Approved Feb. 8, 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 February 3, 1983 in room 527-S of the Capitol.

All members were present except:
Rep. Dyck (Excused)
Rep. Whitaker

Committee staff present:
Richard Ryan, Legislative Research
Louis Chabira, Legislative Research
Gordon Self, Revisor's Office

Conferees appearing before the committee:

John Kuykendall, C.L.U., Martin E. Segal Company

The meeting was called to order by the chairman. He then turned the floor over to Patrick J. Hurley, Secretary of the Department of Administration, State of Kansas, who gave background material of why the study was obtained (See Attachments A and B). He then introduced Mr. John Kuykendall, C.L.U., of the Martin E. Segal Company, Consultants and Actuaries. He provided copies of the study "General Review and Analysis of the State of Kansas' Group Health Program" to the members of the committee and then he went through the study and highlighted the key sections. He then answered questions from the committee.

Before the committee adjourned Rep. R.H. Miller moved the minutes of the January 28 meeting be approved, Rep. Brady seconded the motion, and the minutes were approved.

Committee was adjourned at 10:15 a.m. The next committee meeting will be Tuesday, February 8, 1983, in Room 527-S.

Bob Ott

Rep. Bob Ott, Chairman

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

GUEST LIST

COMMITTEE: Pensions & Investments DATE: Feb. 3, 1983

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
Ed Roling	10983 Granada Ln #102 OPK 66211	Delta Dental Plan
John D McNeal	Topeka	—
JoAnn Klesath	Topeka	KAPE
George B. Welch	Topeka	D of A.
John Collins	Topeka	D of A
Spud Kent	Topeka	D of A
Carl Dell	"	"
Tom Chabura	Topeka	KLRD
[illegible]	"	Girl Scouts
Jack Hawn	"	KPERS
Marshall Crowther	Lawrence	"

Attachment A

STATE OF KANSAS
DEPARTMENT OF ADMINISTRATION
JOHN CARLIN, Governor
PATRICK J. HURLEY, Secretary of Administration
Room 263-E, Capitol Building
(913) 296-3011

MEMORANDUM

TO: House Pensions, Investments & Benefits Committee

FROM: Patrick J. Hurley, Secretary of Administration PJH

DATE: February 3, 1983

SUBJECT: Senate Bill 12 - Health Insurance

By way of historical background, since 1969 the Committee on Surety Bonds and Insurance has annually bid the group health insurance contract that provides the coverage for state employees. This committee is composed of the State Insurance Commissioner, Attorney General and State Treasurer. Although the statutes require the contract to be competitively bid, in recent years there has been only one insurer submitting bids. Because of this annual bid procedure, the current system of procurement appears to discourage true competition. This is due in large part to the sizable financial outlay a bidder would have to initially incur to establish an office and office staff to carry out a contract that is only assured for one year.

Since 1969, the State of Kansas has paid the single member premium for group health insurance contracts. Although the benefit coverage has not changed significantly, the costs for such coverage has steadily increased from the $8.32 level in 1969 to $66.70 for the current fiscal year. The FY 1982 costs increased over 25% from the prior year, 21% in FY 1983 and an estimated 41% for FY 1984. The State's cost for single member employee coverage was $22.4 million in FY 1982, $27.2 million in FY 1983, and $38.5 million was projected for FY 1984. Blue Cross/Blue Shield has indicated that the FY 1984 projection will be revised downward and revised estimates should be available in the near future. These increases are not only the concern of the State as an employer, but the employee as well. Although the single member premium is paid by the employer, the employees bear the cost of providing coverage for their dependents. This cost for dependent coverage has risen at roughly the same rate as the single member premium. The employees' costs for dependent coverage was $93.42 a month in FY 1982, $112.64 for FY 1983, and would be roughly $159.00 in FY 1984 based upon the same percentage increase as the earlier estimate for the single member premium increase. In meetings with employee

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organizations pursuant to the Public Employees Relations Act, our Department increasingly hears concerns raised as to the rapidly rising costs of health insurance coverage. We share that concern, both as to the financial impact on the employee and the employer.

The report of the Interim Special Committee on Health Insurance likewise has expressed this concern for rising health care costs. The interim committee recommended Senate Bill No. 12, which is presently referred to the Senate Ways and Means Committee. The bill gives my Department administrative authority for the design and implementation of the state employee health benefits program. By placing responsibility for health care benefits in the Department of Administration, the Committee has recognized that health care is a part of the overall package of benefits provided state employees. I believe that this is a logical change that will be helpful in administering and balancing the benefits of state employees. Senate Bill No. 12 gives my Department a great amount of flexibility in designing a health benefits program. Although we concur with the bill and will not be proposing major changes to it, there are several modifications which we will request.

Since before the completion of the Interim Committee's work, my Department has been taking steps to address the area of health care benefits. We have contracted with the Martin E. Segal Company, a nationwide firm of consultants and actuaries, to study the State's current program and advise us as to future steps that can be taken to reduce the rapid rate of increase in health care costs. The Segal Company representative, Mr. John Kuykendall, is here today to discuss his report with the Committee.

Preliminary discussions between my staff and the consultant have brought forth several items I want to mention at this time. First, it is not realistic to assume that with the passage and implementation of Senate Bill 12, employer or employee costs for health care coverage will decrease. Reasonably, my Department's basic objective in assuming the program will be to hold down the rate of future cost increases.

Secondly, while the concept of the State providing employee health benefits on a self-funded and/or a stop-loss basis is viable, this change alone will not result in any real significant change in costs.

To significantly reduce health care cost to the employer in the short term requires either (1) a reduction in the single member premium paid by the State or (2) a reduction in the benefits. These types of actions do not create overall cost reductions, they merely shift the burden from the employer to employee. The long term reductions in the rate of increases in costs must be achieved through cost containment measures. The Segal report mentions a variety of steps in this regard, such as second surgical opinions, pre-admission testing, provider utilization review, hospital admissions review, health education and preventive health care programs.

Already one principle regarding cost containment appears true to me - to the extent that the initial costs of implementing cost containment measures are held down, the potential for future savings will be reduced. Included in my Department's FY 1984 budget is $425,000 to undertake the responsibilities envisioned by Senate Bill No. 12. In order to organize and be ready to implement the type of state health care benefits program that is envisioned by Senate Bill 12, I believe that a portion of that amount should be made available in FY 1983, at the time the bill passes the Legislature. Over the long term I believe reductions in the rate of annual increases of health benefits costs are achievable so long as adequate funds are provided to initiate proper cost containment measures.

I look forward to working with you in the days ahead on the budget and structuring of a meaningful health care benefits program.

Attachment B

STATE OF KANSAS
DEPARTMENT OF ADMINISTRATION
JOHN CARLIN, Governor
PATRICK J. HURLEY, Secretary of Administration
Room 263-E, Capitol Building
(913) 296-3011

MEMORANDUM

TO: House Pensions, Investments and Benefits Committee

FROM: Patrick J. Hurley, Secretary of Administration PJH

DATE: February 3, 1983

SUBJECT: Health Insurance Benefits Program

Based on discussions with Segal & Co., the following is a brief outline of the affects of transfer of the employee health benefits program to the Department of Administration.

I. General Considerations

A. Senate Bill No. 12 would authorize the Department of Administration to assume responsibility for a state employee health insurance program beginning with FY 1985.

B. A full year will be required to develop alternative program administrative proposals which will heavily emphasize cost containment measures. These cost containment measures primarily focus on decreasing usage of health care services, primarily hospital services, yet continuing to provide those services which employees need. Many of these cost containment measures result in substituting less costly, but equally effective, services for many presently used.

C. It is likely that self insuring in some form will be recommended, as this method lends itself most effectively to the implementation of many of the possible cost containment measures. Many of the possible cost containment measures are difficult or less effective to implement through standard insurance companies. Claim processing would be handled by a contractor.

D. Future cost savings will be in the form of reduced annual increases--not reductions in current costs. Industry averages indicate that plans similar to the present state insurance contract would likely increase at about 20% or more per year. With effective cost containment measures, these increases could possibly be held to 5-10% per year.

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E. No significant savings are likely to be realized as a result of the state administering or self insuring. While there will be some additional interest earnings by self insuring, there will be offsetting reductions in receipts to the state general fund and larger administrative expenses, primarily for contractual services for claims processing and cost containment activities.

F. To undertake this, the Department will require an FY 1983-84 appropriation. For FY 1983, the Department will need approximately $100,000, of which $60,000 would be for a consultant/actuary contract to assist in program design and detaiiled implementation planning and $40,000 would be for initial program staffing of a program director and clerical support. It is anticipated that the program director would be someone with ten or more years experience in administration of employee and health benefits as well as other insurance and claims experience (salary of $25,000 to $35,000). Present FY 1983 estimate of expenditures would be $15,000 for salaries and $25,000 of other expenses including furniture, travel, rent, etc. For FY 1984, the Department would require an estimated $270,000--$60,000 for consultant/actuary services, $150,000 for cost containment contract services, $42,000 for salaries for two positions, and $18,000 for staff operating expenses. Funding for both FY 1983 and FY 1984 will need to be from the state general fund, but in subsequent years would be from insurance charges.

II. Proposed Timetable

A. May through December 1983: development and design of detailed health benefits program, gathering of historical data on prior usage, design of alternative cost containment measures, and coordination with surety and bonds committee on insurance carrier for FY 1984.

B. January through April 1984: presentation of detailed proposals to Legislature and finalization of FY 1985 health benefits program.

C. April through June, 1984: solicitation and selection of contract service providers, development of health benefits information for employees, continued work on cost containment system development.

D. July through December 1984: initial program implementation, which may in part include continued purchase of insurance until self insured program could be started, development of FY 1986 health benefits program.

E. January through April 1985: presentation of FY 1986 health benefits program to Legislature and finalization of program and cost containment activities.

F. April through June 1985: solicitation and selection of contract services, development of program information for employees, etc.

G. July through June, FY 1986: first full year of program operations.

III. Summary

A. Basic objective in assuming program is to hold down the rate of future cost increases--reductions in current costs should not be expected. After two to four years of operation the cost containment efforts will begin to pay off and hopefully moderate annual cost increases by about 10-15%, i.e., reduced annual increases from 20% or more to 5-10%.

B. In the short term the only way to significantly minimize cost increases to the state is to shift a greater burden to the employee--such as through deductibles and coinsurance.

C. To develop and implement a program beginning in FY 1985, an appropriation will be required to finance the necessary front end costs and design cost containment efforts which will reduce future program costs. To the extent that the front end costs are held down, the potential for future savings are reduced. Once the program is in operation, overall administrative costs are likely to be higher than under present program due to higher costs for pursuing cost containment measures which will generate future cost savings of far greater magnitudes.

D. Over the long term, reductions in the rate of annual increases are possible, but this will require expenditures up front for start up and adequate administrative and cost containment financing. No one should expect to see actual reductions in health benefit program costs below present levels.

PJH:gk