

CS HB 290 (Version J)
Analysis of Change in Assessment Formula

Current Assessment Formula (AS 21.55)

AS 21.09.200 requires each insurer that writes insurance in the state to submit to the Director a financial statement using NAIC forms and instructions. This financial statement includes a report that shows the amount of health insurance premiums the insurer has written in Alaska.

An insurer is a member of Alaska Comprehensive Health Insurance Association (ACHIA) if it offers major medical insurance on an expense-incurred basis in Alaska. Major medical is defined as a health insurance contract or subscriber contract that provides benefits for hospital and medical care with potential lifetime maximum benefits of at least \$10,000. Major medical does not include a stop loss insurance policy, a fixed indemnity health insurance product, or a product with lifetime maximum benefits of less than \$10,000. However, if an insurer offers major medical insurance on an expense-incurred basis in Alaska, then all health insurance premiums offered by that insurer, including stop loss insurance, fixed indemnity and other non-major medical health insurance premiums would be assessed.

ACHIA members are assessed based on the amount of health insurance premiums they report in their annual financial statement as written in Alaska. An insurer's share of ACHIA assessment is its health insurance premiums written in Alaska in the base year divided by the total health insurance premiums written in Alaska by all ACHIA members in the base year.

For example, assume that only the following 7 insurers write the health insurance in Alaska as shown.

	Major Medical <u>Premiums</u>	Stop Loss <u>Premiums</u>	Other Non-Major Medical <u>Premiums</u>
Insurer1	5,000	0	1,500,000
Insurer2	0	0	5,000,000
Insurer3	150,000,000	0	70,000
Insurer4	15,000,000	0	0
Insurer5	0	3,000,000	0
Insurer6	400,000	300,000	0
Insurer7	0	100,000	300,000

In this example Insurer2, Insurer5, and Insurer7 would not be members of ACHIA and subject to assessment, since they have not written any major medical insurance.

Assessment shares would be determined as follows:

	Major Medical <u>Premiums</u>	Stop Loss <u>Premiums</u>	Other Non-Major Medical <u>Premiums</u>	Total <u>Premiums</u>	Assessment Share* %
Insurer1	5,000	0	1,500,000	1,505,000	.90
Insurer3	150,000,000	0	70,000	150,070,000	89.72
Insurer4	15,000,000	0	0	15,000,000	8.96
Insurer6	400,000	300,000	0	700,000	.42
				167,275,000	100.00

* Assessment share = Each member's total premium / total premium for all members

If the total ACHIA assessment required is \$3,000,000:

Insurer1 would pay	27,000	(.0090*3,000,000)
Insurer3 would pay	2,691,600	(.8972*3,000,000)
Insurer4 would pay	268,800	(.0896*3,000,000)
Insurer6 would pay	<u>12,600</u>	(.0042*3,000,000)
	3,000,000	

Proposed Assessment Formula (CS HB 290/J)

An insurer or self-insured entity is a member of ACHIA if it offers major medical insurance on an expense-incurred basis in Alaska. Major medical is defined to include stop loss insurance and exclude benefits such as dental, vision, accident, disability income and other benefits that are not true medical benefits. A self-insured employer that offers a major medical plan to their employees would be a member of ACHIA to the extent allowed under ERISA. This includes the State of Alaska, which is a governmental plan exempt from ERISA. Also, insurers that offer only stop loss insurance in Alaska would be members of ACHIA.

ACHIA members would be assessed on the number of lives they cover in Alaska under their major medical health plans instead of all health insurance premiums written in Alaska. Each member would be required to report the number of covered lives data to the director for purposes of determining the ACHIA assessment, because this information is not currently available.

Each member's share of the ACHIA assessment is the member's reported number of lives with major medical coverage in the base year divided by the total number of lives with major medical reported by all ACHIA members in the base year. Note that unlike the current assessment formula a member is assessed only on major medical coverage not other health coverage.

For example, assume that only the following 7 insurers write the health insurance in Alaska as shown.

	Stop Loss <u>Number of Lives</u>	Non-Stop Loss Major Medical <u>Number of Lives</u>
Insurer1	0	3
Insurer2*	0	0
Insurer3	0	65,000
Insurer4	0	6,500
Insurer5	11,000	0
Insurer6	200	150
Insurer7	350	0

*Insurer2 is not a member of ACHIA and therefore would not be assessed, since none of the coverage that Insurer2 wrote meets the definition of major medical.

Assessment shares would be determined as follows:

	Stop Loss <u>Number of Lives</u>	Non-Stop Loss Major Medical <u>Number of Lives</u>	<u>Total Number of Lives</u>	Share <u>%*</u>
Insurer1	0	3	3	0.00
Insurer3	0	65,000	65,000	78.12
Insurer4	0	6,500	6,500	7.82
Insurer5	11,000	0	11,000	13.22
Insurer6	200	150	350	.42
Insurer7	350	0	350	.42
			<hr style="width: 50%; margin-left: auto; margin-right: 0;"/> 83,203	<hr style="width: 50%; margin-left: auto; margin-right: 0;"/> 100

*Share % = Each insurer's total number of lives / total number of lives for all insurers

If the total assessment required is \$3,000,000:

Insurer1 would pay	0	(.0000*3,000,000)
Insurer3 would pay	2,343,600	(.7812*3,000,000)
Insurer4 would pay	234,600	(.0782*3,000,000)
Insurer5 would pay	396,600	(.1322*3,000,000)
Insurer6 would pay	12,600	(.0042*3,000,000)
Insurer7 would pay	12,600	(.0042*3,000,000)
	<hr style="width: 50%; margin-left: 0; margin-right: auto;"/> 3,000,000	

Estimated impact of change to ACHIA formula:

- This analysis uses the 2000 Health Insurance Survey Results, which may not include all members
- Under the current formula the estimated total premium base is **\$305,000,000**.
- Under the proposed covered lives formula in CS HB 290 (Version J) the estimated total covered lives base is **260,000**.
- Under the current formula each member's share of assessment is that member's total premium divided by \$305,000,000. Note that current formula would not include premiums from self-insured entities (such as State of Alaska) and insurers writing only stop loss insurance.
- Under the proposed covered lives formula each member's share of assessment is that member's total number of covered lives divided by 260,000.

Examples of estimated impact assuming a \$3 million ACHIA assessment:

<u>Member</u>	<u>Premium</u>	<u>Covered Lives</u>	<u>Share by Premium</u>	<u>Assessed Amount by Premium</u>	<u>Share by Covered Lives</u>	<u>Assessed Amount by Cov Lives</u>
Premera Blue Cross	153,000,000	65,000	50.16%	\$1,500,000	25.0%	\$750,000
State of Alaska	190,000,000	60,000	0.00%	\$0	23.0%	\$690,000
United of Omaha*	5,000,000	18,500	1.64%	\$49,000	7.1%	\$210,000
Union Labor*	2,800,000	14,500	0.93%	\$28,000	5.5%	\$165,000
AFLAC	4,400,000	14,500	1.44%	\$44,000	5.5%	\$165,000
Hartford Life & Acc*	2,300,000	9,700	0.75%	\$23,000	3.7%	\$111,000
Principal Life	18,000,000	6,700	5.90%	\$177,000	2.6%	\$78,000
Aetna	18,000,000	6,500	5.90%	\$177,000	2.5%	\$75,000
Hartford Fire*	700,000	4,200	0.00%	\$0	1.6%	\$48,000

* Stop loss Insurers

AFLAC writes low premium limited benefit health insurance products that meet the new proposed definition of major medical such as certain medical expense, hospital expense and cancer coverage.

In this example "State of Alaska" does not include employees covered under union trust plans. Number of covered lives for union trust plans that purchase stop loss insurance is included in their stop loss insurers' numbers. For example, "Union Labor" is the stop loss insurer for the GGU union trust plan.