

Approved Feb. 17, 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 10, 1983 in room 527-S of the Capitol.

All members were present except:

- Rep. Whitaker
- Rep. Sand

Committee staff present:

- Richard Ryan, Legislative Research
- Louis Chabira, Legislative Research
- Gordon Self, Revisor's Office

Conferees appearing before the committee:

Mr. Richard Coover, Consolidated Benefit Plans, Inc., Topeka, Kansas

The Chairman called the meeting to order at 9:05 a.m. Before the minutes of the February 9 meeting were approved Rep. Wisdom asked that the part "had said she would provide" be removed from the minutes. Rep. Wisdom then provided the Committee members with the figures that were referred to in the previous meeting. Rep. Schweiker offered the substitute motion that the minutes be changed to read: "Rep. Patrick asked Mrs. Finney about a report Rep. Patrick said Lyell Ocobock said she would provide listing bonds which had been purchased and sold, and gains and losses realized." Rep. Laird seconded the substitute motion, the motion carried and the minutes will be changed as such. Rep. Laird then made the motion that the minutes be approved as amended, Rep. Wisdom seconded the motion, the motion carried and the minutes were approved as amended.

Chairman Ott then introduced Mr. Richard Coover, Consolidated Benefit Plans, Inc., and turned the floor over to Mr. Coover, who provided the committee with hand-outs outlining his expertise in health insurance packages. (See Attachments A and B).

The meeting was adjourned at 9:55 a.m.

Bob Ott
Rep. Bob Ott, Chairman

STATE FREEWAY FUND INVESTMENTS

SALE OF SECURITIES

Description	Bid	Cost	Market Price	Gain/(Loss)
<u>(Month Sold: April, 1982)</u>				
\$1,000,000 Amer. Tele. & Tele. 4.375% Debs due 4/1/85	82.20	\$ 806,545.00	\$ 822,000.00	\$ 15,455.00
\$750,000 Gen. Elec. Cr. Corp., 7.625%, due 2/1/88	74.75	570,675.00	560,625.00	(10,050.00)
\$1,000,000 Gen. Mtrs. Corp. 8.05%, due 4/1/85	84.812	869,030.00	848,120.00	(20,910.00)
\$500,000.00 IBM Cr. Corp. 14.375%, due 7/15/86	100.66	498,695.00	503,300.00	4,605.00
\$400,000 Wells Fargo & Co. 9.55% due 7/1/85	86.75	329,760.00	347,000.00	17,240.00
\$500,000 Household Finance 9.00% due 10/15/85	85.567	421,385.00	427,835.00	6,450.00
\$500,000 Minnesota Mining & Mfg., 8.20% due 4/1/85	86.899	439,375.00	434,495.00	(4,880.00)
\$250,000 Public Service of Indiana 9.5%, due 5/1/85	88.011	218,242.50	220,027.50	1,785.00
\$250,000 Sears Roebuck 7.75% due 3/1/85	85.55	212,935.00	213,875.00	940.00
\$250,000 United Technologies 9.00% due 4/15/85	87.79	214,135.00	219,475.00	5,340.00
Totals		<u>\$4,580,777.50</u>	<u>4,596,752.50</u>	<u>15,975.00</u>
<u>(Month sold: July, 1982)</u>				
\$500,000 Burlington Northern Equip., 11.125% due 2/1/88	87.211	467,470.00	436,055.00	(31,415.00)
\$500,000 Citicorp, 14.375% due 2/1/86	97.918	500,000.00	489,590.00	(10,410.00)
\$500,000 Gulf Oil, 8.50% due 11/15/95	66.073	474,615.00	330,365.00	(144,250.00)

State Freeway Fund Investments-
Sale of Securities

Description	Bid	Cost	Market Price	Gain/(Loss)
\$250,000 Hydro-Quebec 12.5%, due 10/15/87	89.52	\$ 250,000.00	\$ 223,800.00	\$(26,200.00)
\$1,000,000 Illinois Pwr Co. 11.375%, due 8/1/87	88.278	996,450.00	882,780.00	(113,670.00)
\$500,000 Inter-American Develop., 14.00% due 12/1/86	97.61	498,125.00	488,050.00	(10,075.00)
\$250,000 International Paper Co., 8.85%, due 3/15/95	67.65	242,852.50	169,125.00	(73,727.50)
\$1,085,000 Iowa-Illinois Gas & Elec., 5.0%, due 4-15-90	58.38	734,262.90	633,423.00	(100,839.90)
\$500,000 Minnesota, Mining & Mfg. 8.20% due 4/1/85	87.059	471,650.00	435,295.00	(36,355.00)
\$250,000 Missouri Pacific 9.0%, due 8/1/87	80.797	210,562.50	201,992.50	(8,570.00)
\$566,000 Public Service of Indiana, 4.375%, due 2/1/89	60.02	383,883.84	339,713.20	(44,170.64)
\$750,000 R.J. Reynolds Tobacco, 7.875% due 9/1/94	66.009	616,042.50	495,067.50	(120,975.00)
\$250,000 Sears Roebuck, 7.75%, due 3/1/85	86.01	212,935.00	215,025.00	2,090.00
\$250,000 Security Pacific Corp., 10.75%, due 6/15/84	92.88	239,692.50	232,200.00	(7,492.50)
\$800,000 Southern Calif. Edison, 6.375%, due 2/15/93	57.011	570,792.00	456,088.00	(114,704.00)
\$500,000 Sohio/Alaska Pipeline, 8.625%, due 2/1/83	97.179	454,575.00	485,895.00	31,320.00
\$300,000 Sohio/Alaska Pipeline, 8.625% due 2/1/83	97.179	278,994.00	291,537.00	12,543.00
\$250,000 United Tech. Corp. 9.45%, due 1/15/89	79.783	211,197.50	199,457.50	(11,740.00)

State Freeway Fund Investments -
Sale of Securities

Description	Bid	Cost	Market Price	Gain/(Loss)
\$500,000 West. Elec. 8.375% due 10/1/95	67.669	\$ 474,155.50	\$ 338,345.00	\$(135,810.50)
\$500,000 Xerox, 8.2% due 11/1/82	98.288	461,140.00	491,440.00	30,300.00
\$250,000 Xerox, 8.2% due 11/1/82	98.288	230,570.00	245,720.00	15,150.00
Totals		<u>\$8,979,965.74</u>	<u>\$8,080,963.70</u>	<u>\$(899,002.04)</u>
<u>(Month sold: August, 1982)</u>				
\$1,000,000 Union Pac. RR Equip. 13.125% due 9/1/87	99.625	996,390.00	996,250.00	(140.00)
\$1,250,000 GMAC 9% due 6/1/84	93.447	1,157,347.50	1,168,087.50	10,740.00
\$750,000 European Invest. Bk. Bds, 12.75% due 10/1/88	96.923	750,000.00	726,922.50	(23,077.50)
Totals		<u>\$2,903,737.50</u>	<u>\$2,891,260.00</u>	<u>\$(12,477.50)</u>
<u>(Month sold: September, 1982)</u>				
\$1,000,000 Gen. Elec. Cr. 13.625%, due 9/15/91	101.75	993,000.00	1,017,500.00	24,500.00
\$500,000 Houston Lt. & Pwr, 13.875%, due 2/1/91	99.875	495,625.00	499,375.00	3,750.00
\$500,000 Nat'l Rural Utilities, 12.625%, due 9/15/90	96.5	467,150.00	482,500.00	15,350.00
Totals		<u>\$1,955,775.00</u>	<u>\$1,999,375.00</u>	<u>\$ 43,600.00</u>
<u>(Month sold: October, 1982)</u>				
\$750,000 Kingdom of Sweden, 10.625% due 6/15/90	92.271	647,685.00	692,032.50	44,347.50
Totals		<u>\$ 647,685.00</u>	<u>\$ 692,032.50</u>	<u>\$ 44,347.50</u>

State Freeway Fund Investments -
Sale of Securities

Description	Bid	Cost	Market Price	Gain/(Loss)
(Month sold: December, 1982)				
\$500,000 American Express 10.10 due 7/1/90	93.559	\$ 500,000.00	\$ 467,795.00	\$(32,205.00)
\$250,000 Bristol-Myers 8.625% due 11/1/95	82.25	240,000.00	205,625.00	(34,375.00)
\$250,000 GMAC 8.20% due 2/15/88	87.812	228,665.00	219,530.00	(9,135.00)
\$500,000 Irving Bank 6.125% due 7/1/92	62.309	331,141.00	311,545.00	(19,596.00)
\$1,000,000 Gen. Mtrs. 8.05%, due 4/1/85	94.98	892,800.00	949,800.00	57,000.00
\$500,000 IBM, 9.50% due 10/1/86	97.25	473,667.50	486,250.00	12,582.50
\$733,000 Penn Pwr & Lt 4.625% due 12/1/91	60.659	432,729.05	444,630.47	11,901.42
\$500,000 Union Carbide, 9.125% due 8/15/86	95.271	456,250.00	476,355.00	20,105.00
Totals		<u>\$3,555,252.55</u>	<u>\$3,561,530.47</u>	<u>\$ 6,277.92</u>

Sale of April 1982

5,400,000.00 Par Value

Cost 4,580,777.50
Gain (Loss) 15,975.00
Accrued Interest 77,949.94

Cash to Invest \$4,674,702.44

Invested in Repos for April @ 14.022
May @ 13.682
June @ 12.936
July @ 10.981
August @ 8.254

Invested 9/1/82 in Kansas Bank C.D.s at
average rate of 10.374%

Sale of July 1982

10,251,000.00 Par Value

Cost 8,979,965.74
Gain (Loss) (899,002.04)
Accrued Interest 316,568.14

Cash to Invest \$8,397,531.84

Invested in Repos for July @ 10.981
August @ 8.254

Invested 9/1/82 in Kansas Bank C.D.s at
average rate of 10.374%

Sale of August 1982

3,000,000.00 Par Value

Cost 2,903,737.50
Gain (Loss) (12,477.50)
Accrued Interest 130,346.36
3,021,606.36

Less Bond buy (647,685.00)
Accrued Interest
purchased (16,601.56)

Cash to Invest \$2,357,319.80 and 750,000.00 Bond

Sale of August 1982 continued

Invested in Repos for August @ 8.254
Invested 9/1/82 in Kansas Bank C.D.s
at average rate of 10.374%

Sale of September 1982

2,000,000.00 Par Value

Cost	1,955,775.00
Gain (Loss)	43,600.00
Accrued Interest	<u>19,677.08</u>

Cash to Invest \$2,019,052.08

Invested in 6 month Treasury Bills to yield 9.607%

Sale of October, 1982

750,000.00 Par Value

Cost	647,685.00
Gain (Loss)	44,347.50
Accrued Interest	<u>27,447.92</u>

Cash to Invest \$ 719,480.42

Invested in Repos for October @ 8.864
November @ 8.515
December @ 7.524

Cash used to meet bond and interest requirements of
the Freeway Fund

Sale of December, 1982

4,233,000.00 Par Value

Cost	3,555,252.55
Gain (Loss)	6,277.92
Accrued Interest	<u>103,043.26</u>

Cash to Invest \$3,664,573.73

Cash used to meet bond and interest requirements of
the Freeway Fund

PURPOSE

INDEPENDENT OPINION

SUGGESTED APPROACH TO REACHING DECISIONS

GENERAL PROBLEM - INCREASING COST OF HEALTH CARE

APPLIES TO ALL EMPLOYERS

EXPANSION OF FRINGE BENEFITS IN 50's, 60's and 70's

BLUE CROSS AND BLUE SHIELD RECOMMEND PREPAYMENT - FULL PAY/SERVICE BENEFITS

FULL PAY PLANS SUCCESSFUL FOR ALL PARTIES

<u>Party</u>	<u>Situation</u>
Employee	Little to budget for
Insurance Industry	Increased Earnings Revenue % of increasing premiums
Hospitals and Doctors	Able to finance new technological advances and facilities
Employer	Able to pass increasing cost on to customers in price of products and services

Attitude has been "THE MORE WE SPEND ON HEALTH CARE THE HEALTHIER WE WILL BE"

NOW - IN NEW ECONOMIC CLIMATE

CHANGED ATTITUDES

PRESSURE ON BOTTOM LINE

INCREASES OF 70's CAN NOT CONTINUE INTO THE 80's

WE NEED TO ACT NOW

ANALYZE AND MODIFY BENEFITS

Review variations in funding

Introduce cost containment techniques

Change health delivery system
(hospitals and doctors) to be more efficient

When full employment returns and profits increase we may have missed our opportunity.

SPECIFIC PROBLEMS OF STATE (COMMITTEE)

Short Term

August 1, 1983 increase in present plan

Year	*Medical Cost Component of Consumer Price Index	BC & BS Estimates			*Increase in Employer Cost of State of Kansas Group Health Program
		Increase In Medical Cost For Kansas	Intensive Use	Total Trends	
1982	11.0	13	4	17	26.3
1981	12.5	14	5	19	19.2
1980	10.0	11.5	4	15.5	16.2

*From Segal Report to State
Figures are percentages

Alternative
One

MODIFICATION OF BENEFITS

Deductibles and Coinsurance

With cap on maximum out of pocket expense

Waive deductible for surgery, xray, lab and accidents
for out patient services

To encourage out patient services and preventive medicine

DEDUCTIBLES AND COINSURANCE WILL REDUCE UTILIZATION -

Especially bed patient - if outpatient benefits are better than
inpatient

Alternative
Two

PASS ON ENTIRE INCREASE TO EMPLOYEES

Conclusion

RECOMMEND MODIFICATION IN BENEFITS

MODIFICATION OF BENEFITS AFFECTS ONLY THOSE USING HEALTH CARE

PASSING PREMIUM INCREASE TO EMPLOYEE WILL DECREASE PARTICIPATION -

ADVERSLY IMPACT GROUP

EMPLOYEES MUST UNDERSTAND ADJUSTMENTS WILL BE MADE IN THE FUTURE

Long Term

FUNDING ALTERNATIVES

Objectives

LOWER RETENTION

IMPROVE EARNINGS ON CASH FLOW

ASSUME FINANCIAL MANAGEMENT

Question

WHAT IS THE MOST ECONOMICAL METHOD OF FUNDING?

Alternatives

FULLY INSURED - FULLY SELF FUNDING

Plus variations

REDUCE RISK - STOP LOSS

REINSURANCE -

AVAILABILITY - BC & BS/INSURANCE CARRIERS

remium Taxes DECREASES REVENUE TO STATE
eliminated

risk Manage- BC & BS HAS HAD UNDERWRITING LOSS FOR FOUR YEARS
ent
ADDITION OF OLDER AGE HIGH USE GROUPS - ADVERSE IMPACT

onclusion CHANGING FROM FULLY INSURED SHOULD BE CONSIDERED
ALL ALTERNATIVES SHOULD BE EVALUATED
RISK MANAGEMENT MUST BE EMPHASIZED

SELF ADMINISTRATION

bjective BETTER DATA TO MONITOR UTILIZATION AND COST CONTAINMENT PROGRAMS
CLOSER REVIEW OF CLAIMS
EFFICIENT CLAIMS SERVICE

uestion WHICH METHOD OF ADMINISTRATION IS THE MOST ECONOMICAL?
IS IT NECESSARY TO SELF ADMINISTER OR USE A THIRD PARTY ADMINISTRATOR TO EFFECTIVELY IMPLEMENT A COST CONTAINMENT PLAN.
WHO IS THE MOST CAPABLE OF IMPLEMENTING A COST CONTAINMENT PLAN.
CAN CLAIMS ADJUDICATION BE IMPROVED.
WHAT IS THE COST FOR HARDWARE, SOFTWARE AND PERSONNEL TO PROVIDE THE SERVICE.

onclusion ANSWERS ARE NEEDED TO EVALUATE/CONCERN FOR LACK OF CONCENTRATION OF EMPLOYEES AND COMMON CLAIMS COORDINATOR.

COST CONTAINMENT

bjective TECHNIQUES THAT PROVIDE GREATER SAVINGS IN CLAIMS PAYMENT THAN THEIR COST TO IMPLEMENT *Look at Last Page*

uestion EVALUATE DATA FROM BC & BS FOR EACH TECHNIQUE
SUCCESS FROM OTHER GROUPS
PRIVATE CONTRACTORS OFFERINGS

onclusion ANSWERS ARE NEEDED TO EVALUATE

HEALTH CARE SYSTEM/COALITION

Objective IMPROVE EFFICIENCY OF HEALTH CARE SYSTEM
Consideration GOVERNMENT AND BUSINESS -
PROVIDERS MUST BECOME INVOLVED IN HEALTH CARE PLANNING
Conclusion ATTITUDE IS RIGHT TO MAKE CHANGES -

SUMMARY

Short Term IMMEDIATE PROBLEM OF RATE CHANGE - MODIFY BENEFITS
Long Term MORE INFORMATION NEEDED FOR EVALUATION

ANSWERS NEEDED -

COST OF SELF ADMINISTRATION?

SELF ADMINISTRATION NEEDED TO IMPLEMENT COST CONTAINMENT?

WHICH COST CONTAINMENT TECHNIQUES ARE MOST EFFECTIVE?

Blue Cross and Blue Shield has data

WILL PRIVATE CONTRACTORS PROVIDE BETTER SERVICE FOR LESS COST
FOR ADMINISTRATION AND COST CONTAINMENT SERVICES?

THERE ARE MANY QUESTIONS TO ANSWER TO MAKE A DECISION FOR COMMITTEE

Recommendation HAVE CHARLES MIHALEK, PROJECT MANAGER FOR EVALUATION MADE BY STATE OF
KENTUCKY, PRESENT INFORMATION TO COMMITTEE - SHARE APPROACH SURVEY OF
OTHER STATES - DECISION MADE

*We would like to be considered for
If you would like to have an independent
study made to assist you in your decision*

CONFIDENTIAL RESUME OF
CHARLES C. MIHALEK, JR.

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LEGAL EMPLOYMENT AND EXPERIENCE

June 1977 to Present Attorney at Law, Lexington, Kentucky, with an emphasis on security law matters, litigation, group insurance plans and business law.

January 1976 to June 1977 Special Counsel, New York Stock Exchange, Inc., 55 Water Street, New York, N.Y. 10041. Litigation and Regulation Responsibility for the Complex Enforcement Matters involving Members of the NYSE.

March 1975 to October 1975 In 1975 appointed by Commonwealth of Kentucky as Special Assistant Attorney General in charge of Securities Crimes, Commonwealth of Kentucky, Frankfort, Kentucky.

October 1973 to March 1975 Director, Department of Banking and Securities, Division of Securities, Frankfort, Kentucky. Appointed by Governor Wendell Ford as Blue Sky Commissioner for the Commonwealth.

August 1970 to September 1973 Senior Trial Attorney, United States Securities and Exchange Commission, New York Regional Office. Heavy Litigation and Investigation Experience. Extensive Knowledge of the 1933, 1934, and 1940 Acts and the Rules and Regulations promulgated thereunder. Assisted U. S. Attorney's Office in the Southern District of New York.

April 1970 to August 1970 Assistant to the Special Counsel, New York City Health and Hospitals Corporation, 125 Worth Street, N.Y., N.Y. Contract Drafting, Real Estate Negotiation and General Corporate Housekeeping.

EDUCATION

University of Kentucky College of Law, Lexington, Kentucky (J.D. 1969).

Rutgers University, New Brunswick, New Jersey (A.B. 1967).

PROFESSIONAL

Admitted to the Bars of the Commonwealth of Kentucky and the District of Columbia.

(continued)

Ch. B.

CONFIDENTIAL RESUME OF
CHARLES C. MIHALEK, JR.

CONSULTANT

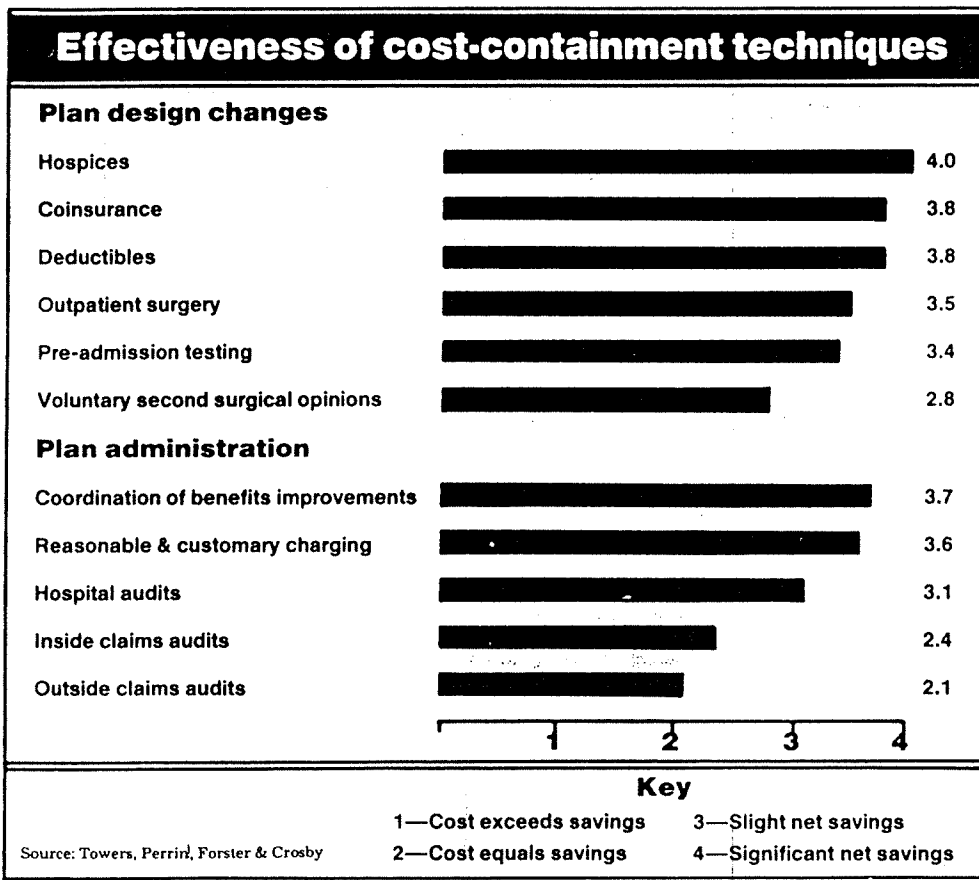
In 1981 retained by the Commonwealth of Kentucky to analyze and negotiate the State Group Health Insurance Contract with Blue Cross and Blue Shield of Kentucky, Inc. Prepared Bid Specifications for future State Group Health Insurance Plans.

Member of the Governor's Coalition of Payors to Address Health Care Costs, Chairman of the Sub-Group on Health Insurance Management Strategies, May 1982 to November 1982.

Member of the Board of Directors of Kentucky Health Cost Coalition, Inc., a non-profit corporation formed in January 1983 as the successor to the Governor's Coalition.

Appointed by Governor John Y. Brown, Jr. in 1982 as Member of State Health Planning Council.

Needs to
be
mandatory
&
precise info !!



94 Chicago & Milwaukee employees