Approved Jan. 26, 1983
Date

MINUTES OF THE House COMMITTEE ON Pensions, Investments and Benefits.

The meeting was called to order by Rep. Bob Ott at
Chairperson

9:05 a.m./~~p.m.~~ on January 25, 1983 in room 527-S of the Capitol.

All members were present except:
Rep. Laird (Excused)
Rep. Francisco, Rep. Meacham and Rep. Whitaker

Committee staff present:
Richard Ryan, Louis Chabira and Ed Ahrens, Legislative Research Department

Gordon Self, Revisor's Office

Conferees appearing before the committee:

Richard Brock, Office of the Commissioner of Insurance

The meeting was called to order by the chairman. The minutes of the January 21 meeting were approved.

Chairman Ott then turned the meeting over to Mr. Richard Brock from the Commissioner of Insurance office, to outline the state health insurance package. Mr. Brock discussed the procedures of bidding, the authority of the Surety Bonds and Insurance Committee as set by statute, and the eligibility requirements for the insurance plan. Atch. A

The meeting was adjourned at 10:10 a.m. The next meeting will be January 26, at 9:00 a.m. in Room 527-S.

Bob Ott
Bob Ott, Chairman

GUEST LIST

COMMITTEE: Pensions & Investments DATE: Jan 25, 1983

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
George Welch	Topeka	DofA
Carl Dell	"	" Personnel
Ruth Friedlund	"	Am. Association of University Professors
Juanita DeMotte	"	Kansas Hosp Assoc
Betty Wilkins	"	Girl Scouts
Jo Ann Klesath	"	KAPE
Herb Nunemaker	"	Kan Highway Patrolmen
John D McNeal	"	self
Jack Roberts	"	BC-BS

REMARKS BY

RICHARD D. BROCK
COMMITTEE ON SURETY BONDS AND INSURANCE

BEFORE THE

SPECIAL COMMITTEE ON STATE HEALTH INSURANCE
TOPEKA, KANSAS

SEPTEMBER 9, 1982

Atch. A

THANK YOU MR. CHAIRMAN -- MEMBERS OF THE COMMITTEE. I AM DICK BROCK OF THE INSURANCE DEPARTMENT. TODAY, HOWEVER, I AM WEARING A SLIGHTLY DIFFERENT HAT BECAUSE I AM APPEARING AT THE REQUEST OF THIS COMMITTEE AS A REPRESENTATIVE OF THE STATE COMMITTEE ON SURETY BONDS AND INSURANCE. BY STATUTE THE COMMISSIONER OF INSURANCE CHAIRS THAT COMMITTEE. THE ATTORNEY GENERAL AND THE STATE TREASURER ARE STATUTORY MEMBERS. THE DIRECTOR OF PURCHASES IS EX-OFFICIO SECRETARY.

THE COMMITTEE ON SURETY BONDS AND INSURANCE WAS CREATED BY

THE 1965 LEGISLATURE AND, WITH FEW EXCEPTIONS -- KPERS AND THE TURNPIKE AUTHORITY ARE THE MOST NOTABLE -- NO STATE AGENCY MAY PURCHASE INSURANCE WITHOUT GOING THROUGH THE COMMITTEE.

WHILE THE COMMITTEE WAS CREATED IN 1965, A GROUP HEALTH INSURANCE PLAN DIRECTED BY STATUTE AND UTILIZING STATE PREMIUM CONTRIBUTIONS on behalf of employees WAS NOT A PART OF THE COMMITTEE'S RESPONSIBILITIES UNTIL 1969.

WHEN GROUP HEALTH INSURANCE FOR STATE EMPLOYEES WAS FIRST EMPLOYED, IT WAS PRIMARILY AN ACCOMMODATION TYPE OF PROGRAM. INDIVIDUAL STATE AGENCIES WOULD ARRANGE FOR THE PURCHASE OF GROUP COVERAGE -

- EMPLOYEES ENROLLED IF THEY WISHED TO DO SO -- PREMIUMS WERE PAID INDIVIDUALLY BY ENROLLED EMPLOYEES -- AND THE STATE ITSELF WAS NOT INVOLVED. IN ABOUT 1967 (I'M NOT CERTAIN OF THE EXACT TIME BUT THIS IS CLOSE) THE DEPARTMENT OF ADMINISTRATION NEGOTIATED AND ESTABLISHED A STATE GROUP HEALTH INSURANCE PROGRAM THAT INCLUDED ALL STATE EMPLOYEES AND THE INDIVIDUAL AGENCY GROUPS WERE DISBANDED. ONCE THIS STATE GROUP HEALTH INSURANCE PLAN WAS DEVELOPED AND EMPLOYEES WERE UTILIZING IT, IT WAS ONLY NATURAL THAT SOME KIND OF EMPLOYER CONTRIBUTION WOULD EVOLVE. SUCH EVOLUTION DID OCCUR WHEN THE 1969

LEGISLATURE PLACED RESPONSIBILITY FOR THE PURCHASE OF GROUP HEALTH INSURANCE COVERAGE WITH THE COMMITTEE ON SURETY BONDS AND INSURANCE AND PROVIDED FOR STATE PAYMENT OF THE SINGLE MEMBER PREMIUM.

SINCE THAT TIME THE STATUTES GOVERNING THE PURCHASE OF HEALTH INSURANCE HAVE BEEN AMENDED IN SOME RESPECTS BUT THE MANNER IN WHICH THE INSURANCE IS PURCHASED AND THE BASIC PROPOSITION THAT THE STATE PAY THE SINGLE MEMBER PREMIUM HAS NOT CHANGED.

FROM ITS INCEPTION THE STATUTES GOVERNING THE COMMITTEE'S ACTIVITIES HAVE REQUIRED THAT INSURANCE BE PURCHASED IN THE MANNER

PRESCRIBED FOR THE PURCHASE OF SUPPLIES, MATERIALS, EQUIPMENT OR CONTRACTUAL SERVICES UNDER K.S.A. 75-3738 TO 75-3744. THESE ARE, OF COURSE, THE GENERAL PURCHASING STATUTES WHICH, IN TURN, MEANS THAT ALL INSURANCE PURCHASED BY THE COMMITTEE, INCLUDING ACCIDENT AND SICKNESS, IS PURCHASED ON THE BASIS OF COMPETITIVE BIDS. TO ACCOMPLISH THIS TASK WITH RESPECT TO THE PURCHASE OF ACCIDENT AND SICKNESS COVERAGE, THE COMMITTEE BEGINS THE PROCESS IN MARCH OR APRIL OF EACH YEAR BY HOLDING A MEETING TO DISCUSS THE BID SPECIFICATIONS TO BE DEVELOPED FOR THE NEXT CONTRACT YEAR. INVITED TO ATTEND

THIS MEETING OR INVITED TO OFFER COMMENTS OR SUGGESTIONS ARE REPRESENTATIVES OF ALL THE CURRENT CARRIERS AS WELL AS REPRESENTATIVES OF COMPANIES AND ORGANIZATIONS THAT HAVE EXPRESSED INTEREST IN BIDDING ON THE CONTRACT. USING LAST YEAR'S MEETING AS AN EXAMPLE, KANSAS BLUE CROSS AND BLUE SHIELD, PRIME HEALTH OF KANSAS CITY, HEALTH CARE PLUS OF WICHITA, FAMILY HEALTH PLAN OF NEWTON, AND AN AGENT REPRESENTING CONTINENTAL NATIONAL AMERICAN INSURANCE GROUP WERE IN ATTENDANCE. IN ADDITION, THE COMMITTEE HAS TRADITIONALLY INVITED OR ASKED FOR SUGGESTIONS FROM SOME OF THE LARGER STATE

AGENCIES BUT THIS HAS NOW BEEN SIMPLIFIED BY THE STATE PERSONNEL DIRECTOR'S APPOINTMENT OF AN INFORMAL EX-OFFICIO BENEFIT REVIEW COMMITTEE. AGAIN, USING LAST YEAR'S MEETING AS AN EXAMPLE, THE BENEFIT REVIEW COMMITTEE WAS REPRESENTED BY TWO MEMBERS OF THE STAFF OF THE PERSONNEL DIRECTOR AS WELL AS PERSONNEL OFFICERS FROM KU, SRS, DOT, AND THE DEPARTMENT OF REVENUE. FINALLY, THE SPOKES-PERSON FOR THE KANSAS ASSOCIATION OF PUBLIC EMPLOYEES IS ALWAYS INVITED TO OFFER SUGGESTIONS AND BOTH SHE AND AN OFFICER OF HER ASSOCIATION WERE IN ATTENDANCE. IN ADDITION TO THE COMMITTEE

MEMBERS OR THEIR REPRESENTATIVES, PERSONS FROM THE DIVISION OF ACCOUNTS AND REPORTS AND THE ACCIDENT AND HEALTH AND CONSUMER ASSISTANCE DIVISIONS OF THE INSURANCE DEPARTMENT REPRESENTED THE STATE. THIS MIX OF INTERESTS GIVES THE COMMITTEE INSIGHT INTO PROBLEMS WITH THE HEALTH CARE PLAN THAT ARE OF A RECURRING NATURE AND ENABLES THE COMMITTEE TO ADJUST THE SPECIFICATIONS OR ADMINISTRATION OF THE PLAN TO ALLEVIATE UNNECESSARY DIFFICULTIES WHETHER THE DIFFICULTY IMPACTS ON A CURRENT CARRIER, POTENTIAL BIDDER, ~~OR~~ STATE EMPLOYEE, or the state itself. FOLLOWING THIS PLANNING SESSION AND ARMED

WITH THIS INPUT, THE COMMITTEE AUTHORIZES THE DIRECTOR OF PURCHASES TO PREPARE THE SPECIFICATIONS IN ACCORDANCE WITH ANY INSTRUCTIONS EMANATING FROM THE PLANNING SESSION. ONCE THE SPECIFICATIONS ARE PREPARED AND APPROVED BY THE COMMITTEE THEY ARE DISTRIBUTED WITH AN INVITATION TO BID TO APPROXIMATELY SEVENTY-FIVE INDIVIDUALS AND ORGANIZATIONS WHO HAVE EXPRESSED AN INTEREST IN RECEIVING THE MATERIAL -- YOU WILL NOTE I SAID, INTERESTED IN RECEIVING THE MATERIAL. EXPERIENCE HAS TOLD US THIS IS NOT EVEN CLOSE TO BEING SYNONOMOUS WITH AN INTEREST IN BIDDING. BE THAT AS IT MAY, THIS

DISTRIBUTION IS COMPLETED IN APRIL AND THE BID OPENING IS SCHEDULED FOR THE FIRST PART OF MAY. BARRING COMPLICATIONS, THE AWARD IS MADE SHORTLY THEREAFTER. AN OPEN ENROLLMENT PERIOD IS THEN SCHEDULED DURING THE LATTER PART OF MAY AND THE MONTH OF JUNE FOR THE NEW CONTRACT WHICH BECOMES EFFECTIVE AUGUST 1 OF EACH YEAR.

THAT, IN ESSENCE, IS THE PROCUREMENT PROCESS BUT THE FACT THAT WE SELDOM HAVE MORE THAN ONE BIDDER -- AND I CAN'T REMEMBER WHEN WE HAD MORE THAN TWO SERIOUS PROPOSALS -- TELLS ALL OF US THAT THE PROGRAM IS NOT ATTRACTIVE TO VERY MANY PERSONS OR ORANIZATIONS.

INCIDENTALLY MY REFERENCE TO ONE BIDDER AND MY COMMENTS FROM HERE FORWARD WILL LARGELY IGNORE THE FACT THAT THREE HEALTH MAINTENANCE ORGANIZATIONS CURRENTLY HAVE CONTRACTS WITH THE STATE. WHILE THESE ARE IMPORTANT AND I DO NOT MEAN TO DISMISS THEM LIGHTLY, THE BULK OF THE STATE GROUP IS COVERED BY KANSAS BLUE CROSS AND BLUE SHIELD. THUS, FOR PURPOSES OF MY STATEMENT TODAY AND I BELIEVE FOR PURPOSES OF THIS COMMITTEE'S WORK, THE CONTRACTS OF KANSAS BLUE CROSS AND BLUE SHIELD ARE DEEMED TO CONSTITUTE THE PRIMARY STATE HEALTH PLAN. PURSUANT TO THE STATUTES GOVERNING THE COMMITTEE'S ACTIONS, WE

PRESCRIBE THE INSURANCE CONTRACT THAT DESCRIBES THE SUBSTANCE OF THE BASE BID. THIS IS AN INDEMNITY CONTRACT THAT IS, IN EFFECT, A MIRROR IMAGE OF THE EQUITABLE LIFE INSURANCE SOCIETY'S CONTRACT FIRST ISSUED TO THE STATE GROUP. ABOUT ALL WE DO TO IT IS ADJUST THE DOLLAR AMOUNT OF THE BENEFITS TO APPROXIMATE CURRENT NEEDS.

WE DISCOVERED EARLY IN THE GAME, HOWEVER, THAT MANY INSURERS WILL NOT BID ON A CONTRACT DEVISED BY SOMEONE OTHER THAN THEMSELVES. AND IF THEY DO AND ARE SUCCESSFUL, THEY HAVE PROBLEMS WITH ADMINISTRATION BECAUSE THEIR CLAIMS PEOPLE ARE UNFAMILIAR WITH ITS TERMS.

BECAUSE OF THIS PROBLEM THE COMMITTEE NOT ONLY PERMITS BUT ENCOURAGES COMPANIES TO BID ON AN ALTERNATE BASIS. THIS MEANS THEY CAN BID ON THEIR OWN CONTRACT IF THE COVERAGE RESULTING IS EQUIVALENT TO THAT REQUESTED BY THE BASE BID AND MEETS OTHER CERTAIN PRESCRIBED CONDITIONS. AS IS OBVIOUS FROM THE LIMITED NUMBER OF BIDS WE RECEIVE, HOWEVER, THIS WAS NOT A PANACEA. COMPANIES ARE STILL RELUCTANT TO BID. WHILE I HAVE NO SCIENTIFIC SUPPORT FOR THIS STATEMENT, IT SEEMS RATHER APPARENT THAT ONE OBSTACLE IS THE FACT THAT MOST COMPANIES ARE RELUCTANT TO COMMIT THE RESOURCES NECESSARY TO

ADMINISTER A GROUP OF THE SIZE AND GEOGRAPHIC SPREAD PRESENTED BY STATE EMPLOYEES WITHOUT SOME ASSURANCE THAT THEY WOULD HAVE MORE THAN ONE YEAR TO RECOUP THEIR INVESTMENT. AT THE SAME TIME THE INCREASING COSTS OF HEALTH CARE MAKE IT VIRTUALLY IMPOSSIBLE FOR AN INSURER TO BID ON A MULTI-YEAR CONTRACT AND GUARANTEE THE RATES FOR THE ENTIRE TERM. ON THE OTHER HAND, THE COMMITTEE FEELS IT HAS AN OBLIGATION TO BE CERTAIN THE PREMIUM IS AS LOW AS CAN BE OBTAINED UNDER THE BIDDING PROCEDURES. THEREFORE, THE POSSIBILITY OF REMOVING THE ONE YEAR OBSTACLE TO ENCOURAGE MORE INTEREST IN

THE STATE GROUP IS REMOTE. THIS IS, I BELIEVE, A REAL PROBLEM

AND AS LONG AS WE INSULATE THOSE RESPONSIBLE FOR PURCHASING THE

INSURANCE FROM POSSIBLE PUBLIC AND POLITICAL CRITICISM BY USE OF

A MULTI-MEMBER COMMITTEE AND THE BIDDING PROCESS -- WHICH, I THINK

YOU WILL AGREE, HAS WORKED WELL -- THIS PROBLEM MAY BE ONE OF THOSE

PRICES WE MUST PAY.

I DO NOT BELIEVE, HOWEVER, ~~THIS~~ IS BY ANY MEANS THE MOST SERIOUS

PROBLEM WE FACE. A MORE SERIOUS PROBLEM IS THE SIMPLE FACT THAT

THE STATE HEALTH INSURANCE PLAN HAS NOT BEEN A MONEYMAKER.

THE STATE GROUP HEALTH INSURANCE PLAN COVERS MORE THAN 30,000 STATE OFFICERS AND EMPLOYEES -- AND THIS IS EXCLUSIVE OF DEPENDENTS COVERED UNDER FAMILY CONTRACTS. AS A RESULT, THE STATE GROUP IS THE LARGEST SINGLE GROUP WITHIN KANSAS BORDERS. IN ADDITION, 44% OF THE SUBSCRIBERS ARE 34 YEARS OF AGE OR YOUNGER AND OVER HALF OF THEM ARE UNDER 40. THUS, WHEN YOU HAVE A SUPER LARGE GROUP WHOSE POPULATION IS RELATIVELY YOUNG AND WHOSE PARTICIPANTS ARE SCATTERED ALL OVER THE STATE, IT IS ONLY REASONABLE TO ASSUME THAT IT WOULD ENJOY ALL THE ECONOMIES OF SCALE AND OTHER COMPETITIVE

ADVANTAGES THAT ARE INHERENT IN THE GROUP CONCEPT. AND -- BY AND LARGE -- WE DO. THE COVERAGE UNDER THE STATE HEALTH INSURANCE PROGRAM IS VERY ADEQUATE EVEN THOUGH WE DON'T HAVE DENTAL COVERAGE AND SOME OF THE OTHER BENEFITS THAT A PRIVATE SECTOR EMPLOYER MIGHT PROVIDE. FURTHER, FOR THE KIND OF BENEFIT STRUCTURE WE HAVE UNDER THE STATE PROGRAM/AND I KNOW YOU DON'T WANT TO HEAR THIS,/THE PREMIUMS ARE PROBABLY AS REASONABLE AS ONE COULD EXPECT. THIS ASSERTION OF REASONABLENESS IS BUTTRESSED BY THE FACT THAT -- EXCLUDING ANY CONSIDERATION FOR EXPENSES OR CONTINGENCY RESERVES -- KANSAS

BLUE CROSS AND BLUE SHIELD -- THE STATE'S INSURANCE CARRIER -- HAS PAID OUT VERY CLOSE TO 4½ MILLION DOLLARS MORE IN CLAIMS THAN HAS BEEN RECEIVED IN PREMIUM OVER THE LAST FOUR YEARS. TO TAKE THE STORY A LITTLE FARTHER, THE SAME CARRIER HAS JUST COMPLETED THE ELEVENTH CONTRACT YEAR. OVER THE ELEVEN COMPLETE YEARS THIS CARRIER HAS BEEN INVOLVED, THE CLAIMS EXPENSE EXCEEDS THE PREMIUM BY $12,161. (THIS FIGURE INCLUDES AN ESTIMATE OF THE FINAL RESULTS OF THE CONTRACT YEAR ENDING JULY 31 1976 PREPARED BY AN INSURANCE DEPARTMENT EXAMINER. BLUE CROSS-BLUE SHIELD OR OTHER ESTIMATES MIGHT VARY A LITTLE BUT

SHOULD NOT BE VERY FAR APART PERCENTAGE-WISE.) THIS IS WHAT THEY HAVE HAD FOR ADMINISTRATIVE EXPENSES ON A VENTURE THAT IS TANTAMOUNT TO A 210 MILLION DOLLAR CONTRACT. THIS IS A DEPRESSING BIT OF NEWS WHEN WE REMEMBER THE STATE'S INITIAL CONTRIBUTION PER EMPLOYEE FOR HEALTH INSURANCE WAS $8.32. FOR THE 1980-81 CONTRACT YEAR THE PREMIUM FOR SINGLE COVERAGE UNDER THE STATE HEALTH INSURANCE PROGRAM WAS $43.74 PER EMPLOYEE, PER MONTH. THIS PREMIUM WAS INCREASED TO $54.92 FOR 1981-82. THE PREMIUM FOR THE CURRENT CONTRACT IS $66.70. AND IT IS ESTIMATED THE PREMIUM FOR 1983-84 WILL BE $94.49.

SO WE HAVE GONE FROM $8.32 TO PERHAPS $94.49 AND EVEN WITH THESE

INCREASES THE PREMIUM COLLECTED HAS BEEN LESS THAN THE CLAIM PAYMENTS.

I REALIZE THESE FIGURES DO NOT TAKE INVESTMENT INCOME INTO

CONSIDERATION AND I CANNOT TELL YOU THE PRECISE IMPACT OF THIS

FACTOR. I CAN TELL YOU, HOWEVER, THAT THIS IS A MINIMAL CONSIDERATION.

THE STATE CONTRACT AND THE BID SPECIFICATIONS LEADING UP TO THE

CONTRACT INCLUDE A UNIQUE PROVISION WHICH GIVES THE STATE A 45
In other words the state health insurance contract is in effect for 45 days before we ever make a
DAY DELAY IN PREMIUM PAYMENT. THIS DELAY WAS OCCASIONED BY THE
originally

PROCEDURES NECESSARY FOR THE DIVISION OF ACCOUNTS AND REPORTS TO

MAKE THE PAYMENT. DESPITE THE FACT IT WAS NOT INTENTIONALLY DESIGNED TO DO SO, THE RESULT OF THIS 45 DAY DELAY IS THAT THE STATE DIRECTLY RECEIVES THE INVESTMENT INCOME FOR THAT PERIOD OF TIME INSTEAD OF THE INSURERS. OBVIOUSLY THE RETURN FROM INVESTMENT INCOME IS GREATEST FOR AN INSURER BETWEEN THE TIME A POLICY FIRST BECOMES EFFECTIVE AND THE TIME CLAIMS PAYMENTS ACTUALLY COMMENCE. THIS IS COINCIDENTALLY ABOUT 45 DAYS ON THE STATE GROUP. AND WHEN PREMIUMS HAVE BEEN DEFICIENT ANYWAY, ONCE THIS OPPORTUNITY IS LOST THERE IS NEVER A CHANCE TO CATCH UP. THEREFORE, IN RECENT YEARS

INVESTMENT INCOME IS NOT A VIABLE CONSIDERATION AS FAR AS THE STATE CONTRACT IS CONCERNED. BUT EVEN IF THIS WASN'T THE CASE, BLUE CROSS BLUE SHIELD RATES -- UNLIKE FIRE AND CASUALTY COVERAGES - - ARE PREDICATED ON THE BASIS OF TOTAL INCOME VERSUS CLAIMS AND OTHER OPERATING EXPENSES. THUS, EVEN IF WE DIDN'T HAVE THE 45 DAY DELAY, INVESTMENT INCOME WOULD BE CONSIDERED IN THE RATES.

ANOTHER SUBJECT THAT ENTERS EVERY CONVERSATION ABOUT THE COST OF THE STATE HEALTH INSURANCE PLAN IS THE IDEA OF SOME KIND OF DEDUCTIBLE. THIS IS AN UNDERSTANDABLE AND LOGICAL SUGGESTION BUT

EVERYONE MUST RECOGNIZE THE IMPOSITION OF A DEDUCTIBLE FOR WHAT IT IS -- A REDUCTION IN BENEFITS. AND WHEN VIEWED IN THAT LIGHT THERE MAY BE -- I'M NOT SAYING THERE ARE BUT THERE MAY BE -- SPECIFIC BENEFITS THAT ARE MORE APPROPRIATE TO REMOVE OR REDUCE RATHER THAN THE EMPLOYMENT OF A DEDUCTIBLE THAT REALLY REDUCES EACH AND EVERY BENEFIT. IN ADDITION, PEOPLE NEED TO REALIZE THAT THE IMPOSITION OF A DEDUCTIBLE IS NOT THE SAME AS FINDING A POT OF GOLD. IN THE PROCESS OF BIDDING THE CURRENT STATE GROUP HEALTH INSURANCE CONTRACT THE COMMITTEE ASKED FOR BIDS ON A DEDUCTIBLE OF $100, $200, $300

AND $500 TO BE APPLIED ON EACH COVERED BED-PATIENT ADMISSION OF A DEPENDENT. IN OTHER WORDS, THE COMMITTEE ASKED FOR BIDS ON DEDUCTIBLES APPLYING ONLY TO THE DEPENDENTS' COVERAGE -- THAT PART WHICH IS PAID FOR BY THE EMPLOYEE. THE RESULTS WERE NOT EXCITING. ON A $100 PER ADMISSION DEDUCTIBLE THE SAVING WAS $3.66 PER MONTH - - - ON A $200 DEDUCTIBLE, $7.31 -- ON A $300 DEDUCTIBLE $10.97 AND ON A $500 DEDUCTIBLE THE FAMILY PREMIUM WOULD HAVE BEEN $.95 PER MONTH MORE THAN LAST YEARS PREMIUM. IN OTHER WORDS, WE COULDN'T EVEN HOLD THE FAMILY PREMIUM AT LAST YEAR'S LEVEL BY IMPOSING A

$500 DEDUCTIBLE. AND REMEMBER THIS WAS A PER ADMISSION PER DEPENDENT DEDUCTIBLE WITH NO LIMIT WHICH IS ABOUT AS TOUGH A DEDUCTIBLE TREATMENT AS CAN BE CONCEIVED AND SHOULD THEREFORE BE THE MOST PRODUCTIVE IN TERMS OF SAVING MONEY. THIS IS NOT TO SAY THAT STATE EMPLOYEES MIGHT NOT HAVE PREFERRED A $.95 PER MONTH INCREASE AND A $500 PER DEPENDENT, PER ADMISSION DEDUCTIBLE TO AN INCREASE OF $19.22 PER MONTH. THE DIFFICULTY IS, IT WOULD TAKE MORE THAN TWO YEARS OF PREMIUM SAVINGS TO PAY FOR ONE HOSPITAL ADMISSION. AND

their decision would be based only on the immediate results and would not take into account the longer term impact — for instance at $19.22 per month

IF THIS ISN'T BAD ENOUGH, IT MUST BE EMPHASIZED THAT BUYING A

DEDUCTIBLE HAS NOT STABILIZED OR REDUCED HEALTH CARE COSTS ONE BIT. AS A RESULT, PURCHASING THE DEDUCTIBLE WOULD NOT REALLY SAVE almost $20 PER MONTH -- IT WOULD ONLY DELAY THE INCREASE FOR ONE YEAR AND WHEN IT CAME IT WOULD BE ON TOP OF THE unlimited $500 DEDUCTIBLE IMPOSED THE YEAR BEFORE.

ALSO, FROM TIME TO TIME SUGGESTIONS ARE MADE THAT THE STATE HEALTH INSURANCE PROGRAM SHOULD OFFER OR AFFORD OTHER COVERAGES SUCH AS DENTAL AND/OR OPTOMETRIC SERVICES. TWO OR THREE YEARS AGO THE COMMITTEE DID BEGIN TO PUT SPECIFICATIONS TOGETHER TO OFFER

DENTAL COVERAGE ON AN OPTIONAL BASIS FOR THOSE OFFICERS AND EMPLOYEES WHO WANTED IT AND WERE WILLING TO PAY FOR IT. BEFORE WE GOT TOO FAR ALONG, HOWEVER, THE ATTORNEY GENERAL ADVISED THE COMMITTEE THAT CURRENT STATUTES REQUIRE THE STATE TO PAY THE SINGLE MEMBER PREMIUM FOR ALL COVERAGES INCLUDED IN THE STATE HEALTH PLAN. REALIZING THE DIFFICULTIES POSED BY PRESENT PREMIUM REQUIREMENTS, THE COMMITTEE HAS NOT PURSUED THE MATTER FURTHER ALTHOUGH WE DID PROVIDE THE SECRETARY OF THE DEPARTMENT OF ADMINISTRATION WITH THE INFORMATION WE HAD.

EMPLOYEE RATING CLASSIFICATIONS IS ANOTHER FREQUENT COMPLAINT RECEIVED BY THE COMMITTEE. I'M SURE IF A VOTE WAS TAKEN MOST MARRIED BUT CHILDLESS STATE EMPLOYEES WOULD BE IN FAVOR OF A RATING STRUCTURE WHEREBY THE FAMILY PREMIUM IS BASED ON AGE AND/OR NUMBER OF DEPENDENTS. WITHOUT REALIZING IT WHAT THEY ARE REALLY SAYING, IF THEY VOTE THE WAY I THINK THEY WOULD, IS THAT THEY WANT ACCIDENT AND SICKNESS COVERAGE TO USE THE SAME RATING PROCESS AS USED FOR INDIVIDUAL POLICIES BUT THEY WANT THE BENEFITS AND PREMIUM LEVELS THAT ARE AVAILABLE UNDER THE GROUP CONCEPT. WITH A GROUP OF 30,000

EMPLOYEES THIS IS IMPOSSIBLE. NEVERTHELESS, A GREATER BREAKDOWN

IN THE RATING STRUCTURE DOES SEEM TO BE A RATIONAL IDEA AND THE

COMMITTEE HAS CONSIDERED GOING TO WHAT WE CALL A "THREE RATE"

STRUCTURE - A SINGLE RATE -- A MARRIED COUPLE, NO CHILDREN RATE -

- AND A FAMILY RATE. EACH TIME WE HAVE CONSIDERED DOING SO, HOWEVER,

WE HAVE BEEN PERSUADED THAT THE DIFFERENCE IN THE PREMIUM CHARGE

WILL BE SLIGHT. THE NEW "MARRIED - NO CHILDREN" CLASS WOULD APPLY

PRIMARILY TO COUPLES WHO HAVE PASSED THE CHILD-BEARING YEARS.

AS A GROUP, THIS AGE CATEGORY BECOMES A MORE FREQUENT USER OF MORE

EXPENSIVE COVERED HEALTH CARE SERVICES WHEREAS YOUNG FAMILIES, EVEN THOSE WITH SEVERAL CHILDREN, DO NOT DO SO BECAUSE OF THEIR GENERALLY MORE HEALTHY CONDITION. THIS PHILOSOPHY SEEMS TO BE BORNE OUT BY THE FACT THAT FEW GROUPS USE AND FEW INSURERS ENCOURAGE THIS SYSTEM OF RATE CLASSIFICATIONS. IF IT APPEARED LIKELY THAT A THREE RATE STRUCTURE WOULD FULFILL THE EXPECTATIONS OF ITS ADVOCATES, THE COMMITTEE WOULD HAVE NO HESITANCY IN IMPLEMENTING THIS APPROACH. IN THE PRESENCE OF A SERIOUS QUESTION AS TO WHETHER SUCH A CHANGE WOULD ACTUALLY BE AN IMPROVEMENT, HOWEVER, THE COMMITTEE'S CONCLUSION

TO DATE HAS BEEN THAT IT WOULD SIMPLY ADD ONE MORE COMPLICATION TO THE PROGRAM. EQUALLY IMPORTANT, IT WOULD NOT QUIET THE CRITICISM. IT MIGHT MUTE THE VOICES OF CHILDLESS COUPLES BUT THOSE WITH ONE CHILD INSTEAD OF TWO OR TWO INSTEAD OF THREE OR THREE INSTEAD OF FOUR WOULD START TO COMPLAIN.

IT MAY ALSO BE OF INTEREST THAT THE COMMITTEE IS CURRENTLY EXPLORING THE POSSIBILITY OF CHANGING THE EXISTING PROCEDURES WITH RESPECT TO ACTIVE EMPLOYEES WHO ARE ELIGIBLE FOR MEDICARE. THE STATE HEALTH PLAN HAS ALWAYS INCORPORATED A DIFFERENT RATE FOR

THOSE ELIGIBLE FOR MEDICARE. THIS IS, OF COURSE, NECESSARY BECAUSE EVERYONE ELIGIBLE RECEIVES COVERAGE UNDER PART A -- THE HOSPITAL COVERAGE PORTION -- OF MEDICARE. THUS, THE STATE OR ITS CITIZENS SHOULD NOT PAY AN INSURANCE PREMIUM TO DUPLICATE MEDICARE COVERAGE.

THE DIFFICULTY THE COMMITTEE HAS BEEN CONFRONTED WITH RESULTS FROM THE OPTIONAL PORTION OF MEDICARE -- PART B. INITIALLY, THE STATE HEALTH PLAN FOR MEDICARE ELIGIBLES SIMPLY EXCLUDED BENEFITS RECEIVED FROM MEDICARE. THIS POSED A PROBLEM BECAUSE THE VAST MAJORITY - - BUT NOT ALL -- PEOPLE VOLUNTARILY BUY PART B COVERAGE. BY EXCLUDING BENEFITS

RECEIVED, HOWEVER, PEOPLE WHO DID NOT BUY PART B WERE RECEIVING MORE COVERAGE FOR LESS TOTAL PREMIUM THAN WERE THOSE WHO UNDERSTANDABLY AND RESPONSIBLY PURCHASED PART B COVERAGE. TO CORRECT THIS DISCREPANCY, THE COMMITTEE ESTABLISHED A PROCEDURE WHEREBY THE BENEFITS UNDER THE MEDICARE EXCLUSION COVERAGE OF THE STATE PLAN WERE BASED ON WHAT A PERSON RECEIVED OR WOULD HAVE RECEIVED FROM MEDICARE HAD BOTH PART A AND PART B APPLIED. UNFORTUNATELY, THIS HAS A SIDE EFFECT THAT MAY BE AS BAD OR WORSE THAN THE INITIAL PROBLEM. HANDLING THE SITUATION THIS WAY MEANS THAT PEOPLE ELIGIBLE FOR MEDICARE

BUT STILL WORKING FOR THE STATE RECEIVE A REDUCED PREMIUM CONTRIBUTION FOR THEIR SINGLE COVERAGE AND -- TO HAVE ESSENTIALLY THE SAME BENEFITS -

- - MUST PURCHASE PART B MEDICARE COVERAGE FOR APPROXIMATELY $12 PER MONTH. THE SIMPLE SOLUTION WOULD BE TO DISCOURAGE PEOPLE FROM BUYING PART B COVERAGE AND ASSUMING THOSE CLAIMS UNDER THE STATE PLAN. THIS IGNORES THE FACT, HOWEVER, THAT PERSONS NOT ENROLLING IN PART B OF MEDICARE AT THE FIRST OPPORTUNITY SUFFER A PENALTY IN THE FORM OF INCREASED PREMIUMS FOR EACH YEAR THEY ARE NOT ENROLLED. THUS, WHILE IT IS NOT THE SIMPLEST AND MAY EVEN BE IMPOSSIBLE,

A BETTER SOLUTION MIGHT BE FOR THE STATE TO BUY PART B COVERAGE ON BEHALF OF THOSE EMPLOYEES IN THIS PARTICULAR SITUATION.

IN TERMS OF PROBLEMS, STATE OFFICERS AND EMPLOYEES SOMETIMES FAIL TO REQUEST A DESIRED CHANGE IN THEIR SUBSCRIBER STATUS IN A TIMELY MANNER. THEY THEN DEMAND A REFUND OR THAT COVERAGE BE AFFORDED AS OF THE DATE THEY SPECIFY INSTEAD OF THE DATE ~~THAT~~ THE ESTABLISHED ACCOUNTING PROCEDURES PERMIT. THE COMMITTEE IN COOPERATION WITH THE DIVISION OF ACCOUNTS AND REPORTS HAS ESTABLISHED A PROCEDURE TO PERMIT FAVORABLE TREATMENT IF THE UNTIMELINESS OF THE CHANGE

REQUEST RESULTED FROM AGENCY ERROR AND THE AGENCY SO INDICATES.

THIS STILL, OF COURSE, DOES NOT SATISFY OFFICERS AND EMPLOYEES

WHO WERE SIMPLY DILATORY.

ANOTHER POTENTIAL PROBLEM IS DEVELOPING WITH THE ADVENT OF

MORE THAN ONE HMO SERVING PARTS OF THE SAME AREA. WE HAVE IT NOW

WITH RESPECT TO THE HMO's IN NEWTON AND WICHITA BECAUSE BOTH SERVE

SOME OF THE SAME AREAS (IDENTIFIED BY ZIP CODE). IN SUCH CASES,

IT APPEARS THE HMO WITH THE LOWEST BID SHOULD PREVAIL IN THE AREAS

OF DUPLICATION AND THAT IS THE WAY THIS YEAR'S CONTRACT WAS AWARDED.

THE PROBLEM WITH THIS IN THE CONTEXT OF HMO's IS THAT HMO's PROVIDE SERVICE NOT DOLLARS. AS A RESULT, THIS PROCESS OF AWARDING BIDS COULD RESULT IN HAVING TO CHANGE DOCTORS AND MEDICAL TREATMENT FACILITIES DEPENDING ON WHICH HMO IS THE LOW BIDDER. A NEW HMO IS TAKING SHAPE IN THE K.C. AREA SO WE WILL BE FACED WITH THE SAME SITUATION THERE. THE OTHER SIDE OF THE COIN, OF COURSE, IS THE FACT THAT THE COMPETITIVE BIDDING PROCESS BECOMES A FARCE IF PRICE IS NOT THE MAJOR CONSIDERATION.

IF MY COMMENTS HAVE NOT BEEN ENLIGHTENING FROM THE STANDPOINT

OF GUIDING YOU TOWARD A RECOMMENDATION, I APOLOGIZE. BY THE SAME TOKEN, IF MY COMMENTS SOUND AS THOUGH I AM DEFENDING THE COMMITTEE'S ACTIONS YOU MAY ASSUME IT WAS INTENTIONAL. THE OFFICERS AND EMPLOYEES OF THIS STATE ENJOY VERY GOOD HEALTH INSURANCE BENEFITS AND WE ENCOUNTER VERY FEW CRITICISMS ABOUT THE COVERAGE. THE PROBLEM IS THE COST AND THIS PROBLEM IS NOT CAUSED BY THE COMMITTEE ON SURETY BONDS AND INSURANCE OR KANSAS BLUE CROSS AND BLUE SHIELD. WE DON'T BUILD THE NEW HOSPITAL WINGS, BUY THE "CAT" SCANNERS, ORDER THE TESTS OR PERFORM THE SURGERIES, AND THAT IS WHERE THE And, most important, we don't establish the price charged.

COST PROBLEM IS -- THE PREMIUMS THE STATE AND ITS EMPLOYEES PAY ARE SIMPLY A REFLECTION OF THOSE COSTS. IN ORDER TO CONFIRM THE FIGURES PERIODICALLY PROVIDED THE COMMITTEE BY BLUE CROSS AND BLUE SHIELD, WE HAVE TWICE HAD ONE OF OUR EXAMINERS CONDUCT AN INDEPENDENT AUDIT OF THE STATE HEALTH INSURANCE PROGRAM. A COPY OF THE LAST TWO AUDIT REPORTS COVERING THE CONTRACT YEARS ENDING 7/31/77 THROUGH 7/31/82, as well as a copy of my remarks HAS BEEN PROVIDED THE CHAIRMAN. I BELIEVE STAFF HAS ALSO PROVIDED THE COMMITTEE A COPY OF A REPORT ON THE STATE GROUP HEALTH EXPERIENCE PREPARED BY KANSAS BLUE CROSS AND BLUE SHIELD.

I WILL BE HAPPY TO TRY TO ANSWER ANY QUESTIONS OR PROVIDE ANY ADDITIONAL MATERIAL THE COMMITTEE THINKS WOULD BE HELPFUL. BEFORE DOING SO, HOWEVER, I HAVE ONE LAST COMMENT AND THAT IS THAT THE STATE COMMITTEE ON SURETY BONDS AND INSURANCE DOES NOT HAVE ANY PARTICULAR INTEREST IN PRESERVING ITS AUTHORITY OR RESPONSIBILITIES WITH RESPECT TO THE STATE HEALTH INSURANCE PLAN. PROCUREMENT AND ADMINISTRATION OF THE STATE GROUP HEALTH INSURANCE PROGRAM IS ONE OF THE MOST THANKLESS JOBS IN STATE GOVERNMENT. THUS, THEY WILL SHED NO TEARS IF, THROUGH THIS COMMITTEE OR OTHER CONFEREES, A

BETTER VEHICLE CAN BE FOUND AND, AS OFFICERS OF THE STATE THEY

WILL SHARE IN THE JOY OF AN EQUIVALENT OR BETTER HEALTH INSURANCE

PROGRAM AT A STABILIZED OR REDUCED COST.

THANK YOU.