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Alaska's Individual Health Care Insurance Market

The cost of health care is very high in Alaska, and access is limited compared to other states, particularly for specialty services. Low population density and limited healthcare provider and facility competition in much of Alaska are primary contributors to Alaska's high health care costs. With a population of 738,432 spread across 570,641 square miles, Alaska has a small population and is the largest and one of the most geographically isolated states in the nation.

Access to care has long been a challenge in Alaska due to its large geographic size, rural population, and insufficient health care provider competition. Because of these challenges, common managed care practices such as legislated network adequacy levels, closed network plans, and the development of Health Maintenance Organizations have not been successful. Alaska has among the highest cost of health care in the nation; correspondingly, Alaska also leads the states in the cost of health care insurance and workers' compensation insurance.

As intended, the Affordable Care Act's individual mandate increased health care insurance enrollment in Alaska. Prior to the ACA's enactment in 2014, Alaska's uninsured population was estimated at approximately 134,000 residents, mostly non-elderly adults. After two years of expanded ACA enrollment opportunities, the number of uninsured residents in Alaska was estimated to be approximately 100,000 people.

However, the unintended consequence was that the already high cost of health insurance in Alaska increased even further. Many Alaskans who do not qualify for the Advanced Premium Tax Credits or subsidies are unable to afford plans offered in the individual market. According to data from the Division of Insurance and the Department of Health and Human Services, as reported by the Office of the Assistant Secretary for Planning and Evaluation in May 2017, premiums in the individual market in Alaska have increased by 203 percent since 2013, the year before the ACA was enacted. On average, the increase means that an Alaskan in the individual market who was paying a monthly premium of $344 per month in 2013 is paying $1,041 per month in 2017.

The high costs do not only affect those in the individual market. Participants in group markets are not eligible to receive the subsidies or tax credits available to those in the individual market. Even though many Alaskans are covered by employer-sponsored plans, employer contributions typically only apply to the employee's premiums; costs to dependents are still prohibitive. Therefore, many Alaska families in the group market are unable to afford employer-sponsored insurance.

The Alaska Reinsurance Program Stabilizes Rates

To address the critical situation and stabilize the volatile market, last year the Division of Insurance worked with Governor Bill Walker to develop the Alaska Reinsurance Program (ARP).

The legislation (HB 374) received overwhelming bi-partisan support from the 29th Alaska Legislature.

The ARP is intended to provide stability to the individual health insurance market, mitigating rate increases by removing high cost claims from the individual health market. By removing high cost conditions from the risk pool, the benefits of the ARP are shared by the entire individual health insurance market regardless of income, age, race and ethnic group, or any other demographic characteristic.

As anticipated, the program had an immediate impact on the rates in the individual market. Prior to the enactment of the ARP, indications were that the rate filing from the single insurer in Alaska's individual market would include an increase of close to 40 percent. After the enactment of the ARP, however, the 2017 individual rates had a moderate average increase of just over seven percent. Still, it should be noted that Alaskans who had to switch insurers because their carrier left the market in 2017 experienced increases of over 35 percent from what they were paying in 2016.

Actuarial modeling indicates that the ARP will continue to help reduce the rates necessary for insurers in the Alaska individual market and thus the premium amounts charged to Alaskans. The slowing of the growth of rate increases (and potential for rate decreases) due to the ARP may also draw additional Alaskans into the market. Independent analysis estimates the ARP will increase enrollment in the individual market by nearly 1,650 individuals relative to what enrollment would be absent the program. Modeling also indicates that the ARP may attract healthier members to the individual market, further reducing premium rates.

Additionally, there is potential that the ARP will encourage competition in the state's insurance market. In 2014, Alaska had three national insurers and one regional insurer participating in the individual market. In 2015, two insurers departed the Alaska market, cutting the number of insurers in half. In 2016, the insurer covering approximately two-thirds of those enrolled in the individual market also exited the market, leaving only one insurer to serve Alaska's individual market in 2017. There is optimism that in subsequent years there may be interest from other insurers to provide health care plans if the market remains stabilized. If additional companies move into the Alaska individual market, consumers will benefit from natural market forces.

State Funding of the Alaska Reinsurance Program

Historically, like many other states, Alaska had a high-risk pool to provide access to health insurance to those who were unable to purchase insurance in the commercial market because of pre-existing conditions. Unlike many other states, however, Alaska did not dissolve the pool when the ACA was enacted because there were a few hundred people that purchased Medicare supplement policies, which are not sold in Alaska by a commercial insurer. The Alaska

Comprehensive Health Insurance Association (ACHIA) is financed by an assessment on health insurers in the market and the State of Alaska.

HB 374 amended current statute, expanding the responsibilities of ACHIA to include the ARP. The ARP legislation also appropriated $55 million from various premium taxes to stabilize the health insurance market in 2017. Before being appropriated, these taxes would have been forwarded to the state's general fund and used for other obligations of the state, including matters such as education, economic development, infrastructure, and public safety.

Alaska is using the funds to reimburse the one insurer in the individual market for incurred claims from high-risk residents. The high-risk residents are defined as people who have been diagnosed with one or more of the covered conditions identified in regulation. The insurer still administers the claims; ACHIA receives the state funding, audits the claim requests, and upon acceptance of the claims, disburses the funds to the insurer on a periodic basis.

Due to the State of Alaska's ongoing fiscal concerns, the state legislature gave no assurances that the ARP would be funded beyond 2017, putting the sustainability of the ARP and the stabilization of Alaska's individual health insurance market in jeopardy if longer-term sources of funding were not identified.

Federal Support of the Alaska Reinsurance Program
In early January of 2017, Alaska submitted an application to the Department of Health and Human Services (Centers for Medicare and Medicaid Services) and the Department of Treasury (Internal Revenue Service) for a Section 1332 State Innovation Waiver. As authorized under the ACA, an innovation waiver allows state-by-state amendments within specific parameters. For instance, coverage must be at least as comprehensive and affordable as what existed prior to the waiver, the number of state residents covered must be comparable to the baseline without a waiver, and the scenario must not increase the federal deficit.

Alaska's application waived the requirement of a single risk pool and proposed that the federal government provide pass-through funds for a period of five-years to stabilize the ARP. The pass-through funding is based on the savings generated as a result of a reduction in the Advanced Premium Tax Credits (APTC). It is estimated that the ARP will save the federal government $51.6 million in APTC in 2018, relative to what the tax liability would have been absent the program.

Premium tax credits associated with the ACA will continue to be paid based on federal methodology, but the growth of such payments is slowed by the ARP. Independent actuarial analysis showed that the amount in APTC paid by the federal government to Alaskans was significantly reduced when the ARP went into effect in 2017:

Calendar Year	Baseline – No ARP	APTC with ARP	Difference

2017	$185,716,278	$185,716,278	$00
2018	$233,898,461	$182,260,689	$51,637,772
2019	$258,351,449	$202,372,542	$55,978,906
2020	$279,343,570	$219,162,267	$60,181,304
2021	$312,617,789	$247,210,983	$65,406,805
2022	$342,289,634	$272,477,673	$69,811,961

There was also difference in APTC paid during calendar year 2017, but the waiver is not applicable until 2018; the ARP is wholly funded by the State of Alaska in 2017.

In July, Governor Walker was notified that Alaska's waiver had been approved. Director Seema Verma's letter to the governor indicated that the state will receive an estimated $322,652,234 to fund the ARP over the next five years:

Calendar Year	Estimated Funding
2018	$48,362,287
2019	$61,536,998
2020	$65,716,251
2021	$71,177,767
2022	$75,858,931
TOTAL	$322,652,234

After the federal pass-through funds are accounted for, the state will be responsible for providing approximately 15 percent of the funding needed to stabilize the individual market through the ARP. In 2018, federal funds will cover $48,362,287 and state funds will cover $6,637,713 of the $55 million program costs.

Actuarial modeling shows that, at least in part due to the ARP, Alaska's 2018 premiums are expected to decrease by approximately 20 percent. While the premium decrease may not directly affect those currently receiving tax credits, Alaskans who do not receive federal tax credits will benefit from the premium reductions. Additionally, if federal funding of the Cost Sharing Reduction payments continues, the decrease could be as high as 25 percent, bringing the cost in the individual market back to within reach of many Alaskans.

The state will continue to pursue programs that would benefit Alaskans both in the individual and small group markets, possibly including a second Section 1332 State Innovation Waiver.

Need for Congressional and Administrative Action

The ACA was a well-intended piece of federal legislation that brought insurance to millions of Americans. The expectation was that as provisions of the ACA alleviated insurance underwriting restrictions that previously made it impossible for many people with pre-existing conditions to obtain insurance, millions of uninsured Americans with chronic or severe illnesses would become eligible for health insurance. Through mechanisms such as the Advanced Premium Tax Credits and Cost Sharing Reduction payments, low and moderate-income individuals who would otherwise not be able to pay monthly premiums would also be able to obtain health insurance. The insurance markets would be stabilized by the 3Rs—risk adjustment, reinsurance, and the risk corridor.

The idea was that millions would enroll and that the premiums generated would support the expenses of the whole. However, this well-intended fundamental concept failed in most states, forcing insurers to either withdraw from entire counties/states or increase the premiums in the individual market to a point that ACA plans were not affordable to consumers. The 3Rs had mixed impact on the markets and have not stabilized the ACA as they were intended to do, which has also led to some of the turbulence the health insurance markets are now facing.

As you consider congressional action to stabilize insurance premiums across the country in 2018 and beyond, I offer the following considerations from the perspective of the Alaska health insurance markets,

- We urge Congress not to disrupt health insurance markets, but instead to focus immediately on stabilization.
    - Rate fillings are to be approved next week. Any decisions made after the filings are approved could cause unintended, unfavorable disruptions to insurance markets.
    - Uncertainty destabilizes the market. Committing to funding Cost Sharing Reduction payments through at least 2019 will keep premium rates from increasing at an even higher rate.
    - The individual and employer mandates keep the markets stable. Eliminating the mandates would most likely result in fewer individuals participating in the market, resulting in a smaller health care pool and higher costs to all enrollees. Until a viable alternative is proposed on the national level or via state waivers, the mandates are necessary in the short term to keep markets stable.
- We support collaborative reforms, developed in consultation with state regulators, that strengthen markets with a goal of insurance not only being accessible but affordable.
    - Amendments to the ACA must be carefully vetted with state regulators to examine whether expectations of the states are reasonable and how the structure of potential programs may adversely impact states. Program costs should not be shifted to the states, creating undue financial burdens.
    - Programs that allow states to accommodate the unique needs of their residents, such as the Section 1332 State Innovation Waiver, are vital to the long-term stability of health insurance markets.
    - Further deliberation on the health insurance tax is needed. In particular, citizens of states like Alaska that already face extremely high health care costs may be unfairly penalized by the current structure of the Cadillac tax. Additionally, exempting insurers from the health insurance tax in counties/states served by only one insurer

may also be an effective way to increase choice/competition that will benefit citizens.
  - Consider continuing the navigator and assister programs. In rural areas of Alaska, insurance brokers are not always available. These programs reduce the number of uninsured citizens and maximize market participation.
  - A review of regulations may reveal some that are unnecessarily burdensome and costly to both medical providers and insurers.
- We are also interested in coordinated efforts with health care providers to address the underlying drivers of health care spending, considering all aspects including pharmaceuticals, air ambulance, in-patient, and outpatient. Last year, Alaska established a health care authority feasibility study to begin to look at cost controls. With the support of the federal government, a similar national effort could go a long way toward addressing the underlying market dynamics that are driving unsustainable increases in health care costs.

We are down to days to address the number of insurers, the cost, and the subsidies for 2018. Even under such extreme time constraints, as you consider congressional action to stabilize premiums to help people in the individual insurance markets, please make your decisions in a bi-partisan manner after thorough analysis. Any decision that you make, large or small, will affect access to health care insurance, an extremely important and deeply personal subject to all Americans.

My fellow insurance directors/commissioners and I are here to assist you in any way we can to help inform the difficult decisions before you.

Thank you.