns that don't involve cost containment issues. He referred to the premium tax credit and made a motion that the Administration should be asked to meet with AETNA and Mr. Malek to pin down a figure as soon as possible so the figure would be available. Senator Kelly asked if there were any objections to that. Senator Duncan said the second part of the motion would be that the Administration also pursue with AETNA the extended liability amendment which is a contractual amendment between AETNA and the state and doesn't involve any union agreement. There were not any objections to this motion.

Senator Duncan referred to funding and said he believes the minimum premium approach makes a lot of sense which means that the claims are paid when they become due instead of paying the premiums. He said if AETNA and the state could reach an agreement within the next few days and institute that as quick as possible, it could have a substantial impact in FY 89 needs, as far as dollars go, which would impact the supplemental. Mr. Malek said they would need some time to do this but would try to have a preliminary report by the end of the week or the beginning of the next week.

Number 584

Mr. O'Claray said for clarification, if the premium delay is done and the other two funding mechanisms, that the supplemental general funds could be zeroed out. Representative Navarre said that could be done but what is being discussed with the premium delay is borrowing money from AETNA at 12%. Mr. Malek agreed with the comment.

Senator Duncan said it is important that there is an answer as soon as possible to see what the impact will be on the supplemental. He also noted there needs to be a break down between the general fund and other funds. He said he would like to see time spent on trying to institute the minimum premium. Senator Kelly asked if the minimum premium could effect the plan from the present until July 1. Mr. Malek said conceivably.

Number 665

Senator Duncan noted he had two piece of legislation drafted, one has to do with exempting the state from insurance premium taxes. Mr. Malek said the legislation would make things cleaner for AETNA and the state. Senator Kelly asked if there were any objections to having the bill introduced in the legislature. Senator Duncan said the second piece of legislation addresses the issue of using a draft instead of a check. Senator Kelly asked if there were any objections to having the bill introduced in the legislature. There were no objections.

Senator Kelly said there would be a updated teleconference on Monday, April 3, at 1:00 p.m.

Mr. Malek said he will work with the Administration and AETNA to work on premium taxes, extended liability, and minimum premium options. Senator Kelly asked Michelle Castanedo if she could make preliminary approaches to the affected bargaining agency.

Karen Purdue referred to the contract and said the claims and the eligibility has never been audited. She asked if

the task force could get an idea of what the scope of an audit might be. Mr. Malek said he would provide the task force with this information by the April 12th meeting.

Chuck Hansen, Correctional Officer, said he has been on a project for a couple of years trying to encourage the state of Alaska to implement or provide funding for an employee assistance program for the special health needs of employees. He said he appreciates the comments from Mr. Malek with regard to the wellness program. Mr. Hansen said there may be some long range benefits after a program is implemented. Senator Kelly thanked him for his testimony.

Senator Kelly asked that the AETNA members at the meeting please introduce themselves. Mr. Phil French, Assistant Vice President, AETNA Life Insurance Company, Walnut Creek, California introduced himself. He said the company is looking forward to working with Mr. Malek and the Department of Administration, to curb the cost of the plan.

Number 745

There being no further business to come before the Health Care Cost Containment Task Force, Senator Kelly adjourned the meeting.

COMMITTEE TAPE LOG

COMMITTEE: Health Care Cost Containment Task Force DATE: 4-12-89 TIME: 1:35

SUBJECT:

ABSENT - Greg O'Claverys

MEMBERS: Present: Kelly, Boyer, Barbara Huff, Don Hitchcock, Michele Cadamedo, Duncan, Karen Perdue, Navarre,

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TK	001	Called meeting to order
JD	022	Review status of where we come so far
Comm. DOA. Andrews	040	$1.3 mill Premium tax 2.4 Extend Leab
		$1.3 return - - outherwise FY90
	096	2.4 extended reserve)
	153	Need for Supp. isn't uniform throughout offices
MB	180	Add ways to reduce supplemental
Andrews	193	No Sir
MB	207	Discriminat how you put reduction through
Andrews	220	Suppose possible - overall abi
JD	227	GF request for supp $15 mill $11.8
Andrew	242	reduce - -
MN	253	Prem tax otherwise go to GF
Andrew	267	GF many receipts
Jeff Malek Consultant	223	Correct interim meeting on 4-3
Andrews	284	Current FY savings
MB	290	Intent of Admin to pursue
Andrews	295	other fires settles - modified formula self-insured
	321	Enough modification in plan structures
MB	331	Someone did approach me where - -
Andrews	346	Valdez - suffering
TK	357	move task fore accept - - -
Michelle	365	second
JD	370	@11.8 100,000,000

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
JD	376	objection - motion passed
	380	Amended premium
Mr. Malek	388	Minimum premium
Barbara	397	With implementation of certain
Malek	404	insurance co. cover risk
Barbara	414	go self insured
Malek	417	been contacted
JD	426	Move the cost contained recei?
Malek	433	Utilization review FY90 Estimate
Barbara	445	Meeting this morn
	454	motion - copy
TK	477	Next meeting after session
Barbara	490	Read motion into the record (attached)
JD	505	?
MB	507	One item occurs to premium if state --
Hitchcock	533	Not health care - suggestion has liability
Malek	547	Seen in history of healthcare - popular 4 or 5 years ago
Bruce Cumings	566	State & Univ have been using - monetary contri
Barbara	583	No Second
JD	595	Ask as union is involved
Barbara	603	Don't take offense 2 yrs ago
	615	intent of motion - get thru areas of agreement
	626	report back to task force
Michelle	632	Priority immediately
Barbara	640	separate item
MN	643	expedite
Bruce Cumings	649	FY 90 bud process

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
JD	657	Time limit rept back prior to leg
Michele	664	negotiation schedule
Bruce	673	Whatever we can work out
Karen Purse	676	Positive steps
Michele	684	agree we agree
MB	689	#6.5 mill from FY90 budget
JD	697	inquiries Help line — —
Malek	705	General how you want to proceed
JD	714	Worded as such time line - put -
		schedule together
Cummings	726	shouldn't be difficult
Karen	736	clean sub. savings
Michelle	742	No Prob
JD	744	end of week
MN	752	Admin work
Karen	756	Hospital ...? another physician serv
Barbara	764	major sub. area
Michele	768	among things it will be discussed
Dave Gray	775	Done
J.D	781	Put back to chair end of UK
Bruce	788	easier for us
JD	791	end of leg sess. beneficial
Barbara	798	Clarification - status report
MN	806	Union members - Notice employees
Barb	815	worked out
JD	818	Passed motion

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
J.D	820	Amendment other stat issues & floor
MW	826	On floor tomorrow
JD	830	1-1-89 eff
	834	Pooling Legislation
	849	Audit
Malek	850	Claims audit mostly admin benefit cost
Bruce	861	other matters
Malek	866	Admin happy part A. scope Bi-state or ex
Tape 1	Side 2	
Karen	006	Audit is good idea
JD	017	have a motion
Barbara	034	Michele actual records
	040	Bruce can't hear
Barbara	046	eligibility ?
Malek	067	eligibility enrollment, Claim audit providers audit
Karen	093	Propose admin
Barb	098	time specific
Karen	099	Next meeting
JD	106	Ojb - Sen
JD	114	pt 2
Malek	116	most are cost contain
Karen	127	G - and profiles
Malek	132	Level set for a particular - Change
Karen	161	seems to me
Michele	165	
J.D	171	understand is waiting for opt back from Betty -- Admin

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
Michele	195	Mailing Envelope - Admin developed process
Bruce	207	Some difficulties - marital status
Michele	226	Trustee enrollment form
Walell	239	Normal Audit -
Michelle	~~254~~	
JD	255	proceed as cost contain
	~~[illegible]~~	status of next meet
JD	276	2:35 Adj

COMMITTEE TAPE LOG

Health care cost containment

COMMITTEE: Task Force **DATE:** 6-29-89 **TIME:** 1:35 pm

SUBJECT:

MEMBERS: Sen Kelly, Duncan, Rep Boyer, VClarey, Karen Perdue, Barbara Huff, Bruce Cumming.

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
Tape no. 1 side one	001	Kelly order
	020	Status of state employee
	058	Deanna - Items of understanding
	082	Vottem Changes of benefits
	110	George Worked aggressively
	192	Duncan - Focus on items that
		would not be impacted
		Identify Items beyond Task
		Force recommendation
	222	Kelly Copy agreement.
		George Cap on Chiropractic
		Care
	320	George - Stop-loss limit
	336	Boyer - Alcohol, drug abuse
	410	George Spts. to dental care
	486	Duncan dental area -
		addressed (task force
	490	Kelly dependent change before
	515	Deductible change
	604	Joint Cmte on ongoing basis.
	611	Duncan "Q" major benefit
	645	Unidentified in audience Response
	670	- Actim representative Responses
	690 -	George aggressive retaliation

6-29-89

Health Care Task Force.

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
	695	Dyreen area & water closely
	708	Action - represents spouse
	746	Jeff
	754	Dixon Ophth. Orthodontia
	763	Kelly O'C rates question.
		[illegible] 1990 - [illegible] to Action Repre.
	778	Mike in Auburn answers.
	785	Bruce Cummings. His [illegible] Gov
	802	Jeff - looking at proposal [illegible]
	824	Bryer - differ
		Jeff diff in Managed Care.
Tape One Side 2	847	Karen Perdue diff is.
	001	Further Question - Kelly
		Implementation problem
	018	Dixon argument [illegible]
		Cummings correct statement
		[illegible] on record [illegible]
		[illegible] applies to [illegible]
	080	Dyreen [illegible] amends
	085	Clary - [illegible]

Task Force - 6-29-89

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
	147	Kelly
	160	Kelly - No obj to motion
		to adopt -
	164	Karen Perdue Costs are
		we devasting
		Boyer Grant Nonelong
	196	Cummings
	205	Kelly outlyes interim
		work plan for task force.
		July mtg on RFP
		Duncan, Michele, Brun
		Subcmte to refine
		Set mtg date [illegible] Aug 1
		1:30
	280	Duncan - Advert RFP in
		[illegible] AK papers.
	315	O'Leary - Suggests chair
	334	Kelly [illegible] [illegible]
		about RFP
	354	Kelly [illegible] Action offer
	385	Kelly possible Aug mtg.
		[illegible] Consultant in Aug ?
	425	Cummings alternates procedures?
	434	Kelly agrees ASAP
		adj 2:45

HEALTH CARE COST CONTAINMENT TASK FORCE
Anchorage, Alaska
October 5, 1989
10:00 a.m.

MEMBERS PRESENT

Senator Tim Kelly
Senator Jim Duncan
Michelle Castanedo
Representative Mike Navarre
Representative Mark Boyer
Don Hitchcock
Greg O'Claray
Karen Perdue
Barbara Huff

MEMBERS ABSENT

Bruce Cummings

OTHERS PRESENT

Diane Corso, Senior Negotiator (Sitting in for Bruce Cummings)
Division of Labor Relations
Department of Administration

Jeff Malek, Consultant to Task Force
Gallagher Assoc.

Lynn Withrow, representing Aetna Life Insurance Co.
Seattle, Wash.

Mike Coughlin, Deputy Director
Division of Retirement & Benefits
Department of Administration

ACTION NARRATIVE

TAPE ONE, SIDE ONE
October 5, 1989

Number 001

Senator Kelly called the meeting to order in the Anchorage LIO Conference Room at 10:00 a.m. He stated the first order of business would be the status of the labor and management agreement and implementation of health care cost containment provisions.

Number 011

Diane Corso said as a result of the last Labor Relations Agency decision, they have taken immediate steps to implement the memorandum of understanding that was reached between the State and ASEA. That memorandum and all of the cost containment measures contained in it, with one exception, are scheduled for implementation on December 1, 1989. They have notified all of the other bargaining units of the implementation of that memorandum and the effect of it on their health care coverage. Also, on Monday, they were able to reach agreement on the Visions Plan B, and also have notified all of their unions who are effected that that would also go into effect on December 1. At this point, they are scheduled to go forth with all of those items, she stated.

Number 050

Senator Kelly inquired if all three branches of government would be affected by the changes.

Diane Corso responded, "yes."

Senator Kelly inquired what the net savings was on the division's part.

Diane Corso responded it was $4.21 per month per employee.

Number 067

Senator Kelly stated the next order of business would be an update on the proposed renewal by Aetna effective February 1, 1990.

Number 076

Mike Coughlin, Deputy Director, Division of Retirement and Benefits, stated he has received tentative first papers from Aetna regarding the renewal on February 1. He said although full figures are not in and full discussion has not been completed with Aetna -- they have not had sufficient to review reserves, claims figures, etc., -- he could say that at the worst, he could see looking at a 7 percent increase on February 1, 1989. They are currently, after the December 1 implementation, looking at total savings of approximately $600 thousand a month due to the implementation of the changes that were negotiated at the table.

Coughlin said he did some sketching for FY 90. The estimated cost, using the worst case scenario (the 7 percent increase on February 1) they are looking at a total outlay of $66.2 million for active state employee premiums. That is compared to an FY 89 cost of $65.1 million.

Number 160

Senator Kelly asked if that essentially wipes out the accomplishments made to date.

Coughlin responded they have cut the premium over $46 (over 11 percent), so coming back on February 1, using that lower base and a no worse than 7 percent increase, he thinks they are gaining on it.

Coughlin further explained that looking at the range of premiums from bargaining unit to bargaining unit, GGU is the least expensive at $432 a month ranging upwards in some of the bargaining units to close to $485. On December 1, all of those bargaining units will drop to the new premium of $385.

Number 242

Senator Duncan asked if the decrease in premiums for the other bargaining units was being negotiated.

Coughlin responded that it was being accomplished through a "me too" clause in their contract.

Diane Corso further explained that basically what is happening is that they are going to a uniform plan for all employees. So some bargaining units, as a result of their "me too" language, are giving up considerably more than the general government unit is giving up in terms of their coverage, MEBA being the most significant in that respect. The supervisory unit is giving up an orthodontic benefit in addition to what the general government unit is giving up. Essentially, the "me too" language stated that their contribution rate would change and that the state would notify the unions of the major changes to their benefits 60 days in advance of implementation, which has been done, she stated.

Number 300

Senator Kelly asked what the projections are for the active employees for FY 91.

Coughlin responded that he didn't have one yet. They have a renewal coming up in mid FY 90, and then in mid FY 91, they have another one.

Number 330

Senator Duncan said FY 90 costs are projected at $66.2 million for actuaries, and he asked what level of funding was provided for health care costs.

Coughlin responded that he didn't know what is currently budgeted.

Senator Kelly requested that Dave Gray, staff to the committee, find out what level of funding the legislature agreed on for active employees' health insurance premiums for FY 90.

Number 410

Senator Kelly asked how this would affect retired personnel, and what was being done in terms of containment on the retired personnel.

Coughlin responded that the changes that have been negotiated do not affect the retiree and they have no plans to implement that in the retiree plan. He said it currently costs $250 per month per retiree. At this point, they have not attempted to make any changes for over five years in the retiree plan.

Number 466

Don Hitchcock said up until just recently, his understanding was that the retiree plan was supporting itself, but it is beginning to turn.

Senator Kelly asked if the retiree benefits could be capped at some point.

Coughlin responded that there was nothing to prevent changing that plan. He added that four years ago they did implement some cost containment items dealing with the deductible and some incentives such as generic drugs.

Senator Kelly wondered if it is just oversight that retiree's cost containment hasn't been looked at.

Number 510

Greg O'Claray said he wouldn't imagine that cost containment if it didn't reduce benefits would be caught up in the argument over accrued benefits. He asked Mr. Coughlin if they had run into that before.

Coughlin responded they have not run into a problem. He said he was surprised the last time they did change the retiree plan and there was one case law that was just beginning to emerge on changing retiree plans. He said he could envision making changes in the retiree plan like the Utilization Review Program that they are currently putting into the active plan where the retiree would have to check into the health line for precertification before going to the hospital.

Number 555

Senator Kelly inquired who determined when to add a benefit to the retiree's plan.

Coughlin said it would be determined administratively if there was going to be a change that was not required by legislation. Clarifying "administratively," he said it would be determined by the Commissioner of Administration.

Senator Kelly suggested that perhaps the Task Force should send a letter to the Commissioner of Administration asking them to carefully review cost containment procedures for retirees and perhaps enact some.

Number 588

Greg O'Claray asked how that would reduce rates for that particular group, or would it have reduction in rates for the premium dollar.

Coughlin answered that actions like the Utilization Review Program would clearly reduce the rates for any program it was put into. He said he thought they would take pretty careful treading on legally deciding what could or could not be done to retirees retroactively. He added that he thought that was the real question, and if you can't do it retroactively, then you are not saving much money.

Number 620

There was brief discussion on the approximate number of employees who may be eligible to retire under the Retirement Incentive Program (RIP).

Senator Kelly directed staff to contact the Commissioner of Administration and find out what plans they have to implement cost containment measures prospectively on the retirement portion of the system.

Number 642

Senator Duncan inquired what the experience was in other states with retirees and if there is a problem with doing it across the table with retirees.

Jeff Malek, Task Force consultant, said if you are looking at cost containment steps that are designed to manage the costs and you are not taking away a benefit, generally it has been accepted that those can be implemented with proper education and communication. If you are going to have substantial reductions or changes in benefits, that is where you have to get a consensus to be able to put it in. So things like utilization review, expanded large case

management, and recertification programs generally have been accepted and embraced by the retiree groups. He said the retiree group in Alaska actually seems to be a little bit younger group than is seen in certain other states. He agreed that the Department of Administration should look into, very carefully, what they can do. He said some of these steps could be done without changing benefits.

Number 675

Senator Kelly inquired what percentage of the retirees are actually living in Alaska.

Senator Duncan said he thought that approximately 65 percent of the retirees stay in the state.

Number 700

Senator Kelly asked if the rate has been going up for retired personnel or have they been more stable.

Diane Corso, referring to a chart, said the first three years they were more stable. The last couple of years they have had some increases. She noted the claims have essentially doubled since 1983.

Number 715

An unidentified participant asked who pays when the amount paid out exceeds the amount set aside. She also asked what happens when the current surplus in the trust fund is gone.

Coughlin said the premiums are set identically to the group plan, based on experience. He said the premiums will continue to be paid whether there is a surplus or deficit. The premiums are simply set year by year regardless of whether there is a surplus or deficit.

Coughlin related that right now the health insurance portion of the retirement system funds are worth approximately 30 percent of the total future benefits of the retiree.

Number 772

Senator Kelly asked who is responsible for checking the surplus.

Coughlin responded that they are currently doing a claims audit for both retiree and active employees.

Lynn Withrow, representing Aetna Life Insurance Co., said they present all of their accounting results not only to the state, but to the state's consultant.

Number 776

Greg O'Claray asked if the retiree's premium rate was the same as the rate for active employees.

Lynn Withrow responded, "no." The retiree rate currently is $252.83, however, they are looking at a projected increase in that premium of 6.8 percent which will change that rate to $270.02.

Number 794

Representative Boyer said he thought it would be helpful to have a chart that shows the various unions, the premiums today and how much it is going to be, as well as what it means in each of those unit's plans.

Number 805

Senator Duncan said his understanding of the "me too" clause was that if there were cost containment steps put in by GGU, the other units adopt those cost containment steps. That didn't necessarily mean that they would adopt the same level of funding -- that they would stay higher but they would adopt the cost containment steps. He asked if this is being done under the "me too" clause, or is the bringing the other unions down to the same level of funding being done under the [indisc.] rights the Governor gained through the court case.

Diane Corso responded that the answer is both, because for Local 71, where the Governor posed terms for the Class II and III employees, the remainder of the bargaining units, with the exception of CCS (Centralized Correspondence Study) it is "me too" language. The "me too" language specifically said that effective with a change in the contribution rate for the General Government Unit, the affected unit would also have that contribution rate, and with the exception of the Supervisory Unit, the next clause said that they would notify the union of the major changes in benefits at least 60 days prior to implementation. The Supervisory Unit had a extra little bit of language saying they could come back to them about a different alignment of benefits inside that contribution rate, however, they have not notified them of any intent to do that, she said.

Ms. Corso said they are opening negotiations on economic terms or for contracts with virtually everybody, so anything is up for discussion.

Greg O'Claray added, with respect to MEBA, they are now in wage discussions.

Ms. Corso said all of the language in the contracts includes the same basic contribution rate language and what follows that is to the degree at which they may, at that point, talk about different benefits. She said it varies a little from bargaining unit to bargaining unit, but the dollar rate was the critical piece as far as the negotiations were concerned.

Number 915

Senator Kelly asked if the renewal of the health care carrier on February 1 was automatically Aetna, or could somebody else come in and bid.

Mike Coughlin responded that they are not, at least at this point, considering putting it out for bid.

Number 930

Senator Duncan inquired how the decision is made of whether or not it is a just a renewal with the present carrier or if it is going out for other proposals.

Coughlin answered that they are required by statute to put it out to bid every five years, and only unless there was some outrageous reason for facing a renewal would they put it out to bid before then. As they look at a renewal each year, they look at whether it is a reasonable renewal, and if not, they have the obligation to do something about it, he said.

Number 959

Senator Duncan said he would like to know on what basis the decision that it is a reasonable renewal is made, because he has had a lot of constituents talk to him over the past few years about the fact that the state hasn't gone out to competitive bid again and that it should be done.

Coughlin said they could provide that information, but he pointed out that it is hard to say that this is the best they can get inasmuch as they haven't gone out to bid. Without going out and testing the market, you never know specifically what is out there, he said.

Senator Duncan commented one of things we are looking at are these continued increase in costs -- 7 percent is 7 percent. He said as he read the legislature last year, what it would like to have seen was an overall reduction in the premium, and he would rather see it come with competitiveness in the process than taking it out of the employee's backside.

Greg O'Claray added that they really haven't been able to track as yet the performance of this plan with this particular carrier on cost containment, and it will probably be sometime late next year before they will be able to track it. He said if we are serious about changing carriers, we need to have that data before us to decide whether this particular carrier's performance is good, bad, or indifferent.

Number 1037

Senator Kelly inquired how many bidders the state had last time.

Greg O'Claray responded Aetna was the only bidder.

Karen Perdue said one of the basic things it seems we would want to do in a bidding process is look at restructuring the bid of what you are bidding for. She thought there would be more vendors bidding if the state restructured the bid.

Mike Coughlin agreed with Ms. Perdue. He said he would think that they would need to repackage the plan considerably, either through financing or benefit wise.

Number 0165

Representative Boyer asked if it would be possible to request the Department of Law to review the measures that have been implemented with the current employees and which of those things might be implemented in the retirement plan.

Senator Kelly instructed staff to follow-up Representative Boyer's request.

Number 1081

Senator Kelly stated the next order of business would be a report from Jeff Malek, Task Force Consultant.

Number 1085

Jeff Malek said after the last meeting and the delegations travel to Seattle, Walnut Creek and San Francisco, it resulted in several items coming up.

He said it looks like the Task Force really has bee successful in getting a handle on and getting everybody pointing in the right direction about cost containment and managing health care costs.

Malek said to keep in mind that it is almost a little bit of disillusionment when talking about a 7 percent increase He said really you are looking at a 7 percent increase, but the underlying costs continue rising at a much more rapid pace than that 7 percent. The reason it might only be a 7 percent increase is because there is a surplus there right now. He said even though we've been able to make some significant inroads with cost containment, recertification, etc., we have to bring in the providers and look at the long range. He said there are two parts to the long range: (1) how do we fund our health care and how do we deliver it to our people; and (2) how do we pay for it.

Reviewing the delegations travel to Seattle, Walnut Creek and San Francisco, Malek said he thinks there is a general better understanding of the system and how it works. He cautioned that when taking the plan out to bid it is an expense. To shift that plan or change that plan, there is a substantial cost, he said.

TAPE ONE, SIDE TWO

[DUE TO RECORDING PROBLEMS, SIDE TWO OF TAPE ONE WAS BLANK]

TAPE TWO, SIDE ONE

Number 001

Malek said currently under the fully insured plan, Aetna sets a premium rate based off the previous experience plus the cost. The premiums are forwarded to Aetna and Hartford and they pay the claims as they are processed and incurred. In a partially self-funded format, or even a fully self-funded format, aside from the administration or retention charges, those would still go to whoever the carrier is, but the claim dollar in possibly the reserves, are held in the state until those claims are actually presented and paid. Most plans that are of this size are on some alternate funding basis. Malek said we are not completely convinced that at any one point in time that Aetna has a big risk because they get it in a rate increase in 12 months, generally speaking. He said the only difference there would be that if for some reason they didn't predict a massive increase in claim costs and the premium wasn't adequate enough and you ran it into a deficit position and then you went to a new carrier, then you would be ahead of the game. The problem is they might not ever take you back and the other carriers might be a little leery of how you are doing business.

Malek said in the state plan there has been a lot of discussion between the actives and the retirees -- that if one or the other is in a positive or a deficit, they may be cross applied.

Number 148

Senator Kelly interjected that he is worried about the actuarially soundness of the retirement plan because of the adding of additional benefits and groups of people. He said if you get into crossing over, what you are going to find the legislature doing is laying more and more on the pension plan, and once you start abrogating the responsibility of the general fund over the pension fund, there is no end.

Malek said that is one thing they are clarifying and to keep some separation -- to keep the two plans separate. He said there is some question whether or not it is in the contract to be able to cross apply and it needs to be sorted out. He added that each should stand on it own merit. He said he thought that it might be a recommendation of the Task Force to sort out that it cannot be cross applied.

Number 187

Senator Kelly asked if there were any objections to Mr. Malek's recommendation. Hearing none, he stated the Task Force would proceed with the recommendation.

Number 198

Malek said he thought in the state's renewal process with Aetna, they should get actual and final numbers as to options and feasibility as to alternate funding the current plans -- either minimum premium, retrospective premium, or ASO. He said they have done their own studies and they think substantial advantage to doing that -- by keeping the money in the state, possibly higher returns versus what is currently being compensated off of the reserves.

Senator Kelly said it doesn't make much sense to send the money outside, have people out there work the claims, and then just send the money back to Alaska. He thought at some point in time there should be a mechanism established for bringing those jobs back to Alaska. If you roll all the plans together, the state plan, the university plan, the municipality plan, then you are talking about a lot of jobs and, essentially, we are fueling somebody else's economy, he said.

Malek said he thought legislation introduced by Senator Duncan regarding pooling starts to set the stage for doing something of that nature.

Number 275

Karen Perdue related that the Department of Health and Social Services has a third-party administrator arrangement for processing claims, and one of their requirements when it went out to bid was that an office be set up in Anchorage, which currently employs approximately 50 people.

Number 348

Continuing his discussion on alternate funding, Malek asked if it was the sense of the Task Force to have the Division of Retirements and Benefits look at the options under getting self-funding quotes. Senator Kelly agreed it should be looked at.

Number 404

Don Hitchcock, speaking to the office in Alaska, said when they were looking at some sort of a self-insurance plan before, they were looking into the possibility of getting two quotes, one for servicing outside the state and one for servicing inside the state, so that they had some sort of feel for what the difference in cost would be in bringing jobs back into Alaska.

Malek asked if there was a substantial difference.

Hitchcock responded that they never got that far, but they were willing to do it.

Number 509

Don Hitchcock said as he sees a minimum premium plan, it is a step towards the self-insurance plan. He noted the State of Montana went to a minimum premium plan first, and after two years, they self-insured.

Representative Navarre suggested getting some projected costs on how much it would cost to move the system for administrating the program to Alaska. He said it is a completely government generated plan, and its possible it could force the cost of the program up due to the higher cost of living, etc.

Number 625

Malek said, currently, by servicing Alaska, there is a built in cost for them doing it in the lower 48 because they have to fly up here and understand the territory. He said you want to build a mechanism on how you do it and how do you do it most efficiently. He noted that the pure processing of the claims only represents four or five percen. of the total dollar. So to get the job for the Alaskan, you are talking about a small portion of the dollar you are spending, he said. Referring to the pooling

concept, he said it would give the mechanism to pull all the systems together and maybe have some universal administration system so there aren't all these pieces negotiated at different rates and charging and processing a different way. He said their recommendation on pooling is for them to go and work at those systems and give the Task Force a detailed report of how they put them together, how they are working, and what their successes are.

Number 765

Senator Duncan suggested that the Task Force ask Mr. Malek to go ahead and take a look at the pooling concept and come back to the committee with what the ramifications are and the positives and negatives so that the committee has a better understanding.

Number 800

Referring to a request that was brought to the Task Force regarding the Family Support Act, Karen Perdue said the Medicaid program is moving more towards dealing with people who are seasonal employees or families who are working part of the year. She said Congress is giving states the option to join with other plans to provide certain sets of coverages.

Malek added that there are three options: (1) to put them into the state employees' health plan; or (2) they could be part of a high risk pool; or (3) they could be offered an HMO. He said it is a long-term issue that every state has to deal with, and nobody has come to an answer, except those that have pooling are considering putting them under the pooling concept in their own little part of the pool. That would give them the mechanism to provide the benefit, pay the claims and fund it, with some risk protection to the state.

Number 890

Senator Kelly stated he is not necessarily opposed to some type of health insurance coverage for all Alaskans and he is prepared to look at that, but the question relating to this issue is does this Task Force want to address the issue of putting at least 1,000 of these people into this state health care system. He added that he didn't think there was much support on the Task Force for it.

Karen Perdue agreed that it was too early to figure out how to do this, but she thinks it is important that when the Task Force is doing its entire work to include that population.

Senator Kelly agreed that it was a long-term problem, but said he thought it was a legislative problem rather than a Task Force problem. He said unless there is any support, he suggested dropping the idea of the option of adding it to the state employees' health care system.

Greg O'Claray said he didn't think there was a mechanism in place to bring them in and he thinks that is one of the reasons why the Task Force should move ahead on a pooling concept. He said he would like to reserve judgment on whether they should properly be included until there is more data on the pooling concept available.

Number 1040

Senator Kelly asked if there was any further business to come before the committee.

Greg O'Claray said the Task Force hasn't really looked at or asked for information on the effectiveness of the wellness program implemented, and he would like to see some discussion about what other states have done in this area and how that may effect usage of utilization of the plan.

Number 1052

There was brief discussion on setting a date for the next meeting of the Task Force. Senator Kelly stated he would get back to the members when a date has been set.

There being no further business to come before the Task Force, Senator Kelly adjourned the meeting at approximately 12:15 p.m.

HEALTH CARE COST CONTAINMENT TASK FORCE

Juneau, Alaska
November 28, 1989 -- 11:00 a.m.

MEMBERS PRESENT

Senator Tim Kelly
Senator Jim Duncan
Michelle Castanedo
Representative Mark Boyer (by teleconference)
Don Hitchcock
Greg O'Claray
Karen Perdue
Barbara Huff
Bruce Cummings

MEMBERS ABSENT

Representative Mike Navarre (out of state)

OTHERS PRESENT

Jeff Malek, Consultant to Task Force
Gallagher & Company

Patrick McConnell, Bartlett Memorial Hospital, Juneau

Patrick Pechacek, Touche Ross & Co.

Sally Smith, Director
Division of Retirement & Benefits, Department of Administration

Mike Coughlin, Deputy Director
Division of Retirement & Benefits, Department of Administration

Lynn Withrow, representing Aetna Life Insurance Co.
Seattle, Washington

Reid Stoops, representing Aetna, Juneau

Grace McGee, representing Dr. Simpson's office, Juneau

Gary Lamothe,
representing Public Safety Employees Association in Anchorage

Robert Piazza, representing PSEA and Totem Assoc., Anchorage

Greg Lespe, representing Charter North Hospital

Joe Heueisen, representing Shattuck & Grummett, Juneau

Chuck Kleeschulte

Emmitt Wilson, representing Humana Hospital, Anchorage

Sharon Anderson, representing Humana Hospital, Anchorage

Gary _____, Health Association

Dr. Patricia Conners-Allen,
representing Alaska Chiropractic Society

Ed Hamilton, Anchorage

ACTION NARRATIVE

TAPE ONE, SIDE ONE

Number 001

Senator Kelly called the meeting to order in the Capital Building in Juneau at 11:00 a.m. He called the roll of those present noting that Representative Boyer was on teleconference from Fairbanks, and that Mr. Malek, the consultant from Gallagher & Co. was present. Although the Aetna contract renewal update was first on the agenda, Senator Kelly suggested that since people were waiting on line, they proceed with the testimony by health care providers first.

Number 013

Senator Kelly inquired if someone in Anchorage was prepared to testify.

Number 018

David Hennigan identified himself as the Assistant Administrator of Finance at Providence Hospital in Anchorage, and his testimony was in response to the letter to Sister Donna Taylor, Administrator of Providence Hospital, asking that the hospital address several key questions dealing with health care costs. He stated that his comments reflected the opinion of the Alaska Health Association as well as those of Providence Hospital. The medical component of the consumer price index for the first half of 1989 increased 7.2% on a national basis, and in Anchorage 7.1%, so it would be safe to conclude that the rate of increase is consistent with national trends. It should be noted that health care in Alaska is more expensive than elsewhere in the country. For example:

. Current demand for the health care worker far outstrips the local Anchorage-based supply, therefore nursing professionals and other health care professionals must be recruited from the lower 48. Competitive salaries plus a premium must be paid for relocation of these professionals

to Alaska.

- Construction costs have averaged 33% more than in an average U.S. city.

- Providence Hospital has experienced a 68.5% increase in one year in medical malpractice insurance premiums (from $1,315,000 to $2,160,000).

- Technological advancement in x-ray procedures has resulted in a 2000%+ increase in costs to the hospital.

- TPA, a blood-clotting drug used in the treatment of heart attacks costs the hospital $2,250 per unit, and no additional reimbursement is provided for this.

- Disposable gowns, gloves etc. have increased in cost.

Mr. Hennigan stated that regarding the question "should the State be concerned with cost shifting", they've long contended that government payers have for years underfunded state and federal programs. Indigent care has historically been categorized as charity care, and excludes what normally is considered as bad debts. Providence Hospital projects spending more than $5 million in 1989 on indigent or charity care.

Regarding the State entering into a preferred provider relationship in an effort to control its costs, Mr. Hennigan stated that is an option, but it is not a viable long-term solution.

Number 141

Senator Kelly asked Mr. Hennigan to expand on his last statement.

Mr. Hennigan said he did not believe contracting for health care was a viable long-term health care solution. Without all parties working together for a common objective, one year discounts or negotiated fees do not really solve the problem. A hospital by itself cannot control the outcome of the health care delivery system.

Number 158

Senator Kelly asked if anyone else in Anchorage wished to testify.

Number 163

Mr. Bill Parjetter introduced himself as a member and former chairman of the Providence Advisory Board. Costs for their health care coverage have increased 40% a year for the past three years and in an effort to control these costs they have sought

alternate funding sources. Administrative costs are an area where the state can possibly save, however, benefit reductions can affect the retention of good employees. Mr. Parjetter added that greater participation by employees in their health plan is a good option, particularly at the dependent and family level, and his company is currently 25% employee funded. Health care costs have continued to escalate and a task force such as this one focuses attention on the need for cooperation and control. Providence Hospital has an open door policy and there has been a substantial increase in charity care.

Number 245

Senator Kelly asked if anyone else in Anchorage wished to testify.

Number 247

Ms. Kathy Kronen introduced herself as Administrator of Charter North Hospital in Anchorage, which is owned by Charter Medical Corporation. As part of a national chain of hospitals, Charter North has had the opportunity to participate in nationally negotiated preferred provider contracts during its five years in business. In Alaska, Charter North is participating in preferred provider arrangements with over ten Alaskan businesses. Ms. Kronen, in reply to Senator Kelly's letter, stated that Charter North did not believe there were any significant obstacles to implementing preferred provider arrangements in Alaska. She informed the task force that Charter North has each year contacted Aetna to negotiate a preferred provider contract, since they insure most of the employees and dependents in Alaska, but Aetna has not been interested. Copies of this correspondence had been sent to the task force members earlier. Charter North is now contracting with employers directly, and is willing to negotiate a preferred provider contract directly with the State of Alaska.

Number 348

Greg O'Claray asked Ms. Kronin what was the average savings between Charter North's standard rate and the PPO rate, according to the published reports.

Number 351

Ms. Kronen replied this was anywhere between 5% and 20%.

Number 360

Senator Kelly asked if there was anyone else on line who wanted to testify.

Number 362

Dr. Russ Huffman introduced himself as a physician testifying from Ketchikan for the Alaska State Medical Association. He stated the ASMA can be innovative in helping cut health care costs because they know each other, and want to fully cooperate with the task force. Regarding SB254, he felt that one more member of the provider community should be added to the board of directors of the insurance agency. Dr. Huffman added that physician fees in Alaska should be analyzed when comparisons are made to other states, taking into account not just the cost but the utilization. Also, the HMO concept, not now available in Alaska, limits the patient's freedom of choice.

Number 456

Greg O'Claray asked Dr. Huffman if the ASMA would be willing to discuss HMO or PPO alternatives for the state or Aetna.

Dr. Huffman replied that the ASMA would be happy to discuss any option, while seeking to preserve the doctor-patient relationship.

Number 490

Greg O'Claray asked what was the average gross annual income of a physician in Alaska.

Dr. Huffman responded, using statistics from a survey of 35 bush physicians, that income was below $60,000 annually.

Greg O'Claray asked what communities were covered by the term "bush", and what was the income in the urban areas.

Dr. Huffman stated that the term "bush" referred to communities outside Anchorage and Fairbanks. He added that gross revenues can be deceiving as overhead costs are near 60% in addition to malpractice insurance costs.

Number 540

Senator Kelly asked that those present introduce themselves.

Number 572

Senator Kelly stated the next order of business was the Aetna contract renewal update.

Number 585

Mr. Pat Pechacek of Touche Ross introduced himself as consultant to the State of Alaska, Division of Retirement & Benefits. He stated that initially Aetna had requested a 7.1% increase in

premiums for the active base plan and the SBS Option I plan. The State asked Aetna to separate the experience for the SBS Option I plan from the base plan, and this resulted in a requested increase of 6.2% for the base plan and 53.5% for the SBS Option I plan. An attempt was made to estimate the reserve position of the health plan in the hopes of bringing Aetna's proposed premium increase back to zero.

Number 612

Senator Kelly asked if Aetna agreed that when renewal took place in February, it would be at the current rate for a full calendar year.

Mr. Pechacek replied that was correct.

Senator Duncan asked if the current rate was $384 effective December 1, 1989.

Mr. Pechacek replied that was correct.

Number 622

Mr. Pechacek continued, reporting that Aetna's proposed premium increase for the retiree plan was 3.5%. A request to again take into consideration some surplus to reduce this amount to zero or even a reduction in premiums should be resolved in the next couple of weeks.

Senator Kelly requested that the task force be informed when the retiree plan issue is resolved. He asked for clarification regarding the SBS Option I plan, if the premiums were going to increase.

Mr. Pechacek replied that the premiums were increasing.

Number 647

Senator Duncan reported that he had received calls from employees saying they were informed by Retirement & Benefits the actual cost of insurance based on claims paid last year was approximately $300 per employee, although the premium cost was $431.72. However, information in the consultant's report showed the cost was $46 higher than that. He asked, for the record, what the actual cost per employee was last year; what the difference was between the premium paid and the actual cost per employee; and, where that surplus money went. In addition, he asked that the Division of Retirement & Benefits make sure they are not giving out inaccurate information.

Mr. Mike Coughlin responded that he assumed the $300 figure was accurate, and the surplus money was what constituted the current reserve fund.

Senator Duncan referred to addendum E of subsection C, exhibit E, which showed a loss ratio of 75%. He said his understanding was that 75% times $431, plus administrative costs should equal the actual cost per employee.

Number 39

Mr. Jeff Malek explained that the premiums are changed on a different basis than the financials. The loss ratio of premiums collected during the period of time for this renewal versus the actual claims paid in a reserve for incurred-but-not-reported claims equals about 75%. To this is added administrative expenses and, when developing the renewal, expected medical inflation must be added in.

TAPE ONE, SIDE TWO

Number 005

Senator Duncan said he understood the explanation, but information such as is given over the phone by Retirement & Benefits can be misleading.

Sally Smith replied that employees of Retirement & Benefits are trying to please the caller and may not be explaining the figures fully. She added that figures quoted in a petition being circulated regarding the percentage of claims paid out for substance abuse are erroneous.

Number 038

Senator Duncan asked if someone present could explain where exactly the $431 annual premium per employee went.

Senator Kelly asked how long the premium had been at $431.

Mike Coughlin replied since February 1, 1989.

Senator Kelly asked that since a full year's figures were not available at the $431 rate, what were the figures for last year.

Lynn Withrow of Aetna stated that approximately 5% went to administration, 73 - 75% were actual paid claims, and about 22% was the reserve figure for claims to be paid later.

Senator Kelly asked what the premium was for the previous year.

Mike Coughlin replied, $411.16 on 7-1-88.

Number 063

Senator Duncan said this information should be displayed in chart form for easy comparison.

Number 071

Senator Kelly asked Mike Coughlin to break out these figures for the last fiscal year, showing where the money went and how much was being carried forward into 1990 to keep the premium down to $384. This would be the basis for information disseminated by Retirement & Benefits employees in response to inquiries.

Number 089

Greg O'Claray asked if there was a successful court challenge to the cost containment agreement, how that would affect the rates Aetna had agreed to for the year.

Michelle Castanedo of ASEA stated there was no suit filed yet.

Lynn Withrow stated the current rate based on benefits was guaranteed for 12 months from February 1, 1990.

Michelle Castanedo asked if the $384 figure was based on projected savings from cost containment and benefit changes, plus use of surplus funds.

Lynn Withrow replied "yes."

Number 138

Sally Smith pointed out that $309 a month for health insurance was passed in the budget. She added that it had been put at a different level by OMB by increasing the vacancy rate to the agencies.

Senator Duncan added that less will need to be appropriated this year than last year.

The Aetna contract renewal update discussion concluded, and testimony by health care providers present at the meeting continued.

Number 162

Mr. Pat McConnell introduced himself as representing Bartlett Memorial Hospital in Juneau. He distributed information to those present regarding the high costs faced by small health care facilities in Alaska, highlighting the following:

- Small facilities like Bartlett Memorial are volume sensitive, with higher fixed costs per case than the lower

48.

- The isolated location causes staffing problems in terms of nursing coverage, as well as having to pay high wages for lower skilled jobs.
- Inventory and supply costs are higher.
- Labor shortages for nursing professionals.
- Certification requirements in Alaska do not allow for lower cost health care professionals.
- Salary competition with the State of Alaska for non-professional workers.
- Cost shifting results from underfunding of Medicare and Medicaid programs. More outpatient operations are being done, while inpatients are needing more care.
- Outlyers are a financial drain on a small facility.
- Revenue deduction ratio is 14% at Bartlett Memorial.

Senator Kelly asked what the vacancy rate was at Bartlett Memorial compared to other hospitals in Alaska.

Mr. McConnell answered they were about half full most of the time. State Aetna is about 22% of the patient load. Seward General Hospital's occupancy is quite low.

He concluded by offering the following solutions:
(1) the State could make sure Medicaid claims are paid in a timely manner,
(2) not send patients out of town for treatment unnecessarily (Jeff Malek interjected that the State put a provision in its health care package allowing for transfer of a patient to a less expensive facility to help contain costs.),
(3) adequately fund the Medicaid program to minimize cost shifting,
(4) support training of health care professionals through the University of Alaska,

TAPE TWO SIDE ONE

Number 001

(5) change certification regulations to allow more nurses aides,
(6) capital assistance to facilities.

Mr. McConnell said that preferred provider arrangements do not work out well in small-volume rural facilities.

Number 029

Senator Kelly, referring to Mr. McConnell's handout, questioned Wrangell's administrative costs.

Mr. McConnell answered that Wrangell hired a consultant to help set their rates because they cannot afford to hire a Chief Financial Officer.

Number 041

Greg O'Claray asked if Bartlett Memorial had considered lowering rates to recapture any of the 22% state employee revenue base that might go elsewhere, assuming the new provisions in the health care coverage were implemented with respect to use of a cheaper facility elsewhere.

Mr. McConnell replied that Bartlett Memorial's rates are in the middle of the range of Alaska hospitals, and they functioned on a slim margin. A loss of patients would likely result in a rate increase to cover fixed costs, creating a spiral effect.

Greg O'Claray remarked that the Borough would have to pick up more of the subsidy, or the other patients not covered by this plan would be charged more.

Mr. McConnell stated that the Borough's subsidy amounted to $670,000 this year. The charity care program runs close to 11%.

Number 086

Senator Kelly asked if there were any State run hospitals in Alaska.

Karen Perdue answered, "API is the only one."

Senator Kelly asked what kind of financial support Bartlett Memorial received from the State of Alaska annually.

Mr. McConnell replied support was through the Medicaid program, and revenue sharing which is based on the number of licensed beds and amounted to about $130,000 this year.

Number 100

Senator Kelly asked how much the hospital revenue sharing program cost in the budget each year.

Senator Duncan thought the figure was about $1,000 per bed.

Senator Kelly asked who administered the program, and if it was specifically a hospital program.

Dave Gray stated the program was part of the whole revenue sharing picture, and Community and Regional Affairs distributed the dollars through the municipality.

Karen Perdue added that the revenue sharing was meant to be a partial offset to compensated care in community hospitals.

Number 134

Senator Duncan asked Karen Perdue what the Medicaid funding level was.

Karen Perdue replied the funding for Medicaid was currently $140 million total funds ($70 million State), and an increase of $30 million has been requested.

Senator Kelly and Karen Perdue briefly discussed Medicaid rates and litigation with the federal government.

Senator Kelly announced the Task Force would work through lunch and that testimony by health care providers would continue.

Number 216

Dr. Patricia Conners-Allen introduced herself as representing the Alaska Chiropractic Society, and distributed information regarding the cost effectiveness of chiropractic care. She briefly explained how cutting services in the area of chiropractic care, although resulting in lower insurance premiums, would eventually show up in higher health care costs in other areas.

Senator Duncan asked Dr. Conners-Allen if she understood that the change in chiropractic care was not a recommendation of the Task Force but a negotiated item between the union and the administration.

Dr. Conners-Allen replied that she knew this.

Greg O'Claray asked how chiropractic rates were set, nationally and in the State of Alaska.

Dr. Conners-Allen said there was no set fee schedule.

Greg O'Claray asked what percentage of chiropractic revenue was derived from employees of the State.

Dr. Connors-Allen replied that in her own office it was less than 50%.

Number 301

Senator Kelly asked what the new dollar limit was for chiropractic care insurance coverage.

Dr. Connors-Allen replied, "$750 per year."

Barbara Huff asked if the Alaska Chiropractic Society had considered HMO's or PPO's.

Dr. Connors-Allen replied not officially, but they are aware of the possibilities.

Number 339

Jeff Malek and Senator Kelly discussed chiropractors operating in PPO's in the U.S., and suggested this as an alternative for the Alaska Chiropractic Society.

Number 377

Jeff Malek began presentation of the consultant's report, highlighting the hard dollar savings for items identified to date by the Task Force as $11.5 million.

Senator Kelly asked what the $7.5 million figure represented.

Jeff Malek answered that represented potential savings for 12 months starting December 1, 1989; some of it due to negotiated benefit changes and the bulk of it due to Task Force work.

Number 414

Senator Kelly asked how many cards were sent out by Aetna.

Jeff Malek stated that enrollment as of November 1, 1989 was 13,565 subscribers for the active plan. He added this figure did not represent the whole State employee population because some people elect to not have coverage.

Number 486

Jeff Malek continued with the presentation of his report, starting with Section A, Trends in State of Alaska Health Care. He discussed the statistics shown in the report, pointing out that 1987-88 were two big years for health cost increases of more than 20%. He added the national average monthly cost per state employee for health insurance was $93.15; Alaska's cost was $411, or roughly four times as much.

Greg O'Claray asked if there was a chart available to show health insurance costs per individual states.

Jeff Malek said it was not part of the report but he would supply the chart for the Task Force.

Number 650

Senator Kelly asked how much higher actual health care costs were in Alaska compared to other states, referring to insurance premiums being four times as much.

Jeff Malek replied that medical costs were approximately 30%

higher than other states. He added the disproportionately higher insurance premium could be the result of having a very good benefit plan; a population that utilizes the plan on a regular basis; less competition between providers; and, less alternatives in plans. In 1990, the large gap should close somewhat due to cost containment measures being instituted.

TAPE TWO, SIDE TWO

Number 001

Greg O'Claray stated that the State of Alaska health plan may be a better plan than other state plans, but it does not exceed other private sector plans.

Jeff Malek explained that it is very difficult to compare one health plan to another because of the number of variables available.

Number 022

Senator Duncan asked if a breakout had been completed on the cost of alcohol and drug abuse treatment, and Jeff Malek replied it was included in the report.

Jeff Malek reviewed the retiree benefits, pointing out that funding for this coverage is not an issue now in Alaska but as more retirees join the plan, the escalating unfunded liability will continue to grow. He said that private sector employers are dealing with this problem by making lump sum payments, or by selling the liability to insurance companies.

Number 056

Senator Kelly questioned if retiree health benefits could be changed for future retirees as of a certain date.

Dave Gray said the Department of Law would be willing to address the Task Force on these questions.

Bruce Cummings stated that benefit entitlement hinged on what was in effect at the date of hire, not what was in effect at the date of retirement.

Senator Kelly felt that more research should be done in the area of escalating unfunded liability in retiree benefits.

Senator Duncan replied it was not a major problem right now.

Senator Kelly asked if an independent audit had been completed on the actuarial soundness of the retirement system.

Bruce Cummings answered, "Yes, last June." He added the State

was funded at 90% of the liability and anything over 80% is considered healthy.

Number 126

Karen Perdue stated, regarding the Congress Acute Care For Catastrophic Illness Bill, that if more Medicare coverage is approved in the future for acute and long-term care, it could dramatically affect retiree benefits for those people over 65.

Senator Kelly and Karen Perdue discussed the Medicaid and Medicare programs.

Number 171

Jeff Malek continued with his report presentation, explaining the premium rates shown on page A-7 of the report.

Senator Kelly asked if all the unions came down to the $384.59 figure.

Greg O'Claray answered, "all but one."

Number 210

Jeff Malek continued with his report presentation, explaining that the $384.59 figure will be 22% larger next year just because of inflation, if medical cost containment measures are not implemented.

Lynn Withrow stated that nationally the inflation figure is 23%, and 1-3% is attributed to social related diseases such as AIDS.

Number 268

Jeff Malek proceeded with the "State Expenditures" portion of his report. He stated that health expenditures in the fiscal years 1981-1986 amounted to $950 million, or 5% of standard expenditures. General expenditures have declined since 1986 but health expenditures have continued to increase.

There was a discussion on general expenditures and interpretation of the charts in the consultant's report.

Karen Perdue pointed out that a major amount of construction a few years ago has probably left health facilities with heavy debt loads to cover now.

Jerry Reinwand spoke from the audience to say there was a Bill in the House and a Bill in the Senate with proposals for additional funding to complete unfinished projects.

Number 437

Jeff Malek stated that Aetna has been involved in reallocating resources by identifying certain hospitals to specialize in certain medical procedures, and by avoiding duplication of expensive equipment and services. He noted that in Alaska there is the State system of health care and the Native-run system. Using statistics provided by Aetna, Mr. Malek showed that for in-patient expenses, 12.14% is for mental/nervous care and 4.83% is for substance abuse treatment.

Senator Duncan asked if substance abuse treatment was not a mandated benefit, would the in-patient expenses decrease by the 4.83% figure.

Bruce Cummings stated that substance abuse treatment was a negotiated benefit that preceded the law and was in excess of what the law requires.

Jeff Malek answered Senator Duncan's question by saying "No", expenses would not really decrease because the cost would just show up in other areas.

Number 567

Karen Perdue stated that when it came to treatment of kids with substance abuse problems, it was better to have this treatment as part of the benefit package where the cost was shared by the employee, than having the kids end up in API. She felt the $3 million total cost was not out of line.

Jeff Malek agreed, saying mental/nervous and substance abuse treatments were not the source of large claims.

Number 601

Senator Duncan asked Lynn Withrow if Aetna could assign a dollar figure to the alcohol/drug abuse insurance coverage, and she said she thought it was approximately $2 but promised to provide the Task Force with that information.

An unidentified person stated that nationally substance abuse treatment costs were a much faster growing problem.

Number 735

Jeff Malek continued his presentation.

TAPE THREE, SIDE ONE

Number 001

Jeff Malek stated that chiropractic care was 9% of the out-patient costs.

Senator Kelly asked Lynn Withrow to also provide statistics for the Task Force as to what percentage of alcohol/drug abuse treatment claims came from employees enrolled in the active plan versus the retiree plan.

Jeff Malek pointed out the insurance claims are paid at approximately 91% of the submitted bills, likely due to benefit and UCR cutbacks. Referring to page A-26 of the report, he stated that the trend showed a decrease in the number of families in the ranges, which was not readily explainable. In addition, Aetna had noted a significant run-up in claims submitted near the date of proposed health plan changes. Mr. Malek stated that "high risk pregnancy management", which is a voluntary program, should hopefully reduce the number of expensive pre-natal claims.

Number 134

Jeff Malek proceeded with the alternate funding update in Section B of his report. His position was that alternate funding should be considered when looking to cut costs in the health plan, and he asked for comments from Touche Ross.

Number 161

Patrick Pechacek of Touche Ross stated he had not yet studied the current plan versus an A.S.O. (self-funded) plan, however, given the way the State now runs its programs, there would be little to gain from an A.S.O. plan. The State is credited with interest on all reserves, all claim dollars until they go out of the plan. First of all, there would be a cash flow advantage, and they would gain on interest earnings (between what Aetna pays and what the State could get on investments). Aetna currently pays 8.4% and estimates paying 8.1% to 8.65% for the coming year. He said the second area of potential savings by converting to an A.S.O. plan would be by raising the risk level and thereby reducing the risk premium, or paying less money to Aetna.

Number 200

Barbara Huff asked Jeff Malek to explain the insurance issue to cover the risk exposure of an A.S.O. plan.

Jeff Malek replied that insurance could be purchased to limit the risk exposure, but because of the size of the plan it might not be necessary.

Patrick Pechacek stated that savings would likely be marginal by changing to an A.S.O. plan, so the matter becomes a policy issue on how the State wants to handle its health insurance funds. One thing to consider is that alternate carriers might be interested in bidding for the plan if it was an A.S.O. plan.

Number 250

Senator Kelly expressed concern about a fully insured plan because the legislature would tend to underfund it. He addressed the Task Force for a consensus on whether to pursue the semi-funded plan idea in order to make it more attractive for alternate bidders. He asked what the administration's position was.

Mike Coughlin said it would be worth reviewing but he concurred with Touche Ross that savings would be marginal. Consideration would need to be given to hiring additional employees to handle the cash flow.

Senator Kelly asked if additional employees would be needed if an A.S.O. plan was chosen.

Number 269

Lynn Withrow replied that additional State employees would be necessary for allocations and banking functions.

Senator Kelly asked how many employees would be needed.

Mike Coughlin replied, "About five employees."

Senator Kelly said that salaries amounted to approximately $250,000 annually, and asked would savings in excess of that amount be realized by changing to an A.S.O. plan.

Number 290

Senator Kelly asked Jeff Malek to design a proposal for next meeting that would make the health plan more attractive to other bidders besides Aetna, keep the need for additional State employees to a minimum, and possibly result in some savings.

Jeff Malek replied that he could do that with the help of the Division of Retirement & Benefits and Touche Ross.

Greg O'Claray stated that the existing carrier, Aetna, deserved some credit for holding the premium rate at the current level without an increase.

Number 321

Bruce Cummings interjected that it has been his understanding

that one of the problems with bidding on this plan had been the high risk and run-away costs, and considering that costs were being brought under control, that in itself should encourage a more competitive environment.

Don Hitchcock, Senator Kelly and Jeff Malek discussed the risk level currently incurred by the State in the current health plan. Senator Kelly asked Jeff Malek to determine the State's risk level for various types of plans.

Number 396

Greg O'Claray suggested that action be taken today relative to the offer from the Alaska State Medical Association to start doing some PPO. He also wanted an answer from the Aetna group about what efforts were going on with Charter North and PPO.

Number 405

The meeting recessed at 2:37 p.m. and was called to order again at 3:00 p.m.

Jeff Malek continued his presentation, starting with Section C, Pooling. He explained that pooling created an entity legislatively to purchase, manage and distribute the health benefits, and 17 states have enacted pooling legislation. An advantage to pooling is the ability to collect data to help recognize trends early, make projections and save money.

Number 476

Senator Kelly expressed reservations about pooling because the legislation mandates that all employees must join the State plan and removes their freedom of choice.

Jeff Malek explained that each separate sub-group could have their own plan within the pool.

Senator Kelly stated his concern in regards to establishing an overall Alaskan health insurance group because it would be dealing with different unknown risk categories outside the 13,500 State employees.

Number 545

There was a brief discussion on pooling set-up possibilities and risk management.

Number 632

Senator Kelly speculated if school districts and municipalities would even want to be part of pooling.

Jeff Malek stated pooling could result in savings of $50 - $100 million statewide depending on the size of the pool. The initial big savings come when negotiating with providers.

Senator Kelly asked what would motivate groups to want to participate in pooling.

Number 690

Barbara Huff reported that the school district in Anchorage had a 15-panel cost containment committee with representatives from each union and the administration, who were exploring a multi-employer benefit package. She used the State PERS retirement system as an example of several different plans being managed by one administration.

TAPE THREE, SIDE TWO

Number 015

Jeff Malek stated the first steps have been to examine benefits and areas to cut costs, and the next step is to bring the providers to the table to negotiate rates.

Number 041

Patrick Pechacek asked how many public employees there were outside the State system that would be affected by pooling.

Barbara Huff replied that in Anchorage alone there were 3,000 municipal employees, 500 school district employees, and 2,000 university employees.

Dave Gray added there were 27,000 people in the active PERS system and another 8,000 people in the TERS system.

Number 065

Senator Kelly asked, assuming there was a pooling of 40,000 employees instead of 15,000, what savings would be derived from that.

Pat Pechacek replied that operating the health plan on a bigger scale would save 1% - 2% in administration. He added that some additional savings might be realized by PPO buying.

Jeff Malek said their estimate of spending statewide was half a billion dollars, so would a possible 5% savings be worth it?

Number 089

Bruce Cummings and Senator Duncan discussed regulations permitting bargaining units to waiver out of the State plan.

different rate but under the same plan.

Number 251

Senator Kelly asked Senator Duncan how he wanted to proceed on the issue of pooling, and he replied that more information was needed from the Task Force consultant before a decision could be made.

Senator Kelly summarized the proposed pooling for Alaska to be for 40,000 people, mandatory, and difficult to opt out of.

Jeff Malek said he would use Hawaii, Montana and Utah as comparable states in his research for the Task Force.

Number 312

Barbara Huff asked if it would be beneficial to contact municipalities and the university by letter explaining the pros and cons of the pooling concept of health insurance coverage.

Jeff Malek said he thought it would be a good idea once he had completed the research for the Task Force.

Number 232

Jeff Malek carried on with his report presentation, discussing Section D, Health Care Payment Alternatives. He stated that although the Aetna PPO may not work, the State could negotiate with providers for services directly.

Mike Coughlin stated that the preferred provider vision network in Anchorage was falling apart because providers said they were receiving too much State employee business and thus taking too much of a discount on their services.

Number 389

Michelle Castanedo reported that Vision Service Plan was attempting to negotiate a new agreement with Juneau vision care providers because they had opted out of the current provider arrangement, due to the 20% discount on their services.

Lynn Withrow clarified that vision coverage was still in effect but only outside the network, thus costing the employee more.

Number 444

Senator Kelly introduced Sharon Anderson of Humana Hospital to give a presentation of a DRG system.

Sharon Anderson distributed a handout and began with a slide presentation about Humana Hospital, explaining how the DRG system

the system just would not work.

Sharon Anderson said the more health care that was sent out of the State of Alaska, the more it would hurt hospitals within the State. She added that only a small portion of the 30% of health care taken out of the State was for procedures not available in Alaska.

Number 411

Greg O'Claray stated he was disappointed there were not more health care providers testifying today. He felt it was time the State stopped paying the "retail" rate for health care and started having a real say in what rates they were willing to pay for services.

Number 518

Senator Kelly asked if there was any further business to come before the committee.

Jeff Malek suggested that before the next Task Force meeting there should be a report to the legislature.

The next meeting was scheduled for Thursday, January 4, 1990, and Dave Gray was asked by Senator Kelly to have a draft proposal for a report to the legislature for the Task Force to review at that time.

There being no further business to come before the Task Force, Senator Kelly adjourned the meeting at approximately 4:45 p.m.

COMMITTEE TAPE LOG

COMMITTEE: Health Cost Containment Task Force DATE: 1-4-90 TIME: 10:42

SUBJECT: Pooling, Hawaii Utah.

MEMBERS: Kelley, Hitchcock, Cummings, O'Clary, Boyer, Huff. Jeff Malek Castanedo, Duncan, Navaille

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TK	001	Called the meeting to order 10:42
	026	Report Jeff Malek
Jeff Malek	037	Report-
	069	Section 1 Pooling concepts of other states Hawaii - Utah
	100	1977 - Utah 153 Duel choice of medical
	165	They set their own rates & reserves too for future
	187	1962 - Hawaii 110 thousand insured
	217	2 year rate guarantee
TK	257	Employees - 40%
Malek		Questions
	268	$250 deductable Medical inflation 4-5%
	294	Staff with full time director.
	300	Hawaii long term care
MN	322	How much a month? Malek answered
Malek	333	Each entity go out & bring
Oclarey	352	Cost sharing 300 or 500 base Malek 300
"	364	advantages
TK	369	delivery systems cheaper Malek Responded
JD	376	Plans
Malek	380	Very difficult to explain plans
JD	387	Just over 310
"	395	Be sure I understand this Jeff...
Malek	409	Pooling Level
JD	417	Each entity had a plan Med, Life Sep = Malek

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TK	472	Cant have both plans
JD	477	Pursue that it was my understanding
Malek	488	Most states have collective bargaining Unites
TK	502	Hth benefit sys Hawaii 4 or 5
	Huff	Malek & Huff & Kelly
Cummings	515	54 school districts
Malek	521	Hawaii one school system
Oclarey	534	Earlier thought . . . several levels of benefit
JD	552	Alot more work needs to be done.
		Collective bargaining very important part of this
Hitchcock	584	2 questions -
Malek	588	means all - in Utah. Malik & Hitchcock - questions
TK	617	Hawaii - fully insure to min premium
	623	Malek & Kelly questions
MN	633	Hawaii - Premiums Malek answered
JD	659	Medical costs in Hawaii Dental etc.
Malek	668	There are studies what plans cost
Cummings	673	Labor agreements
TK	688	Discuss through leg.
TK Malek	696	Employers pay cost? How may emp. Do pay
Malek	702	Section 2 Provider payment. ~~DRG~~ DRG Sys
	716	Review Commission Does discussion
	756	if other entities don't adopt a similar system
TK	774	How for in Congress Passed Senate
		Malek responded Start by -
	788	Cost Savings involved Medicare 5 Million

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
M N	794	Save $ be real progressive.
TK	808	Alaskan NW Section
I	814	Theory - higher in AK
TK	823	Bill Status
	834	Mandate Higher State cost
Malek	839	Section 3 page 9
	854	Pg 20 Top 20 inpaitent facilities
Dave Kellyside	859	Question
Malek	864	Pg 26 87-88 21 88-89
Malek	873	Spending outside of AK
JD	009	Pg 20 Lynn Winthrow Duncan & Malek
Malek	051	Pg 22 Provider code dis Tape Problems. —
Malek		Section 4 Revision service providers wanted to get out of these provider plans Vision - slight increase
JD		Section 5
		Report to legislature by resolution by 1-31-90
		Dave has a draft report outlined short term Mid-term long-term organizaton FY 89 - —

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
		Meeting Plans 9/9
New Tape + Machine	TK	[redacted] Task Force go on or end Work at end of month
MN		Beginning of Leg 1991 Should have a report.
Malek		Risen Very quickly What coverage do you have to have in place
MN		When leg considers
JD		Motion Move to introd. leg to extend task Force
TK		add steps identified
MN		February or March
TK		February 15th
		No objections
Dave		February 1st
Malek		RFP w/another carrier
TK		Any other? Dave work out report - Have extend - Dave of Exective Dr
MB		Enough funding
TK		Alright
Dave		Have Supplemental funding
TK		Jeff Contract — Daves Salary -
JD		Motion retain Dave Ex Dr
TK		No objection
Pat McConnel		Hospital in Juneau Differences on pg 20 - Staff reductions

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
Pat McConnell		Expenses per case Bartlett #2
Greg Oclare		When Did Bartlett last reduce rates
		City & Borough PPO with Bartlet
Pat		Haven't reached a cost w/Blue Cross
		City insurance plan
TK		What #298 Mo AK City 80/20%
		#293 Boeing #385 State
TK		Agreement Should be in there
Pat		PTO Arrangent Blue Cross will Pay
JD		Quick Figures 1000 6.4 million
cermak of Lynn Winthrop		SE people go to Seattle
		Zip codes # of admissions
Oc Lang		Blue Cross mining Premium
Pat		Risk Mgr. City
TK		Next meeting
Jebb		Time Schedule
		Meet before the 31st
TK		January 30 Tues
		Monday 29th January
MN		by 25th
		Ad J 12:16 pm

COMMITTEE TAPE LOG

COMMITTEE: Health Cost Containment Task Force DATE: 1-29-90 TIME: 12:31

SUBJECT:

MEMBERS: Kelly, Duncan, Navarre, Boyer, O'Clery, Cummings, Hitchcock Matson, Huff (Teleconference)

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TK	001	Called the meeting to order
	026	Consultants Report 1/29/90
Jeff Malik	040	Report
	052	Sec. 1 Alternate -
	078	Pg 2 State pays AETNA - - .
	122	Charts illustrate where funding goes
	127	Sec. 1 "137 Page 3-
	163	Pg 4 retrospective -
	186	Sec. 5- Minimum Premium arrangement
MN	214	Repeat
Jeff	219	Idea Pays up to not more
Don Hitchcock	229	Compute -
Jeff	233	Carrier computes all sections
	245	Carrier still reviews & computes claims
	272	Minimum Premium (Pg 7) where state holds reserves
Bruce	287	Differ from last spring
Jeff	290	Matching liability Similar
Bruce	297	Claims accrued - -
George Matson	303	- - - Jeff - $18 mill
Jeff	314	Pg 8 Self funding Self insured
	343	Self funding paid out of trust
Bruce	356	Comment bottom Pg 8
Jeff	364	Exempt laws
Bruce	372	Substance abuse

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
Jeff	395	Exhibit 5 - #402 Exhibit 6 - chart
George	421	Amendments -
Jeff	424	Next Pg yes
	427	Exhibit 7 - AETNA - Figures 441 Admin costs #100K.
	450	Risk charges 453 Supplemental interest credits
MN	495	Reserve 1-1
Jeff Malek	499	Each Fin. accounting period
George	511	Fully insurade Plan
Malek	515	
MN Jeff	518	X cess premiums.
Malek	520	Not True
	540	Set budgetable premiums -
O'clary	546	Performance GF invest. % of interest
Jeff	560	Shifting risk back & forth
"	570	Sec 2 State Emp. Hth Bene plan
Jeff	578	1989 rising cost Nat Average 20%
O'Clary	607	Premium # Cost
Jeff	609	Total Cost 1-8 - -
	623	Exhibit 8 -
TK	632	Bill in Senate
Jeff	633	Open? Geographic areas
	654	Exhibit 9 - Hawaii
TK	676	How account for increase
Jeff	680	Ongoing discussion 20% last 5 years
TK	692	Premium Rates -
Jeff	694	- -
TK	698	Chiropractic

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
Jeff	701	Some general rules
NN	709	Utilization
Jeff	710	Has been prob.
George	715	Mental health
Jeff	717	Similar level of coverage
	729	Section 3 page #3 New books, Alcoholism
		TIC asked? Jeff answered
	759	1983 AK enacted 11 coverages
	768	Pg 14 -
	783	Section 4 - Pooling
TIC	792	Exhibit 10 - Prescrip drugs
Jeff-	795	Pass laws
George	604	Mandatory coverage is one thing
Jeff	606	Mandate particular coverage
"	817	Pg 15 - Unions - Barg. Units
George	826	
Jeff-	827	2 Pieces - Neg. who will pay Hawaii add coverage what part of cost
	845	Case study how pooling PO HP $70,000
	858	Pg 17 Comparison of Admin Costs 3.5% Utah 2.5% Ala
George		town
tape 1 side 2	006	Hawaii does have unions.
Barbara Wuff	013	2 questions her & Jeff discussed
	031	Utah Self insured 1977
Debb	040	Pg 18 - Utah
	086	3rd area Plan design & Wellness program
	125	Pg 19 - Utah through Plan design - Slowed. costs
Bruce	175	Leg -

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
~~Jeff~~	177	Sec approp.
	196	Pg 20 - bottom of Pg -
TK	216	Administration does th bream
Jeff	223	6.5% -
TK	234	This stat to admin Prog -
Jeff	250	= normal what they need - slowed increase
TK	269	State Govt isn't capable of doing
Jeff	275	No reason couldn't be
George	295	ratio of Dr's -
Jeff	301	New Medicare Says George & Jeff d.s.
TK	314	AK has had a lot of th
MN	322	Adss driven by some extent - - -
TK	355	70 thous. people AK pay. premium
MN	368	State pays a lot of medical costs
Jeff	379	True one concept
TK	407	Not convinced these are real savings.
MN	420	Won't see these savings - Little prob -
Jeff	426	Kept prems rising
TK	442	Safer admin cost wise
Jeff	464	Tend to disagree w/ Chair
		George another way to admin
George	486	Advantages of a Pool Jeff answered
TK	497	Schedule Wed - Time problem
Dave	507	This evening - Lunch slot
TK	514	5:00 pm
	532	4:30 tonight Recess 1:45

Present: Kelly, Cummings, O'Clarey, Matson, Hitchcock, Duncan
(Barbara Steff)

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TK		Back to order at 4:38
Jeff	536	Section 4 - Pooling - concept.
	582	Rates of Payment or formula of payment
Lynn withdraw	621	Diff Bargaining groups
Jeff	624	Same benefit & premium level
JD	674	SB 254 complicated
Jeff	663	Exactly true by bringing everyone together
JD	682	Savings generate - - - slowing of inflation.
Jeff	703	Abelities to negotiate rates.
JD	706	More than 1 carrier involved
Jeff	713	Establish own OCR schedule
JD	726	Any other states?
Jeff	730	3/23/89 Report worked well
JD	734	I had legislation draft
Jeff	757	Section 5 - Medicare - having some problems
	773	Uniform schedule by 1992
TK	785	Ready to go 1992 - Geograph - - -
		- TK & Jeff -
Jeff	800	Prevent Dr's balance billing 15%
	811	Attachments - briefs on legislation
TK		Comprehensive
Dave Gray	829	Pages 26, 27, 28
TK	833	Errors - will be corrected
Dave	844	Get out Saturday - Draft - 3 phases
	865	3.5 mile GF
	882	Ethnic claims. Contract

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
Tape 2 Side 1	001	Bruce Cummings.
Dave Gray	011	Wasn't formal discussion
	025	Retiree's Programs
	065	Active # 385 Retirees #244 per month
	080	Self insurance options --
TK	114	Last comment -
Dave Gray	124	Pg 28 - Estimated savings
TK	140	Make me service w/ Figures 50 to 60 5 to 20
TK	176	Pg 25 reversed #s typs
Dave	192	Pg 31 Potential Savings w/ Retiring Group
Dave	221	Discussions - long range portion Wellness programs
		Trust arrangements
O'Leary	242	Trust set up in private sector
	267	Join an existing trust
Bruce	281	Enclose that - Wellness TK
Dave	288	Cleaned up copy - individually sign off
TK	302	Extension - Clean up report
Dave	319	Original research -
	355	41.000 needi und
Matson -	377	Teachers - University people
Barbara	413	Pg 25 As of 1-1-89
Bruce Cummings	427	Health insurance provisions
TK	442	Agreement might be turned down by ASSA
Dave Barbara	449	Have been implemented
	457	Mgmt health --
Matson	462	Wellness Progm & Mental Hlth
		Mastons & Winthrow

SPEAKER	TAPE #	SIGNIFICANT INFORMATION
TK	482	Down from top Red
512	Adj	5:28 pm