

PREMERA BLUE CROSS STATUS CHANGE TESTIMONY

November 19, 2002

BOB LOHR:

Thank you. Good morning. It's Tuesday, November the 19th, 2002. We are gathered here today for the second in a series of more than two public meetings to discuss the proposal by Premera Blue Cross to convert from non-profit status to profit-making status. The format . . . how many of you in the audience here in Anchorage were at the previous public meeting in October? Okay, about half. And we will follow a similar format today to the public meeting that we held October 29th. Basically I will do some introductory remarks, and we will then hear from the applicant, Premera Blue Cross, concerning the proposal for approximately 15 minutes. I will then give you a brief rundown of the procedure that the Alaska Division of Insurance intends to follow for examining and analyzing this proposed transaction. Then, most importantly, once again, we will have the floor open for public comment.

I think we have less than a dozen witnesses total that have indicated so far the desire to be heard on this question. Based on that number, I think we can afford once again to waive any sort of time limit on testimony. You were all very well behaved last time and stayed focused on the issue at hand, I trust that we will have similar results today. With that expectation we will proceed right into public comment. Again, we would welcome your questions because they do help to shape the process of examination and analysis by the division. However, if you came today to hope to engage in a dialogue with either the applicant or with the division, that's probably not going to happen. Realistically, the purpose of these meetings is to receive your input and perhaps your questions, but not to attempt to either answer those questions "on the fly," or to engage in any sort of discussion or debate on them. If you have procedural questions, we'll do our best to give some guidance on those questions, but as they stray into the substantive area we'll probably take them under advisement

We have one teleconference witness today and I believe unless there is a severe time constraint here in Anchorage we will take that witness first from the Mat Su when we get to the public comment period. Then we will go in order of the way you signed up on the sheet unless again someone has a time constraint that would prevent you from being heard if we went in order. Any questions or comments or anybody with urgent deadline that can't afford to stick around and hear this engaging discussion.

Okay. I said something about timing, I would just like to reassure those of you who have expressed concern about today being the deadline, D-day, for written comment that in fact, we do intend to extend that deadline. I can't give you a date certain to where it will be extended. I think as one of the commenters or questioners suggested rather we will use a relative date and that is we want to make sure you have an opportunity to look at the materials prepared, the analysis prepared by the consultants to the transaction, both here and perhaps in Washington state as well, and to review, absorb those, reflect on them and then comment based on what those findings are. There is a lot of money being

spent on these consultants. I trust it is to good effort and we'll get good results from them. But if that somehow bypassed the opportunity for public comment on those findings it wouldn't make a lot of sense. So we're going to insure that you have an opportunity to review at a minimum the executive summaries prepared by those consultants. We will talk further down on the agenda about when we expect those may occur, but realistically if we named a date certain today we know we would be wrong because the schedule has a lot of creep in it for various reasons. It's very clear at this time that when I indicated we would have consultant's results by the end of December, that that is not going to happen. It's simply not possible at this time. As a result we're looking well into 2003. Certainly we'll be occupying the entire first quarter of 2003 with analysis of these transactions and where it goes from there is a function of a number of factors including the applicant's willingness to share fully the relevant documents related to this proceeding. It's simply not possible to do the kind of analysis that is needed without full access to all of the relevant documents.

With that, let me invite Premera Blue Cross to make a presentation. I think those of you who were here last time will find quite a bit of similarity because it is the same basic proposal that is in front of us. Let me introduce Gubby Barlow, the CEO, and President of Premera Blue Cross to open the remarks, and I believe then we will be followed by John Domeika, the senior vice president and general counsel of Premera Blue Cross. Gentlemen.

G. BARLOW:

Thank you and good morning Director Lohr, good morning to each of you in this room, and also those on teleconference. I appreciate this opportunity to present for a second time our proposal to raise capital as a public company. In the nearly six months since we announced our proposal last spring, many people have shared with me their support and also their concerns. People ask me why does Premera want to convert? Will we focus on Wall Street instead of our members? Will being for-profit cause premiums to rise, or squeeze payments to physicians and hospitals? Will Premera executives get huge success bonuses when the company converts? Does Premera want to be taken over by another insurer and if not, how will Premera prevent it? I've also seen great interest in our proposal to dedicate 100 percent of the initial stock to fund health initiatives in Alaska and in Washington. Many people have strong opinions about how those funds should be spent, who should control the charities, and some are concerned about an accurate valuation of the company. These are important questions--they deserve thorough public debate, and I am confident that we can address them all.

A bit about Premera, Premera Blue Cross is a nonprofit company incorporated in Washington. We are one of the largest private companies in the state of Washington, we're also the largest insurer in Alaska. In all, about 3,000 Premera employees serve over 1.4 million people in three states. Our roots go back to 1957 in Alaska, to 1933 in Washington, and 1994 in Oregon. This year we are also starting a new affiliate in Arizona.

As to what Premera is trying to achieve as a business? I believe that people buy health insurance for one primary reason—peace of mind. That is what our mission is about.

Providing peace of mind to our members about their health care coverage. For us delivering on that mission means being financially stable, providing broad choices of products, providing excellent service, and building good relationships with physicians and hospitals, and supporting growth. Growth not only responds to customer desire for our products, but it also spreads our operating costs over a larger base to the benefit of all of our members. Because health care is local, we believe we can best meet our mission as an independent Washington-based company with local management in every market we serve. This has been our strategy; it remains our strategy, whether we are non-profit or a public company. I should add that part of our proposal is to create an Alaska-domiciled company here in Alaska and more on that in a moment.

So why do we want to convert? Because going public will give us access to more resources to accomplish our mission. This is a highly capital intensive business. We need capital to maintain appropriate insurance reserves, to invest in new technologies and products, and to serve more members. As a non-profit, our sources of capital are effectively limited to operating profits. Premera's operating margins are slim. Last year, about one percent on the premium dollar. We have explored other sources of capital such as selling off parts of the company or merging with another health plan elsewhere, but we have rejected them. These options are not consistent with our desire to remain an independent regional company headquartered in Washington and managed locally.

I would now like to address some of those concerns that I've heard. First, as for the influence of Wall Street, any company that focuses on stockholders first and its customers second is going to fail on both fronts. We have developed our mission under a non-profit structure--our mission and dedication to our members remains the same whether we are non-profit or for-profit.

Second, going public will not increase premiums or reduce fees to physicians and other providers. Today we are in a very competitive market competing with for-profits and non-profits alike. Here in Alaska our main competitors are all for-profit national carriers. So we charge our customers the market price and we pay our physicians and hospitals what the market demands. Clearly these market forces are independent of and unaffected by our capital structure.

Third, some conversions elsewhere have led to success bonuses being paid to management. In the case of Premera, there will be no success bonuses paid for accomplishment of this conversion. In the future, stock ownership plans may be offered to certain of our employees. Our board has begun to explore this issue, and we have submitted documents to state officials that would place clear restrictions on any stock ownership plan developed during the first two years as a for-profit company.

Fourth, with some conversions in other states there have been debates over the value of the companies. Rather than propose some theoretical value, we pledge to dedicate 100 percent of the initial stock outright to support health initiatives in Alaska and in Washington. In that way the full worth of the company, including good will is reflected. The stock market, which is the most efficient and effective arbiter of value that we know of, will determine the value of that stock.

Five, there are no plans to sell this company and we remain committed to serving all of Alaska and Washington. Premera has an independent board of respected community, medical, and business leaders. Our board has repeatedly determined that we remain independent and with a strong local market presence because that is how we can serve our members best. That is why our conversion plan incorporates all anti-takeover provisions available to us under Washington law. Further, Washington law provides additional protections in the unlikely event that our board should determine in the future to sell the company. The Alaska Department of Insurance and the Washington State Insurance Commissioner would be required to scrutinize any proposed sale with the same due diligence as this conversion.

In summary, I believe this conversion produces three great wins. It is a win for our members in that it provides us with the capital to serve them better. It is a win for the state through growth and additional employment and additional taxes. Also, in the state of Alaska through the creation of an Alaska-domiciled health insurer. And it is a win for the people of Washington and Alaska through a substantial pool of funds devoted to health initiatives. Thank you very much. I would now like to introduce John Domeika, our General Counsel and Senior Vice President.

JOHN DOMEIKA:

Thank you. Mr. Barlow explained why Premera seeks to become a for-profit stock company, and that is to access the equity capital markets. I will be taking a look at more specifically about what our proposal entails. As reflected in our conversion application filing that's on file with the Alaska Division of Insurance, and that is how we propose to reorganize and to describe the charitable endowments that we are proposing as a result of this conversion.

To do that I would like to take a look at the Premera family of companies as they exist today, and then also take you through a look at our family of companies as they would exist after the conversion if the conversion is approved by state officials. You can see we have a chart here that illustrates our current Premera structure. And the structure of the family of companies in Premera is largely a mix of for-profit and non-profit entities. The non-profit entities are illustrated in green, the for-profit entities illustrated in blue. For example, Premera Blue Cross, which is in the middle of this illustration, is our main operating company. It is a non-profit company that has been a non-profit since its inception. It offers health care coverages in Washington and Alaska. In Alaska we are known as Premera Blue Cross Blue Shield of Alaska. In Washington we are known as Premera Blue Cross. On the far, bottom, left hand side of the illustration here is a company called Lifewise of Oregon. Lifewise of Oregon offers health insurance coverages in the state of Oregon and is a for-profit company, stock company, and has been since its inception. Similarly, on the other side of the chart is States West Life. That is also a for-profit stock company that has been such since its inception, and it offers life and disability coverages in the states of Alaska, Washington, and Oregon.

You may be asking—what are the key differences between for-profit and non-profit companies? An obvious distinction is that for-profit companies have stockholders.

People or entities that want to purchase stock from a stock company and they do that by paying cash in return for that stock. The cash or money that is paid to the company is used to fund the operational and capital needs of that stock company. However, nonprofit companies do not have stockholders. The only way, the primary way, that it is able to enhance its capital is through income derived from its operations. While there are differences between non-profits and for-profit entities, there are also similarities.

Contrary to a common misperception, Premera Blue Cross, in particular, is a taxable entity. It is not a tax-exempt, charitable organization. In fact, in 2001 it paid about two and a half million dollars in state premium taxes to the State of Alaska, and nearly nine million dollars over the last five years. In 2001 it paid about 10 million dollars in federal income taxes. Another similarity between for-profits and nonprofits is that they are subject to the same regulatory standards that are imposed under insurance laws and regulations under the various states--particularly in the states that we operate.

So let's take a look at the Premera family of companies, if we were to convert and after we have obtained state approvals. As you can see from this structure, the lower half of the structure shows that the Premera family of companies are largely the same with a couple of exceptions that I will illustrate here. But they're all now in a for-profit stock status. All changing from . . . well the ones that were non-profit before have become for-profit. I would like to point out a couple of new additions to this structure. At the right-hand side, almost to the bottom there is a company called Blue Cross Blue Shield of Alaska. Currently, as I mentioned before, Premera Blue Cross Blue Shield of Alaska operates within Premera Blue Cross as a division of Premera Blue Cross. We are proposing that the Alaska operations are no longer operated through Premera Blue Cross, but through a newly created separate Alaska domestic corporation that is an affiliate of Premera Blue Cross. Why you may ask are we doing this? Through these transactions that we are proposing in order to obtain the conversion, we need to set up a number of new legal entities. In discussing this with the Alaska officials, they encourage us to consider forming an Alaska domestic corporation and we have concurred with that approach and our proposal includes a new Alaska domestic corporation.

On the chart you also see at the top of the chart a new Premera. This is what we are proposing to be the publicly traded company. This company will have the ability to issue new shares of stock that would be accomplished through a series of transactions that we have described in our filings with the Alaska Division of Insurance, and which requires the review and approval of the Alaska Division of Insurance as well as state officials in Washington and in Oregon. Now moving up the chart you will see three new charitable organizations that are being proposed or proposed to be created as a result of this conversion. All three of them being non-profit organizations. At the top of the chart you will see foundation shareholder. This is the entity which we propose to issue 100 percent of the initial stock of new Premera. That initial stock would be held by the foundation shareholder and over time divested or sold, and the proceeds of the selling of those shares would be used to fund health initiatives in Alaska as well as in Washington. One comment that I would like to raise here and it's reflective of what Mr. Barlow described earlier, his comment about the Premera board of director's commitment to remaining an independent plan just as we are today. If we were simply to give 100 percent of the

initial stock to this foundation shareholder, we would have effectively given control of Premera to this foundation shareholder to do whatever it would please to do with that stock, including selling it to a third party. What we are proposing is that control, voting control that is vested as a result of that initial stock would actually remain with the Premera board of directors so that they would continue to control the destiny of the company. The organizations shown on the left side of the chart, the Washington charitable trust and the Alaska charitable trust would actually carry out the charitable operations and distributions of the funds. Those two new charitable organizations would be completely independent from Premera. There would be no Premera control over those organizations and Premera would not have any representatives on the board of directors of those charitable trusts.

You also may be asking what are the purposes of those charitable trusts? That is for the states to decide with public input. But we have proposed some ideas such as including addressing the unmet health care needs of the uninsured population, educating providers, nurses, and caregivers, to provide services in medically under-served areas, as well as to provide for enhancements to tele-medicine. In sum, we are proposing creating a legacy endowment to improve health care in local communities for years to come. Again, the conversion filing recognizes that Premera is looking for state official's input into what should be the purposes of those two charitable organizations with input from the community.

Now that we've talked about the charitable trusts and the charitable organizations, the purpose of the reorganization, is of course, as Mr. Barlow has stated, is to allow Premera to raise capital by issuing new shares, new additional shares to the public market. That capital that it receives from the issuance of those new shares would then go towards funding operations and capital needs of Premera.

One public concern regarding our proposed conversion, that has been raised over the last few weeks, is whether the review process by state officials, is happening too quickly. We have always recognized that our proposal is a complex transaction. It requires diligent review by state officials that in the event that we were to convert to for-profit status, that conversion would not have an adverse effect on the insurance-buying public. Since we announced our intention to become a stock company in late May, we have stated that if the states were to approve our conversion proposal, we hope to be able to access the equity market in late 2003. To do this we know we need to obtain the necessary state approvals early next year, but not only after we have received or addressed the legitimate issues and concerns that have been raised. We recently requested a more defined time line from the state of Washington with respect to this process, and have proposed extending the date for review to March 1 of next year. We will also be working with the Alaska Director of Insurance to establish a time line that allows for appropriate review of our proposal.

With that, I would like to thank Director Lohr for the opportunity to describe our proposal and to thank each of you for attending this meeting. That concludes our presentation. Thanks.

BOB LOHR:

Thank you very much. I wonder if given the undertakings you've made on the effects of this proposed conversion, whether Premera would be surprised to see conditions on an approval if one were issued to the transaction from Alaska. Mr. Barlow? Do you have any sense of that at this time?

G. BARLOW:

I'm not sure what conditions you are referring to director?

BOB LOHR:

Well I was trying to keep it appropriately vague because I knew if I got too specific, you wouldn't answer. (laughter from audience) For example, you mentioned that you do not believe that this proposal will affect rates, and given that would you, in principle, object to a condition on the approval if one were granted that said this will have no effect on rates.

G. BARLOW:

I see no objection to that at all. I assume that all people competing in the state of Alaska all plans would have some of the requirements placed on them but, I have no doubt that it will have no effect on rates.

BOB LOHR:

Thank you. And I won't go through a litany at this point, but there are obvious parallel concerns about the effect on providers and other things that you've indicated and its just good to know that in principle you wouldn't be surprised or wouldn't object to appropriate and reasonable conditions that . . .

G. BARLOW:

To, to . . . re-reciting what we said --- Absolutely not.

BOB LOHR:

Great. That is very helpful. Thank you. With that I note that we have one time constraint and since we have already identified the outlying teleconference sites as the place to start with testimony, let me at this time call on Mr. Jim Sykes, at the Mat Su site, for any comments or questions you might want to raise. Jim? Are you with us?

JIM SYKES:

Thank you. Can you hear me?

BOB LOHR:

Just fine. Thank you. Please proceed.

JIM SYKES:

Thank you very much Commissioner Lohr. My name is Jim Sykes. I am a Blue Cross policyholder. I have been a comprehensive public health care advocate for the past seven years and served as the Executive Director for the state's largest consumer organization -- Alaska Public Interest Research Group. I would like thank Bob Lohr for his attention to

this very important issue. I come before you today because I have many unanswered questions, and the kinds of questions that I think the general public needs to understand and consider as part of the process. In examining this proposal we need to know answers to some of these questions I think before we can even consider it and so I appreciate the time extension. I hope that there would be no limitation of time, March 1st, which was recently proposed by Blue Cross; and Mr. Lohr, I would really request that even though you can't put a final date on when the public process will end, I would strongly urge you to declare that public hearings will be held after the consultant's report is available, and to actually get that into somehow regulations because we don't know what's going to happen next year but it wouldn't have to be time sensitive.

I just have a general lack of understanding of what is happening and why it's important and how it might affect people. I think that this has potential to affect most Alaskans or at least the majority of them, their access to health care, and how much they will pay for it. I'm not an expert enough to say that rates won't be effected, but I have noticed other consumer groups have predicted that rates would rise after these conversions have taken place, and I don't have any evidence that shows that they actually do, but it is certainly worth looking into. I think we have to ask is this transaction in the public interest? If so, how will the public be served if this insurer becomes a for-profit corporation focused primarily on the needs of its stockholders? That is the record of for-profit companies.

I think it would be useful also, I do also appreciate the Division of Insurance putting this application on the website. I think it would also be useful to ask these large questions in a frequently asked question section on the website, so that the general large picture nature of what is being proposed here can be easily understood by the public. I do have one question about this transaction since it involves two states, I'm not clear what happens if one state approves this and the other denies it. I know that the corporation is currently chartered in Washington, so I guess the question is does Washington's decision ruling control what happens in Alaska, or does either state's denial of the application mean that it "kills the deal?"

I'm also concerned about the public involvement that I see in Washington but not Alaska. For example, Washington has health care providers involved; we need Alaska health care providers involved. Washington has consumer groups involved; we need Alaska consumer groups to be involved. Washington has citizens and citizen groups involved who care about health care, in Alaska the health care groups are just beginning to be involved. So I think this proposal needs to be examined thoroughly from all perspectives, not just the Department of Insurance. I think its something that has widespread public policy issues, including, as I mentioned before, access to health care and how much we will pay for it.

I also understand there is a deadline for intervenors as of November 26th. If this is true, I understand there are intervenors in Washington, I am not aware of any intervenors in Alaska. I think we need to have a wide variety of intervenors from Alaska at the table discussing all of the aspects of this very important transaction, or potential transaction. One of the things that I'm not clear on is the value that was briefly mentioned by the representatives from Blue Cross, that the stock market would determine the value of the

stock which would then create the foundation. I'm not an expert in this area but I've had some dealings with it and I'm a little bit troubled that the valuation would be determined by a stock offering because anybody who was purchasing the stock would know where the value of that stock was going to go.

I guess the second thing that troubles me is that the Premera company, the new New Premera, would retain control of the stock, and if the new foundation that is supposed to enhance the health care needs of Washington and Alaska, these foundations are supposed to actually do that, at some point they are going to need to sell the shares. Are they going to have to ask permission? If the shares remain in control of the parent company, it seems like they could decide what the timing of the sale would be if they retain control of the stock. So I find this whole idea of leaving the value of the company to a stock offering and making that the value as being very troubling.

The last thing I would say is that since this involves two states, how do we determine our share? I have heard numbers bandied about of maybe \$100 million, but is that \$100 million for Alaska, or is our roughly one-tenth share of what we get, how many policyholders we have in relation to those in Washington and Oregon? If that is one-tenth and we're talking \$10 million, that's not very much money to have in a foundation. Ten million dollars is less than one percent of all of the money spent on health care in Alaska in one year. So I guess what I'm asking and what I'm requesting is that we make sure that we have additional public review of whatever the consultants come up with and when the plan is finished, that it is not time certain, but we insure that a public process and a very thorough public process takes place.

The second thing I would request is that we make sure that whatever happens is, in fact, in the public interest and I have several criteria that I think may show it. First of all, we have to determine whether or not that the deal is in the public interest. We have to look at the up side, to actually denying this application. I don't know what they are but I think we need to know them. But I think we need to ensure that the conversion maintains or improves access to quality, affordable health care for Alaska. I gather that the consultants are doing some kind of study, but I don't know exactly what it is, but I hope it will include a health impact study so that we can understand the affect of the insured and the uninsured as how they will be affected. And as I say, conduct a fair and open process that includes really significant public participation including public review of the conversion documents and the valuation of the company.

I think we also need to implement a mechanism for continued monitoring by the state agencies for the new for-profit to insure that it meets its obligation to the community, to the state. We need to thoroughly investigate to make sure that the officers are not going to benefit. I'm really pleased to hear the assurances from Blue Cross that this will not happen. They are not allowed to own stock for two years but what happens after two years is still a question. We need to insure that the boards of directors uphold their fiduciary duties considering this transaction. I think we need to protect the full value of the new foundation if indeed it's going to happen. The only other question about the foundation is who controls it? What purpose is it going to serve? If Premera is going to

create this I don't really understand how the people of Alaska can ensure that they're going to control it for their own best interest.

So I'm sorry I don't have very many answers for you but I have a lot of questions, and I think they are the kinds of questions a lot of people want to know. I would encourage the Division of Insurance and other people concerned about health care and this transaction to ask these questions and try to get answers to them, and encourage the Division of Insurance to go to the media with these big picture questions, so that there is wide-spread understanding about it and its not just seen as a complex issue that is handled within the Division of Insurance on behalf of the citizens of Alaska. Once again I do appreciate your work on this. I just think we need to make it a little bit more public and cross examine it from some other angles. I thank you very much for the opportunity to talk this morning.

BOB LOHR:

Thank you Mr. Sykes. As always, your comments and especially your questions are thoughtful and helpful to guide us. As I indicated on the timing, we are looking well into 2003, certainly the entire first quarter of 2003, for analysis of this proposed transaction by consultants, by expert witnesses, and as long as I have anything to say about it, we will make available, at a minimum, the executive summaries from those consultant studies for your review with sufficient time for you to incorporate those findings, to shape your views around those findings. It only makes sense to do that with the amount of money that is being spent, with the expertise that our consultants bring to the table, and for that matter those that are brought to the table in Washington as well. There is a lot of good hard work being done on this proposal and it makes no sense at all to have that work done and be of benefit only to regulators. It is very important that the public comment reflect, not necessarily accepting, but certainly reflect those studies that are being done and we will do so.

JIM SYKES:

Thank you very much.

BOB LOHR:

Concerning the intervention. That is a deadline that you mentioned that is correct. That is one that has been established by Insurance Commissioner Mike Kreidler of Washington state for the Washington state proceeding. If any community group or other interest group in Alaska wished to participate in the Washington state proceeding then I would urge you to meet that deadline. However, that deadline does not apply to any aspect of the Alaska specific proceeding. We have not set a deadline like that. Today I am sending a letter to Commissioner Kreidler urging a cooperative approach between the two most affected states, Alaska and Washington state, to coordinate our efforts on timing for this proceeding. That is made a bit more challenging by the fact that Commissioner Kreidler, upon advice from his counsel down there, has walled himself off from the substance of the proceeding, as is quite correct. For purposes of maintaining fairness to all parties he is not available for "chitchat" on the substance of this proposal. However, concerning timing we believe that that is entirely appropriate, and we will be meeting by telephone with key officials from his office on Thursday this week to

specifically discuss the coordination of timing and schedules between Washington and Alaska. So I'm reluctant to pin down dates until we have that consultative process but we do expect to coordinate our schedules as well as our decision making quite closely. We will also engage in discussions on the "what ifs," some which you identified Mr. Sykes. What if one state agrees and the other state disagrees. Certainly it makes the most sense of all, if this proposed transaction is analyzed on a coordinated basis by the two jurisdictions and we expect that that will occur. I think I will leave it at that. Your other comments on community involvement and valuation are more substantive and I will simply take those for the record. But I do thank you for your participation.

JIM SYKES:

Thank you.

BOB LOHR:

In Anchorage, I would like to recognize the presence of Representative Sharon Cissna, and to see if you wanted to go first. As a courtesy we want to offer you that opportunity.

SHARON CISSNA:

I would just as soon (indecipherable)

BOB LOHR:

And that slice of pizza last time had no influence on your deliberations right. I noted today that we have that in the records of the transcript of the last proceedings. I didn't know if that was proper protocol but there it is.

Do you want to change the tape? Off record for just a minute please. Go ahead and flip it over.

END OF SIDE A

BOB LOHR:

Okay. We're back on record. Mr. Hieronymus, please proceed.

GEORGE HIERONYMUS:

My name is George Hieronymus and I am the Program Officer for Health and Human Services, for the Rasmussen Foundation, an Anchorage family Foundation. First of all I would like to thank Premera and also the Commissioner for extending what we felt, and I testified last time, was a very short deadline. We think the citizens need to have access to the reports and stuff from the experts so that and I would ask at least a minimum of 30 days after the reports are made public that we have time to study them and then to make our comments on them.

I am here as a member of, for lack of a better word, Premera Blue Cross Blue Shield Conversion Task Force which is basically a group that has got together to look into this. Some of the members of the group include the Rasmussen Foundation, Senator Stevens Office, The Alaska Mental Health Trust, the Denali Commission, Alaska Legal Services, Anchorage Neighborhood Health, also the Commissioner of the Department of Health

and Social Services has attended this, the University of Alaska, and others including Alaska Native Tribal Health Consortium, and the Alaska Native Health Board; so it is a wide range . . . it's not inclusive, but it's a group that got together.

Again, one of our main concerns was the speed with which this thing was going through and I appreciate you addressing it. The other thing that concerns us, and I think Mr. Sykes brought this up too, is the fact that with the foundation shareholder, the board of directors of Premera will have total control of 100 percent of the stock that is issued. Now as good board members they have to be concerned about the health of Premera. But does that conflict with the health of setting up and the value of money that is going to the two charitable trusts at some later date after Premera has offered more stock to the public. So this is our concern, what kind of . . . one of our main concerns right now is what kind of controls protect the Washington and the Alaska charitable trusts as opposed to Premera and the foundation? And with that . . . since you already answered all my questions about the speed with which we're doing this, I thank you very much.

BOB LOHR:

Thank you for your questions and your comments. It is good to know that coalition is out there and I think in part perhaps is a response to Mr. Sykes' questions or urging for community involvement, in fact a good deal of that is occurring and likely will continue. So thank you.

I would like to just take a moment and recognize also Representative Harry Crawford who is here. I didn't know if you wanted to be heard or comment today or if you are just joining us . . .

HARRY CRAWFORD:

At some point there I have a question I want answered but (indisc.).

BOB LOHR:

Okay. Maybe we can take you next after Mr. Jordan if you like. I apologize for not seeing you sooner. Mr. Jordan.

JAMES JORDAN:

Good morning. For the record, my name is James Jordan and I'm the executive director for Alaska State Medical Association. As you will recall Director Lohr, we provided rather extensive testimony at the last public meeting and along with some rather extensive questions. I don't plan on being nearly as extensive orally today for a number of reasons, the least of which is some dental work I had yesterday that I'm still trying to recover from, so my speaking ability is not the best today.

I guess to begin with what I'm going to do is I'm going to give to you a more extensive written commentary along with a copy of a study, and I guess what I'm here today to suggest is that one of the elements that has been recognized by a number of testifiers today, and in the past, is what is the impact going to be of the proposed conversion on the health insurance marketplace in Alaska. What I'm offering today is a framework for you and your outside experts to take a look at as far as one way of examining the

competitiveness in our marketplace here in Alaska as far as that goes in Washington state. This framework was suggested by the American Medical Association in its seminal study which was published and released in December of 2001 entitled Competition in Health Insurance, A Comprehensive Study of the U.S. Markets. Briefly that study was broken into two general parts, one having to do with large states / large metropolitan statistical areas, and the second division having to do with small states, small states being defined as those states with less than 5 million in population. However, Alaska along with South Dakota, Mississippi, and Wyoming was excluded from that study due to data limitations, but I believe that the division would have the access to the type of data that is necessary for providing such an analysis. So that is what I'm here to present today. I'm not going to go into all the details; I will provide that to you as I leave. However I do have a few questions in regards to procedure if I might. At the last meeting you indicated that the process in Alaska is being reviewed under the examination of insurers. Is that correct?

BOB LOHR:

Yes.

JAMES JORDAN:

Okay. Does that not set certain timing process that starts once the quote unquote examination is done?

BOB LOHR:

Yes. It does set a time limit of 60 days.

JAMES JORDAN:

When the exam is closed.

BOB LOHR:

It is a typical protocol where when we conduct a market for a financial examination of an applicant, of an entity, could be an agent, broker, could be an insurance company, which is more typical. It's very much like a fiscal audit where the auditors will give the applicant or in this case the examinee the opportunity to comment on the preliminary findings of the division. Typically that if there are any factual errors that can lead to correction of those findings. As often as not that letter responding to the examination will be attached to but not made a part of the examination of the division. Then upon my order would be published to the public, and that's the typical examination process. I don't believe however that that examination process sets any tighter deadline than that which would apply to any applicant for this type of conversion. That is as the newspaper indicated this morning, accurately I believe, we have 60 days from the date where the division deems the applicant's application to be complete. Okay, at that point a clock kicks in and that would be true, without regard to whether we had called an examination or not. Quite frankly, the examination does two things at least. One, it confirms the division's authority for access to relevant records. The second is it insures that the applicant will be paying the appropriate cost of the examination. Those are the reasons why we made the decision to issue this as an exam call that is supplemental to the fact that the exam, the application by Premera Blue Cross Blue Shield.

JAMES JORDAN:

Thank you. One other question and I asked this the last time and I notice the answer was under advisement but have you decided to intervene in the Washington proceedings? Is that still under advisement or have you made that decision?

BOB LOHR:

At this time the division is disinclined to intervene in the Washington proceeding. We believe that a preferred approach is for us to coordinate closely with the Washington regulators, and if we were to make the decision to intervene, we would be walling ourselves off from access to Mike Kreidler. So there are tradeoffs involved in that sort of thing, and I believe it is more, on balance, it is arguably a close call, but on balance we are better served as a state for the insurance regulatory concerns by maintaining access to Commissioner Kreidler with respect to the proceeding.

JAMES JORDAN:

Thank you.

BOB LOHR:

You're welcome. I should note that your wisdom from the 29th of October as well as the full proceedings are available. We brought just 10 copies with us on the table there, its also on the website. We asked that it be put on the website today so when you go home if you want to look at the Alaska Division of Insurance website, one of the documents you will now find will be this transcript of the previous meeting. There are only 10 copies here so if you have web access, please withhold, if you don't or if you're dying to see what we said, here it is.

Representative Crawford, do you want to ask your question?

HARRY CRAWFORD:

My question is fairly elementary. I'm concerned what the impetus behind this is. I heard what you said about the access to the capital markets. If premiums are going to remain the same it seems that if you've kept it at a zero sum-game, so where do the profits or the returns on the investment come from? If premiums do remain the same, how will the dividends be paid that would make this stock that you are going to issue worthwhile?

BOB LOHR:

I will just mention again that both the division and Premera have the choice of whether they want to tackle substantive questions at this time or take them under advisement. I think your question is an excellent one. I don't want to put them on the spot in the sense of saying you must answer now. It's your call gentlemen.

HARRY CRAWFORD:

Its just a question that I'd like to understand as we go forward on this. You can choose to answer or not.

G. BARLOW:

I'll reiterate a couple of things; first of all I think the most important point is that we operate in a competitive market today. Our premiums are set in accordance with a competitive market today. That doesn't change as our capital structure changes. That is the point we are trying to bring across. We operate . . . for-profits and non-profits generally today, oh I'd say, we've got exclusions, but generally operated in the same way, in trying to earn a surplus or a profit. That doesn't change because we changed capital structure. That is the point that I made in my testimony earlier. Now as far as does it affect prices, no. Capital structure per se does not affect prices, that's the point we're making. Not that we're not trying to earn a profit, I don't get the correlation that you're drawing.

HARRY CRAWFORD:

I'm sorry, I didn't phrase the question well enough. It sounded to me that you have one percent return or margin, is that where the dividends for the prospective stock will come from? If you're operating on one percent today, and premiums don't change, what's to make the difference; where do they come from in the future?

G. BARLOW:

Okay. That's a good question. Our objective is to become more efficient from an administrative point of view so that our administrative costs as a percentage of the premium would be reduced and enhance our profit margin has the ability to increase.

HARRY CRAWFORD:

Going for-profit would allow you to reduce your administration costs?

G. BARLOW:

What I said earlier is that our ability to grow today is constrained by the amount of capital that we have, the insurance reserve that we require. Insurance reserves are effectively . . . the requirements are essentially a factor of the risk that the company undertakes by way of claims costs. That is very roughly the formula and so clearly as your membership grows, your claims costs are going to grow and your insurance reserves would be required to grow. So our ability to grow significantly is constrained today by our access to capital. By growth we would be able to spread our administrative costs over additional members and, therefore, become more efficient per member.

JOHN DOMEIKA:

Director, if I may, I think that just to follow-up on the question. One of the reasons why the consultants are being engaged in this process is to look at that particular issue. What is the effect of converting to a for-profit status on the insurance market? Will it result in premium rate increases? Will it result in lesser reimbursement to hospitals and physicians? We have taken a position that it will not, it will be a neutral effect on premium rates as well as hospital and physician reimbursements. We're hoping that the information that we give to the consultants will validate that. But that I believe would be through that process. Thank you.

HARRY CRAWFORD:

I'll be watching. Thank you.

BOB LOHR:

Thank you very much for your question. Next we have Lorraine Derr and after that will be Dennis Murray, if you could also join us at the table. Thank you Lorraine for your comments.

LORRAINE DERR:

Thank you. I'm Lorraine Derr. I am the President, CEO, of the Alaska State Hospital and Nursing Home Association. We are an association that represents all of the hospitals with one exception and all of the nursing homes in the state of Alaska. We sent a letter during the interim after the last public hearing asking for an extension and we really appreciate your willingness to do that. I have a letter today from Providence Hospital, they couldn't be here to testify, but I wanted to turn their testimony in also.

We had four points that we wanted to make, the first one of course was the 90-day extension and although you don't want to put a time limit on it, we really would like to have a sufficient amount of time to do due diligence after the division analysis of the proposal so that we can review what the experts have submitted.

Then after that we would like to form a working group of some kind with the Division of Insurance so everyone can better understand the ramifications. Just like the person that testified before me, trying to understand what is going to happen when we get all this information from the consultants. If we had some type of working group that we could sit down and rather than just public . . . trying to do something like this, that have a working group to help understand the whole thing. We would like that. We were unaware that there already was a working group formed that was looking at it. But since the hospitals are sort of the people who . . . the original investors, we feel we should be fairly well involved. Then finally just because we feel its going to be a real concern, the split between Washington and Alaska that we really want to look at that to determine if the basis of the split is appropriate. We really think that is where lot of the concern will come in.

BOB LOHR:

Very good, thank you very much. How does area strike you as a basis for allocation between Washington and Alaska? (laughter from audience)

LORRAINE DERR:

Yay! (laughter from audience)

BOB LOHR:

We proposed that to Commissioner Kreidler and he has the question under advisement.

LORRAINE DERR:

No wonder he's walled himself off. (laughter from audience)

BOB LOHR:

Dennis Murray, it's old home week. Good to see you. Welcome.

DENNIS MURRAY:

Good morning Director Lohr. My name is Dennis Murray and I'm the administrator of the Heritage Place Nursing Home in Soldotna, and member of Alaska State Hospital and Nursing Home Association, past chair, this last year. I would just like to echo what Lorraine has stated that and appreciate both the division's as well as the applicant's willingness to extend the timeframe. I think it is most critical, as Mr. Sykes pointed out, there are more questions at this point than there are definitive answers and I think giving some additional time will be helpful. When do you anticipate . . . if I could ask you a question, when do you anticipate those consultants to have completed their work?

BOB LOHR:

Well at this time they're under contract to do it by December 31st and boy do I hear a lot about how unrealistic that is. They point to the escape clause in their contracts which says provided that Premera throws open their doors and all their documents retroactive to about a year ago. It's not quite like that but you get the drift. (laughter from audience) We need, as I indicated at the previous meeting, we need the full cooperation of Premera with respect to access to the documents. Alaska's confidentiality laws with respect the insurance records was substantially overhauled last legislative session and we believe that we have a very tight protection for those documents that the applicant can justify that need protection from public exposure. For example, competitors of a health insurer, would love to know the details of their pricing structure and their costs and that kind of thing. It would be an enormous competitive advantage for someone to know that.

That type of information upon a showing by Premera Blue Cross Blue Shield that it is competitively sensitive or is a trade secret; I have the authority to declare that stuff confidential. And examination work papers for the examination that Mr. Jordan mentioned are also confidential. There is a good reason for that; it is necessary to do that to protect the applicant's records. That avoids a lot of the discussion and debate that is going on in Washington state over what happens to documents if the consultants get their hands on them. Does that become a vehicle for public access to the documents simply by virtue of the consultants having them. If so you can well imagine an applicant might be concerned about what gets made available to the consultants. Fortunately, that is not our battle. We do not have a "dog in that fight." I believe our confidentiality statute is solid and I think Premera in principal has agreed with that. As a result I think we'll have an easier time of access to the public documents. However, some of that is still in negotiation and to the extent that we're coordinating with Washington state, we want to consider all of those factors. Bottom line is I expect that we will need to extend the deliverable date in our contracts into January 2003, but exactly how long I think is still something we're considering.

DENNIS MURRAY:

Which raises a couple of other questions, one of which is that I assume Washington state has those consultants as well. From what I've gathered so far they were a little bit ahead of us in moving forward with this or maybe we're on the same . . . exactly the same place? So they have asked consultants as well, do they have a time line or you spoke of coordination of the effort?

BOB LOHR:

They have their own consultants. In some cases consultants work for both Washington and Alaska where there is allied interest it makes good sense to have one consultant working for both, we get better results, there is no conflict in the record, and its more economical. But in other cases where Alaska's interests diverge from those of Washington state, we have our own consultants, and we're very proud of the team we've been able to put together. We are represented in the legal area by LeBoeuf, Lamb, Greene and McRae, perhaps the largest insurance legal team in the world. Other excellent consultants, I'll kind of run down a list of those later.

But I would say, if anything, we're ahead of Washington state with respect to the consultants work for some of the reasons I identified. With respect to community meetings, they've had four and we've only had two, so we have some catch up to do there too. But then of course that is a larger state with more diversity in terms of who Premera serves there. Like I say, we're going to meet Thursday with Mike Kreidler's staff specifically to talk about coordination of timing. For the same reason that it doesn't make a lot of sense to have opposite decisions from the regulators in each state, it doesn't make a lot of sense for us to get to conclusion of a regulatory proceeding without taking account of where the other one is. Perhaps it ought to be one regulatory proceeding.

In any case, questions like valuation, well that depends on any given day. If you're a month later with your valuation estimate than the other side, then reconciliation of those values is very difficult to do. I'm talking about the preliminary phase of valuation where you want to know what is the estimated value of the company. Ultimately, I do believe that the valuation by the stock market is the one that really matters.

DENNIS MURRAY:

I think to your point, coordination is critical in that regard, and certainly not having two different trigger dates in terms of one making decision and the other one being 30 days out from that. I think that creates the uncertainty and ultimately for those that are interested in the foundation aspect and the valuation and the ultimate charitable trusts, all of these things become important if you make the process elongated to the point where it's paralyzed, it doesn't serve a purpose either way. So I guess I encourage that. I was a little bit confused, you mentioned about the examination, that there were some time constraints within that, but then again the latitude is there to wait for the . . . , if I'm understanding correctly, to wait for the consultants to complete Do you have time, once that's done then a trigger starts? Or again it's something you make the decision when you're going to close?

BOB LOHR:

The examination itself, whether it is the financial examination or the market conduct examination, will not be completed until the consultants reports are completed. Those will be a central part of the examination of the applicant's conduct and its finances. As a result, there is no deadline for how quickly we do the overall report. From the time the report is completed is when clock starts, and there is nothing in the examination timetable, correct me if I'm wrong Gloria, that is any more restrictive than the restrictions

that are already there within the timetable for how quickly we must process an applicant's request.

DENNIS MURRAY:

You mentioned 60 days. Is that the constraint?

GLORIA GLOVER:

For the exam?

DENNIS MURRAY:

No once it is complete, the consultant's report's in and you have it for deliberation.

BOB LOHR:

With respect to the applicant, the application, the so called Form A, from the time the division deems the application to be complete, we have 60 days to say yes or no.

DENNIS MURRAY:

Thank you very much. Ms. Derr mentioned about a task force and the gentleman from the Rasmusson Foundation, if that's given your regulatory capacity, you really can't impanel a separate group to kind of look over your shoulder for a task force, so any task force would emerge from the constituencies that might form them?

BOB LOHR:

I think that's a fair statement. We would welcome public oversight in whatever form it takes, of this proposed transaction. I believe that we've indicated that would be genuinely beneficial to the process. For us to actually convene it I think does raise some issues of what the roles are.

DENNIS MURRAY:

Okay. Thank you very much.

BOB LOHR:

You're welcome. Next we have Mr. George Larson.

UNKNOWN:

He had to leave.

BOB LOHR:

Okay, and he represented Valley Hospital I believe in Palmer? Next is Mr. Mitchell Godfred? Next up after Mr. Godfred would be Representative Cissna. Do you want to join us?

MITCHELL GODFRED:

Thank you. My name is Mitchell Godfred, I'm the president of Arctic Circle Enterprises and also principle owner in the company. We're a 48-year-old company that's headquartered here. We have 150 employees total--65 in Anchorage, the remainder in Kent, Washington. We've been a customer of Blue Cross for probably 15 plus years.

Our records only go back 12 years that we have. Every year we continue to get beaten up with huge price increases and it's a major burden on a company, an independent company. Nowhere in any of these conversations have I heard that any one is looking out for the employer. I think your proposal is totally outrageous. I think from the standpoint that people who have been employers who have been paying into this for many years like myself and many other companies, we should be issued stock in this entity. This stock could be used to offset the price increases that come at us every year. This is also besides being an anti-employer proposition, it is also anti-employee of the company because the employees in the end when you keep jamming us with these huge increases, the employees in the end—it has to be passed down the system for independent companies to survive. I have not seen in any way in all this conversation here the whole concept of a viable company of the business community has not been addressed. I think it's totally outrageous. Thank you. And I also urge any other employers here to please let yourself be known because I don't see that as being happening.

BOB LOHR:

Thank you very much for your comments. Representative Cissna? You want to stay right there?

SHARON CISSNA:

I'll stay right here. Very nice. Thank you. She's not going to let me.

BOB LOHR:

No sorry. We are a victim of electronic technology.

SHARON CISSNA:

And I have to spread out. I liked that place.

BOB LOHR:

Were you a part of the process of approving this furniture change?

SHARON CISSNA:

I was not a part of it. It looks good. Speaking of conversions from a table to a . . . Speaking of conversions, the last hearing that you held was approximately a month ago, correct? I have a strong suspicion that many, many people in this room know things now that they did not know a month ago. In that month I recall that I spoke to you and I said that it was my feeling that the problem was much bigger than it had been reported or that anyone had done any estimates of or even survey of. I continue to think that. I also said that I would bring today a recap of the "mission possible" which was the forum that we had on October 19th which talked about access to health care and the fact that it was a mission possible. And just to recap the recap of a recap because that's what I'm doing right now to make it short enough and it only takes three pages here in the report that I'm going to give you. The four groups that broke out after having Director Bob Lohr talk about what this conversion was, and for many folks that were at that forum it was in fact the first time that they had heard about the conversion and really came to understand that we were talking about moving from non-profit to profit. And that by itself sounds kind of simple, moving from non-profit to profit and yet we're really talking about maybe

even generations of developing what non-profit means, and the fact that it is consolidation of charitable money that is moving into for-profit, which doesn't mean charitable at all. And speaking as a former fund raiser for mostly non-paid but for numerous non-profit organizations, it's finite in Alaska and it is finite in Alaska because . . . and this is something I just realized listening to some of these comments, that's real precious money in Alaska because we have such a high turn over and with high turn over that means people are here for a very short period of time, and they don't have real large investment in the community, and when people don't have big investment in the community, it's hard to get money out of them for the big problems that are community problems. This recap really does address the problem that we, I think, face with losing our largest non-profit that is dealing with health care.

In this document there is the legislative solutions was one of the break out groups, the public solutions as in for profit solutions to health care, senior issues and charitable, charitable as in the proposal that has been worked on now about three years by the Anchorage Access to Health Care Coalition Group which is a . . . I don't think they're a non-profit group I think they are just an organization that is working on this problem. This talks about that each of the groups comes up with and I'm not going to read it or try to say anything more than just a real brief explanation of what each of the groups did, was tried first of all to look at the scope of the problem. To develop what that scope was in the narrow interest that they were talking about, and then come up with possible suggestions and then develop action steps. Those are really kind of a template to how to deal with the enormous problem. Its more enormous this month than it was last month. It's growing every month and the former speaker testified to exactly just how severe that problem is and who it's hitting? It is hitting working Alaskans, as well as folks that have lost their jobs. So when as I read more and more I look at what a huge problem this is. As my personal testimony, I can only say, we need more education of the public in the next months so that they can weigh in on this problem. And weigh in on what this means to Alaska. We need to look at a lot more than we have to assess whether or not it's a good idea, and then we need to look at how do we make sure that if in fact a foundation that the charitable foundation is formed out of this conversion, should it happen, that it really does represent all Alaskans, and that we represent the need for Alaskans to be able to live in this place that is so far away from the rest of the country in a healthy way, with health care available for everyone, not just the people coming to the emergency room, because that's what we've got right now. Thank you very much.

BOB LOHR:

Thank you very much for your comments Representative Cissna.

SHARON CISSNA:

And I've left over there . . . Can I add one thing. Pardon me. We did get a fax that was sent by one of the people that has been coming to our affordable health work group, and she said that she was not be able to be here today but that she wanted to say that quote "I have not heard anything about the proposed shift until this morning." In other words she's one of the people that has not heard anything about the conversion. "I would like to see the decision delayed until individuals such as myself understand the pros or cons of such a move. I believe that this needed information would better inform me of decisions

I make regarding my future coverage with Blue Cross. I am sorry that I cannot make this meeting, but hope that you can relay my message to the group and those concerned. Sincerely, Margaret Webber, Executive Director for Alpine Alternatives, Inc.” and with that I would like to conclude my comments and thank you very much.

BOB LOHR:

Thank you. I don't know whether Ms. Webber saw the Anchorage Daily News article this morning or not, but we certainly do appreciate the efforts of the Anchorage Daily News to cover this entire process of the proposed conversion. It was most helpful to have that thoughtful article, in depth, and the picture was very nice also. (laughter from audience)

Moving right along here. I believe next we have Steve Cleary, new Executive Director for AKPIRG. Next after that would be I believe Mr. Nelson Page. Please proceed.

STEVE CLEARY:

Good afternoon Commissioner Lohr, Mr. Barlow, Mr. Domieka. Thanks again for having us here. This has been very informative for me. I'm catching up a little bit on health care stuff—haven't dealt with it for a while, so a lot of my concerns and a lot of the questions I had have already been addressed. I as well read the ADN article and it finished with you talking about scheduling another hearing and I'm glad that has happened.

One concern I guess I would direct directly towards you and obviously here in Alaska we use teleconferencing a lot, but as we saw this morning only one person participated from the Valley, and I'm curious - I would assume since Premera Blue Cross has 110,000 customers here in Alaska and that half of those probably reside outside of Anchorage. I could be wrong on that but what I'm getting to is it would be nice to see more meetings perhaps in Juneau, Fairbanks, Kodiak, Unalaska, some smaller communities as well-- particularly hub communities, in order that the entire state can be involved in the process. There is only so far teleconferences can go and I'm afraid that if we just have meetings here in Anchorage and teleconference them we're not going to be reaching as much of the state as we should.

As Mr. Sykes mentioned, and I would like to go along with that, what AKPIRG, who I work for, would like to see is a move toward universal health care access, and anything that this merger, or this conversion I should say, could do to promote that would be beneficial for Alaskans. And that being said, it's the charitable trust I believe that would have the health initiatives that would be able to promote a universal access for all people in Alaska. What I'm concerned about, among the other concerns that have been raised with the conversion, is that Premera would then move only to markets in Alaska where they could make a profit leaving a lot of other folks uninsured whereas now they might, as a non-profit, might be able to insure folks who aren't, I guess I would say, marketable or who aren't able to secure other insurance at affordable rates, and so I'm concerned that maybe even if the rates didn't go up that Premera would choose only to insure those folks or those entities where they could make a profit.

I guess my final two questions which maybe Commissioner Lohr could answer or as well as Blue Cross Blue Shield. I read in the article that the Washington . . . , and I might have the wrong association, Washington Medical and Hospital Association opposed the conversion, but it didn't go into detail into why that was and if I'm misspeaking you can correct me but that is what it said in the article.

The second questions is, I think you addressed that earlier, but if Premera Blue Cross Blue Shield was going to be bought out by another entity, another insurer, that would obviously affect health care rates in Alaska. Would the Division of Insurance or the state in any way have mitigation in that or would Alaska, kind of like the employer, Arctic Circle Enterprises employer, was stating would there be some mitigation for Alaskans if the rates were to rise because of Premera being sold to another entity? And with that I'll conclude and thanks again for your time.

BOB LOHR:

Thank you very much Steve. I would just note that airline deregulation is probably one of the classic examples of hard-to-serve markets being affected by deregulation. My understanding of this proposal is that it is not deregulatory in nature. Insurance companies by their nature, including health insurers, are closely regulated by the government in the public interest and this does not, although this is a different category of regulation by a profit-making health insurer, than for a non-profit under the Alaska law, it is by no means anything that I could characterize as deregulatory. That is why my question about the appropriateness of some conditions on any conversion approval if one were ever granted is extremely important. Because it's not a proposal to deregulate and doing that does raise some of the risks that you addressed. I wouldn't say it is a panacea if it is regulated, but these providers of last resort-type issues come up in telecommunications regulation and public utilities regulations all the time and making sure that there is someone there to serve the market no matter how difficult it may be is an extremely important element to public policy.

END OF TAPE ONE

TAPE TWO

BARBARA KARL:

Okay. We're back on record.

BOB LOHR:

Thank you. Is Mr. Nelson Page still with us? He indicated a desire to testify. If not is there anyone that has not signed up or that I missed that wants to testify at this time? Any other witnesses in Anchorage? Any other commenters, or for that matter questioners? Please? Pat? Pat Sinter, welcome.

PAT SINTER:

I'm Pat Sinter, President of Alaska Nurses Association, who has not taken a formal position on this conversion. We have a vested interest in this; however, from three

standpoints. One is Blue Cross Blue Shield is our provider for health care for our small business, so we are concerned that small businesses still have access to affordable health care.

Our second interest, of course, is that nurse practitioners are independent health care providers. We always get concerned that if somehow in converting “to-profit” that independent nurse practitioners may be somehow maneuvered out of the market even though we are cost effective health care provider.

Our third concern is that everyone else has expressed here today that somehow its going to reduce the access to health care insurance for the average individual in Alaska and increase its cost. I think we’re all a little befuddled like Representative Crawford is that where is the math in this and hopefully your consultants will say how is it they are going to increase the profitability without a cost to the provider or to the businesses. That’s all I had to say.

BOB LOHR:

Thank you very much for your succinct remarks.

LEN KLASSERT:

My name is Len Klassert, General Manager for a company called David Green Group. We have been subscribers to Blue Cross now for several years. I want to echo some of the same comments that Mr. Godfred presented with Arctic Circle Enterprises also. The increases that we see each year become a bigger burden to all of us, as employers, also as employees. We have seen one increase on top of the other now for the last three years. The concern that we’ve got is small employers like ourselves are increasingly challenged with how to make a profit as well. With this conversion that is being proposed we would like to see how this is all going to dovetail into the employers as well as the employees too as far as their future cost benefit from this conversion. We have made every attempt to offset some of the increases in the past few years, and that’s by dropping options, is one of the things we do. Which is not really all in the best interest of all the employees but in order to try to control the costs for the company and everything that is what we have had to do. This past year, this is the first time that I’ve had a number of employees drop coverage because they just could not afford it anymore. In the past usually I’ve gotten new sign ups, new enrollments, but this is the first time I have not seen that. That is a concern going forward with this conversion also. I wanted to bring that up as an employer here in Anchorage and the state of Alaska too. There are a lot of us out there who are faced with the same situation and everything. I’ve talked to many of them. We don’t have a solution either, but our concerns are going forward you know with this conversion. But don’t forget about all of us out here too. Thank you.

BOB LOHR:

We remember you. Can I get the spelling of your last name for the record please?

LEN KLASSERT:

K L A S S E R T

BOB LOHR:

Thank you very much. Anyone else from Anchorage that wants to weigh in on this subject at this time? If not, is there any one else on the teleconference that would like to comment or ask a question?

BARBARA KARL:

For the record, would you like to (indisc.) what sites we've had on?

BOB LOHR:

Sure. I think I could do that. Today, on-line, at various times we have had, of course, Anchorage, Fairbanks, Mat Su, and Ketchikan. Well, I could make a few more structured remarks concerning the process, if you like. They will be somewhat similar. My lawyer says no, don't go there. (laughter from audience) Well just to show that we're not foolish slaves to fashion or to legal advice, since I made you the offer I will proceed. He may cringe if he wishes.

We have received a Form A filing, which is the application used to consider this proposed conversion. We have received a courtesy copy of the Form A filing, which is the same as that which was filed in Washington state, Oregon, and Idaho. The Form A has already been amended, and we expect that it will be amended again as the review process continues. That is quite typical of any proceeding of this degree of complexity. As I mentioned, we are coordinating our review with the review occurring in Washington state. This is being done to insure efficiency, to keep the schedules coordinated, and to share information and insight between and among the regulators. Recently I signed a regulatory cooperation agreement with Washington state and forwarded it to the Commissioner of Insurance in Oregon, and upon signature there it will proceed to Idaho. Upon signature by all four chief insurance regulators in those states we will have a formally defined mechanism for cooperating among the regulators that are at the heart of this decision. The primary role, as we have recognized it, is Washington state as the lead regulator for the domestic . . . the place where Premera Blue Cross is domesticated.

Concerning consultants, we have consultants to help us with the due diligence and to develop the rationale for the split of the stock between the proposed Alaska foundation and the Washington foundation should the transaction be approved. I take it that the creation of the foundation is conditioned on the success of the proposal. (laughter from audience)

G. BARLOW:

Yes. Yes.

BOB LOHR:

Just checking. We gratefully accept charitable donations on behalf of Alaska charities as well. Our investment banker is an outfit called Signal Hill. The gentleman that is the principal there is Tom Johnson. Tom Johnson was closely involved in other proposed conversion proceedings including that in Wisconsin, which as the paper mentioned this morning, is the place where the proceeds from the sale were split between the two medical schools.

Our actuaries--just hired for Alaska's benefit are Reden and Anders. Which is based on the corporate shifting of boxes is the health practice, the actuarial health practice from Tillinghast is now in the form of Reden and Anders. They are our new actuarial consultants.

The economists for this transaction are Peterson Consulting, which I believe is a branch of Navigant Consulting. Our attorneys, as I mentioned earlier, are LeBoeuf, Lamb, Greene, and McRae, operating out of, for purposes of this transaction, New York and San Francisco.

The domestic application of Premera has, at the suggestion of the division, applied to create a domestic company within Alaska. Its good for business, we're part of the Department of Community and Economic Development. We'd like to see those that are doing business in Alaska to have some "skin in the game" and have some employees up here, which they have for some time but being domesticated is a step toward additional economic investment in Alaska. We're glad to see that is a part of this proposal, and is tied to again whether or not the proposal is successful. On that aspect of the application, we expect to be able to move more quickly than Washington state, because Washington state does not face a comparable application to create a domestic down there. If we decide to license this shell entity, if you will, this domestic entity, it will be tied, we expect, to the success of the proceeding. That is it is not something that is proposed as a stand-alone transaction.

On the timing--I've already covered that in some depth, so I won't reiterate those points here. We will accept public comment from now until the public meeting is held. Comments in writing may be addressed to the Alaska Division of Insurance, 550 West Seventh Avenue, Suite 1560, Anchorage, AK 99501, the Atwood Building. We have a comment line, a local number in Anchorage, it is 269-7895. We are also using, I believe, our consumer protection line for calls from outside of Anchorage to be toll-free, and that is 1-800-INSURAK. We are accepting questions that are related to the process or comments. We are not trying to answer those at this time. With that I will give you one final opportunity. Mr. Atwood?

NICK ATWOOD:

Yes, I want to mention we have a lot of information on our website as does Washington.

BOB LOHR:

Okay, good point. Our website is www.DCED (that's David, Charlie, Echo, David) or Department of Community and Economic Development.

www.dced.state.ak.us/insurance

That is the homepage for the division and if you get that far, then there will be an icon on there for Premera Blue Cross proposed transaction for conversion. That will lead you to lots of documents. As we get additional documents, which are public, we will be posting those on the web. As I mentioned, we anticipate putting the transcript of the previous meeting on the web as soon as we are able to review the transcript for this proceeding, we will put that on the web as well.

Washington state, I don't think I can do that one from memory. It's a typical state government web address. John, do you want to try it?

JOHN DOMEIKA:

I can't remember.

BOB LOHR:

Okay. If any of you need that, feel free to give us a call at the division: 269-7900. Do you have it Scott?

(indisc.)

Okay. That was for the record. www.insurance.wa.gov
There's a wealth of information. If that is not enough to satisfy you, call us and we'll find some more documents. (laughter from audience) Last chance for comments or questions from anyone on the Premera proceeding. Nick?

NICK ATWOOD:

I'm reminded that Premera also has a website where they might put information on it as well, so . . .

BOB LOHR:

And I'll bet they know the website address for that one.

SCOTT:

www.premera.com

BOB LOHR:

Okay. www.premera.com We will keep the record open until 2:00 o'clock today for any additional comments since we've advertised the public meeting to run that long. And Representative Cissna?

REPRESENTATIVE SHARON CISNA:

Thank you. Before people put away their pens, for the kind of the minority citizens information that we've been able to collect, there's another place to call and ask for information. Our phone number is 269-0190. Thank you again it's the (indisc.) state representative office. Thank you.

BOB LOHR:

Thank you very much for taking the time to come today to this proceeding. I hope the kudos that we've received for extending the schedule do reflect the fact that we're serious about public involvement and we do respond. We couldn't have done that without you. In other ways, as we get more substantive, I hope you'll see that the division is trying to respond to your concerns and to make sure that they are reflected in the record and ultimately in the decision. Thank you very much. We're off record. We're recessed until we have additional witnesses.

BOB LOHR:

Okay. We're back on the record. It's approximately 2:00 p.m. It's still Tuesday, November 19th, 2002. And at this time I want to find out if there are any additional witnesses that wish to be heard on the question of the proposal by Premera Blue Cross Blue Shield to convert from nonprofit to profit status. I see no one in Anchorage, and I believe there is no Legislative teleconference sites left on line, but in case anyone has called in, is there anyone on-line that wishes to testify or raise questions at this time? Hearing and seeing no one we will close the record on the public meeting by the Division of Insurance at 2:02 p.m. on November 19, 2002. Thank you very much.

END OF TAPE