

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by Sen. Neil H. Arasmith at
Chairperson

9:00 a.m. ~~xxx~~ on March 6, 1985 in room 529-S of the Capitol.

All members were present except:

Sen. Gordon - Excused

Committee staff present:

Bill Wolff, Legislative Research
Myrta Anderson, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Werner Gliebe, Kansas Employer Coalition on Health
Jerry Cole, Benefit Plan Administrators, Inc.
Wayne Hundley, Deputy Attorney General
Art Veach, Service Employees Union Local No. 513
Corinne Meadows, Employees Benefit Association, Santa Fe
Dr. Kardatski
Fred Bright, Cessna Aircraft Company
Gary Roberts, Boeing Military Airplane Company
Kay Coles, K-NEA
Don Snyder, Beech Aircraft Corporation
Tim Cutter, Coleman Company
Eleanor Taylor, Gates Learjet Corporation
Lanny York, IUOE Local No. 119
Carol Kuhlmann, Employee Benefits Advisory Committee, U.S.D. #259
Wayne Johnston, Blue Cross/Blue Shield
Jack Roberts, Blue Cross/Blue Shield
Bill Abbott, Boeing Aircraft

The minutes of March 5 were approved.

The hearing began on SB 299 dealing with contract provisions of preferred health care providers which had been requested to be introduced by a large number of people from Wichita,

First to appear in support of SB 299 was Werner Gliebe, Kansas Employer Coalition on Health. He stated that his board had considered this issue, and they are opposed to the competitive restrictions the "most favored nations" clause places on other providers. He had copies of this clause found in the contract about which everyone is concerned. (See Attachment I.)

Jerry Cole, Benefit Plan Administrators, Inc., gave testimony in support of SB 299. (See Attachment II.)

Wayne Hundley, a deputy Attorney General, appeared in support of the bill. He said that free and open competition is the goal of any anti-trust law, and when his office was asked to give their approval and blessing to this clause, they had misgivings and gave their approval without their blessing. Senate Bill 299 would remove their misgivings.

Art Veach, Service Employees Union Local No. 513, followed with testimony in support of the bill. (See Attachment III.)

Corinne Meadows, Employees Benefit Association for Santa Fe employees, appeared to go on record as supporting SB 299.

Dr. Kardatski of Wichita testified in support of the bill saying that many doctors support it. Some doctors have told him that they agree morally but feel that it may cause a price war. This is an indication that the bill would encourage competition and lower costs.

Fred Bright, Cessna Aircraft Company, appeared next in support of the bill. (See Attachment IV.)

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m.~~pm~~ on March 6, 1985.

Gary Roberts, Boeing Military Airplane Company, testified in support of SB 299. He said that even though they are one of the largest insured of Blue Cross/Blue Shield, he feels that there should be more competition which SB 299 would allow.

Kay Coles, K-Nea, appeared in support of the bill explaining that in the past their premiums have gone up steadily and that her group had found that the "most favored nations" status of Blue Cross/Blue Shield did not work to their specific needs.

Don Snyder, Beech Aircraft Corporation, testified that everyone is put at the Blue Cross cost level which has resulted in one price for a service. He supports SB 299 to change this situation for the better.

Tim Cutter, Coleman Company, supports the bill because it will be of help in negotiating more favorable agreements for PPOs for his company's 5,000 employees.

Eleanor Taylor, Gates Learjet Corporation, offered her testimony in support of SB 299.
(See Attachment V.)

Lanny York, IUOE Local No. 119, gave his strong support to SB 299.

Carol Kuhlmann, Employee Benefits Advisory Committee for U.S.D. #259, voiced her strong support of SB 299.

There being no others wishing to testify in support of SB 299, the chairman called on Wayne Johnston to speak for Blue Cross/Blue Shield. Mr. Johnston began by giving a short background of the "most favored nations" clause. In the late '70s and early '80s when the cost of health care was skyrocketing and hospitalization in Kansas was the second highest in the nation, they were challenged to do something about the situation. Blue Cross spent much time and money to develop the CAP program in 1983 which was a new reimbursement arrangement to correct the high utilization problem in Kansas and to lower rates. Health care providers were asked to sign the contract with the "most favored nations" clause if they wished to participate in the CAP program. This has been a benefit to all Kansans, not just Blue Cross.

Mr. Johnston said he can understand why objections are coming from large businesses. However, if SB 299 is passed, he is concerned about small employers who do not have the clout of large groups.

Mr. Johnston agreed that PPO legislation to promote competition is good legislation, but questioned if it is necessary for the legislature to legislate the contract with the providers of health care. He noted that it has been said that the clause inhibits others in negotiating contracts with a health care provider. Mr. Johnston feels that the committee should pass SB 299 if it feels that Blue Cross is promoting anti-competition by the clause. However, he feels that the committee could have future requests coming for other things to be included in contracts if they pass the bill. Furthermore, if the committee feels SB 299 is good public policy, they should change the provision to include everybody, not just Blue Cross/Blue Shield.

Upon conclusion of his testimony, the chairman asked Mr. Johnston to supply copies of his written testimony, and Mr. Johnston agreed to do so. (See Attachment VI, delivered later in the day).

In reference to Mr. Johnston's statement that hospitalization was reduced by 36%, the chairman asked if there has been a corresponding increase in hospital care costs. Mr. Johnston said that there has been an increase but this may be due to only the more serious cases entering the hospital and to inflation. He has statistics in regard to this.

Sen. Karr had questions regarding the statistics and as to if Kansas is coming down quickly as far as health costs due to the clause. Mr. Johnston said that CAP has had a substantial effect on the cost of health care, but that the "most favored nations" clause just happens to be a part of CAP, not necessarily part of the reason. Sen. Karr asked further if the quality of service has been affected. Mr. Johnston said it has not as of now, but he feels that the public will be thinking that next.

In reference to Mr. Johnston's statement regarding small employee groups in relation to SB 299, Sen. Kerr asked what he thinks the bill would mean to these groups. Mr.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on March 6, 1985

Johnston said that large employers have more clout to negotiate a good deal than small businesses, and someone needs to look out for the small businesses. He added that if it is the consensus of the committee that the "most favored nations" clause needs to be removed, then this should be done. He is appearing just to inform the committee.

The chairman asked Mr. Johnston if there are others in Kansas with this clause in their contracts. Mr. Johnston said that he knew of one, Delta Dental Program, but this bill would not include them, and he feels it should be made to include all who are in the health care business.

Also distributed to the committee were copies of a letter from Family Physicians of Wichita in support of SB 299. (See Attachment VII.)

The hearing on SB 299 was concluded, and it was taken under advisement.

The chairman called the committee's attention to SB 274 which had been heard the day before and which concerns required insurance coverage of diabetic equipment. He said that opponents of the bill would be heard at this time.

Jack Roberts, Blue Cross/Blue Shield, testified first. He said that mandating benefits increases the costs for small groups and is one of the factors that increase health care costs. It also eliminates the potential for negotiations. He passed out copies of statistics to illustrate his statements. (See Attachment VIII.) After discussing the cost increases the bill would cause, he passed out copies of an article pertaining to Blue Cross cutting charges to Kansans. (See Attachment VIX.) He said that if SB 274 and other related bills mandating coverage are passed, Blue Cross will have to increase their rates. Also, if SB 274 is passed, Blue Cross will have no control over what is paid for equipment and, thus, will have to increase rates to cover the increased cost of equipment.

Don Snyder, Beech Aircraft Corporation, who was not able to come yesterday, called attention to copies of his testimony passed out yesterday in opposition to SB 274. He reiterated that mandating takes away any kind of management control.

Bill Abbott, Boeing Aircraft, gave his support to testimony in opposition to SB 274, his main reason being that mandating causes costs to escalate. With this, the hearing on SB 274 was concluded, and the chairman said it would be considered along with other bills at the meeting tomorrow.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3/6/85	Dick Bauer	Topeka	Consolidated Benefit Plans
"	DENNIS DEAN	"	SEN. WERTS' INTERN
"	JACK ROBERTS	"	BC-BIS
"	Bill Pitsenberger	"	"
"	STEVE PORTER	"	HEALTH CARE COMMISSION
3-6-85	Carmine Meadows	Topeka	Employees Benefit Assn.
3/6	Key Clark	Topeka	K-NEA
3-6	LANNY YORK	Wichita	IUOE LOCAL # 119
3/6	FRED C. BRIGHT	WICHITA	CESSNA AIRCRAFT Co.
3-16	Jerry W Cole	"	Benefit Plan Administration
3/6	Carol Kuhlman	"	EBAC - USD # 259
3/6	Edmund Taylor	"	Gates Learjet Corp.
3/6	GARY J. ROBERTS	"	BOEING MILITARY AIRCRAFT Co.
3	Bill Abbott	✓	BOEING
3-6	Wanda Johnston		BC-BIS of K.
	Bill Smith	Wichita	U.S.M. 257
	LM CORNISH	Topeka	Ko has Life Assn
	Ren Todd	"	Insurance Dept.
	Wanda Hundley	"	Atty. Gen
	Leah Shelling	Marion	USD # 408
3/6	Sheryl Wilkenburg	Marion	U.S.P. # 408
	Jawhira Ludwig	Marion	U.S.D # 408
	Kathryn Moore	Marion	USD # 408
	Sherry Olsen	"	"

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
3-10	Michelle Binn	Wagon	11571 #2108
3-6	Nancy Swartz	Madison	USA #409
	Wanda Glibe	Topeka	KECH
3-6	Tom Allen	Lenora Ka	Mid-America Health network

Warner Glick

In the event that the Hospital has entered into an agreement with any other party under which such Hospital agrees to accept an amount for any or all services as payment in full which is less than the amount such a Hospital accepts from Blue Cross and Blue Shield as payment in full for such services, such lesser amounts shall be the Maximum Allowable Payment hereunder. Further, if the Hospital provides discounts for cash or for other payment arrangements on a routine basis, such discounted amounts shall be the Maximum Allowable Payment hereunder if that amount is less than the MAP. The Hospital agrees to fully and promptly inform Blue Cross and Blue Shield of the existence of such agreements or discounts and their effect on the amounts which are accepted as payment in full. This paragraph shall not be construed as applying to reimbursement arrangements between the Hospital and a Blue Cross and Blue Shield owned or operated Health Maintenance Organization operating under a certificate of authority issued by the State of Kansas, or reimbursement under Titles XVIII, XIX, and V of the Social Security Act.

3/6/85
Attachment I

Benefit Plan Administrators, Inc.

JERRY W. COLE, C.L.U.
PRESIDENT

LARRY J. ARMFIELD
VICE-PRESIDENT
TREASURER

JOAN L. CROWNS
SECRETARY

KIMBERLY G. WALLACE
CLAIMS SUPERVISOR



1359 NORTH EMPORIA
POST OFFICE BOX 3208
WICHITA, KANSAS 67201
PHONE (316) 262-3578

Testimony on SB 299

March 6, 1985

From Jerry W. Cole

Thank you for the opportunity to appear before you today. I am the President of Benefit Plan Administrators, Inc. We provide administrative services for employers for both insured and self insured group benefit plans. Among these are plans which provide coverage for medical care and hospitalization for employees.

We have attempted to establish Preferred Provider Organizations on behalf of our self insured clients with medical providers. As a practical matter, we cannot negotiate discounts because of the Blue Cross/Blue Shield Contract which requires that any discount provided by a BC/BS hospital or physician to any other group also be provided to BC/BS. I am personally acquainted with physicians who did not want to sign this agreement with BC/BS. Over 90% of physicians and 100% of hospitals signed this contract, many because of the threat that BC/BS would not pay benefits to providers who did not sign even if patients of those providers assigned benefits.

As a consequence, one of the health care cost containment tools is unavailable to Kansas citizens. If you pass Senate Bill 299, I believe consumers will be better able to obtain health care services at a lower cost through a free, competitive market system.



Service Employees' Union Local No. 513

417 EAST ENGLISH

WICHITA, KANSAS 67202

DIAL 263-0323

Affiliated With The Service Employees' International Union, AFL-CIO

March 5, 1985

Mr. Chairman and Members of the Financial Institution and Insurance Committee:

My name is Art Veach and I am Financial-Secretary of Service Employees Union Local-513. I negotiate Health Insurance benefits for approximately 8000 members and thier families each year. For the past ten years, I have been negotiating with Insurance Companies to provide adequate coverage for our members and their families at a rate they could afford. During the last several years in addition to negotiating coverage and rates, we have been establishing many cost containment programs. Programs like: 1. Manditory second surgical opinions; 2. Pre-admission review; 3. Manditory annual physicals; 4. Self-funding insurance; 5. Use of generic drugs; 6. Wellness programs; 7. The use of ^{preferred} ~~Provider~~ Provider Organization (PPO).

Another cost containment program is negotiating directly with providers (Doctor's, Hospitals, and Clinics) for reduced rates for certain services. Because of the Favorite Nations Clause that Blue Cross/Blue Sheild has, we are restricted at negotiated rates below their established rates.

I beleive we must look at coverage, insurance premiums, and cost containment programs so we can provide Health Insurance that our members and their families can afford. The Favorite Nations Clause restricts these endeavors.

I would urge this committee to recommend passage of Senate Bill 299.

Thank-you,

Art J. Veach
Financial Secretary-Treasurer

3/6/85
Attachment III



March 6, 1985

Senate Committee on
Financial Institutions
and Insurance

Re: Senate Bill 299

Good morning. I am Fred Bright with the Cessna Aircraft Company, and I've come to Topeka today with a number of other interested persons representing labor, business, the insurance industry, physicians and others to express my support and that of my Company in favor of Senate Bill 299.

As you are aware, the rising cost of health care in our country has reached staggering proportions. Some estimates place it at 10% of the entire gross national product. The situation in our own State is not appreciably different than in most others, concerning the major initiatives being taken to get health care costs under control. The hospital and physician communities have their hands full trying to learn how to adapt to a changing environment that emphasizes fixed fees for specified procedures, reductions in inpatient care and resultant decline of hospital bed usage, the scramble for preferred provider arrangements and so on.

The business and insurance community, on the other hand, are trying to avoid cost shifting which may result from the medicare "DRG" schedules and the Blue Cross/Blue Shield "CAP" plan. We are furthermore evaluating and changing basic health care plan design to achieve more cost effectivity while maintaining quality health care for employees and dependents. Through this effort, the actual costs of health care can be reduced. Due to these cost containment changes, employees are often inconvenienced and subjected to potentially lower rates of coverage, in addition to having to take on additional personal responsibility for their own health care costs. In doing so, they expect their efforts will be rewarded through continued cost efficiency. Unfortunately, that doesn't always happen.

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March 6, 1985
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I would like to briefly outline for you what I mean. In October 1984, Cessna installed a number of changes to its traditional health insurance program. These changes have been referred to as "cost containment measures," since they are specifically designed to encourage appropriate use of health care services and facilities. In some cases, coverage is better than before when the new procedures are followed. In almost all cases, benefits can be significantly less than they would have been prior to the changes, if the new procedures are not adhered to. Such is true with preadmission testing, outpatient surgery, use of emergency room facilities, and the expansion of reasonable and prevailing fee limits. An initial and concurrent Hospital Review Program was also implemented.

We believe that these and other changes have and will continue to lower health care costs for Cessna employees and dependents. This experience, in turn, should increase our chances of successfully negotiating competitive prices, based on our own cost experience, with preferred provider organizations in our community.

Not so! For some time, Blue Cross/Blue Shield of Kansas has included in its contracts with hospitals and physicians a provision commonly known as the "Most Favored Nations Clause." For all practical purposes, the clause eliminates the favorable negotiation of competitive prices for employers and their employees like Cessna, not insured with Blue Cross/Blue Shield, because any rate lower than that charged Blue Cross/Blue Shield must automatically be extended to them as well. Therefore, rates below what the Blues currently receive are not very likely, even in cases where plan design and usage data may suggest such rates would be appropriate.

An analogy drawn out of the manufacturing industry would go something like this:

A manufacturer works very hard at designing the specifications for raw materials for a new product. They have anticipated and planned for the most favorable order quantities, manufacturing lead times, material compositions, size, shape, finish, method of transportation and so on. After having done so, they approach their supplier for the favorable price treatment they have worked so hard to get. Their supplier indicates that he cannot provide a price advantage because he has a contract with another customer that would require him to offer them the same terms. As if this weren't bad enough, the manufacturer approaches all other potential suppliers, only to find out that they all have the same restrictive contractual arrangement with the same customers. It turns out that this one customer is such a large account, none of the suppliers can afford not to do business with them on their terms.

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We believe the scenario depicted would not only constitute a bad business practice, but that it would be highly questionable from a fair trade standpoint, and certainly not in the spirit of open competition and fair market demand and principles.

Similarly, we are of the opinion that the Most Favored Nation's Clause is unfair to our employees, that it works to discourage effective competition among hospitals, physicians, insurance carriers and HMO's, and that its continued presence will prevent the PPO concept from reaching its full potential as a major health care cost containment strategy.

Thank you for your attention and hopefully your strong support of Senate Bill 299.

Testimony Provided By:

Mr. Fred C. Bright
Manager, Management Resources
Cessna Aircraft Company
5800 E. Pawnee Road
Wichita, Kansas 67201

EMPLOYEE BENEFITS ADVISORY COMMITTEE
USD #259, Wichita, Kansas
March 6, 1985

The Employee Benefits Advisory Committee of Unified District #259 has tried to negotiate with four different Preferred Provider Organizations without success. The reason given to the committee by all four provider representatives is that negotiations are not possible because of the "Favored Nations" clause.

Rates should be set in the market place, not by legislation or regulation. EBAC favors the passing of SB299 because it would benefit both employees and employers. Employers could negotiate with Preferred Provider Organizations for price breaks on some procedures and employees would pay less for monthly insurance premiums. Medical providers would also benefit because they would be guaranteed more patients.

Please consider passing SB299.



Carol Kuhlman, President
Employee Benefits Advisory Committee
USD #259, Wichita, Kansas

3/6/85
Attachment V

TESTIMONY BEFORE THE SENATE COMMITTEE
ON FINANCIAL INSTITUTIONS AND INSURANCE
REGARDING SENATE BILL #299

MARCH 6, 1985

By Wayne Johnston, President

Blue Cross and Blue Shield of Kansas, Inc.

1) Background of CAP (Competitive Allowance Program) Development

- Late 1970's and early 1980's the cost of health care was skyrocketing at an alarming rate.
- Kansans' utilization of hospital services was the second highest in the United States.
- We were being challenged by legislators, the Insurance Commissioner, our customers, business and labor alike to do something to curtail the rapid increase in health care costs.
- During 1983 we developed the CAP program and implemented it on January 1, 1984.
- In the contracts that were voluntarily signed by the providers of health care, we included a clause referred to as the "most favored nations" clause. It says that if a provider supplies his services at a lower cost, Blue Cross and Blue Shield wish to have their subscribers receive the lower cost.
- Providers and consumers perceive us as a company with unlimited resources. They perceive us as paying charges.
- A new reimbursement system that controlled utilization and cost was imperative. The CAP program was a dramatic change which contained financial incentives to providers to improve efficiency, reduce utilization and thus reduce costs.

Testimony Senate Committee
on Senate Bill #299 (3/6/85)
Wayne Johnston
Blue Cross and Blue Shield

2) What have been the results of that effort

In 1981 Blue Cross and Blue Shield's in-hospital admissions were 171 per 1,000 subscribers. The national average was 113 per 1,000.

For the same period, Blue Cross and Blue Shield's days per thousand were 986 compared to the national average of 717 per thousand.

At the end of the fourth quarter of 1984, Blue Cross and Blue Shield's admissions per thousand were 112 and days per thousand were 638 -- or a decrease of approximately 35% while the national average dropped only between 5% and 10%.

- We were able to reduce rates for all categories of business effective April 1, 1985 with the exception of our Plan 65 program which is a supplement to Medicare. However, we did not increase the rate for Plan 65 even though the hospital deductible increased substantially.
- The CAP program is being copied by many others throughout the United States.

3) Substantial investment to develop the CAP Program

- Blue Cross and Blue Shield of Kansas has a substantial investment in the CAP program which has accrued to the benefit of all Kansans -- not just our subscribers. It has accrued to the benefit of companies competing with us without any investment of their resources.

4) Senate Bill #299 is primarily being promoted by very large employer groups in the Wichita area. These large groups have the necessary clout to contract with providers of health care - especially if you pass the proposed PPO legislation.,

- If S.B. #299 passes, Blue Cross and Blue Shield has lost one of the pertinent features of CAP. It is especially critical that the hundreds of small groups or businesses, farm communities and non-group have someone contracting in their best interest. This may be lost with the passage of S.B. #299.

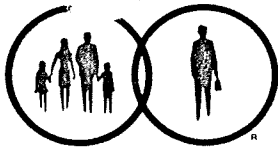
Testimony Senate Committee
on Senate Bill #299 (3/6/85)
Wayne Johnston
Blue Cross and Blue Shield

- 5) Proponents of the PPO legislation feel such legislation will promote open and free competition and I wouldn't disagree with that notion. However, I would hasten to point out that if we want open and free competition, it doesn't follow or seem to be consistent policy to pass additional legislation that dictates the terms of contracts with providers of health care. It seems to us that all entities contracting with the providers of health care should have the freedom to negotiate the best possible contract with providers of health care on behalf of their customers.

Those representatives of the large groups from Wichita who today have supported the passage of S.B. #299 would be appalled if the legislature were to pass legislation dictating the provisions of their contracts with both their suppliers and their customers.

- 6) I would think many PPO's would want to seize the opportunity to utilize the "most favored nations" clause in their own contracts with the providers of health care. We do believe that it is inappropriate to legislate the provisions of provider contracts.
- 7) In line with the comments I have just made, if you feel it is in the best interest of your constituents and the best interest of Kansans and good public policy to pass S.B. #299, then that is what should be done. However, S.B. #299 pertains only to Blue Cross and Blue Shield of Kansas. We feel if this is perceived as good legislation, it should pertain to all who contract with the providers of health care. For example, Delta Dental provider contracts include the "most favored nations" clause and there are probably others.

We recommend - if you decide to pass S.B. #299 - that it pertain to all who contract with the providers of health care.



FAMILY PHYSICIANS
Professional Association
3243 E. MURDOCK SUITE 300
Wichita, Kansas 67208-3089
Phone 316-685-8231

BETH ALEXANDER, M.D.
RONALD C. BROWN, M.D.
JAMES M. HARTLEY, M.D.
JOHN L. KREADY, M.D.
STANLEY J. MOSIER, M.D.
TERRY STRYKER MERRIFIELD, M.D.
LOIS V. SVOBODA, M.D.

DIPLOMATES AMERICAN BOARD
OF FAMILY PRACTICE

5 March 1985

LANITA MARK
BUSINESS MANAGER

The Honorable Neil H. Arasmith
Senate Chambers
State Capitol Building
Topeka KS 66612

Dear Senator Arasmith:

We are writing to express our views on Senate Bill 299 regarding the "most favored nation" clause in the current Blue Shield contract with participating physicians.

When this clause was first introduced, we perceived it as a move to reduce competition, a step toward restraint of trade. We felt so strongly about it that we decided against signing the contract. Since our protest and non-participating status had no apparent effect other than inconveniencing our patients, we subsequently signed. We are delighted to have another chance to voice our opposition to that clause.

The "most favored nation" clause acts simply as a floor for prices. We have direct evidence for this fact in our discussions with our consulting physicians. As a part of our HMO participation, we negotiate directly with other physicians regarding their services and their rates. Many of them are willing to reduce their fees for HMO patients, because within the HMO structure, they stand to gain sufficient increase in volume, if they provide quality care, to offset the lower income per procedure. Some have expressed regret that they cannot realistically reduce their fees below the Blue Shield CAP, since that would reduce their Blue Shield income as well. Blue Shield has no mechanism for physicians to attract a higher volume of business by lowering fees, so the loss could not be offset.

In addition, we feel that Blue Shield can and should stand on its own, rather than trying to take advantage of cost cutting measures made possible by and developed by other insurance systems.

Thank you for this opportunity to express our views. Please contact us if you or your colleagues wish us to expand on this topic. We would be happy to comply.

Sincerely yours,

Ronald C. Brown, M.D.

John L. Kready, M.D.

Stan J. Mosier, M.D.

James M. Hartley, M.D.

Terry Stryker Merrifield, M.D.

3/4/85
Attachment VII

SENATE BILL BY SENATOR FRANCISCO
 Insulin Infusion Pump
 Increase in Annual Costs to
 Blue Cross and Blue Shield Of Kansas, Inc.

- | | | |
|----|--|--------------|
| 1. | Total number of subscribers under age 65 (or TEFRA 65-69) covered by Blue Cross and Blue Shield of Kansas, Inc. | 525,210 |
| 2. | Estimated number of diabetics covered by Blue Cross and Blue Shield of Kansas, Inc. (1.7% of Line #1) | 8,928 |
| 3. | Estimated number of diabetics to use pump if current eligibility criteria were removed (35% of Line #2) | 3,125 |
| 4. | Estimated number of diabetics currently using pump (1.2% of Line #2) | 107 |
| 5. | Increase in use of pump (Line #3 - Line #4) | 3,018 |
| 6. | Estimated annual increase in costs per person: | |
| | a) Those currently with pump | \$ 1,200 |
| | b) Those currently without pump | \$ 5,567 |
| 7. | Total annual increase in costs | |
| | a) Those currently with pump
(Line #4 X Line #6a) | \$ 128,400 |
| | b) Those currently without pump
(Line #5 X Line #6b) | \$16,801,206 |
| | c) Grand Total | \$16,929,606 |
| 8. | Comments | |
| | a) It is unknown how many more diabetics would receive pump if current criteria were removed; any variation from the estimated 35% would have a direct effect upon above costs. | |
| | b) The current life of a pump is about two years; the above costs assume an annual replacement. If replacement occurred every two years, the total estimate would be reduced to \$12,087,912.00. | |

3/6/85
 Attachment VIII

INSULIN INFUSION PUMP

	Estimated Additional Cost Per Person Annually	
	Person Currently Using Pump	Person Not Currently Using Pump
1. Cost of Insulin Infusion Pump		
a) Best Model	\$2,495	\$2,495
b) Current Allowance	1,295	0
c) Increase	\$1,200	\$2,495
2. Cost of IV Equipment Annually		
a) Total charge	\$4,800	\$4,800
b) Current allowance	4,800	1,800
c) Increase	0	\$3,000
d) Less estimated subscriber's portion due to deductibles and coinsurances	0	\$2,400
3. Provider costs related to installation and device testing, etc.		
a) Total if inpatient	\$2,610	\$2,610
b) Total if outpatient	250	250
c) Average total, assuming 25% are inpatient and 75% are outpatient	\$ 840	\$ 840
d) Currently paid by Blue Cross and Blue Shield of Kansas, Inc.	840	0
e) Increase	0	\$ 840
f) Less estimated subscriber's portion due to deductibles and coinsurances	0	\$ 672
4. Total additional costs per person annually to Blue Cross and Blue Shield of Kansas, Inc. (Line #1c + 2d + 3f)	\$1,200	\$5,567

January 10, 1985

Blue Cross to cut what it charges most Kansans

The Associated Press

TOPEKA — Blue Cross and Blue Shield of Kansas announced plans Wednesday to save its subscribers about \$22 million this year through rate reductions ranging from 6 percent to 14 percent.

Wayne Johnston, the president of the company's Kansas operation, said the reductions stemmed from a decrease in the use of hospitals and medical services.

Blue Cross and Blue Shield of Kansas is the largest provider of health insurance in the state and operates in all Kansas counties except Wyandotte and Johnson. Those counties are covered by Blue Cross and Blue Shield of Kansas City.

Fletcher Bell, state insurance commissioner, said Blue Cross had informed him in August that it would buck a 16-year trend and not seek a rate increase in 1985. After studying its financial status, Mr. Bell said, he urged the company to return its savings to subscribers.

The plan, which was filed late Tuesday with the Kansas Department of Insurance, mainly will affect three categories of subscribers. Reductions will apply to groups with fewer than 25 members and to non-group and Farm Bureau subscribers.

The new rates, which are scheduled to take effect April 1, are expected to save about 125,000 subscribers more than \$7 million by the end of this year.

Subscribers in groups with more than 25 members also are expected to benefit from the plan. Those groups are rated on their own experi-

ence, and rates already have been lowered for many of them.

The company estimates that it will give the merit-rated groups about \$15 million in either refunds or contributions to group reserves, which will allow them to buy more insurance.

Subscribers with Plan 65, which supplements Medicare coverage for senior citizens, will not be affected by the rate reduction. However, they will receive benefits as a result of the federal government's raising of the Medicare deductible, Mr. Johnston said. Medicare will not cover the first \$400 of a subscriber's annual charges, up from \$365 in 1984. Blue Cross's Plan 65 will pay that additional cost at no extra charge. Without the Blue Cross compensation, the Medicare change would have cost subscribers \$4.7 million, he said.

Mr. Johnston credited the lowered rates to a general reduction in the use of hospital and medical services and to his company's Competitive Allowance Program, which went into effect last year and limits the amount that hospitals and doctors can charge for a given service.

Mr. Johnston said health care providers also had a hand in lowering insurance rates.

The nation's downward trend in the use of hospitals and medical services has been magnified in Kansas, Mr. Johnston said. Although insurance carriers nationwide have been going to the hospital less, the decrease by Kansans is 5 percent to 8 percent greater than the other states' average, he said.

Mr. Bell said he expected the request to be approved without a hitch.

3/6/85
Attachment VIX

Blue Cross Announces Decline In Some Health Insurance Rates

Associated Press

TOPEKA — Blue Cross and Blue Shield of Kansas said Wednesday that it planned to reduce its medical insurance rates 6 percent to 14 percent, saving its subscribers about \$22 million this year.

Wayne Johnston, president of the insurer, said the reductions stemmed from a decrease in the use of hospitals and medical services.

"It is not a modest adjustment," Johnston said. "We're very pleased to give our subscribers this good news, and we hope the trend continues."

Fletcher Bell, state insurance commissioner, did not hesitate to take partial credit for the reductions and said he saw no reason why the decrease in rates would not be quickly approved by his department.

BLUE CROSS had informed the insurance department in August that it would buck a 16-year trend and not seek a rate increase in 1985. After studying its financial status, Bell said, he urged the firm to return its savings to subscribers.

● BLUE CROSS, 2A, Col. 3

● BLUE CROSS. From 1A

The plan, filed Tuesday with the Kansas insurance department, mainly will affect three categories of subscribers — groups with fewer than 25 members, non-group subscribers and Farm Bureau subscribers. About 125,000 subscribers in those groups would save more than \$7 million this year under rates that would take effect April 1.

"The rate decrease will range from maybe \$5 a month to as much as \$35 a month," Johnston said.

For example, Farm Bureau subscribers in the 45-to-49 age bracket who are on a \$1,000-deductible program will pay \$8.43 a month less if they are single and \$17.95 a month less with a family policy, he said.

SUBSCRIBERS IN groups with more than 25 members also may expect lower rates. Rates for those groups are merit-rated, meaning that their rates also are based on the use of hospitals and medical services by members of those groups.

The company estimates it will give the merit-rated groups about \$15 million in either refunds or contributions to group reserves, which allows them to purchase more insurance. Those groups received similar savings last year, Johnston said.

The announcement was welcome news to some Kansas employers.

Miklos Lorik, general manager of Precision Winding Inc. of Wichita, said, "The first time I heard about it was on the radio while I was in my car. I couldn't believe it. I'm glad I was sitting, because I almost fell out of the car.

"**I LOVED** to hear it because I believe Blue Cross and Blue Shield and many other types of insurance are getting so expensive that people can't afford it. And it's important and vital that we all have insurance," Lorik said.

Lorik said he was not sure of the reasons for the decrease, but he guessed that alternative types of health insurance were forcing Blue Cross and Blue Shield to offer competitive rates.

"Whatever the reason, I welcome it," he said.

Subscribers of Plan 65, which supplements Medicare coverage for senior citizens, will not be affected by the rate reduction. However, they also have benefited because Blue Cross did not raise their rates despite an increase in the Medicare deductible from \$356 to \$400 as of Jan. 1, Johnston said.



Johnston
... "Hope
the trend
continues."

"**NORMALLY, WE'D** have to increase the rate to do that," he said. Such an increase, he said, would have cost those subscribers an estimated \$4.7 million.

Johnston credited the lowered rates to a general reduction in the use of hospital and medical services and his firm's Competitive Allowance Program, which went into effect last year and limits the amount hospitals and doctors can charge for a given service.

Johnston said health care providers also had a hand in lowering insurance rates.

"**I WOULD** hasten to give credit to hospitals, doctors and dentists," Johnston said. "Their cooperation has resulted in our ability to pass on to subscribers a significant savings."

The nation's downward trend in the use of hospitals and medical services has been magnified in Kansas, Johnston said. While insurance carriers nationwide have been going to the hospital less, the decrease by Kansans is 5 percent to 8 percent greater than other states, he said.