



**Testimony to the House Committee on Health
Tuesday, March 17, 2009
8:30 AM
Conference Room 329**

RE: SENATE BILL NO. 427, RELATING TO GENERAL EXCISE TAXATION

Chair Yamane, Vice Chair Nishimoto, and members of the committee.

My name is Charles Ota and I am the Vice President for Military Affairs at The Chamber of Commerce of Hawaii (The Chamber). I am here to state The Chamber's support of Senate Bill 427, Relating to Taxation.

The Chamber's Military Affairs Council (MAC) serves as the liaison for the state in matters relating to the U.S. military and provides oversight for the State's multi-billion dollar defense industry.

The measure proposes to exclude from the general excise tax, amounts received by a managed care support contractor of the TRICARE program for the actual cost or advancement to third party health care providers pursuant to a contract with the United States.

The TRICARE program is the US government's contracted managed care provider for the US active duty, reserve, retired military members and their families. It was established to ensure the availability of authorized health care services to eligible members and that our troops receive the full range of services required to maintain their physical and mental health in combat ready status.

The TRICARE program is an integral part of the health care services provided by the US Department of Defense. This measure will clarify that the amounts received by managed care support contractors for the actual cost or advancement to third party health care providers are excluded from the state general excise tax.

For these reasons, the MAC recommends that SB 427 be approved.

Thank you very much for the opportunity to testify.

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MEMORANDUM

TO: Representative Ryan I. Yamane
Chair, Committee on Health

FROM: Chris Pablo

DATE: March 14, 2009

RE: **S.B. 427 relating to General Excise Taxation**
Hearing: Tuesday, March 17, 2009 at 8:30 a.m., Room 329

Dear Chair Yamane and Members of the Committee on Health:

I am Chris Pablo, testifying on behalf of TriWest Healthcare Alliance Inc. (“TriWest”), a Delaware corporation headquartered in Phoenix, Arizona. **TriWest supports S.B. 427.**

In Hawaii, TriWest is the only third-party administrator of a cost-effective, high quality network of health care providers for the nation’s active and retired uniformed service members and their families, under a federal government program known as “TRICARE” (formerly known as “CHAMPUS”).

What is TRICARE? The Federal Government has established a managed health care program for members of the uniformed services and certain dependents. It was created in the early 1990s to supplement the existing military health care delivery system and provide health care services for active duty military personnel, military retirees, and their families (collectively, the “Beneficiaries”) by utilizing civilian health care providers.

In Hawaii, the Beneficiaries have access to military health care facilities, such as the Tripler Army Medical Center, and to health care clinics on military bases throughout the state. In addition, the Beneficiaries have access to medical services through the network of community health care providers that have been contracted by TriWest.

TRICARE receives its funding as part of the annual defense appropriations budget. It is administered by the TRICARE Management Activity (“TMA”), which is part of the United States Department of Defense (“DoD”), Office of the Assistant Secretary of Defense (Health Affairs).

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What is TriWest? TriWest is dedicated to providing the best possible service to military families. It manages the TRICARE program for over 2.7 million Beneficiaries – this is TriWest’s only line of business. In Hawaii, TriWest employs approximately sixty employees.

In the health care industry, TriWest’s business would be characterized as a “**third-party administrator.**” TriWest, known as a “**managed care support contractor**” in the applicable Federal laws and regulations, is a disbursing agent for the Federal Government in the western states, including Hawaii. Its job is to receive claims and invoices from health care providers, and then pay those claims according to the amounts and guidelines set by the Government (“**reimbursement**”). The Government then reimburses TriWest for the amounts paid, and also pays TriWest an **administrative fee** for its services. This is best illustrated in the attached PowerPoint slide.

TriWest pays Hawaii General Excise Tax on the amounts it receives from TRICARE as compensation for its services as *managed care contractor*, but it does not pay, and has never paid, tax on the reimbursement amounts. TriWest has been working with the Department of Taxation to seek confirmation that it is not subject to Hawaii General Excise Tax on such amounts. Department representatives generally have been sympathetic to TriWest’s position and understanding of its desire for certainty as to its tax liability. In the process of reviewing TriWest’s request for a definitive ruling letter from the Department, however, some technical concern was expressed as to the clarity of the legal basis for exempting such reimbursement amounts from Hawaii General Excise Tax. TriWest, therefore, is asking the Legislature to clarify that such reimbursement amounts are not taxable to TriWest.

What is the purpose of S.B. 427? The purpose of S.B. 427 is to make clear that the amounts received by TriWest from TRICARE as “reimbursements” are excluded from the imposition of the General Excise Tax. This clarification will be made by amending Section 237-24 (Amounts not taxable) to add a new subsection (17):

“(17) Amounts received by a managed care support contractor of the TRICARE program that is established under 10 United States Code chapter 55, as amended, for the actual cost or advancement to third party health care providers pursuant to a contract with the United States.”

We thank you for the opportunity to testify in support of **S.B. 427**.



US Department of Defense
Military Health System



REIMBURSEMENT

*For Medical Services
Provided to
Hawaii-based TRICARE beneficiaries
by Hawaii medical providers/hospitals*

\$30 million/year

ADMINISTRATIVE FEES

*\$8.4 million/FY 2008
\$376,000 in GE Taxes/FY 2008*

*S.B. 427
Proposes to
Amend §237-24 to
clarify that the
reimbursements are
not taxable amounts*



Managed care support contractor

*aka "TPA"
Third-Party Administrator
-Claims Processing
-Enrollment
-Utilization and Disease Mgmt
-Network Building*

Network Health Care Providers

Medical services & supplies



Soldiers, Sailors, Airmen, Dependents, Retirees
Beneficiaries