

Approved February 26, 1986
Date

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./~~p.m.~~ on February 25, 1986 in room 529-S of the Capitol.

All members were present except:

Sen. Harder - Excused

Committee staff present:

Bill Wolff, Legislative Research
Bruce Kinzie, Revisor of Statutes

Conferees appearing before the committee:

Ron Todd, Kansas Insurance Department
Larry Magill, Independent Insurance Agents of Kansas

The minutes of February 21 were approved.

The hearing began on SB 530 dealing with the purchase of insurance by the committee on surety bonds and insurance. Ron Todd of the Kansas Insurance Department said the bill is basically a clean-up bill. The main change is first shown on line 78 where \$50 is changed to \$500 to be consistent with other purchases. The other change is on page four, section (e) which is a policy change.

The chairman said that it appears that this language is tying the hands of the appropriation process because when something is itemized, something that is needed is usually overlooked. He suggested that on line 131 "and" be changed to "or" to correct the situation. Mr. Todd was agreeable to this. The chairman added that in this way appropriations could be made without passing a separate statute to do it.

The chairman briefly went through other effects of changes in the bill. In discussion of "designee" on line 27, Sen. Burke suggested that it be changed to "respective designee" for clarification purposes and made a motion to do so. Sen. Werts seconded, and the motion carried.

Sen. Werts made a motion to change "and" to "or" on line 131, Sen. Burke seconded. The motion carried.

Sen. Burke made a motion to recommend SB 530 favorable for passage as amended. Sen. Werts seconded, and the motion carried.

Attention was turned to SB 527 dealing with group insurance. Ron Todd testified. He said the Insurance Department had been directed to draft this bill by an interim committee which had been concerned by the fact that there is an increasing number of people who cannot buy normal health and accident insurance. The committee felt that the problem might be relieved for these persons if they could not be excluded from group insurance policies. However, there are objections to this type of approach to the problem. The new language states that if an insurance company is to insure more than 25 persons in a group policy, it cannot exclude a member from coverage because he already has a health problem. Mr. Todd said he did not know if this will be beneficial or cause more problems.

The chairman asked how the bill would affect insurance rates. Mr. Todd answered that he could give no dollar amount, but almost all who spoke to the department indicated that rates would go up significantly for large groups and more than that for smaller groups. Also, it might eliminate availability for small groups. He agreed with the chairman that there is a strong possibility that some companies would not do business in Kansas if the bill were enacted.

Larry Magill, Independent Insurance Agents of Kansas, testified in opposition to SB 527. (See Attachment I).

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 529-S, Statehouse, at 9:00 a.m./~~p.m.~~ on February 25, 1986

Sen. Karr asked for more information on the discussion of the uninsurable by the interim committee. The chairman said the committee ran out of time and so they suggested that the insurance commissioner provide language to help these people. The committee came to no conclusions but wanted something in black and white as a starting point. Staff explained further that the feeling coming from the study was that the notion that group insurance is covering everybody in a group is no longer true. There are members of families who have group insurance, but individually have no insurance. This bill was one way to find if the uninsured could be pulled back into group coverage.

The chairman and Sen. Reilly felt that the bill would compound the problem. The chairman said that everyone is sympathetic with the problem, but he has not seen much support for this approach to solve it because of the other problems it may cause. He said Blue Cross-Blue Shield supports the bill because they already do this. With this, the hearing on SB 527 was concluded, and it was taken under advisement.

Discussion began on SB 531 dealing with minimum educational requirements for insurance agents which had been previously heard. Appropriate language had been drawn up as was requested in a conceptual motion during the meeting on February 21. Ron Todd explained the proposed changes which begin on Line 25 where "one of the following:" is deleted, and the remainder of that section (through line 62) is deleted also. Then on line 25 "at least two educational courses approved by the commissioner and consisting of 40 classroom hours" is added.

Mr. Todd requested that it be effective as of July, 1987, in order to allow the department time to have hearings on the regulations. Staff explained that January 1, 1987, would be sufficient time because this would allow fifteen months to operate on the temporaries.

Sen. Karr moved to amend the bill to include the language suggested by the department to permit these educational requirements to be handled by rules and regulations rather than by the statute and that it be effective January 1, 1987. Sen. Gordon seconded. The motion carried.

Sen. Gordon made a motion that SB 531 be recommended favorable for passage as amended. Sen. Gannon seconded, and the motion carried.

The meeting was adjourned.

SENATE COMMITTEE

ON

FINANCIAL INSTITUTIONS AND INSURANCE

OBSERVERS
(Please print)

DATE	NAME	ADDRESS	REPRESENTING
2-25	Jewel Wright	Topeka	Ks Credit Union League
2-25	Richard Harmon	Topeka	Ks Life Assn
2-25	LARRY MAGILL	"	INDEP INS AGENTS
2-25	RON GACHES	WICHITA	BMAC

Testimony by Larry W. Magill, Jr., Executive Vice President
Independent Insurance Agents of Kansas
on SB 527
Before the Senate Financial Institutions
and Insurance Committee
February 25, 1986

The Independent Insurance Agents of Kansas are opposed to SB 527 as it was introduced because of the certain and devastating impact it will have on association-sponsored group insurance and multi-employer trusts. Both association-sponsored plans and multi-employer trusts are designed primarily for the benefit of small employers, those with under 10 employees, approximately.

We would have no problem with SB 527 if the proposal simply prohibited single employers of 25 or more employees from medically underwriting new employees. From what we have been able to determine, it would be rare that an employer or group carrier with 25 or more employees would want new entrants medically underwritten. One of the concepts of group insurance is to save administration expenses. One of the ways to save those costs is to avoid medical underwriting with a sufficiently large number of employees to spread the risk.

But this proposal has the potential to destroy many association-sponsored plans and multi-employer (or industry) trusts. There are two problems created by SB 527 in the areas of individual eligibility and firm eligibility requirements.

S. FII 2/25/86
Attachment I

We will use the provisions of our association-sponsored plan as the basis for our comments, since we know the specifics and feel it is representative of most similar plans. Our plan is administered by Dorth Coombs Insurance in Wichita, a member of our association and one of the biggest group administrators in Kansas. Most of these comments are based on discussions with Dorth Coombs.

If a new member agency joins our group insurance plan within 60 days of becoming a member of our association, there is no medical underwriting regardless of the number of employees in that firm. Assuming that the firm meets other plan requirements such as participation levels, work at least 30 hours per week and actively at work at the time coverage goes into force, even an employer with no employees is eligible.

If an existing member who has gone beyond the enrollment period but who has 10 or more employees decides to join the group at any time, there is no medical underwriting.

But if a member with less than 10 employees decides to join the group health plan late or an existing employee with a participating employer first decides not to participate and later decides to join the group plan, they are all subject to medical underwriting and must be for the group to survive.

In addition, all group plans provide for anywhere from 30 to 90 days waiting period before coverage begins for new employees. This provision is primarily to avoid unnecessary paperwork and protect the group's experience from employees who voluntarily leave a new job or are let go in the first few months. The proposal would appear to prohibit this type of plan provision.

Further, the provisions mentioned above on participation percentages for individual firms' employees, the requirement that employees must work at least 30 hours per week and the requirement that they be actively at work when coverage goes into force would all probably be disallowed under this wording. The wording in lines 27-32 does not define employee, does not allow for participation percentages and makes no mention of whether they are actively at work, or in the hospital, for example, when coverage should go into force.

Without the ability to medically underwrite in the situations outlined above and without the ability for groups to define eligibility requirements, small employers and individual employees of any size group would be free to join and leave plans as their medical needs dictated. Young, healthy employees would opt not to participate, especially where there is a cost to the employee, until a medical problem arose.

Adverse selection, a process where small employers with health problems would migrate to association-sponsored or multi-employer trust plans, would cause deteriorating loss experience, would drive up rates and drive away the healthy firms, leaving the plans as residual markets for those who could not escape.

Under these circumstances, eventually the experience and rates will deteriorate for these groups to the point where the plan is discontinued. The provisions of SB 527 are comparable to a mandatory "open enrollment" on a continuous basis.

For many small employers, an association-sponsored or multi-employer trust plan is the only way they will enjoy the benefits of broader group coverage at competitive rates. This proposal could conceivably take that option away.

It would be possible, but not practical, to circumvent the bill by issuing separate master policies to each small employer. They might be one-and-one-half inches thick and would necessitate that each time a change is made in coverage, each master policyholder must sign the amendment. One of the major cost-saving elements of group insurance would be lost.

We urge the committee not to act favorably on SB 527.