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Alaska House of Representatives
David Guttenberg



District 8

Interim:
1292 Sadler Way
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Fairbanks, Alaska 99701-3171
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Commissioner Annette Kreitzer
Department of Administration
PO Box 110200
Juneau, AK 99811

Dear Commissioner Kreitzer,

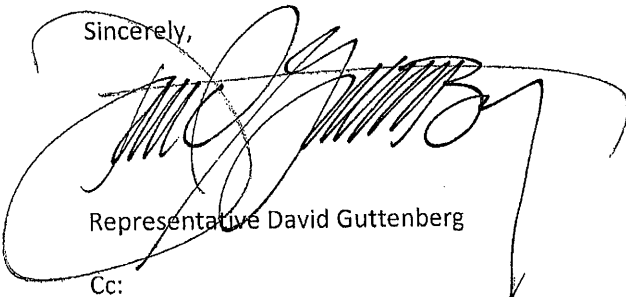
July 23, 2010

I am writing to request more information on the recent change in preferred hospital providers for the State's insurance company Wells Fargo. I am concerned that the change from Providence Hospital to Alaska Regional Hospital will pass on the added costs to the consumer of the plan.

From what I understand Providence Hospital is a non-profit with a significantly lower cost for services. While Wells Fargo may be getting a provider discount at Alaska Regional Hospital it seems that the extra costs will need to be charged to someone. Will the extra overhead costs be charged to the individual plan user who is receiving services at Alaska Regional Hospital?

Any information you can provide on the details of this partnership would be greatly appreciated. Please feel free to contact my office if you have any questions.

Sincerely,



Representative David Guttenberg

Cc:

Senator Bettye Davis, Chair Senate Health and Social Services
Representative Wes Keller, Co-Chair House Health and Social Services
Representative Bob Herron, Co-Chair House Health and Social Services
Rachel Petro, Deputy Commissioner, Department of Administration
Neil Davis, Constituent

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STATE OF ALASKA

DEPARTMENT OF ADMINISTRATION

ANNETTE KREITZER, COMMISSIONER

SEAN PARNELL, GOVERNOR

*P.O. BOX 110200
JUNEAU, ALASKA 99811-0200*

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August 2, 2010

The Honorable David Guttenberg
1292 Sadler Way, Suite 304
Fairbanks, Alaska 99701-3171

Dear Representative Guttenberg,

I am writing in response to your July 23 letter requesting additional information about the change in the preferred provider hospital in the Anchorage area for AlaskaCare members. Your concern that the change in Anchorage area preferred provider hospital from Providence Alaska Medical Center (Providence) to Alaska Regional Hospital (Alaska Regional) will result in additional costs to the "consumer of the plan" is unfounded. In fact, the opposite is true.

The State of Alaska (State) is self-insured which means we do not purchase insurance from a vendor. Wells Fargo Insurance Services (WFIS) is a third party administrator (TPA) and does not sell healthcare insurance. WFIS is the first State TPA which does not also sell healthcare insurance. As the State's TPA it is WFIS's contractual obligation to provide a provider network and savings to AlaskaCare. WFIS is paid on a per member per month basis regardless of the level of savings it secures on behalf of the AlaskaCare plans.

From 2004 through March 2010 Providence was AlaskaCare's preferred provider hospital in the Anchorage area. Just like the former agreement with Providence, the new preferred provider hospital also provides savings to both the AlaskaCare health plans and AlaskaCare members (consumers of the plan).

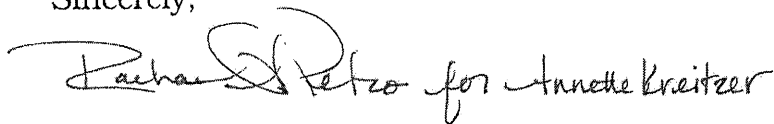
For example, if the preferred provider hospital charges \$100 for a service to an AlaskaCare Active Employee Health Plan member and the preferred provider hospital discount is 15% then the member is charged \$85 for the service because they are an AlaskaCare member. This service is paid by AlaskaCare, after the annual deductible has been met, at the co-pay percentage of the plan selected by the member (Economy 70%, Standard 80%, Premium 90%). Regardless of the plan selected by the member, the

member and the plan will pay less than if there were no preferred provider hospital agreement. In contrast, if the non-preferred provider hospital charges \$100 for a service, the member is charged \$100. AlaskaCare would pay, after the annual deductible has been met, the co-pay percentage of the plan selected by the member.

Providence's tax status is a not-for-profit hospital but this did not translate into a lower cost for services for AlaskaCare members. The State, through its healthcare actuary, Buck Consultants, used AlaskaCare experience data, and the charge masters provided by each hospital for its baseline pricing analysis. This analysis concluded that overall, Alaska Regional's charges were lower in aggregate than Providence despite the differences in individual code variations (higher/lower). The analysis, provided to both hospitals from Buck is enclosed. This information, combined with the discounts offered by both hospitals, confirmed that WFIS contracting with Alaska Regional as AlaskaCare's preferred provider hospital was in the best interest of our members, their health plan trusts and the State. It is important to understand that even if both hospitals' costs were the same, the discounts offered by Alaska Regional to the AlaskaCare plans confirmed that it was in the best interest of our members, their health plan trusts and the State to allow WFIS to contract with Alaska Regional. Both hospitals charge masters and the discounts offered to the AlaskaCare plans are confidential and proprietary information.

I have enclosed for your review Deputy Commissioner Rachael Petro's correspondence with the Tundra Telegraph editor, Ms. Jennifer Canfield and Mr. Neil Davis. I trust this information has been helpful to you. Should you have further questions about this issue, please feel free to contact me.

Sincerely,



Annette Kreitzer

Enclosures:

Buck analysis
Neil Davis correspondence
Jennifer Canfield correspondence

cc: Senator Bettye Davis
Representative Wes Keller
Representative Bob Herron