



# The Exorbitant Cost of Healthcare in Alaska

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—Lynette Wood, Aurora National Insurance

## Health insurance and the bottom line

By Tracy Barbour

**E**ver-evolving regulations, escalating costs, and other challenges can make it difficult for businesses to provide health insurance benefits for their employees. The situation is having an adverse effect on their bottom line, leading some employers to forgo offering insurance or to at least consider the possibility of dropping the benefit.

A primary factor impacting the cost of health insurance is the high cost of medical care. Alaska has some of the most exorbitant healthcare costs in the country—and world—and employers cover the bulk of that burden. In Alaska, the cost of many medical procedures is twice as high as in the Lower 48 on average, according to Jeff Roe, CEO of Premera, which operates in both Washington and Alaska.

“While the consumer price index is about 6 percent higher here, payments to doctors and hospitals in Alaska are 76 percent higher than nationwide averages, and, after accounting for cost of living, are increasing twice as fast as inflation,” Roe said in his July 2018 speech at the 3-Year Outlook Luncheon of the Anchorage Economic Development Corporation.

Over the years, health insurance premiums in Alaska have skyrocketed, making it difficult for some employers to balance offering benefits and paying premiums, according to Anchorage-based Lynette Wood of Aurora National Insurance. “Health insurance premiums are usually the second-largest expense an employer has, second only to payroll,” she explains.

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Next to pricing, Wood says, employers have significant concerns about the insurance carrier’s network and how easy it will be to find a provider. They also want their employees to be able to easily understand their benefits, have online access to plan summaries or mobile apps, and to be able to reach customer service without being left on hold for the rest of their lives.

Regardless of the cost and other issues,

it is almost essential for companies to provide health insurance for their employees. Health insurance is the primary employee benefit that employees want and need, Wood says. Plus, having insurance in place will mitigate needless worker’s compensation claims, which ultimately cause the employer’s worker’s comp premium to increase. Health insurance is also a pre-tax benefit that employers can use to reduce their overall tax burden.

For these and other reasons, it’s not hard to sell most companies on the idea of purchasing health insurance. And

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Joe Wahl, Chief Human Resources Officer, GCI

GCI

some employers are legally obligated to do so because the Affordable Care Act (ACA) requires businesses with fifty or more full-time equivalent employees to offer health insurance. "We now have to comply with all sorts of regulations that we didn't before," Wood says.

### Making Hard Decisions

So how are companies large and small navigating the health insurance landscape? Carefully. They're also taking varied and creative approaches to addressing the issue. For example, Alaska's largest telecommunications company, GCI, opts to self-insure its 2,000 Alaska-based employees. About 92 percent of these workers are eligible for health insurance, according to Chief Human Resources Officer Joe Wahl.

GCI offers two health savings account (HSA)-compatible, high-deductible health-care plans, both using the AETNA network. It also offers dental, vision, life, and disability insurance, as well as a flexible spending account.

"We offer two benefits packages, and the most comprehensive plan is the most popular choice with 90 percent enrolled," Wahl says. "Providing health insurance for our employees is critical for recruiting and retaining our most valuable asset—our employees. We also want our employees to be at their best, and maintaining their health is a critical component."

GCI also supplements its health plan with additional amenities and services, such as cost and quality transparency tools or travel benefits for surgery. This helps its members find high-quality care, resulting in better outcomes while reducing their out-of-pocket costs. In addition, each year GCI

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conducts a benefits survey that is sent out to all employees. "This helps us find out if the benefits we offer meet their needs and if our benefit partners are providing the excellent care our employees deserve," Wahl says. "Obviously, cost is a consideration and needs to be part of the discussion. We look at new offerings that are highly requested by our employees but also offer a good return on their investment."

Providing health insurance to employees directly affects GCI's bottom line. He explains: "As medical costs continue to grow, it forces us to pass on some of those costs to the employees. As a company, we try to absorb about 80 percent of the overall benefits costs, so often we have to find other areas to reduce costs to cover the benefit increases."

However, smaller companies with tighter budgets have fewer options. Some are reluctantly contemplating not offering health insurance coverage to their employees. Their angst is illustrated in poignant comments on the website of Alaskans for Sustainable Health Care, a group of Alaskan employers who are concerned about the current healthcare environment and are working together to help the community understand and find solutions to the drivers that affect rising costs.

For example, Kyle D. Mirka of Allen & Petersen and Automated Laundry Systems & Supply expressed these thoughts on the website: "I own two Alaska businesses, which employ nearly sixty employees total. At the end of 2016, I was faced with a decision on whether or not to continue my employer-sponsored healthcare plan because premiums had gone up nearly 40 percent. Discontinuing the plan and simply paying the ACA fine would have been substantially cheaper, but I wanted to be able

to provide my employees with the benefit, so I decided to continue providing the plan to my employees. Sadly, their portions of those premiums went up 40 percent because I could not shoulder the full burden. If a similar price increase occurs at the end of this year, the choice will be very clear: I will no longer be able to afford to have an employer-sponsored plan. Healthcare costs in Alaska are out of control."

Kriss Ossenkop of Northwest Auto Parts said: "It's to the point where you question whether you can have a health plan at all. In 1983, when we bought this business, there was no deductible, no co-pay, and 100 percent paid by us. It provided cost-effective incentives, which tied employees to us and we felt worthwhile offering the program. It was a no-brainer. Today, we have a catastrophic plan with a high deductible, split co-pay at 60/40, and co-insurance. It's reaching the tipping point where it's not economically feasible for us."

### Insurance Trends

In terms of trends, most employers that offer health insurance also elect to provide dental coverage. At least, that's the case with Premera Blue Cross Blue Shield of Alaska, the state's largest health insurer. Premera offers three kinds of health insurance: group coverage, individual coverage, and Medicare supplement coverage. Along with each of these types of insurance, Premera offers dental insurance. "We typically will bundle coverage," says Jim Grazko, president of Premera Blue Cross Blue Shield of Alaska and senior vice president of underwriting. "Our most popular package is medical with pharmacy, vision, and dental."

At this point, employer-sponsored insurance is the main avenue employees





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Jim Grazko, President, Premera Blue Cross Blue Shield of Alaska

Premera Blue Cross Blue Shield of Alaska

have to obtain health insurance, says Anchorage-based Grazko. And Premera is fighting every day to try to reduce costs for consumers. That seems to be working, as small group rates have stabilized some. "They're staying flat, which is a big change from past years where they've gone up," he says.

Wood has also witnessed a few interesting trends at Aurora National Insurance. As a full-service broker, Aurora

National Insurance offers all types of health insurance for employers, whether a fully insured plan, a self-funded plan, or minimum essential coverage plans. Most Alaska employers are choosing fully-funded group insurance plans that include medical, dental, vision, group life, and sometimes ancillary voluntary benefits such as disability, accident, or cancer plans, Wood says.

Trends are also heading toward self-funded models. "Self-funded plans can be much more affordable for a healthy group, especially a healthy older group. However, they can be denied access to a self-funded plan if they have unacceptable health risks in the group," Wood says.

But there are other options employers can provide outside of traditional health insurance. For instance, Colonial Life offers a "medical bridge" plan, which is a variation of a hospital confinement plan. The plan essentially allows employers to raise the deductible and help employees with their out-of-pocket exposure, according to Pamela Whitfield, a general agent with Colonial Life and president of Whitfield Benefit Solutions.

Voluntary benefits such as life and disability insurance are also viable alternatives

and/or supplements to health insurance, Whitfield says. Employees pay the premium, so these plans can be offered at no cost to employers. "It's not health insurance, but at least they are providing some benefit," she says.

### The Future of Health Insurance

So, in an ideal world, what would health insurance look like? Wahl's response: "I would say in an ideal world, I really wish our healthcare costs would mirror the Lower 48."

And, ideally, employees would have plenty of options to buy insurance on the open market at affordable costs that met their specific family needs. "We'd love to be able to give our employees a set amount of money and give them the free choice to make a selection of the type of insurance that best fits their needs. Right now, the choices are limited and at higher costs than what we can offer our employees," Wahl says.

What will health insurance look like in the future? "That is the \$8 million question," Wood says. "We hope to see more transparency from providers so the insured can make informed decisions on their health insurance services."

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At this juncture, greater transparency is now more feasible, thanks to an Anchorage Municipal Ordinance (AO 2017-26) that requires healthcare practitioners and facilities in Anchorage to provide cost estimates to patients who request such information. The ordinance, which the Anchorage Assembly passed in February of 2017, also requires healthcare practitioners and facilities to post a sign in patient waiting areas with

specific language regarding requesting cost estimates.

Grazko of Premera also favors transparency, but he emphasizes that pricing must be put into context. "You have to know that the pricing in the system is a series of different things," he explains. "What we pay physicians is one thing, and what they charge is one thing."

Like her colleagues, Whitfield also embraces the idea of transparency and feels it will help lower health insurance costs in the future—particularly with HSA plans. "We don't have much power with the HSA plan unless we know what that bill will be," says Whitfield, who is also president of the Alaska Association of Health Underwriters.

In addition, Whitfield feels that abolishing what is known as the 80<sup>th</sup> percentile rule will also help reduce health insurance costs. The 80<sup>th</sup> percentile rule requires insurers to base their payments for out-of-network claims on the amount at or above 80 percent of what all the providers charge for a specific service in a given area of the state. (This is not, as many Alaskans believe, a requirement that insurers pay 80 percent of the billed charges.)

Critics like Whitfield and others think the rule may be contributing to soaring

healthcare spending, partly because providers could increase their charges over time—and insurance payments would have to keep pace. In fact, evidence of this is spelled out in a May 2018 study entitled "How the 80<sup>th</sup> Percentile Rule Affected Alaska's Health Care Expenditures." The executive summary states: "Spending for healthcare in Alaska increased from \$1.5 billion in 1991 to \$4.8 billion in 2005 and \$8.2 billion by 2014... The average annual increase in spending from 2005 through 2014 was \$376 million, and the 80<sup>th</sup> percentile rule accounted for anywhere from 8 percent to nearly 25 percent of that annual growth." The study was prepared for the Alaska Office of Management and Budget by the Institute of Social and Economic Research and Department of Economics and Public Policy at the University of Alaska Anchorage.

The Alaska Legislature is considering a bill that addresses this issue, SB129. The bill would repeal the 80<sup>th</sup> percentile rule for determining "usual and customary" charges. In February SB129 was referred for review to the Labor and Commerce and Finance committees, and the outcome of the proposed legislation is pending.

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