

Health Coverage Fees to Increase by 5% in July

For members who select health benefits options other than the default option, the cost of medical, dental, and vision coverage will increase 5% in July. The default option is the economy medical and preventive dental option, with no vision coverage. The employer contributes an amount equal to the default plan's premium each month. The difference between the employer's contribution and the cost of selecting other than the default option is paid by the employee in the form of a pre tax payroll deduction. We always have new members and many will be getting this information for the first time, so before I discuss the 5% increase I must say a few words about the "self-insurance" you participate in versus insurance sold to make a corporate profit. The old heads who understand this can skip a few paragraphs.

Many of us are so accustomed to seeing Premera's name on our benefit cards, statements, and correspondence that we think we are insured by them and that the cost of our coverage is set to make a profit. The truth is Premera is paid a fee to administer the State's health program but Premera does not provide the insurance. Premera simply acts as the State's third party administrator and provides the network and experience necessary to administer the State's program. The fees you pay are not paid to Premera. Premera does not write the plan rules, does not set the fees, and does not pay claims out of their pockets. Fees are set by the State; the plan's rules are written by the State; and the money paid out for claims is money from the account where the State's contributions and the plan participant fees are deposited.

While not exactly technically correct, your health plan can best be described as a self-insurance plan. As such, the fees you are charged are not set to make a profit. The fees are set to be able to cover the claims that are submitted while maintaining a realistic reserve to cover unforeseen needs. Fees are set after an accounting of fees paid in and claims paid out during the preceding period is reviewed and after National and Alaskan claims experience and health care-cost trends are reviewed. Based on those reviews and the opinions of the accountants and consultants with credentials in the health care area, the plan's fees are set where it is believed they must be set to allow the plan to meet its claims and expense obligations while maintaining a reasonable reserve. The unfortunate reality in the health care arena is that costs have been increasing and are expected to continue to increase. The good news is that most employers are facing double digit increases this year, while our plan's increase has remained relatively low over the past five years.

You probably know that your President, Danny Colang, and I, along with representatives from the Alaska Public Employees Association, the Confidential Employees Association, Marine Engineers Beneficial Association, the Supervisory Unit, as well as Management and Retirement and Benefits representatives, participate in a group called the Health Benefits Evaluation Committee (HBEC) that meets four to six times a year to discuss and make recommendations in health benefit areas such as health plan enhancements, cost cutting measures, to resolve "challenges" faced by the plan, and to review data and make recommendations on next year's fees. I emphasize

the phrase “make recommendations” as the Commissioner of the Department of Administration, by Statute and practice, is the person ultimately responsible for making the final decisions. Having said that, I would hasten to add that I cannot recall there having been a disagreement between the Commissioner and the HBEC during the years I have been involved.

Examples of some of the areas addressed by the HBEC this past year include a wellness related “Health Improvement Plan” you will be hearing more about that is to be implemented during the next plan year, the adding of “well baby care” benefits to the health benefits package, discussion of the potential effects of the Court’s order to add same-sex partner benefits, an on-going project to update and re-write the Plan Booklet that you should be seeing the results of shortly, and of course the 5% increase in Health Benefit fees that leads me to write this letter.

I am attaching a copy of the rate [recommendation that the Commissioner approved](#) and the [report from Buck Consultants](#) that the HBEC discussed with Buck’s consultants’ Chris Hulla and Aaron Jurgaitis before voting to support next year’s 5% increase. There is little I need to say that isn’t said better in these two attachments, but I would like to highlight one significant fact. As bad as a 5% increase sounds, the increase would have been as high as 16% were it not for everyone’s agreement that it could be held to 5% by spending down \$8.9 million of the plan’s reserves, and that doing so would be prudent and would not weaken the plan. Several HBEC members recall a period during the late 1990s when the plan’s reserves were in dire shape and the considerable effort and time it took to get the reserves back to an acceptable level. The HBEC members would not agree to spend some of the reserves this year if they did not feel it could be done safely.

The cost of medical benefits continues to increase and continues to eat away at every American’s bank account with no real end in sight. I assure you that all of us who represent State employees on the HBEC take the responsibility very seriously and are doing everything in our power to keep the cost of your coverage as low as is realistically possible while also charged with doing everything possible to maintain the viability and health of the plan. In the time that remains between now and the 2009-2010 Open-Enrollment period I urge each of you to carefully review your family coverage needs. Towards this end, it may be worth your time to spend some time reviewing the information on the Health Benefits web page at:

<http://www.state.ak.us/drb/ghlb/insurancebenefitsactive.shtml>

You cannot afford to be under-insured, but it is becoming increasingly expensive to be over-insured. I would have liked nothing better than to be able to tell you that the cost of coverage will not increase, but I cannot.

Stay Safe, Stay Healthy,

Jim