

Garry Hutchison, Committee Chair

White Paper Objective: To provide a factual overview of the 80th Percentile Rule – an administrative policy that guides reimbursements from health insurance companies to health care providers.

Policy Background: The 80th percentile rule is generally discussed as applied to Physician and Clinician services. The 80th Percentile Rule was adopted by the Alaska Division of Insurance in 2004 and sets a minimum for how much insurance companies have to pay for health care services on behalf of people with private insurance plans. The rule obligates health insurance plans to pay 80% of the average regional cost of a particular health service. For example, if a health service costs an average of \$100 for a region, the insurance plan is required to reimburse the health care provider \$80 for said service. When health care providers raise the cost of their services, this raises the payment obligation of the health insurance plan. Rising cost ultimately passes on to the patient-consumer via higher health insurance premiums and out-of-pocket costs. In some regions, and among some specialties, there is a lack of competition among some provider categories. This compounds the impact of rising costs in health care by a select few providers setting the rate for certain health services. Some argue that a few providers control the regional rates and inflate the cost of those health care services. This issue centers on the importance of cost containment across health care providers to provide consumer protection.

Impact on Cost of Health Care: The Institute of Social and Economic Research (ISER) found that Physician and Clinician services account for 15%-39% of overall cost of health care growth rates. Furthermore, ISER concluded that the impact to overall health care costs is even greater when you factor-out Medicare and Medicaid related physician and clinician services under the current 80th percentile rule. This means that patient-consumers with private health insurance and the reimbursements issued under those plans account for the majority of overall cost of health care growth rates.

Policy Options: One option that is discussed is to amend the 80th percentile rule to reimburse at a lower rate, which some say could help health care cost containment. The logic is such that if cost can be contained, cost of health care will level-out (or decrease). This cause and effect could impact small group health insurance rates, individual market rates as well as provide medical cost protection for consumers.

Opposition to the 80th Percentile Rule: These are groups that share the belief that the 80th percentile rule is a driving force in Alaska's rising healthcare costs.

- Insurers support reducing reimbursement rates to Alaska health care providers. In most instances, Alaska’s reimbursement rates are the highest in the nation. Higher reimbursement rates on claims from Alaska impact the insurance company’s bottom line.
- Business owners, once educated about the complexity and impacts of the rule, would benefit from a decrease in small group health insurance rates. If insurers’ reimbursement rates stay high, and increase overtime, small group insurance premiums will go up as a result.
- Other purchasers of health care insurance will benefit from cost containment by adjustment of the 80th Percentile Rule through more affordable health insurance options.

Support for the 80th Percentile Rule: These are groups that greatly benefit from being reimbursed at the 80th percentile.

- Medical provider groups argue that they need this rule in place to insure financial viability.
- New health care businesses would support a higher reimbursement rate for financial viability as a factor in deciding whether or not to start a health services business in Alaska.
- Some may argue that the current 80th Percentile Rule encourages competition in the Alaska health care market. With more competition this could drive health care costs down following simplified supply and demand logic.

Fiscal Impacts of Amending the 80th Percentile Rule: This could reduce the growth of Alaska’s healthcare costs by up to 52% over the next 10 years based on the ISER report. Cost savings of this magnitude will translate into economic growth, including competition in the health services sector.

References:

[Alaska Admin Code 3 AAC 26.110: Additional standards for prompt, fair, and equitable settlements of health claims:](#)

[Institute of Social and Economic Research \(ISER\) report, “How Has the 80th Percentile Rule Affected Alaska’s Health-Care Expenditures?” May 16, 2018.](#)