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TO: Senator Josh Green
Chair, Committee on Health
Via Email: HTHtestimony@capitol.hawaii.gov

FROM: Gary M. Slovin

DATE: February 9, 2012

RE: **S.B. 2101 – Relating to the TRICARE Program**
Hearing Date: February 10, 2012 at 2:45 p.m.

Dear Chair Green and Members of the Committee on Health:

I am Gary Slovin, testifying on behalf of TriWest Healthcare Alliance Inc. (“TriWest”), a Delaware corporation headquartered in Phoenix, Arizona. **TriWest supports S.B. 2101, Relating to the TRICARE Program.**

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 3 million Beneficiaries – this is TriWest’s only line of business. In Hawaii, TriWest employs approximately fifty-five 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, and has always paid 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 in the past worked 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. Therefore, in 2009, Act 70 was passed to amend HRS Section 237-24 (Amounts not taxable) by adding a new subsection (17).

“(17) Amounts received by a managed care support contractor of the TRICARE program that is established under Title 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.”

This clarified that the amounts received by TriWest from TRICARE as “reimbursements” are excluded from the imposition of the General Excise Tax. However, this is scheduled to sunset on December 31, 2013. This measure would repeal the 2013 sunset date and make the clarifying legislation permanent.

We would like to also note that, based upon our updated figures, the number of current and former service members and their family members who are served in Hawaii is one

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hundred sixty-five thousand, not one hundred fifty thousand as the bill currently states on page 1, lines 9-10.

We thank you for the opportunity to testify in support of this measure.



US Department of Defense
Military Health System



REIMBURSEMENT

For Medical Services

Provided to

*Hawaii-based TRICARE beneficiaries
by Hawaii medical providers/hospitals*

\$45 million

ADMINISTRATIVE FEES

\$13.4 million/FY 2011

\$604,000 in GE Taxes/FY 2011

*Act 70, SLH 2009
amends HRS §237-24
to clarify that the
reimbursements are
not taxable amounts*



Managed care support contractor

aka Third-Party Administrator or "TPA"

*•Claims Processing, Enrollment,
Utilization and Disease Management
and Network Building*

Network Health Care Providers

Medical services and supplies



Soldiers, Sailors, Airmen, Dependents, Retirees

165,000 Beneficiaries in Hawaii