

- Thank you, Chair Olson and members of the Committee.
- For the record, I am Leonard Sorrin with Premera Blue Cross Blue Shield of Alaska.
- Premera provides coverage to over 100,000 Alaska residents offering coverage for individual, small employer, and large employers as well as offering services to larger self-funded groups
- I am here today testifying in support of HB 203, a measure that is critical in Alaska's ongoing struggle to moderate its extremely high health care costs.
- Current Alaska law requires health plans to pay non-contracted providers directly for care. This requirement removes a significant incentive that providers have to enter into negotiated contracts with health plans at lower rates: direct payment from the health plan.
- HB 203 will re-balance that contracting dynamic in Alaska by allowing health plans to issue a joint check made out to both the member and the provider, leading to more negotiated agreements with health plans, helping to moderate Alaska health care costs.
- Alaska has the 2nd highest health care spending per capita of any state in the nation. Here are some catching example for you to consider:
 - Alaska has the highest average annual cost for employee health benefits in the nation, at \$11,926 per employee, twice what employers in some other states pay.
 - And it is getting worse: in the last decade, health care costs in Anchorage increased at a rate 70% above the national average
- And the problem extends across the full range of care in Alaska. I want to share some examples based on Milliman's report that examined costs across Alaska and other states:
 - Physician reimbursement in Alaska is **approximately 160% of the average** in other comparison states. If you look only at commercial payers, this **increases to 169%**.
[Idaho, Oregon, Washington, Wyoming]
 - Cardiologists charge rates an average of 83 percent higher than comparison states
 - Hip replacement costs are roughly 350% higher in Alaska than in Washington state
 - Diagnostic colonoscopies cost 150% more in Alaska than in Washington state.

- Additional data shows that certain specialty services in Alaska are over 500% of Medicare reimbursements. For example, musculoskeletal services in Alaska are 600% of Medicare and cardiovascular services are 762% of Medicare.
- So, what can the state of Alaska do about this cost crisis?
- *Well, not too long ago, the Alaska Health Care Commission took a very hard look at exactly that question.*
- *The Commission had several suggestions, some of which related to provider pricing power in Alaska.*
- As you have heard or as I believe you will hear from the Chair of the Health Care Commission, doing away with the direct pay requirement was among them.
- While the direct pay requirement has certainly increased costs, these cost increases have been aggravated by another requirement in state law--the 80th percentile requirement that mandates health plans pay non-contracted providers at least 80% of their usual and customary rate.
- What ends up occurring -- in certain communities and specialties, providers are able to dictate their own UCR by simply increasing their own rates to whatever level they wish.
- This leaves health plans and Alaska consumers with ONLY the hope of a negotiated contract as a means to moderate these costs. And THIS is where a change in the direct pay requirement will have a substantial impact on Alaskan's health care costs.
- For evidence, we only need to look at our recent experience with the Federal Employee Program health plan in Alaska.
- The FEP program instituted a joint check policy in July of 2012. We almost immediately saw 11 new contracts negotiated with providers after only 1 in the prior couple of months. One sole source community hospital entered into a negotiated agreement with us after years of non-contracted status. This means that more consumers have access to broader networks without the risk of higher out of pocket costs.
- It's clear that a co-payee check system worked for FEP in Alaska, and it will work in the commercial insured market as well.
- HB 203 will immediately interest more providers in joining thousands of their colleagues across the state in contracting with health plans, allowing Alaskans and employers to access more affordable care and increasing access for all.
- Thank you for your time today. I'd be happy to answer any questions you might have.