AlaskaCare Retiree Health Plan

Proposal # and Title	Lifetime Maximum (R008)
Health Plan Affected	Defined Benefit Retiree Plan
Proposed Effective Date	January 1st, 2024
Reviewed By	Public Review
Next Review Date	May 12, 2023 – June 16, 2023

Contents

1) BACKGROUND 2
2) GOALS AND OBJECTIVES 5
3) SUMMARY OF PROPOSED CHANGE 5
- Option 1: Lifetime Maximum Increased to $8 million 5
- Option 2: Lifetime Maximum Removed 6

4) ANALYSIS 6
5) IMPACTS 7
- Actuarial Impact to AlaskaCare | Increase 7
- Financial Impact to AlaskaCare| | Cost Increase 7
- Member Impact | Enhancement 9
- Operational Impact (DRB)| Neutral 10

Operational Impact (TPA) | Neutral 10
- Provider Impact | Minimal 10

6) CLINICAL CONSIDERATIONS 10
7) IMPLEMENTATION AND COMMUNICATION OVERVIEW 10
8) PROPOSAL RECOMMENDATIONS 11

DRB Recommendation 11
RHPAB Board Recommendation 11
Commissioner of Administration Recommendation 11

9) PLAN LANGUAGE 11

1) Background

Current Lifetime Benefit Maximum Provisions

The lifetime maximum insurance benefit is the maximum dollar amount that AlaskaCare Defined Benefit Retiree Health Plan (Plan) will pay out during a member's lifetime for healthcare services.

The Plan currently contains a $2 million lifetime maximum described below and found in section *3.1.5 Lifetime Maximum* of the Defined Benefit AlaskaCare Retiree Insurance Information booklet.

> *"The maximum lifetime benefit for each person for all covered medical expenses is $2,000,000.*
>
> *At the end of each benefit year, up to $5,000 of medical benefits used is automatically restored regardless of your physical condition. If you have received more than $5,000 of covered medical benefits, your full annual spent maximum may be restored when you submit proof of good health satisfactory to the claims administrator within the following year. This provision will not provide benefits for covered expenses incurred before the date the maximum is restored."*[1]

Prescription drug expenses billed through the pharmacy plan do not count toward the lifetime maximum. However, medical pharmacy expenses, such as injections or other prescription medications provided when a member is an inpatient at the hospital, are counted toward the lifetime maximum. Beginning on January 1, 2023, the cost of Gene-based, Cellular, and other Innovative Therapies (GCIT) products obtained through the medical claims administrator's GCIT Designated Network program does not accrue towards the plan's lifetime maximum.[2]

Once a member becomes Medicare-eligible, the Plan becomes supplemental to Medicare.[3] Claims costs are then limited by Medicare's fee schedule, and the Plan's responsibility is limited to amounts not covered by Medicare. Any amount paid by the Plan continues to accrue to a member's lifetime maximum, however the majority of their expenses are covered by Medicare, typically leaving a much smaller amount to be considered by AlaskaCare.

Lifetime Maximum History

The lifetime maximum provision currently in the plan represents an increase from the initial plan provision which set the limit at $250,000. In 1985, the $250,000 lifetime max was increased to $1 million, and in 1999 it was increased again to the present limit of $2 million.

---

[1] https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

[2] Retiree Insurance Information Booklet, *Section 3.3.26 Gene-based, Cellular, and other Innovative Therapies (GCIT)*, January 2023. pg. 71-72. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

[3] Retiree Insurance Information Booklet, *Section 3.1.7 Effect of Medicare*, January 2023. pg. 21-22. https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf

A lifetime maximum provision of $2 million may have been sufficient to cover most individuals' medical care over 20 years ago, however it is now causing serious hardship for a small but growing number of members. Removing or increasing the lifetime maximum would represent a valuable gain for members with chronic and catastrophic conditions. If the current lifetime maximum had adjusted in keeping with inflation, based solely on the Consumer Price Increase for All Urban Consumers (CPI-U) for Medical Services, then it would have increased by approximately 220% to $4.4 million based on inflation from 1999 to 2022.[4] This estimation does not account for cost pressures specific to Alaska.

In 2009, the Patient Protection and Affordable Care Act (PPACA) required most health plans to remove any lifetime maximum, and as a result these provisions are becoming increasingly uncommon in health plans. There are very few group plans remaining with similar limits on lifetime benefits due to the Affordable Care Act, these are limited to retiree only plans.

On June 17, 2010, the Internal Revenue Service, U.S. Department of Labor, and U.S. Department of Health and Human Services issued joint interim final regulations clarifying that stand-alone retiree plans are exempt from the insurance mandates of PPACA. Thus, the State's retiree health plan is excluded from the ACA insurance mandates, including the prohibition of lifetime maximums.

The Defined Contribution Retiree Health Plan does not have a lifetime benefit maximum. The AlaskaCare Employee Health Plan was not initially subject to the ACA insurance requirements due to having grandfathered status. However, the employee plan forfeited grandfathered status in 2015 and eliminated the lifetime maximum at that time. A number of other changes were made to the employee plan at the same time, such as direct contracting with Regional Hospital and preventive care coverage, which makes determining the impact of just the removal of the lifetime maximum difficult to determine. However, this change did not threaten the employee plan's solvency.

Options for Members Approaching or Reaching the Lifetime Maximum

The impact of the current lifetime maximum limit varies depending on a member's individual circumstances. A major factor that will determine the severity of the impact is whether the member is eligible for Medicare.

Medicare Members

Members with Medicare as their primary coverage who have reached the AlaskaCare lifetime maximum can still receive coverage for their health care services through Medicare. Medicare does not have a lifetime maximum limit on benefits. If the member uses services that Medicare covers, and the services are deemed to be medically necessary, they can continue to use as

[4] *Removal of the Retiree Plan Lifetime Maximum – Focus on Actuarial and Financial Impact for the Retiree* Plan (Updated), Segal Consulting memo dated January 9, 2023.

many as needed, regardless of the cost accumulated, in any given year or over a lifetime. Their secondary AlaskaCare coverage will still be limited by the lifetime maximum, but their Medicare coverage will continue.

Non-Medicare Members

Members not eligible for Medicare who are facing extraordinarily high health care costs are disproportionately impacted by the current lifetime maximum as they do not have guaranteed access to other health insurance the way Medicare-eligible members do.

Options for members who are not eligible for Medicare are limited to the following:

1. Medicaid - for those who meet certain eligibility or income thresholds.[5]
2. Federally Facilitated Marketplace - members may qualify for coverage and enroll during a special enrollment period; but the $5,000 reinstatement creates complexity for members requiring special approval and/or review.
3. Alaska Comprehensive Health Insurance Association (ACHIA)[6] – this has been a resource for some members who have reached their lifetime maximum. Premiums range depending on age and the deductible selected. In 2023, an individual who is 60 years of age would have a monthly premium of $2,876 for a plan with $1,000 deductible and $1,106 for a plan with a $15,000 deductible.[7]

An unintended consequence of the $5,000 annual reinstatement provision is that even after a member reaches their lifetime maximum, they are considered by other plans to have insurance which meets minimum essential coverage provisions limiting their ability to qualify for other forms of insurance. Because of this, some members who have met their lifetime maximum but who are not yet Medicare eligible may not be able to access other health coverage options.

Even members who have not reached their lifetime maximum may be impacted by the lifetime maximum provision. The Division is aware of at least one circumstance where providers have withheld care or delayed treatment until the member comes up with enough monetary deposit because they are concerned the recommended treatment course will exceed the remainder of their plan benefit despite having over $1 million left.

Another individual has indicated he must delay a necessary procedure for 2 years, until he reaches Medicare eligibility, because his remaining plan benefits are not sufficient to cover the service.

---

[5] Alaska Department of Health and Social Services [DHSS], Division of Public Assistance, Medicaid Eligibility Standards: http://dpaweb.hss.state.ak.us/POLICY/PDF/Medicaid-Standards.pdf
[6] Alaska Comprehensive Health Insurance Association [ACHIA]: http://www.achia.com/premiums.asp
[7] ACHIA 2023 Monthly Individual Premiums Rates: https://www.achia.com/docs/ACHIA%202023%20Non-Medicare%20Premium%20Rates.pdf

Often, members are not necessarily aware of the lifetime maximum plan provision and retire confident that they have health insurance for themselves and their dependents for the remainder of their lives. When they do reach the maximum, they are generally extraordinarily sick and highly vulnerable.

2) Goals and Objectives

1. Ensure members retain access to health insurance during a catastrophic health event.
2. Implement strategies to prudently utilize the funds that support the AlaskaCare Retiree Health Plan.

3) Summary of Proposed Change

This proposal considers two options. The first is to increase the lifetime maximum to $8 million and remove the reinstatement of benefits provisions related to the lifetime maximum. The second is to remove the lifetime maximum limit. A change implemented under either option would be prospective from the effective date, and would not be applied retroactively. Claims incurred prior to the effective date of the change will not be adjusted.

The Division also reviewed increasing the lifetime maximum to $4.4 million, which is equivalent to an inflationary increase since the lifetime maximum was last updated. This option is not being put forward in favor of the two options listed below.

Option 1: Lifetime Maximum Increased to $8 million

Coverage for all members, including those who have already reached the current $2 million lifetime maximum benefit, would be updated to reflect the new $8 million limit, and the annual reinstatement provision would be removed. The lifetime maximum would be reviewed by the Division at least every 5 years for indexing to the consumer price index (CPI) and any other information relevant to the evaluation. Any future changes to the lifetime maximum would not be automatic, but would be evaluated after such a review. An $8 million limit reflects a value that is roughly equivalent to the financial impact of removal of the lifetime maximum and maintains some cost control measures for the plan.

The annual $5,000 reinstatement provisions would be removed to eliminate the complication it causes members around minimum essential coverage provisions limiting their ability to qualify for other forms of insurance. If a member were in the plan for 30 years, they could potentially have $150,000 reinstated, which is a significantly smaller amount than the $6 million increase in the lifetime maximum, which would therefore be an enhancement.

The retiree plan annual individual out-of-pocket maximum, benefit maximums and other cost sharing provisions would remain unchanged. Pharmacy benefits do not accumulate toward the lifetime maximum and would not be impacted by this change.

Option 2: Lifetime Maximum Removed

Coverage for all members, including those who have already reached the current $2 million lifetime maximum benefit, would be updated to reflect the removal of the lifetime maximum. The annual reinstatement provisions would no longer be needed.

The retiree plan annual individual out-of-pocket maximum, benefit maximums and other cost sharing provisions would remain unchanged. Pharmacy benefits do not accumulate toward the lifetime maximum and would not be impacted by this change.

4) Analysis

While the number of individuals impacted by the existing lifetime maximum is small (see member impact below); those who are impacted find themselves without an avenue for affordable health insurance at an extremely vulnerable time. Without a change to this plan provision, it is likely that an increasing number of individuals will reach the lifetime maximum given the growing cost of health care and advances in medical technology.

This is a priority item for the Division, which sees the devastating impacts on members approaching their lifetime maximum. More members are reaching the lifetime maximum due to the significant growth of health care costs over the past decade. The growth in health care costs is due to a variety of factors including access to new technological advancements. These medical advancements bring relief to patients, but plan sponsors have a fiduciary responsibility to ensure that they are properly used and prudently reimbursed. Targeted programs intended to manage costs and incentivize quality care (*e.g.*, the GCIT designated network program for complex, high-cost therapies implemented in the Plan in January 2023) are an important tool to protect the Plan against ballooning costs, while at the same time providing access to necessary medical treatments.[8]

An increase or the removal of the lifetime maximum may ease the financial barriers to health care that members experience once the current $2 million maximum is reached, potentially improving their clinical outcomes. Lack of health insurance coverage or high out of pocket costs may negatively affect health[9] and lead members to delay or forgo needed care. However, it is likely that most members exceeding this cost threshold have very serious, critical health issues.

Any fixed amount lifetime maximum will impact more members over time, as costs continue to increase. Predicting future claims activity for individuals can be challenging given the limited information on health risks and current treatment plans for each individual.

---

[8] Ibid.

[9] Institute of Medicine (U.S.) Committee on Health Insurance Status and Its Consequences. (2009). *America's uninsured crisis: Consequences for health and health care*. National Academies Press.

5) Impacts

It is important to note that the true value of this benefit enhancement will vary and fluctuate annually, potentially to a substantial degree. Even with over 70,000 members, the claims data are not a credible source for the analysis, given the relatively small number of individuals who currently reach the lifetime maximum limit.

Actuarial Impact to AlaskaCare | Increase

Decrease | Neutral | Increase

The actuarial impact of this proposal will vary depending on the option selected for implementation. These impacts are discussed in the attached Segal Consulting memorandum.[10]

Table 1. Actuarial Impact

Option	Actuarial Impact
Option 1: Lifetime Maximum Increased to $8 million	0.35% increase
Option 2: Lifetime Maximum Removed	0.40% increase

Financial Impact to AlaskaCare| | Cost Increase

Decrease | Neutral | Increase

Projected Annual Financial Impact

The annual financial impact of this proposal will vary depending on the option selected for implementation and may deviate from the projected impacts below depending on actual claims experience. Because a relatively small number of members are likely to be impacted when compared to the total membership, it is difficult to use past claims data to predict future experience.

The impact to the plan will also vary depending on whether members with claims over $2 million are eligible for Medicare or not. The Plan pays secondary to Medicare for more than 70% of members currently, with the expectation that this percentage will continue to grow as the group is aging at a rate greater than that for new retirements. Medicare pays roughly 80% of all medical costs, which includes more routine cases as well as high-cost treatments and technologies. This provides protection for the Plan against expected market trend increases as well as increases associated with medical advancements.[11]

The projections outlined in Table 2 below are based on the retiree medical and pharmacy claims projection of $646,600,000 for 2023 (as of September 2, 2022) and trended forward at 6% to $685,400,000 for 2024 and are discussed in the attached Segal Consulting memorandum.[12]

---

[10] *Removal of the Retiree Plan Lifetime Maximum – Focus on Actuarial and Financial Impact for the Retiree* Plan (Updated), Segal Consulting memo dated January 9, 2023.

[11] Ibid.

[12] Ibid.

Table 2. Annual Financial Impact

Option	Financial Impact
Option 1: Lifetime Maximum Increased to $8 million	$2.40 million annual increase
Option 2: Lifetime Maximum Removed	$2.74 million annual increase

Projected Long-Term Financial Impact

The cost increase associated with the proposed benefit alteration may have long-term impacts to the healthcare Actuarial Accrued Liability (AAL) [13] and to the Additional State Contributions (ASC)[14] associated with the Plan.

Because the financial impact to the plan will vary depending on whether individuals with claims over $2 million are enrolled in Medicare or are not yet Medicare-eligible, the future cost projections contemplate two scenarios:

- 10% of the cost impact attributable to Medicare members / 90% attributable to non-Medicare members.
- 20% of the cost impact attributable to Medicare members / 80% attributable to non-Medicare members.

In an illustrative example, the tables below summarize the estimated increase in healthcare AAL for the Public Employees Retirement System (PERS), Teachers Retirement System (TRS), and Judicial Retirement System (JRS) combined and the estimated increase in the ASC for FY25. These estimates, along with the projected impact on the ASC through 2039 if this change had been reflected in the June 30, 2022, valuations are discussed in the attached Buck memorandum.[15] Each of the implementation options and Medicare impact scenarios described above are considered in these projections.

It is important to note that the June 30, 2022 valuations and FY25 contribution rates (which determine the FY25 ASC) have not yet been formally approved by the Alaska Retirement Management Board (Board). The June 30, 2022 valuation results are expected to be approved during the June 2023 Board meeting, and the FY25 contribution rates will be adopted during the September 2023 Board meeting. Impacts are also shown as a percentage increase/(decrease).[16]

The projected healthcare AAL for the defined benefit retiree systems combined (PERS, TRS, and JRS) as of the June 30, 2022, valuation is $9,117.7 million. Under impact scenarios contemplated if the Plans' lifetime maximum benefit was eliminated or increased, the illustrative impact on the AAL is an increase between $22.9-29.3 million, or by 0.25-0.32%.

---

[13] AAL: The health Actuarial Accrued Liability is equal to the total accumulated cost to fund the postemployment benefits arising from service in all prior years.
[14] Employer contributions to retirement payments were capped in FY08. Since then, the state makes additional assistance contributions to help cover the accrued unfunded liability associated with participating employers.
[15] *Impact of Potential Increase or Elimination of Lifetime Maximum for AlaskaCare Retiree Health Plan,* Buck Consulting Memo dated March 3, 2023.
[16] Ibid.

Table 3. FY22 Healthcare AAL Illustrative Impact on Combined PERS/TRS/JRS DB if Lifetime Maximum ("LTM") Increased ($ millions)

Lifetime Maximum (LTM) Scenario		Current Healthcare AAL for Combined DB as of 6/30/2022	Illustrative Increase in 6/30/2022 AAL	Illustrative % Increase in 6/30/2022 AAL
1	$8 million	$9,117.7	$22.9	0.25%
2	$8 million	$9,117.7	$25.6	0.28%
3	Unlimited	$9,117.7	$26.5	0.29%
4	Unlimited	$9,117.7	$29.3	0.32%

The ASC is a mechanism for the State to provide payment assistance to participating employers' Actuarially Determined Contribution (ADC). The ADC is determined by adding the normal cost[17] to the amount needed to offset the amortization of any existing unfunded accrued liability over a period of 25 years.

Under all impact scenarios contemplated, increasing or eliminating the plan's lifetime maximum benefit is expected to increase the calculated ASC associated with future healthcare costs by $300K or 0.06%.[18]

Table 4. FY25 Impact on Combined PERS/TRS/JRS DB Contributions if Lifetime Maximum ("LTM") Increased ($ millions)

Lifetime Maximum (LTM) Scenario		Pension and Healthcare Current FY25 Contributions for Combined DB	Illustrative Increase in FY25 Additional State Contributions	Illustrative % Increase in FY25 Contributions
1	$8 million	$486.9	$0.3	0. 06%
2	$8 million	$486.9	$0.3	0. 06%
3	Unlimited	$486.9	$0.3	0. 06%
4	Unlimited	$486.9	$0.3	0. 06%

The illustrative increase to the FY25 ASC is associated with the normal cost only. The current overfunded status of retiree health care liabilities has eliminated the immediate need for amortization payments to offset any health care unfunded liability. It is important to note the that long-term funded status of the trusts is subject to change in response to market volatility and many other factors.

Member Impact | Enhancement

An increase to or the removal of the lifetime maximum would provide financial relief and continued health coverage for members who have met or are approaching the current lifetime limit. This change would also provide additional reassurance that future health care costs will be covered for members who are not currently approaching the lifetime maximum.

[17] The normal cost represents the present value of benefits earned by active employees during the current year.
[18] The increases are the same for all scenarios due to rounding.

AlaskaCare retiree plan members who are at or near the lifetime maximum as of Quarter 1 of 2023:

- **Between $1.5-$1.7 Million**: 11 members
- **Between $1.7-$1.9 Million**: 4 members
- **Above $1.9 Million**: 16 members
    - 6 are under $2 million
    - 10 have reached $2 million

It is unknown exactly how many members have reached this maximum limit over the lifetime of the plan, as the records for individuals who have "termed," or who are no longer covered by the plan, are not retained in perpetuity.

Operational Impact (DRB)| Neutral

Decrease | Neutral | Increase

Operational impact to the Division will be minimal. The Division will follow the standard process for making plan changes per 2 AAC 39.390 and provide direction to the Third-Party Administrator to implement the change and ensure members are reinstated. Once the implementation activities are complete the Division does not anticipate any additional operational impact.

Operational Impact (TPA) | Neutral

Decrease | Neutral | Increase

An increase in or the removal of the lifetime maximum provision will bring the retiree health plan in-line with other, mainstream, health plan provisions and will require less effort for the TPA once the initial change is completed. The TPA will need to assist in identifying and informing members who would benefit from having their plan benefits reinstated and will need to update the claim adjudication processes and systems to update the lifetime accumulators. These activities will be a one-time effort that should not require significant work by the TPA.

Provider Impact | Minimal

Provider impact is estimated to be both minimal and positive as this removes a potential barrier to care for their patients.

6) Clinical Considerations

An increase in or the removal of the lifetime maximum will ease existing impediments to care that members experience potentially improving their clinical outcomes; however, it is likely that most members exceeding this cost threshold have very serious, critical health issues.

7) Implementation and Communication Overview

Division staff will follow the standard process for making changes to the Defined Benefit retiree plan, which includes completion of the following:

- Proposal analysis and stakeholder input
- Plan Amendment
- Public comment periods
- Commissioner of Administration determination
- Updates to the Retiree Insurance Information Booklet
- Education outreach to benefit recipients

8) Proposal Recommendations

DRB Recommendation

The Division recommends/does not recommend implementation of Option XX

RHPAB Board Recommendation

The RHPAB board voted on ##/##/## to recommend/not to recommend Option XX

Commissioner of Administration Recommendation

The plan administrator made the determination on ##/##/## to recommend/not recommend implementation of Option XX

Description	Date
Proposal Drafted	08/10/2018
Reviewed by Modernization Subcommittee	08/10/2018, 09/28/2018, 10/30/2018, 04/23/2019, 06/12/2019, 01/04/2023
Reviewed by RHPAB	08/29/2018, 11/28/2018, 02/06/2019, 05/08/2019, 08/07/2019, 02/09/2023, 05/04/2023

9) Plan Language

January 2023 Plan Booklet Language	Proposed Plan Booklet Language
3.1.5 Lifetime Maximum The maximum lifetime benefit for each person for all covered medical expenses is $2,000,000. At the end of each benefit year, up to $5,000 of medical benefits used is automatically restored regardless of your physical condition. If you have received more than $5,000 of covered medical benefits, your full annual spent maximum may be restored when you submit proof of good health satisfactory to the claims administrator within the following year. This provision will not provide benefits for covered expenses incurred before the date the maximum is restored. EXAMPLE: Assume you have used $3,000 of medical benefits during the year and your lifetime benefit is decreased to $925,000. At the end of the year, the $3,000 would be restored and your maximum lifetime benefit available would be $928,000. If you had used $6,000 of medical benefits, your maximum lifetime benefit would be reset to $930,000, unless you submitted proof of your good health and were approved for a full reinstatement.	TBD – Depending on which Option is selected for implementation

Richard Ward, FSA, FCA, MAAA
West Region Market Director, Public Sector
T 956.818.6714
M 619.710.9952
RWard@Segalco.com

500 North Brand Boulevard
Suite 1400
Glendale, CA 91203-3338
segalco.com

Memorandum

To: Ajay Desai, Director, Division of Retirement and Benefits

From: Richard Ward, FSA, FCA, MAAA

Date: January 9, 2023

Re: Removal of Retiree Lifetime Plan Maximum – Focus on Actuarial and Financial Impact for the Retiree Plan *(Updated)*

The State currently provides retiree coverage up to a lifetime maximum of $2,000,000, with an annual $5,000 reinstatement once the limit is reached.

The Plan applies the general benefit provisions, such as deductible, coinsurance and out-of-pocket limits, to determine any portion of the costs that are the member's responsibility. If the member has additional coverage, such as Medicare or other employer provided coverage, any portion of the costs covered by that plan is also considered. Below is a table outlining the current benefits offered under the Plan:

Deductibles	
Annual individual / family unit deductible	$150 / up to 3x per family
Coinsurance	
Most medical expenses	80%
Most medical expenses after out-of-pocket limit is satisfied	100%
Second surgical opinions, Preoperative testing, Outpatient testing/surgery • No deductible applies	100%
Out-of-Pocket Limit	
Annual individual out-of-pocket limit • Applies after the deductible is satisfied • Expenses paid at a coinsurance rate other than 80% do not apply against the out-of-pocket limit	$800
Benefit Maximums	
Individual lifetime maximum • Prescription drug expenses do not apply against the lifetime maximum	$2,000,000
Annual reinstatement once lifetime maximum is reached	$5,000
Individual limit per benefit year on substance abuse treatment without precertification. Subject to change every three years	$12,715
Individual lifetime maximum on substance abuse treatment without precertification. Subject to change every three years	$25,430

Prescription Drugs	Up to 90 Day or 100 Unit Supply	
	Generic	Brand Name
Network pharmacy copayment	$4	$8
Mail order copayment	$0	$0

Actuarial Value

We reviewed claims data through mid-October 2022 provided by Aetna for retirees over and under 65 who are currently active on the plan and identified:

- 30 claimants with claims totaling over $1.5 million
- 17 claimants with accumulated claims over $1.70 million; and
- 10 claimants with at least $1.99 million

Any fixed amount lifetime maximum will impact more members over time, as costs continue to increase.

Predicting future claims activity for individuals can be challenging given the limited information on health risks and current treatment plans for each individual. The true value of this benefit enhancement will likely vary and fluctuate annually, potentially to a substantial degree. Even with over 70,000 members, the claims data are not a credible source for the analysis, given the relatively small number of occurrences.

Based on information provided by the State, the initial plan provisions set the limit at $250,000 before an increase in 1985 to $1 million and another increase 1999 to the current amount of $2 million. If the lifetime maximum was increased based solely on the Consumer Price Increase for All Urban Consumers (CPI-U) for Medical Services, then it would have increased by approximately 220% to $4.4 million based on inflation from 1999 to 2022.

However, this would not necessarily account for the unique inflationary pressures for Alaska and may by understated. Additionally, on a forward-facing basis there are increasingly more expensive treatments, such as gene therapy, that may have more total charges than the current lifetime maximum.

As these treatments emerge, it is anticipated there will be targeted programs available in the industry to manage costs for quality care. A recent example is the gene therapy center of excellence (COE) network developed by Aetna. It would be prudent for the Division to continue to evaluate and consider targeted programs and options as they become available in the industry in order to manage the high costs associated with certain specialized treatments, while still providing access to high quality care.

There are very few group plans remaining with similar limits on lifetime benefits. Due to the Affordable Care Act, these are limited to retiree only plans. The trend we observe in the market is to remove these lifetime limits. The cost differential between increasing the limit and removing the limit is generally considered to be relatively minor, and provides additional coverage for members with the greatest needs.

Due to the challenges regarding analyzing removing the lifetime maximum using the State's data, our updated analysis utilizes the Optum Comprehensive Benefit Pricing Model[1], along with the previously completed work using the Apex Actuarial Rate Modeling System[2], to determine the impact of removing the lifetime maximum as well as increasing the maximum to different levels. The model was calibrated to account for the current membership's demographics, geography, and overall cost structure. Our results are representative of the average anticipated increase for a typical year under typical circumstances.

There are a few distinct types of options available:

- Eliminate the Lifetime Maximum
- Increase the Lifetime Maximum to another fixed amount
- Incorporate an indexing element that provides a market benchmark used to assess a fixed amount into the future.

This third option was recently discussed by the Retiree Health Plan Advisory Board's (RHPAB) Modernization Committee. This approach would review the Lifetime Maximum every five years against the accumulated increase in the Consumer Price Increase for All Urban Consumers (CPI-U) for Medical Services.

At the Division's request, we have modeled an $8,000,000 Lifetime Maximum subject to this every-five-year review. For reference, the annual CPI-U increase from 1999 to 2022 was approximately 3.5%. Over a five-year period, this accumulates to an 18.8% increase, or an increase from $8,000,000 to $9,500,000.

The following table summarizes the impact of this option, and three additional options:

New Lifetime Maximum	**Impact on Actuarial Value**
$4,000,000	0.25%
$8,000,000	0.35%
$8,000,000 (indexed by medical CPI)	0.38%
Unlimited	0.40%

The impact on actuarial value is determined based on the average aggregate impact to a given year and is therefore the effect over the long-term. The annual impact on plan experience may vary based on large claim activity and the introduction of new technologies and medical advancements.

The Plan pays secondary to Medicare for more than 70% of members currently, with the expectation that this percentage will continue to grow as the group is aging at a rate greater

[1] The Optum Comprehensive Benefit Pricing Model provides comprehensive plan design and rate modeling capabilities and is widely utilized throughout the industry by insurance carriers and consulting actuaries. Segal held an annual license to utilize this model at the time the analysis was conducted.

[2] The Apex Actuarial Rate Modeling System provides comprehensive plan design and rate modeling capabilities and is widely utilized throughout the industry by insurance carriers and consulting actuaries. Segal held an annual license to utilize this model at the time the analysis was conducted.

than that for new retirements. Medicare pays roughly 80% of all medical costs, which includes more routine case as well as high cost treatments and technologies. This provides protection for the Plan against expected market trend increases as well as increases associated with medical advancements.

Financial Impact

The financial impact is based on the most recent retiree medical and pharmacy claims projection of $646,600,000 for 2023 (dated September 2, 2022), and trended forward at 6% to $685,400,000 for 2024.

The following table summarizes the impact for the same four options:

New Lifetime Maximum	Annual Financial Impact
$4,000,000	$1,710,000
$8,000,000	$2,400,000
$8,000,000 (indexed by medical CPI)	$2,400,000
Unlimited	$2,740,000

The Annual Financial Impact is based on the projected 2024 claims costs and considers the benefit design that would be in place for 2024. For purposes of this analysis the Lifetime Maximum would be $8,000,000 in the indexed scenario for 2024 and, therefore, the projected financial impact will be the same in 2024 as for the scenario with the same, but not indexed, Lifetime Maximum.

Over the long-term, however, the financial impact of the indexed $8,000,000 Lifetime Maximum would be very close to removing the Lifetime Maximum completely.

Additional Notes

The data used for this analysis was reviewed, but not audited, and found to be sufficient and credible.

The above projection is an estimate of future cost and is based on information available to Segal at the time the projection was made. Segal has not audited the information provided. A projection is not a guarantee of future results. Actual experience may differ due to, but not limited to, such variables as changes in the regulatory environment, local market pressure, change in demographics, overall inflation rates and claims volatility. Projection of retiree costs takes into account only the dollar value of providing benefits for current retirees during the period referred to in the projection. It does not reflect the present value of any future retiree benefits for active, disabled, or terminated employees during a period other than that which is referred to in the projection, nor does it reflect any anticipated increase in the number of those eligible for retiree benefits, or any changes that may occur in the nature of benefits over time.

The Coronavirus (COVID-19) pandemic continues to evolve and will likely continue to impact the 2022 and 2023 US economy and health plan claims projections for most Health Plan Sponsors. Unanticipated changes in the pandemic may impact the retirees' ability to utilize this program and result in experience that deviates from these projections.

cc: Betsy Wood, Division of Retirement and Benefits
Andrea Mueca, Division of Retirement and Benefits
Noel Cruse, Segal
Eric Miller, Segal
Quentin Gunn, Segal

March 3, 2023

Ms. Betsy Wood
Acting Chief Health Administrator
Division of Retirement and Benefits
State of Alaska
P.O. Box 110203
Juneau, AK 99811-0203

Impact of Potential Increase or Elimination of Lifetime Maximum for AlaskaCare Retiree Health Plan

Dear Betsy:

As requested, we have estimated the impact of the following changes that are being considered for the AlaskaCare Retiree Health Plan members participating in the PERS/TRS Defined Benefit Plans (for those hired prior to July 1, 2006) and JRS:

- **Increase of Lifetime Maximum** – Currently the AlaskaCare Retiree Health Plan has a lifetime maximum of $2,000,000 (excluding prescription drugs), with $5,000 automatically restored at the end of each benefit year. The change being considered is to increase this lifetime maximum to $8,000,000 and review this maximum every five years against the accumulated increase in the Consumer Price Index for All Urban Consumers (CPI-U) for Medical Services.
- **Elimination of Lifetime Maximum** – An alternative change being considered is to eliminate the lifetime maximum.

Segal provided a memo dated January 9, 2023 which modeled the increase or elimination of the current lifetime maximum. Assuming the change would be effective January 1, 2024, they estimated that increasing the Lifetime Maximum to $8,000,000 would increase the retiree health plan cost during 2024 by $2,400,000, and that eliminating the Lifetime Maximum would increase the retiree health plan cost during 2024 by $2,740,000. Their total projected cost during 2024 prior to adopting either of these options was $685,400,000, which is within 3.0% of the projected cost in our most recent actuarial valuations as of June 30, 2022. Therefore, to estimate the financial impact of these changes on PERS/TRS/JRS, we reflected the increases during 2024 provided by Segal and used the June 30, 2022 valuation assumptions to project future annual cost increases. Because this change would affect both pre-Medicare and Medicare members, we modeled two scenarios to illustrate the sensitivity of assuming what percentage of Medicare members would be impacted. This is an important assumption because the more Medicare members are assumed to be impacted, the greater the increase will be in the Actuarial Accrued Liability (AAL) and Additional State Contributions (ASC).

As mentioned in Segal's memo, there is limited data available to predict the number of people who are expected to reach the current lifetime maximum. Members who are eligible for Medicare are generally less likely to reach the lifetime maximum since Medicare provides primary coverage and the AlaskaCare plan provides secondary coverage (for those benefits that are not covered by Medicare). As mentioned above, the overall cost to the plan is sensitive to the attribution of the cost between pre-Medicare / Medicare members. To illustrate the impact of the attribution, we modeled the following two scenarios:

- 10% of the cost impact attributable to Medicare members / 90% attributable to non-Medicare members
- 20% of the cost impact attributable to Medicare members / 80% attributable to non-Medicare members

Shown in the table below is a summary of the estimated increase in healthcare Actuarial Accrued Liability (AAL) for PERS, TRS, and JRS combined, the projected increase in Additional State Contributions (ASC) for FY25 if this change had been reflected in the June 30, 2022 valuations, and the projected increase in ASC through 2039. It is important to note that the June 30, 2022 valuations and FY25 contribution rates (which determine the FY25 ASC) have not yet been formally approved by the Alaska Retirement Management Board (Board). The June 30, 2022 valuation results are expected to be approved during the June 2023 Board meeting, and the FY25 contribution rates will be adopted during the September 2023 Board meeting. Impacts are also shown as a percentage increase/(decrease). See Appendix A for the impacts split by plan.

FY22 Healthcare AAL Impact on Combined PERS/TRS/JRS DB if Lifetime Maximum ("LTM") Increased ($ millions)

Scenario	(LTM) Lifetime Maximum	% of LTM Cost Assumed for Non-Medicare	Current Healthcare AAL for Combined DB as of 6/30/2022[1]	Increase in 6/30/2022 AAL if LTM Increased[2]	% Increase in 6/30/2022 AAL
1	$8M	90%	$9,117.7	$22.9	0.25%
2	$8M	80%	$9,117.7	$25.6	0.28%
3	Unlimited	90%	$9,117.7	$26.5	0.29%
4	Unlimited	80%	$9,117.7	$29.3	0.32%

FY25 Impact on Combined PERS/TRS/JRS DB Contributions if Lifetime Maximum ("LTM") Increased ($ millions)

Scenario	(LTM) Lifetime Maximum	% of LTM Cost Assumed for Non-Medicare	Pension and Healthcare Current FY25 Contributions for Combined DB[1]	Increase in FY25 Contributions if LTM Increased[2,3]	% Increase in FY25 Contributions
1	$8M	90%	$486.9	$0.3	0.06%
2	$8M	80%	$486.9	$0.3	0.06%
3	Unlimited	90%	$486.9	$0.3	0.06%
4	Unlimited	80%	$486.9	$0.3	0.06%

FY25-39 Impact on Combined PERS/TRS/JRS DB Contributions if Lifetime Maximum ("LTM") Increased ($ millions)

Scenario	(LTM) Lifetime Maximum	% of LTM Cost Assumed for Non-Medicare	Pension and Healthcare Current FY25-39 Contributions for Combined DB[1]	Increase in FY25-39 Contributions if LTM Increased[2]	% Increase in FY25-FY39 Contributions
1	$8M	90%	$8,697.0	$1.7	0.02%
2	$8M	80%	$8,697.0	$1.7	0.02%
3	Unlimited	90%	$8,697.0	$2.0	0.02%
4	Unlimited	80%	$8,697.0	$2.0	0.02%

[1] Current AAL shown includes only Healthcare. Current and projected contributions include both Healthcare and Pension reflecting State as an Employer and Additional State Contributions.

[2] All of the data, assumptions, methods and current plan provisions used in the above calculations are documented in the actuarial valuation reports as of June 30, 2022.

[3] The increases are the same due to rounding. Because the healthcare portions of these plans are currently overfunded, the increases in FY25 ASC for PERS and TRS reflects the increase in Normal Cost only. If the healthcare portions of these plans were not overfunded and the increases in AAL were to be amortized over 25 years according to the Board's current funding policy, the total increases in FY25 ASC would be approximately $1.8M under Scenario 1, $1.9M under Scenario 2, $2.0M under Scenario 3, and $2.2M under Scenario 4.

Additional Notes

Except as noted above, the data, assumptions, methods and plan provisions used in our analysis are the same as those described in the June 30, 2022 actuarial valuation reports.

The Retiree Health Plan Advisory Board (RHPAB), staff of the State of Alaska and the Board may use this letter for purposes of analyzing the potential impact of the benefit change described above. Use of this letter for any other purpose or by anyone other than the RHPAB, staff of the State of Alaska or the Board may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, Buck recommends requesting its advanced review of any statement to be based on information contained in this letter. Buck will accept no liability for any such statement made without its prior review.

Future actuarial measurements may differ significantly from current measurements presented in this letter due to plan experience differing from that anticipated by the actuarial assumptions, changes expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. In particular, retiree group benefits models necessarily rely on the use of approximations and estimates and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. An analysis of the potential range of such future differences is beyond the scope of this letter.

Actuarial Certification

This letter was prepared under our supervision and in accordance with all applicable Actuarial Standards of Practice. We are Associates of the Society of Actuaries and Members of the American Academy of Actuaries. We meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

If there are any questions, Stephen can be reached at (215) 586-1227 and Christian can be reached at (717) 308-8981.

Respectfully submitted,

Stephen Oates, ASA, EA, MAAA, FCA
Principal, Health
Buck

Christian Hershey, ASA, MAAA
Senior Consultant, Health
Buck

Appendix A – Summary of Impacts Split by Plan

	$8M Lifetime Maximum			
	Scenario 1 10% Medicare / 90% non-Medicare		Scenario 2 20% Medicare / 80% non-Medicare	
($ millions)	$ Impact	% Impact[1]	$ Impact	% Impact[1]
Increase in Healthcare AAL as of June 30, 2022[2]				
PERS	$16.6	0.25%	$18.6	0.28%
TRS	6.3	0.26%	7.0	0.29%
JRS[3]	0.0	0.20%	0.0	0.24%
Total	$22.9		$25.6	
Increase in FY25 ASC[2, 4]				
PERS	$ 0.2	0.06%	$ 0.2	0.06%
TRS	0.1	0.05%	0.1	0.05%
JRS[3]	0.0	0.00%	0.0	0.00%
Total	$ 0.3		$ 0.3	
Increase in ASC through FY39[2]				
PERS	$ 1.3	0.02%	$ 1.3	0.02%
TRS	0.4	0.02%	0.4	0.02%
JRS[3]	0.0	0.00%	0.0	0.00%
Total	$ 1.7		$ 1.7	

[1] Increase in Healthcare AAL as a percentage of the June 30, 2022 Healthcare AAL. Increase in FY25 ASC as a percentage of the FY25 Contributions for Pension and Healthcare. Increase in ASC through FY39 as a percentage of the projected Contributions for Pension and Healthcare through FY39. Current and projected Contributions include both Healthcare and Pension reflecting State as an Employer and Additional State Contributions.

[2] All of the data, assumptions, methods and current plan provisions used in the above calculations are documented in the actuarial valuation reports as of June 30, 2022.

[3] The amount rounds to less than $0.1M where $0.0 is shown.

[4] The increases are the same due to rounding. Because the healthcare portions of these plans are currently overfunded, the increases in FY25 ASC for PERS and TRS reflects the increase in Normal Cost only. If the healthcare portions of these plans were not overfunded and the increases in AAL were to be amortized over 25 years according to the Board's current funding policy, the total increases in FY25 ASC would be approximately $1.8M under Scenario 1 and $1.9M under Scenario 2.

	Elimination of Lifetime Maximum			
	Scenario 3 10% Medicare / 90% non-Medicare		Scenario 4 20% Medicare / 80% non-Medicare	
($ millions)	**$ Impact**	**% Impact[1]**	**$ Impact**	**% Impact[1]**
Increase in Healthcare AAL as of June 30, 2022[2]				
PERS	$19.2	0.29%	$21.2	0.32%
TRS	7.3	0.30%	8.0	0.33%
JRS[3]	0.0	0.23%	0.1	0.28%
Total	$26.5		$29.3	
Increase in FY25 ASC[2, 4]				
PERS	$ 0.2	0.07%	$ 0.2	0.07%
TRS	0.1	0.06%	0.1	0.06%
JRS[3]	0.0	0.00%	0.0	0.00%
Total	$ 0.3		$ 0.3	
Increase in ASC through FY39[2]				
PERS	$ 1.5	0.02%	$ 1.5	0.02%
TRS	0.5	0.02%	0.5	0.02%
JRS[3]	0.0	0.00%	0.0	0.00%
Total	$ 2.0		$ 2.0	

[1] Increase in Healthcare AAL as a percentage of the June 30, 2022 Healthcare AAL. Increase in FY25 ASC as a percentage of the FY25 Contributions for Pension and Healthcare. Increase in ASC through FY39 as a percentage of the projected Contributions for Pension and Healthcare through FY39. Current and projected Contributions include both Healthcare and Pension reflecting State as an Employer and Additional State Contributions

[2] All of the data, assumptions, methods and current plan provisions used in the above calculations are documented in the actuarial valuation reports as of June 30, 2022.

[3] The amount rounds to less than $0.1M where $0.0 is shown.

[4] The increases are the same due to rounding. Because the healthcare portions of these plans are currently overfunded, the increases in FY25 ASC for PERS and TRS reflects the increase in Normal Cost only. If the healthcare portions of these plans were not overfunded and the increases in AAL were to be amortized over 25 years according to the Board's current funding policy, the total increases in FY25 ASC would be approximately $2.0M under Scenario 3 and $2.2M under Scenario 4.