

ALASKA DEPARTMENT OF ADMINISTRATION

News Release

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Switch to Blue Cross saves \$10.9 million on health insurance for state employees

JUNEAU – Murkowski administration officials today announced that they have issued a notice of intent to award a contract to Premera Blue Cross Blue Shield of Alaska to replace Aetna, Inc. as the state's self-funded health plans third party administrator (TPA).

The TPA agreement is expected to save the state \$10.9 million over the three-year term of the contract, said Administration Commissioner Scott J. Nordstrand.

The Blue Cross contract becomes effective July 1, 2006. The company's proposal totals \$30,951,035 for the initial three-year term.

"This is one more example of Governor Frank Murkowski's commitment to using the power of competition to achieve significant savings for the state of Alaska and its citizens," said Nordstrand. "But success in providing state employee and retiree health care services cannot be measured in dollars and cents alone.

"I assure all Alaskans that the Department of Administration will not turn over the reins of our health plans to a third party administrator, no matter how competitive, competent and qualified. We will be vigilant in assuring that claims are processed fairly and expeditiously, particularly as we transition from one administrator to another."

"The AlaskaCare Plan is a promise to our employees and retirees. And it is a promise that this administration will keep," Nordstrand concluded.

Nordstrand outlined terms of the Blue Cross contract at an 11 a.m. press briefing in the governor's conference room at the Capitol. The commissioner was joined by Premera Blue Cross President and CEO Gubby Barlow and Jeff Davis, vice president and general manager of Premera Blue Cross Blue Shield of Alaska.

About 67,000 persons are covered by the plan. This includes about 5,600 non-union exempt employees and state workers who are members of various unions and their dependents. Another 28,000 retirees and their dependents round out the total.

Union members covered by the self-funded plan include the categories of Supervisory Unit, Confidential Employees Association, Marine Engineers Beneficial Association, Inlandboatmens Union, Correctional Officers Unit and the Alaska Vocational Technical Center (AVTEC).

(MORE)

The state's health plans became self-funded in 1997 and the state contracted with NYLCare Health Plans NW to be the program's third party administrator. Aetna purchased NYLCare in 1999 and began administration of the state's self-funded health plans in July of 2000.

The TPA vendor does not provide health coverage since the program is self-funded. Blue Cross will be responsible for processing health claims for members in accordance with the state AlaskaCare Plan and to provide customer service functions.

Nordstrand said it is anticipated that Blue Cross will annually process more than 1.2 million health claims for active and retired members including dependents.

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Retiree and Active Health Plans Cost Containment Measures

- Utilize Network Savings TPA (FY05)\$35.2 M
- Verify Dependent Eligibility (Est) \$14 M
- Qualified for Medicare Part D Subsidy\$7 M
- Negotiated Pharmacy Rebate.....\$4 M
- Utilize Generic Drugs.....\$4 M
- Verified Eligibility for Full-time Students.....\$3 M
- Awarded New TPA Contract to Premera Blue Cross (3 Yr Ave)...\$3.6 M

Total Annual Savings = \$70.8 M



Retiree and Active Health Plans Percentage Change in Premium Compared to National Trend

Retiree Health Care Plan

- 7.5% - Average Annual Increase
- 3.0% - CY2006 Increase

Active Health Care Plan

- 8.3% - Average Annual Increase
- 1.8% - FY2007 Increase

- **9.2% - 13.9% National Trend Health Care Premium Increase***

Note: Average Annual Percentage Change from 2002 through 2006

* Source: The Kaiser Family Foundation and Health Research and Education Trust – Employer Health Benefits – 2005 Survey



**Per Member Per Month (PMPM)
Administrative Fee Schedule**

	FY06	FY07	FY08	FY09
Blue Cross <i>Active Member</i>	N/A	\$24.79	\$32.16	\$33.77
Current Contractor <i>Active Member</i>	\$43.02	\$43.02	\$43.02	\$43.02 *
Blue Cross <i>Retiree Member</i>	N/A	\$16.95	\$22.00	\$23.10
Current Contractor <i>Retiree Member</i>	\$29.22	\$29.22	\$29.22	\$29.22 *

* Current Contractor figures are based on FY06 amount, which are held constant for FY07, FY08 and FY09 for comparison purposes.



Third Party Administrator Contract Fee Schedule

Annual Contract Fees	Blue Cross	Current * Contractor	Difference
FY07	\$8.1 M	\$13.9 M	\$5.8 M
FY08	\$10.9 M	\$13.9 M	\$3.0 M
FY09	\$11.6 M	\$13.9 M	<u>\$2.1 M</u>
		Savings	\$10.9 M

* Current contractor figures are based on FY06 amount, which are held constant for FY07, FY08 and FY09 for comparison purposes.



**Retiree and Active Health Plans - FY2005 Claims Cost
Administrative Fees as Percent of Overall Costs**

	Active Plan Claims Cost	Retiree Plan Claims Cost	Total
FY05	\$49 M	\$256 M	\$305 M
Proposed New Contract Savings (3 year average)			(\$3.6 M)
Administrative Fees As Percent of Overall Claims Cost			1.2 %