

Department of Administration

Commissioner Sheldon Fisher



CWN's Fiscal Action Coalition
April 14, 2017

What is AlaskaCare?

- AlaskaCare is a term used to describe the State of Alaska self-insured health plans managed by the Division of Retirement & Benefits.
 - AlaskaCare Retiree Plans including:
 - Defined Benefit Medical Plan
 - Defined Contribution Retiree Medical Plan
 - Dental, Vision, and Audio Plan
 - Long Term Care Plan (not referred to as AlaskaCare)
 - AlaskaCare Employee Plans
 - Medical Plan
 - Dental Plan
 - Vision Plan

AlaskaCare Retiree Plan Overview

AlaskaCare Retiree Plans

- AlaskaCare Retiree Health Plans
 - DB Plan
 - 70,000+ members
 - 41,000 retirees
 - 29,000 dependents
 - Dental, Vision & Audio Plan
 - 53,000 members
 - Long Term Care Plan
 - 21,000 members
 - DCR Plan – Created July, 2016
 - 9 members

- \$600 million annual spend in FY 16:*
- \$545 million Health plan
- \$40 million Dental, Vision & Audio plan
- \$15 million Long-Term Care plan

*Source: 2016 Audited Financial Statements

DB Retiree Plan Design

Defined Benefit Plan	Medical
Deductible	\$150 individual / \$450 family
Coinsurance	80%
Annual Out-of-Pocket Maximum	\$800 individual
Preventive Care	Limited: mammogram, PSA, pap smear
Dependents	Covered up to age 19, 23 if full-time student
Lifetime Maximum	\$2,000,000
	Pharmacy
Generic	\$4 copay retail / \$0 copay mail order Up to 90 day supply
Preferred Brand Name	\$8 copay retail / \$0 copay mail order Up to 90 day supply
Non-preferred Brand Name	\$8 copay retail / \$0 copay mail order Up to 90 day supply

Retiree Plan: Challenges & Solutions

Challenges

- Older plan design
 - No preventive coverage
 - Dependents only until age 23 if in school
 - Lifetime maximum of \$2 million
- Changes subject to stringent legal evaluation:
 - Benefits protected by constitutional diminishment clause
 - Changes must be evaluated within that context
- Lack of meaningful cost saving measures
- Difficulty communicating with membership

Solutions

- Establish Retiree Health Plan Advisory Board
 - Provide a meaningful way for the Department to evaluate and discuss possible benefit changes to modernize the plan.
- Evaluate coverage changes including:
 - Preventive care
- Leverage Additional Federal Subsidies
 - Implement Employer Group Waiver Program (No change to benefits member receives)

The State of Alaska provides health care to its employees through a state health plan and union health trusts.

AlaskaCare Health Plan	Union Health Trusts
<u>Employees: 6,350</u>	<u>Employees: 10,500</u>
<ul style="list-style-type: none"> • AVTEC 	<ul style="list-style-type: none"> • General Government (GGU/ASEA)
<ul style="list-style-type: none"> • Confidential Employees 	<ul style="list-style-type: none"> • Labor, Trades and Crafts
<ul style="list-style-type: none"> • Correctional Officers 	<ul style="list-style-type: none"> • Public Safety Employees Association
<ul style="list-style-type: none"> • Marine Engineers 	<ul style="list-style-type: none"> • Masters, Mates & Pilots
<ul style="list-style-type: none"> • Mt. Edgecumbe Teachers 	
<ul style="list-style-type: none"> • Supervisory 	
<ul style="list-style-type: none"> • Inland Boatmen’s Union 	
<ul style="list-style-type: none"> • Exempt/Partially Exempt Employees -Includes Court System & Legislature 	

Employer Spend on Health Care

- As an employer, the state pays an amount to AlaskaCare and the union health trusts on a Per Employee Per Month (PEPM) basis.
- In FY16, the total employer & employee contributions were \$296.1 million⁺
- Employer contributions: \$265.1 million
 - \$107.2 million for AlaskaCare
 - \$157.9 million to union health trusts
- Employee contributions: \$31.0 million
 - \$13.7 million by AlaskaCare members
 - \$17.3 million by union health trust members

⁺Source: Based on payroll data with the additional \$7.5M lump sum payment received in FY16 for AlaskaCare.

AlaskaCare Employee Plan Basics

AlaskaCare Employee Plan

- Self-insured plan
 - Aetna is the medical Third-Party Administrator (TPA)
 - Moda is the dental TPA
- 16,350 total covered lives (active employees & dependents)
 - 6,350 employees
 - 9,800 dependents
- Approx. \$137 million annual spend
 - \$130.7 million medical & pharmacy*
 - \$6.2 million dental
- Plan pays around 82% of medical & pharmacy claims
- Members pay around 11% of medical & pharmacy claims⁺

* Source: 2015 Aetna Annual Report

⁺The remainder 7% is paid by secondary insurance which could include an AlaskaCare plan.

Employee Plan Design

Active Plan	Economy	Standard
Deductible	\$600 individual \$1,200 family	\$400 individual \$800 family
Coinsurance	70%	80%
Annual Out-of-Pocket Maximum	\$2,850 individual \$5,700 family Separate pharmacy OOP Max of \$1,000 individual / \$2,000 family	\$1,850 individual \$3,700 family Separate pharmacy OOP Max of \$1,000 individual / \$2,000 family
Preventive Care	Covered at 100% with no deductible in-network	
Dependents	Covered up to age 26	
	Pharmacy	
Generic	80% retail 30 day in network: \$10 minimum/\$50 maximum \$20 copay for up to 90 days at mail order	
Preferred Brand Name	75% retail 30 day in network: \$25 minimum/\$75 maximum \$50 copay for up to 90 days at mail order	
Non-preferred Brand Name	65% retail 30 day in network: \$80 minimum/\$150 maximum \$100 copay for up to 90 days at mail order	

Employee Plan: Challenges & Solutions

Fiscal Challenges

- Employee plan costs are exceeding revenues
- This is due to a combination of factors:
 - A spike in utilization following layoff notices
 - Reduction of employees, reducing employer contributions
 - Emergence of double-digit pharmacy growth
 - Health care cost growing faster than anticipated
- Using reserves to cover the difference is not sustainable
- Health care cost increases are pressuring plans across the state and nation
- DOA is addressing these challenges through significant plan changes to AlaskaCare in 2017

Addressing Fiscal Challenges

Four tools available:

1. Increase employee contributions
 - Increased deductible & coinsurance
 - Increased employee share of premiums in 2018
2. Implement plan design changes
 - Three-tier pharmacy benefits
 - Facility steerage in Anchorage & outside of Alaska
 - Allow employees to opt-out of coverage
 - Eliminate Premium plan
3. Reduce cost of service
 - Renegotiate pharmacy contracts
 - Improve facility discounts
4. Increase employer contributions
 - Employer contribution rate increased to \$1,555

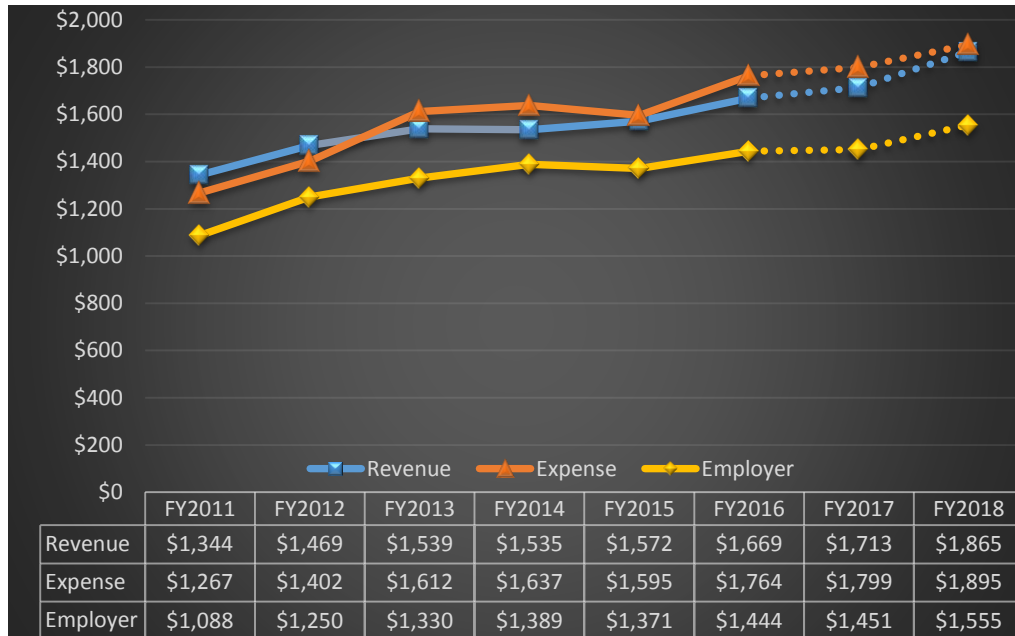
2017 Initiatives to Address Challenges

Initiative	FY 2017 Impact	FY 2018 Impact	Comments
Anchorage Hospital Steerage	(\$1.25M)	(\$2.5M)	Annual savings when mature estimated to be \$3.0M.
Three-Tier Rx Cost Structure	(\$900K)	(\$1.8M)	Improves generic dispensing rate, preferred brand utilization and rebates.
Dependent Eligibility Verification Audit	(\$750K)	(\$800K)	Almost 500 Dependents disenrolled to date, with the expectation that some will verify eligibility and subsequently (re)enroll. Those remaining disenrolled are assumed to have below average per capita costs.
Eliminate Premium Plan	(\$300K)	(\$600K)	Redistribute risk from highest cost plan.
Pharmacy Contract Renegotiation	(\$500K)	(\$1.6M)	Improved discounts and rebates: rebate lag results in longer time to maturity.
Surrender Grandfather Status	\$800K	\$1.6M	Cost to implement addition coverage required by the ACA (preventive, etc).
Deductible and Out-Of-Pocket-Max	(\$600K)	(\$1.2M)	Increase deductible by \$100/\$200 and out-of-pocket-maximum by \$250/\$500 in both plans.
Opt-Out Provision	(\$50K)	(\$125K)	Allow employees to opt-out of AlaskaCare and/or not cover eligible dependents. Assumes the Employ contribution (PEPM) is unaffected for EEs that opt-out. Otherwise there is a net loss.
Total Net Impact (Savings)	(\$3.55M)	(\$7.03M)	

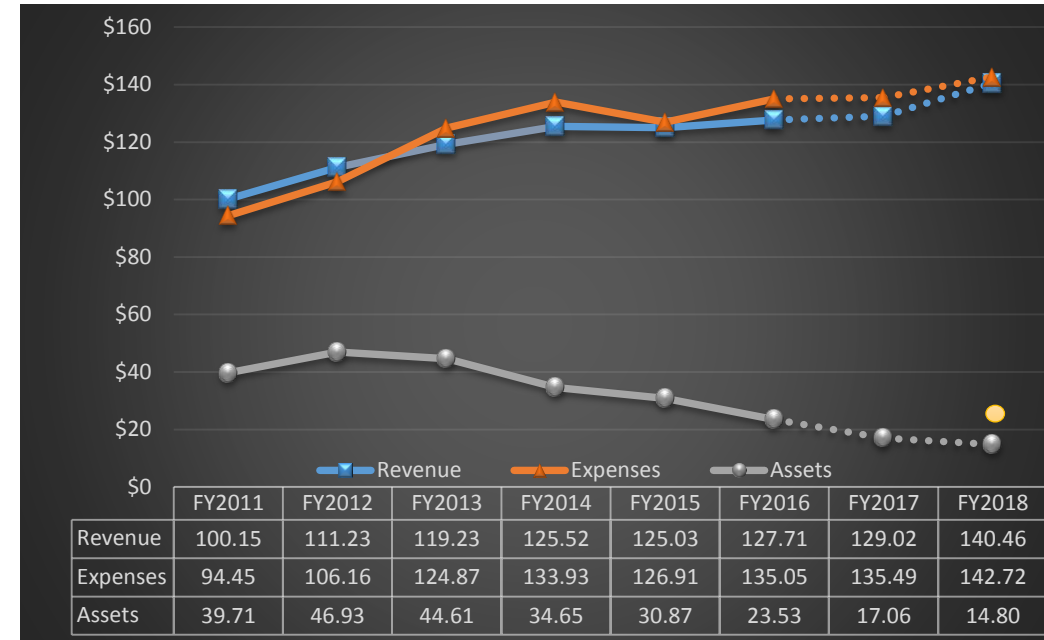
Active Historical/Projected Revenues, Expenses, Assets

State Monthly Funding Rate Increased to \$1,555 on January 1, 2017

Revenue vs Expense PEPM



Revenues, Expenses, Assets (millions)



- This includes an increase in the employer contribution to \$1,555 beginning 1/1/17 and continuing through FY 18.
- Without additional changes, assets were projected to decline to \$14.8M and fund 80% of IBNR levels in FY18.
- Management goal is 150% of IBNR.
- Increased employee premium share and other initiatives are estimated to achieve around 124% of IBNR level (\$21.5M) in FY 18.

Looking Ahead

Additional Initiatives Under Consideration

- Increase employee contribution
- Continue to increase cost share levels
- High Deductible Health Plan option
- Enhanced travel benefits
- Employee clinics
- Move to % of Medicare fee schedule for out-of-network services
- Telemedicine
- Enhanced Hi Tech Imaging review
- Incorporate value-based plan provisions

Health Care Authority Study

- Last session's SB 74 Medicare Reform directed DOA to conduct a study evaluating the feasibility of a Health Care Authority due by June, 2017.
- SB 74 requires the study to:
 - Identify cost-saving strategies that a health care authority could implement;
 - Analyze local government participation in the authority;
 - Analyze a phased approach to adding groups to the health care plans coordinated by the health care authority;
 - Consider previous studies procured by the Department of Administration and the legislature;
 - Assess the use of community-related health insurance risk pools and the use of the private marketplace;
 - Identify organizational models for a health care authority, including private for-profit, private nonprofit, government, and state corporations; and
 - Include a public review and comment opportunity for employers, employees, medical assistance recipients, retirees, and health care providers.

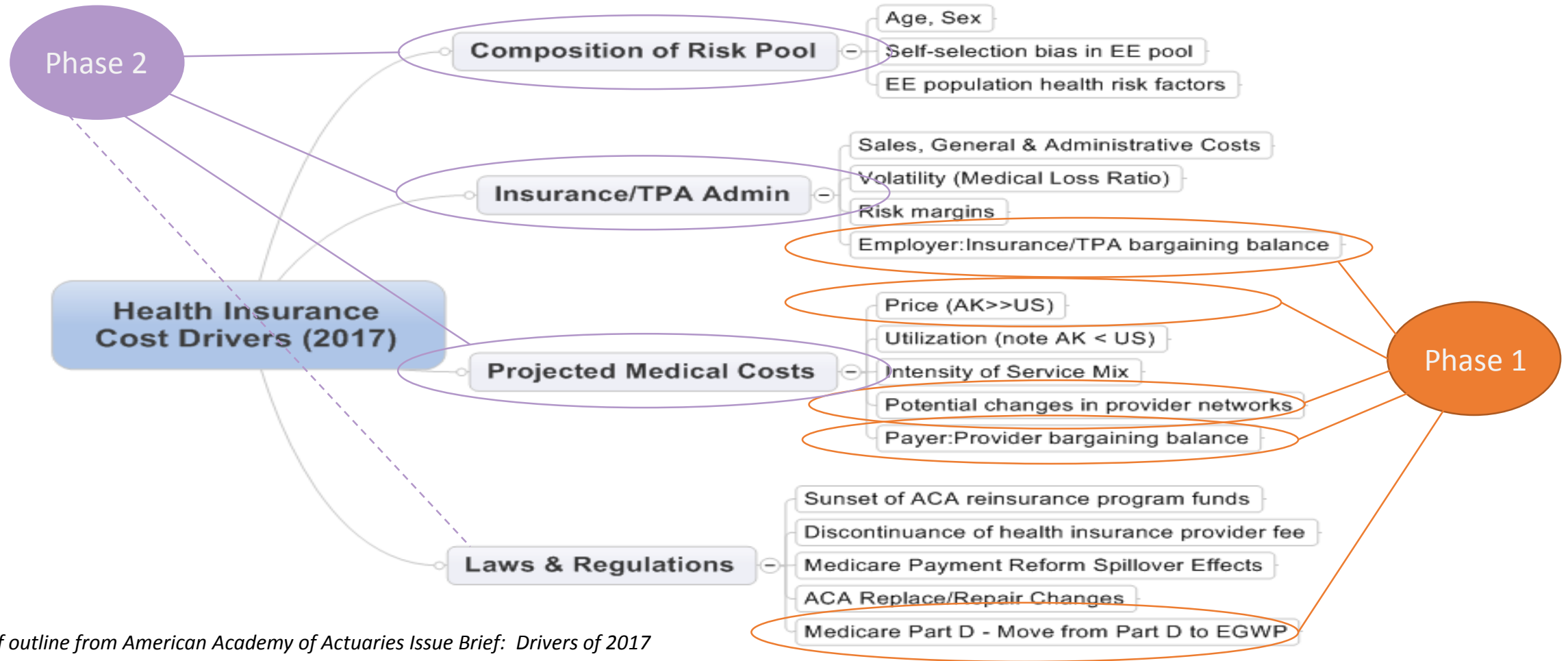
Study Team

- State of Alaska:
 - Department of Administration- Emily Ricci & Natasha Pineda
 - Support from DHSS team
 - Support from DOI team
- Contractors:
 - PRM Consulting Group
 - Mark A. Foster Associates (MAFA)
 - Pacific Health Policy Group Consulting

Introduction-Study Outline

- Study looks at public employees in all bargaining groups, school districts, political subdivisions, the University, Medicaid, and other public entities providing health care benefits.
- Goal is to see if there are opportunities to create savings through greater efficiencies.
- Initial plan to complete the study in two phases:
 - Phase 1: evaluate opportunities for savings through consolidated purchasing strategies.
 - What strategies exist that would create savings while allowing plans to retain autonomy in administration and risk pool?
 - Phase 2: evaluate opportunities for savings through coordinated plan administration.
 - Are there savings through combining risk pools & admin across public employees?
 - Can there be alignment across administrative, purchasing, or medical management functions between Medicaid & public employee plan administration?
 - How could these functions fit within an HCA structure? What are some options for structure and governance?

Health Insurance Cost Drivers



Elements of outline from American Academy of Actuaries Issue Brief: Drivers of 2017 Health Insurance Premium Changes

Data Collection

- **Quantitative Data**
 - Customized survey of current health plans for covered entities
 - Medicaid Enrollment by benefit group
 - Individual Market Costs
 - Workers Compensation costs
- **Qualitative Data**
 - Stakeholder Interviews

Survey Participation

The survey captured an estimated 84% of benefit eligible employees.

Regions	Surveyed Entities	Complete	Not Complete	Percent Completed	Civilian Labor Force	
Anchorage	2	2	0	100%	155,765	43%
Gulf Coast Region	23	14	9	61%	38,973	11%
Interior Region	34	18	16	53%	53,174	15%
Mat-Su	5	5	0	100%	43,893	12%
Northern Region	39	12	27	31%	10,421	3%
Southeast Region	44	33	11	75%	38,384	11%
Southwest Region	71	32	39	45%	19,858	6%
Statewide	9	8	1	89%		
Grand Total	227	124	103	55%	360,488	100%

Summary	Surveyed Entities	Completed	Not Complete	Percent Completed
State Employees & Retirees	6	5	1	83%
University of Alaska	1	1	0	100%
State Corporations	2	2	0	100%
School Districts	54	48	6	89%
Political Subdivisions	164	68	96	41%
Grand Total	227	124	103	55%

Next steps

1

Complete Phase
1 & 2 Analysis

2

Technical Review

3

Finalize Draft

4

Public comment

Questions?