

Proposal # and Title	Virtual Physical Therapy and Musculoskeletal Care Program (R027)
Health Plan Affected	Defined Benefit Retiree Health Plan
Proposed Effective Date	TBD (January 2024 – December 2024)
Reviewed By	Public Review
Review Date	May 12, 2023 – June 16, 2023

**Contents**

- 1) BACKGROUND ..... 2
- 2) GOALS AND OBJECTIVES ..... 3
- 3) SUMMARY OF PROPOSED CHANGES..... 3
  - Hinge Health Overview ..... 3
- 4) ANALYSIS..... 4
- 5) IMPACTS ..... 5
  - Actuarial Impact to AlaskaCare | **Neutral** ..... 5
  - Financial Impact to AlaskaCare | **Cost Decrease** ..... 5
  - Member Impact | **Enhancement**..... 8
  - Operational Impact (DRB) | **Initial: Moderate** **Ongoing: Minimal** ..... 8
  - Operational Impact (TPA) | **Initial: Moderate** **Ongoing: Minimal** ..... 8
- 6) CONSIDERATIONS..... 8
  - Clinical Considerations..... 8
  - Provider Considerations ..... 9
- 7) IMPLEMENTATION AND COMMUNICATION OVERVIEW ..... 9
- 8) PROPOSAL RECOMMENDATIONS..... 9
  - DRB Recommendation ..... 9
  - RHPAB Board Recommendation ..... 9
  - Commissioner of Administration Recommendation ..... 10
- 9) PLAN LANGUAGE..... 10

# 1) Background

## **Current Rehabilitative Care Telehealth Coverage**

The AlaskaCare Defined Benefit Retiree Health Plan (Plan) currently provides coverage for physical therapy (PT) and other outpatient rehabilitative care services designed to restore and improve bodily functions lost due to injury or illness.<sup>1</sup> Most rehabilitative care services are commonly delivered in person; however, some rehabilitative care services can be delivered remotely, via telemedicine by providers practicing within the scope of their license.

The Plan covers services when delivered via telehealth in accordance with the AlaskaCare third-party administrator's (Aetna) policies. These policies are actively managed and updated by Aetna to reflect standard care delivery practices. For example, some care may be appropriately delivered via a telephone connection, while other services may require an audiovisual connection.

## **Virtual Physical Therapy**

Virtual PT is a method of providing physical therapy or musculoskeletal (MSK) care services where instead of traveling to a provider for an in-person visit, patients communicate with a provider via phone call or videoconference and attend the appointment from home.

Telehealth has been used across different PT specialties and is frequently a fit for members who would not necessarily require physical touch from the therapist. For example, virtual sessions might be used to help educate patients, or to supplement in-person sessions.

While different from traditional services, telehealth physical therapy has multiple benefits.

- Virtual physical therapy is accessible to more people. For those who live in rural areas far from the nearest PT clinic—or who don't have access to transportation—attending online sessions may be considerably more feasible than traveling to in-person appointments. This is particularly valuable to our retiree members who may live in rural areas.
- Virtual physical therapy is generally more comfortable for rehabilitation patients. While recovering from surgery or an acute injury, a patient may not be able to drive to an in-person appointment. Telehealth PT allows them to make progress on their recovery without needing to leave home.
- Allowing members to self-manage their symptoms in their own homes can grant them a greater sense of independence, making them feel more in control of their recovery process. It may also be helpful to conduct virtual sessions in the same area of the home where members would be practicing exercises on their own. That way, the therapist can provide guidance on using rehabilitative equipment and features of the home (such as walls, doorways, and furniture) within certain exercises.
- Virtual PT sessions may be easier for patients to fit into their busy lives since they don't have to drive to the PT clinic. For busy retirees, an at-home appointment can offer a welcome level of convenience.

## **AlaskaCare Retiree Health Plan Musculoskeletal Spend**

A large cost driver in the Plan is treatment of MSK conditions including osteoarthritis, fractures, neck pain, mechanical joint disorders, and back pain. From January through December 2021, the plan's costs

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<sup>1</sup> Retiree Insurance Information Booklet, *Section 3.3.12 Rehabilitative Care*, January 2023. pg. 52-53.  
[https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet\\_WEB.pdf](https://drb.alaska.gov/docs/booklets/DB-RetireeInsuranceBooklet_WEB.pdf)

associated with MSK treatments for 8,141 members totaled \$30.7 million, making up approximately 18.6% of the plan's overall paid medical expenses.<sup>2</sup>

### **AlaskaCare Employee Health Plan Virtual PT Experience**

The AlaskaCare Employee Health Plan has contracted with a virtual MSK care provider organization to offer virtual-only MSK care and physical therapy since July of 2021. The benefit is administered by Hinge Health, an affiliate of the supplemental travel and non-emergency surgery benefit administrator, SurgeryPlus.

## **2) Goals and Objectives**

1. Offer members a cost-effective, easy-to-access, highly personalized MSK care and treatment option.
2. Support members in achieving MSK condition prevention, surgical avoidance, and better surgical recovery outcomes.
3. Facilitate access to a wider range of medical providers for consultations and advice.
4. Drive value through cost-effective care.

## **3) Summary of Proposed Changes**

This proposal considers providing Plan members with access to a virtual MSK care and support program as an additional care and treatment option for MSK conditions. This proposal does not contemplate changing or updating the standard rehabilitative care benefits detailed in *Section 3.3.12 Rehabilitative Care* in the AlaskaCare Retiree Insurance Information Booklet. The proposed program would be supplemental to all existing benefits.

Such a program would focus on prevention, acute care for members experiencing an acute MSK condition, such as a pulled muscle or sprained ankle, and chronic care designed to treat ongoing MSK conditions, such as arthritis or chronic back pain.

This proposal contemplates implementing the proposed change by expanding the Hinge Health service offering to retiree plan members. As with all AlaskaCare contracted services, the contract currently held by SurgeryPlus and Hinge Health will be periodically competitively bid, and a different TPA may administer this program in the future based on the outcome of the procurement process. Changes or updates to the program may be necessary based on future service offering availability.

## **Hinge Health Overview**

Hinge Health's services are made up of four care pathways:

### **1. Prevention**

The prevention program is offered free of charge to all plan participants. To participate, members download a free software application to their smart device where they can access customizable exercise programs and lifestyle educational materials designed by physical therapists and physicians.

### **2. Acute**

The acute program is available to members experiencing an acute MSK condition, such as a sprained ankle or tendonitis. The program combines use of the Hinge Health software application with one-on-one video visits with a physical therapist to work through a treatment program. Participants in the

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<sup>2</sup> Aetna Consultative Analytic Impact Report, State of Alaska Retiree Plan, May 4, 2022.

acute program can have a limited number of physical therapy sessions before they will be referred to in-person care. Should the member require surgery, the Hinge Health physical therapist will provide the member with information about their benefit options. If SurgeryPlus is implemented in the Plan, Hinge Health physical therapists can refer members to that program.

### 3. **Chronic**

The chronic program is meant for members grappling with an ongoing MSK condition, such as arthritis or chronic back pain. Hinge Health will send program participants wearable body movement sensors and a linked tablet that provide real time feedback to physical therapists during video visits and tracks the patient's progress and adherence to their program of care. Program participants are also matched with a dedicated health coach to provide tailored educational information as well as to assist in developing the program of care. Should the member require surgery, the Hinge Health physical therapist will provide the member with information about their benefit options. If SurgeryPlus is implemented in the Plan, Hinge Health physical therapists can refer members to that program.

### 4. **Surgery**

If a member requires surgery or decides to move forward with surgery after participating in the acute or chronic care programs, Hinge Health offers pre- and post-operative rehabilitation. Though members are free to use the surgeon of their choosing through the current medical benefits, if the Surgery Plus program is expanded to retiree health plan members, Hinge Health's providers would ensure that members were aware of the option to schedule their procedure through SurgeryPlus.

Hinge Health's services are available at no cost to the members. The cost of this service to the plan depends on the level of care received by the member.

1. Preventive services, including expert medical opinions, exercise therapy, and education, are offered free of charge to all plan participants.
2. Acute care for recent injuries, including video visits with a physical therapist is \$250 per engaged participant per year.
3. Chronic care for high-risk individuals or pre- and post-surgical rehabilitation is \$995 per engaged participant per year.

The plan will never be charged for members who do not engage in the program, and the plan will never be charged more than \$995 per engaged participant per year. For example, if a person begins in the acute care program but transitions into a post-surgical rehabilitation course of care, the maximum cost to the plan for that person for the year will be \$995.

Hinge Health offers a 1.5:1 Return-on-Investment (ROI), based on reduction in member's pain and avoided surgical interventions.

## **4) Analysis**

Currently, the Plan will cover virtual PT and MSK care visits if the provider is practicing within the scope of their license, in alignment with Aetna's Clinical Policy Bulletins (CPB), and in alignment with the terms of the Plan. However, members do not currently have access to a specific virtual MSK care and support program. The addition of such a program should benefit the membership and allow for greater choice, improved accessibility, and additional convenience when seeking this type of care.

Note: These benefits are available to be added based on services being offered by a third-party provider. The ability to continue to offer them is dependent on the continued availability of the service provider. If this service model changes in the future, the plan benefit will be impacted.

### **Employee Plan Experience with Hinge Health**

This benefit was implemented in July 2021 for the AlaskaCare Active employee plan and has been quite successful. From inception through April 2022, 308 members participated in the chronic program and 98 members in the acute program. Participants in the chronic program reported a 52% reduction in pain and surgery likelihood decreased by 59%. In the acute program, participants reported a 63% reduction in pain over the first three weeks of therapy and a 28% reduction in pain during weeks four through six.<sup>3</sup>

Recent enrollment in the program has been robust, with 563 new users enrolled in 2022.

## **5) Impacts**

### **Actuarial Impact to AlaskaCare | Neutral**

The proposed program would result in enhancements to the plan that are favorable for members, offer access to a supportive MSK care program, and promote efficient utilization of medical services. However, providing access to this care program will not have an actuarial impact on the plan. This is discussed in the attached Segal Consulting memorandum.<sup>4</sup>

### **Financial Impact to AlaskaCare | Cost Decrease**

#### *Projected Annual Financial Impact*

The financial impact of this change is ultimately dependent on the number of members who choose to engage with the program and whether program participants are Medicare-eligible or not. The annual fee for Hinge Health to the plan is up to \$995 per engaged participant per year. This fee is offset by plan savings due to improvements in members' pain management and avoided future high-cost medical care. Hinge Health estimates that a 1 percent improvement equates to \$71.09 in saved claims cost for a typical employer. Hinge Health helps to protect the plan financially by offering a return on investment (ROI) of 1.5:1 for the non-Medicare eligible retirees with a prorated refund if the ROI is not met. The savings associated with avoided future care for Medicare-eligible retirees will be split between Medicare (as the primary payor) and AlaskaCare (as the secondary payor), therefore the guaranteed ROI for Medicare retirees will be less than for AlaskaCare primary members.

However, due to a number of Alaska and AlaskaCare-retiree health plan specific factors, the actual ROI for AlaskaCare retiree health plan members are likely to be greater than the ROI guaranteed by Hinge Health. Commercial health care costs in Alaska are higher than in the rest of the country by as much as 40-80%. The majority (~60%) of retiree plan members reside in Alaska. The Plan's population is, on average, older than that of a typical employer. An older population typically has higher claims costs, and therefore increased savings opportunities when considering avoided future medical care. Additionally, the plan would benefit primarily from any savings associated with avoided future prescription medications (*e.g.*, pain medication).

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<sup>3</sup> SurgeryPlus Q4 2021 Utilization Report, January 28, 2022

<sup>4</sup> *Addition of Hinge Health – Focus on Actuarial and Financial Impact for the Retiree Plan (Updated)*, Segal Consulting memo dated April 20, 2023.

Based on the AlaskaCare employee plan's participation rate (3.85%), Segal estimates that among the approximately 76,000 retiree members, approximately 2,900 members would engage with Hinge Health. This would result in a plan cost of approximately \$2.9 million annually.

After considering the Alaska and AlaskaCare retiree health plan-specific factors, and after reviewing actual reported pain reduction in the first 12 months of engagement in the Employee Plan, Segal has estimated that annual savings net of program costs could total \$2.5 million. A more conservative estimate based solely on the Hinge Health guaranteed ROI indicates that that annual savings net of program costs could total \$1.4 million in net annual savings after accounting for program fees. These estimates are discussed in the attached Segal Consulting memorandum.<sup>5</sup>

### *Projected Long-Term Financial Impact*

The proposed benefit addition may have long-term impacts on the healthcare Actuarial Accrued Liability (AAL)<sup>6</sup> and to the Additional State Contributions (ASC)<sup>7</sup> associated with the Plan.

Buck performed an analysis contemplating the long-term impacts of adding Hinge Health to the retiree health plan.<sup>8</sup> Because the long-term financial impacts are dependent on the gross cost savings associated with avoided future medical care, and these savings can vary based on many factors, Buck's analysis considers three different scenarios to serve as the baseline for future cost impact projections:

1. **Scenario 1** started with Hinge Health's guaranteed ROI of 1.5:1 and then assumed that 100% of claims savings for pre-Medicare retirees and 20% of Medicare eligible retiree claims savings will be realized by the Plan while 100% of administrative costs will be borne by the Plan. In such a scenario, Buck estimates that the addition of Hinge Health would result in an annual net cost to the plan of \$1.2 million.
2. **Scenario 2** used data from a peer-reviewed Hinge Health study to estimate the savings associated with pre-Medicare and Medicare-eligible participants. The results of this analysis estimated that the Plan would realize net savings of \$269K annually.
3. **Scenario 3** uses a Medicare ROI of 0.76:1, based on information Hinge Health provided from two Hinge Health clients that are of similar makeup to the AlaskaCare retiree health plan membership. The pre-Medicare ROI for this scenario is the same as for scenario 2. This scenario shows that the plan would experience savings of \$758K annually.

In an illustrative example, the tables below summarize the estimated impact on the healthcare AAL for the Public Employees Retirement System (PERS), Teachers Retirement System (TRS), and Judicial Retirement System (JRS) combined and the estimated impact on 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,

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<sup>5</sup> Ibid.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> *Impact of Adding the Hinge Health Digital Musculoskeletal Care Program as a Benefit for AlaskaCare Retiree Health Plan*, Buck Consulting Memo dated March 6, 2023.

2022, valuations are discussed in the attached Buck memorandum.<sup>9</sup> Each of the three 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).<sup>10</sup>

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 the scenarios contemplated, if Hinge Health was implemented for the retiree plan, the illustrative impact on the AAL could range from an increase of \$27 million to a decrease of \$500k. This represents a .30% to -0.01% impact on the overall AAL.

Table 1. FY22 Healthcare AAL Illustrative Impact on Combined PERS/TRS/JRS DB if Hinge Health Implemented (\$ millions)

Scenario	Current Healthcare AAL for Combined DB as of 6/30/2022	Illustrative Change in 6/30/2022 AAL	Illustrative % Change in 6/30/2022 AAL
1 Hinge Health 1.5:1 ROI	\$9,117.7	\$27.0	0.30%
2 Study-Based	\$9,117.7	\$9.0	0.10%
3 Self-Reported Medicare	\$9,117.7	(\$0.5)	(0.01%)

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<sup>11</sup> to the amount needed to offset the amortization of any existing unfunded accrued liability over a period of 25 years.

Contemplating a scenario where Hinge Health was implemented for the retiree plan, the illustrative impact on the ASC for FY 25 ranged from an increase of \$100k to a decrease of \$100k, representing between 0.03% to -0.02% percent change.

Table 2. FY25 Impact on Combined PERS/TRS/JRS DB Contributions if Hinge Health Implemented (\$ millions)

Scenario	Pension and Healthcare Current FY25 Contributions for Combined DB	Illustrative Change in FY25 Additional State Contributions	Illustrative % Change in FY25 Contributions
1 Hinge Health 1.5:1 ROI	\$486.9	\$0.1	0.03%
2 Study-Based	\$486.9	(\$0.0)	(0.01%)
3 Self-Reported Medicare	\$486.9	(\$0.1)	(0.02%)

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

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> The normal cost represents the present value of benefits earned by active employees during the current year.

offset any health care unfunded liability. It is important to note that the long-term funded status of the trusts is subject to change in response to market volatility and many other factors.

### Member Impact | Enhancement

Providing members access to a virtual PT and MSK support service will enhance the services available to all Plan members. The proposed program is not a covered service under Medicare, so members' AlaskaCare coverage will be primary, regardless of the member's Medicare eligibility status. If, in the future, Medicare changes coverage to include these types of services, Medicare's coverage would become primary for Medicare-eligible members.

Members may benefit from lower out-of-pocket MSK-related costs and positive health outcomes.

### Operational Impact (DRB) | Initial: Moderate Ongoing: Minimal

The Division anticipates moderate operational impacts associated with implementation and member communication as follows:

- Division staff would need to review and distribute communications to educate and increase awareness of the implementation of the virtual PT program.
- Division staff would need to coordinate and oversee implementation of the program to ensure that the addition of is implemented correctly, the process is running smoothly, and that member questions and/or concerns are responded to.

After implementation and once members are accustomed to the programs, the ongoing operational impacts are anticipated to be minimal.

### Operational Impact (TPA) | Initial: Moderate Ongoing: Minimal

The initial impact to the current virtual PT and MSK support provider (Hinge Health) is anticipated to be moderate for several reasons:

- Hinge Health will collaborate with the Division's staff to scale operations to effectively service a larger population than it does today for the State.
- Hinge Health will need to undertake a member outreach campaign in advance of the implementation.
- Hinge Health will need to produce reports on the impacts and savings associated with the program.

After implementation, the ongoing operational impacts are anticipated to be minimal and will include maintenance of the program and ongoing outreach efforts.

## 6) Considerations

### Clinical Considerations

Participation in this program is anticipated to often result in positive clinical outcomes and reduced pain for members.

In April 2022, a study on the impacts of participation in the Hinge Health program on individuals who also participate in Medicare was released. The study found that in the 12 months after the program start date, the monthly MSK-specific medical costs for non-Hinge Health participants were \$221.27 higher on average than participants in the program. Accounting for program fees, this would result in a 2.7x ROI.



The study found that main savings drivers were related to decreased hospital inpatient and outpatient facility utilization, and decreased utilization of professional services from specialists.<sup>12</sup>

## Provider Considerations

Providing members with access to a virtual PT and MSK support provider could create additional competition in the Alaska medical marketplace as providers compete with those offering similar services outside of their community. This could result in reduced costs and better services as providers work to remain competitive. Alternatively, as members in small communities seek care elsewhere, any fixed cost for providing those services could be spread across a smaller number of patients, increasing costs for those who receive care from local providers.

The virtual PT and MSK support program offered by Hinge Health is meant to supplement and complement services provided in a more traditional setting. If a Hinge Health program participant is unable to progress beyond a certain point, they may be referred to or recommended to in-person MSK care.

## 7) Implementation and Communication Overview

Division staff have already worked with Hinge Health to successfully implement this program beginning July 2021 for the AlaskaCare employee plan.

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
- Public comment period(s)
- Any needed language updates to the Retiree Insurance Information Booklet
- Education outreach to benefit recipients

## 8) Proposal Recommendations

### DRB Recommendation

The Division **recommends/does not recommend** providing Plan members with access to a virtual MSK care and support program as an additional care and treatment option for MSK conditions.

### RHPAB Board Recommendation

The RHPAB board voted on **###/###/### to recommend/not to recommend** providing Plan members with access to a virtual MSK care and support program as an additional care and treatment option for MSK conditions.

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<sup>12</sup> Patrick Curran, Heidi Laughlin. *Hinge Health Medicare Cost and Utilization Study*. April 28, 2022. [https://assets.ctfassets.net/cad7d5zna5rn/6BN7T0unYTIqPcEFDmNw54/8a16f0f497294d25f9838871b7b053c2/Hinge\\_Health\\_Medicare\\_Cost\\_and\\_Utilization\\_Study.pdf](https://assets.ctfassets.net/cad7d5zna5rn/6BN7T0unYTIqPcEFDmNw54/8a16f0f497294d25f9838871b7b053c2/Hinge_Health_Medicare_Cost_and_Utilization_Study.pdf)

## Commissioner of Administration Recommendation

The plan administrator made the determination on ##/##/## to recommend/not to recommend providing Plan members with access to a virtual MSK care and support program as an additional care and treatment option for MSK conditions.

Description	Date
Proposal Drafted	1/4/2023
Reviewed by Modernization Subcommittee	1/4/2023
Reviewed by RHPAB	2/9/2023, 05/04/2023

## 9) Plan Language

New language for the Retiree Health Plan will need to be drafted.



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## Memorandum

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

**From:** Richard Ward, FSA, FCA, MAAA

**Date:** April 20, 2023

**Re:** Addition of Hinge Health – Focus on Actuarial and Financial Impact for the Retiree Plan

The State is considering offering the Hinge Health Digital Musculoskeletal Care program as a benefit for the Retiree Plan.

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:

<b>Deductibles</b>	
Annual individual / family unit deductible	\$150 / up to 3x per family
<b>Coinsurance</b>	
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%
<b>Out-of-Pocket Limit</b>	
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
<b>Benefit Maximums</b>	
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

While the inclusion of this program for the Plan can be viewed as an enhancement favorable for the member, there will be no impact on actuarial value. This change provides an additional option for members and helps to promote efficient utilization of medical services, which can in turn help manage program costs.

## Financial Impact

The annual fee for Hinge Health to the plan will be \$995 per participant per year per engaged member. However, this fee is offset by plan savings due to improvements in pain management by the members. Hinge Health estimates that a 1 percent improvement equates to \$71.09 in saved claims cost. This correlation is based on analysis of multiple years of data across their book of business.

The financial impact is dependent on the number of members who choose to engage with Hinge Health. A member's Medicare status will also affect the financial impact to the Plan. Since the Plan pays secondary to Medicare for medical expenses, savings associated with improved health and reduced utilization will be shared between the Plan and Medicare.

The \$71.09 savings per percentage reduction in pain is based on national average healthcare costs for a typical employer. The AlaskaCare Retiree Plan differs from this typical employer in a number of regards.

Commercial Healthcare costs in Alaska are reported to be between 40% and 80% higher than in the Lower 48<sup>1</sup>. Approximately 40% of retirees reside in the Lower 48, with the majority residing in Washington. Combining these factors, we estimate that costs for non-Members are approximately 20% higher than the national commercial average.

Non-Medicare members are approximately 62 years old on average. Compared to an average assumed age of 42 for a typical employer, and assuming 1.5%<sup>2</sup> in increased morbidity per age, this equates to a 35% higher claims costs, and therefore assumed savings, per member.

Applying this against the \$71.09 Hinge Health assumption yields \$115 in savings per non-Medicare member.

<sup>1</sup> The 2010 Annual Report for the Alaska Health Care Commission reported that physician costs were 60% higher than the national average and hospital costs were 40% higher. A 2017 analysis by Primera Blue Cross determined that payments to physicians and facilities in Alaska exceeded the national average by 76%. Kaiser, more recently in 2020 estimates that Health Care spending per capita in Alaska exceeds the national average by 34% and is 47% higher than those in Washington.

<sup>2</sup> Assumed morbidity assumptions are based on the most recent actuarial valuation by Buck Consultants of the State's retiree health liability.

Segal recently reviewed medical costs in the Alaska Employee Plan and determined that, on average, the allowed commercial market charges in the Employee Plan are about 270% of Medicare. We are utilizing the same rate in this analysis.

Medicare members are approximately 72 years old on average. Assuming an additional 2.0%<sup>3</sup> in increased morbidity per age, this equates to a 64% higher claims costs, and therefore assumed savings, per member, when compared with a typical active employee.

Applying this to the \$71.09 Hinge Health assumption yields \$52 in savings per Medicare member.

Additionally, the Plan, paying secondary to Medicare, will share the savings with Medicare. A typical share in medical expenses has Medicare assuming 80% of the costs and 20% for the Plan. For Pharmacy, the Plan would benefit from the majority of the savings. For simplicity, we are assuming the Plan will benefit from 20% of the assumed savings. This equates to \$10 in savings per point in reported pain reduction.

In the first 12 months of engagement with the Employee Plan, members reported an average reduction of 51%. This translates to annual claims cost reductions of \$5,852 per non-Medicare member and \$528 per Medicare member.

The Plan's Hinge Health costs will be \$995 regardless of Medicare eligibility, resulting in \$4,857 net savings per non-Medicare participant and a \$467 net cost per Medicare participant.

Currently, the State's Employee plan offers Hinge Health as a benefit. Through the start of November 2022, there were 540 enrolled users out of approximately 14,000 members. Assuming a similar engagement rate of 3.85% among the approximately 76,000 retiree members, Segal would estimate about 2,900 members would engage with Hinge Health.

Currently, the plan's membership is approximately 75% Medicare. Assuming Hinge Health utilization will follow this distribution results in 727 non-Medicare participants and 2,173 Medicare participants.

Applying these to the per participant net savings and cost estimates results in an aggregate savings of \$2,500,000.

Hinge Health helps to protect the plan financially by offering a return on investment (ROI) of 1.5:1 with a prorated refund if the ROI is not met. Our initial analysis from December 2022 was based on this guarantee applying to all members and resulted in an annual net savings of \$1,400,000.

Hinge Health has subsequently refined the ROI guarantee to be 0.30:1 for the Medicare membership and the same 1.5:1 for the non-Medicare membership.

Given these additional considerations and refinements, we consider the initial \$1,400,000 annual savings estimate to be reasonable, and conservative, and will be utilized in our next budget projection and rate setting analysis should Hinge Health be implemented for the Retiree

<sup>3</sup> Assumed morbidity assumptions are based on the most recent actuarial valuation by Buck Consultants of the State's retiree health liability.

Plan. While the more refined analysis indicates greater savings may be realized, the analysis is heavily based on a number of assumptions. While these assumptions are considered reasonable individually and in aggregate, the actual savings will vary and be dependent upon a number of factors, including where participants live and their aggregate Medicare status. As a result we favor the simpler, more conservative estimate.

The current estimate for 2024 claims costs is \$685,400,000. Both estimates are less than 0.4% of this figure.

## **Additional Considerations and Comments**

The net savings per non-Medicare participant (\$4,857) is approximately 10x the net cost per Medicare participant (\$467). Therefore, the plan should achieve net savings in aggregate when the Medicare participants are less than 90% of the total Hinge Health participants.

The Plan's membership is trending towards an increasing portion being Medicare eligible, but it will still be a number of years before the membership is expected to be 90% Medicare.

Claims costs, and associated gross savings, are expected to trend at 5-6% annually. The Hinge Health fee is expected to trend at a lower rate, resulting in the net savings per non-Medicare participant to trend at a higher rate and the net cost per Medicare participant to decrease over time.

To what extent claims trend exceeds the increases in Hinge Health costs will affect the ratio of net savings per non-Medicare participant to net cost per Medicare participant, which will impact the 90% threshold noted above. Higher claims trends will lead to higher break-even threshold levels.

This is not anticipated to be an issue for several years and projecting the anticipated timeframe for when the net aggregate impact of Hinge Health may become a cost is beyond the scope of this analysis.

## **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 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 6, 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 Adding the Hinge Health Digital Musculoskeletal Care Program as a Benefit for AlaskaCare Retiree Health Plan**

Dear Betsy:

As requested, we have estimated the impact of the following change that is 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:

- **Addition of Hinge Health** – Currently the AlaskaCare Retiree Health Plan provides coverage for physical therapy and other outpatient rehabilitative care services designed to restore and improve bodily functions lost due to injury or illness. The change being considered is to offer virtual musculoskeletal (MSK) care and physical therapy through Hinge Health. The program would be supplemental to all existing benefits.

Segal provided a memo dated December 21, 2022 which modeled the addition of Hinge Health. The annual fee for Hinge Health is \$995 per engaged participant per year. Hinge Health offers a 1.5:1 Return-on-Investment (ROI), based on the average reduction in members' self-reported pain, with 100% of their fees at risk. Hinge Health estimates that a 1 percent improvement in pain equates to \$71.09 in avoided claims costs. Hinge Health is currently offered through the State's Employee plan. Segal estimated that 2,900 retiree members would engage with Hinge Health, resulting in claims savings of \$4.3M and plan costs of \$2.9M, resulting in annual savings of \$1.4M.

The proposed effective date is yet to be determined. We have assumed this change would be effective January 1, 2024. To estimate the financial impact of this change on PERS/TRS/JRS, we reflected the costs and savings provided by Segal to our projected cost during 2024 based on our most recent actuarial valuations as of June 30, 2022. Future net annual cost/saving increases were projected using the June 30, 2022 valuation assumptions. For members who are eligible for Medicare, Medicare provides primary coverage and the AlaskaCare plan provides secondary coverage (for those benefits that are not covered by Medicare). As such, it is our understanding that 80% of gross savings for Medicare members would go to Medicare while the remaining 20% would be received by the Plan. However, 100% of the cost for Medicare members that engage in this program will be covered by the Plan. Accounting for the reduced savings the Plan will receive for Medicare members, we estimate that the program would result in annual claims savings of approximately \$1.7M, resulting in a net annual cost of \$1.2M to the Plan. The tables on the following page provide a summary of how Hinge Health is expected to impact costs on a gross and net plan basis.



As noted, it is our understanding that the Hinge Health guaranteed ROI is offered on an estimated gross claims avoidance basis, without considering that the Plan pays secondary for Medicare members, as follows:

Retiree Group	Number of Members Engaged	Annual Cost \$995 per Engaged Member	Gross (Savings) Guaranteed 1.5 ROI per Engaged	Annual <u>Gross</u> Cost (Savings)
Pre-Medicare	727	\$723,365	(\$1,085,048)	(\$361,683)
Medicare	2,173	\$2,162,135	(\$3,243,203)	(\$1,081,068)
<b>Total</b>	<b>2,900</b>	<b>\$2,885,500</b>	<b>(\$4,328,251)</b>	<b>(\$1,442,751)</b>

In this second table, savings for Medicare members reflect an expectation that only 20% of the estimated gross claims costs avoided will generate savings for the Plan on a net basis.

Scenario 1 Retiree Group	Number of Members Engaged	Annual Cost \$995 per Engaged Member	Net Plan (Savings) Guaranteed 1.5 ROI per Engaged	Annual <u>Net Plan</u> Cost (Savings)
Pre-Medicare	727	\$723,365	(\$1,085,048)	(\$361,683)
Medicare	2,173	\$2,162,135	(\$648,641)*	\$1,513,494
<b>Total</b>	<b>2,900</b>	<b>\$2,885,500</b>	<b>(\$1,733,689)</b>	<b>\$1,151,811</b>

\*Gross Medicare (savings) of (\$3,243,203) are assumed to be shared 80/20 between Medicare and the Plan: (\$2,594,562) to Medicare with the balance of (\$648,641) to the Plan.

We relied on Segal's estimate that 2,900 retired members would engage with Hinge Health. Actual retiree utilization could be higher or lower. We expect more retired members to have a need for the service than active employees would, as older retired members are expected to have a higher prevalence of MSK issues. However, some older retirees might encounter technological, health or other barriers that could dampen utilization. Higher utilization among the pre-Medicare population can be expected to deliver the best savings opportunity for the Plan, as some members may defer costly surgeries until they are Medicare-eligible, when Medicare would cover most of the costs. Higher utilization for the Medicare population would pose a cost risk to the Plan, as indicated by an expected ROI below 1 on a net Plan basis. This is an important assumption to consider because the more Medicare members who participate, the greater the increase will be in the Actuarial Accrued Liability (AAL) and Additional State Contributions (ASC). We note that as the Plan population ages, it is becoming more prominently Medicare-eligible. At June 30, 2018, there were 2 Medicare members per 1 pre-Medicare member. Four years later at June 30, 2022, there were 3 Medicare members per 1 pre-Medicare member.

Founded in 2014, Hinge Health is a relatively new point solution. A number of studies have supported their assertion that the program delivers meaningful gross cost savings through avoided medical care. But as more experience develops over time, expectations could change.

We consider the Hinge Health guaranteed ROI assumption set as the most reasonable “baseline” for required GASB (Governmental Accounting Standards Board) cost reporting purposes. Results under two additional assumption sets offer alternative and more optimistic data points regarding this solution’s potential. The “Study-Based” scenario uses peer-reviewed or independent studies to estimate the ROI for pre-Medicare and Medicare participants:

<b>Scenario 2</b>				
<b>Retiree Group</b>	<b>Number of Members Engaged</b>	<b>Annual Cost \$995 per Engaged Member</b>	<b>Net Plan (Savings) Study-based ROI per Engaged</b>	<b>Annual <u>Net Plan</u> Cost (Savings)</b>
Pre-Medicare	727	\$723,365	(\$2,000,704)*	(\$1,277,339)
Medicare	2,173	\$2,162,135	(\$1,153,863)**	\$1,008,272
<b>Total</b>	<b>2,900</b>	<b>\$2,885,500</b>	<b>(\$3,154,567)</b>	<b>(\$269,067)</b>

\*per “Hinge Health 136 Employer Study” (page 14): \$2,752 PMPY (per member per year)

\*\*per “Hinge Health Medicare Cost and Utilization Study”: \$221.27 X 12 X 20% = \$531 PMPY

The “Self-Reported Medicare” scenario uses a Medicare ROI of 0.76:1, based on information Hinge Health provided from two Hinge Health clients that are similar to Alaska. The pre-Medicare ROI for this scenario is the same as for the “Study-Based” scenario:

<b>Scenario 3</b>				
<b>Retiree Group</b>	<b>Number of Members Engaged</b>	<b>Annual Cost \$995 per Engaged Member</b>	<b>Net Plan (Savings) Study-based and Self-reported ROI per Engaged</b>	<b>Annual <u>Net Plan</u> Cost (Savings)</b>
Pre-Medicare	727	\$723,365	(\$2,000,704)*	(\$1,277,339)
Medicare	2,173	\$2,162,135	(\$1,642,788)**	\$519,347
<b>Total</b>	<b>2,900</b>	<b>\$2,885,500</b>	<b>(\$3,643,492)</b>	<b>(\$757,992)</b>

\*per “Hinge Health 136 Employer Study” (page 14): \$2,752 PMPY (per member per year)

\*\*per Hinge Health’s self-reported information from two clients that are similar to Alaska with Medicare ROI of 3.8 X 20% X \$995 = \$756 PMPY

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/(decrease) in Additional State Contributions (ASC) for FY25 if this change had been reflected in the June 30, 2022 valuations, and the projected increase/(decrease) 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.

**FYE22 Healthcare AAL Impact on Combined PERS/TRS/JRS DB if Hinge Health Implemented  
(\$ millions)**

Scenario		Current Healthcare AAL for Combined DB as of 6/30/2022 <sup>1</sup>	Increase in 6/30/2022 AAL <sup>2</sup>	% Increase in 6/30/2022 AAL
1	GASB Baseline	\$9,117.7	\$27.0	0.30%
2	Study-Based	\$9,117.7	\$ 9.0	0.10%
3	Self-Reported Medicare	\$9,117.7	(\$ 0.5)	(0.01%)

**FY25 Impact on Combined PERS/TRS/JRS DB Contributions if Hinge Health Implemented  
(\$ millions)**

Scenario		Pension and Healthcare Current FY25 Contributions for Combined DB <sup>1</sup>	Increase/ (Decrease) in FY25 Contributions <sup>2,3,4</sup>	% Increase/ (Decrease) in FY25 Contributions
1	GASB Baseline	\$ 486.9	\$ 0.1	0.03%
2	Study-Based	\$ 486.9	(\$ 0.0)	(0.01%)
3	Self-Reported Medicare	\$ 486.9	(\$ 0.1)	(0.02%)

**FY25-39 Impact on Combined PERS/TRS/JRS DB Contributions if Hinge Health Implemented  
(\$ millions)**

Scenario		Pension and Healthcare Current FY25-39 Contributions for Combined DB <sup>1</sup>	Increase/ (Decrease) in FY25-39 Contributions <sup>2</sup>	% Increase/ (Decrease) in FY25-39 Contributions
1	GASB Baseline	\$8,697.0	\$ 0.7	0.01%
2	Study-Based	\$8,697.0	(\$ 0.4)	(0.00%)
3	Self-Reported Medicare	\$8,697.0	(\$ 0.7)	(0.01%)

<sup>1</sup> Current AAL shown includes only Healthcare. Current and projected contributions include both Healthcare and Pension reflecting State as an Employer and Additional State Contributions.

<sup>2</sup> 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.

<sup>3</sup> The amount rounds to less than \$0.1M where \$0.0 is shown.

<sup>4</sup> 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 for the Baseline scenario and \$0.5M for the Study-Based scenario, and (\$0.1M) for the Self-Reported Medicare scenario.

State of Alaska

### **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

(\$ millions)	Scenario 1 Hinge Health ("GASB Baseline")		Scenario 2 Hinge Health ("Study-Based")		Scenario 3 Hinge Health ("Self-Reported Medicare")	
	\$ Impact	% Impact <sup>1</sup>	\$ Impact	% Impact <sup>1</sup>	\$ Impact	% Impact <sup>1</sup>
<b>Increase (Decrease) in Healthcare AAL as of June 30, 2022<sup>2</sup></b>						
PERS	\$19.6	0.29%	\$ 6.6	0.10%	(\$ 0.3)	0.00%
TRS	7.3	0.30%	2.4	0.10%	(0.2)	(0.01%)
JRS <sup>3</sup>	<u>0.1</u>	0.34%	<u>0.0</u>	0.16%	<u>0.0</u>	0.04%
Total	\$27.0		\$ 9.0		(\$ 0.5)	
<b>Increase (Decrease) in FY25 ASC<sup>2, 4</sup></b>						
PERS <sup>3</sup>	\$ 0.1	0.03%	\$ 0.0	(0.01%)	(\$ 0.1)	(0.02%)
TRS <sup>3</sup>	0.0	0.02%	0.0	(0.01%)	0.0	(0.02%)
JRS <sup>3</sup>	<u>0.0</u>	0.00%	<u>0.0</u>	0.00%	<u>0.0</u>	0.00%
Total <sup>3</sup>	\$ 0.1		\$ 0.0		(\$ 0.1)	
<b>Increase (Decrease) in ASC through FY39</b>						
PERS	\$ 0.5	0.01%	(\$ 0.3)	0.00%	(\$ 0.5)	(0.01%)
TRS	0.2	0.01%	(0.1)	0.00%	(0.2)	(0.01%)
JRS <sup>3</sup>	<u>0.0</u>	0.00%	<u>0.0</u>	0.00%	<u>0.0</u>	0.00%
Total	\$ 0.7		(\$ 0.4)		(\$ 0.7)	

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> The amount rounds to less than \$0.1M where \$0.0 is shown.

<sup>4</sup> 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 for the Baseline scenario, \$0.5M for the Study-Based scenario, and (\$0.1M) for the Self-Reported Medicare scenario.