

Approved March 22, 1988  
Date

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE

The meeting was called to order by REPRESENTATIVE DALE SPRAGUE at  
Chairperson

3:30 ~~am~~/p.m. on MARCH 15, 19 88 in room 531-N of the Capitol.

All members were present except: Representative Gross, excused  
Representative Hoy, excused

Committee staff present:

Emaline Correll, Research Department  
Bill Edds, Revisor of Statutes Office  
Nancy Wolff, Secretary

Conferees appearing before the committee:

Ron Todd, Kansas Insurance Department  
Cheryl Dillard, President, Kansas HMO's

The meeting was called to order by the Chairman.

Representative Beauchamp made a motion that the minutes of March 1, 1988, March 2, 1988 and March 3, 1988 be approved as written and Representative Schauf seconded the motion. The motion carried.

Hearings were held on Senate Bill 536, relating to the conversion of coverage by Health Maintenance Organizations, and Senate Bill 537 which relates to the application and deposit requirements for Health Maintenance Organizations.

Emaline Correll, Research Department, reviewed Senate Bills 536 and 537 and reviewed amendments she felt should be made to the bills to make them more workable.

Ron Todd, Kansas Insurance Department, testified on both bills and reviewed the necessity for both bills. (Exhibit I)

Cheryl Dillard, Government Relations Manager for Kaiser Permanents, testified on behalf of the Kansas HMO Association, as a proponent of both bills and submitted written testimony on both bills. (Exhibit II and Exhibit III)

There being no opponents to either bill, the meeting was adjourned at 4:25 p.m.

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.

Explanatory Memorandum For  
Legislative Proposal No. 3 - SB 537

The statutes governing the formation, operation and regulation of health maintenance organizations (HMO's) were first enacted in 1974 and are found in Article 32 of Chapter 40, Kansas Statutes Annotated. With few exceptions, these statutes have not been materially changed since their enactment even though HMO's have evolved so they have different organizational structures, different backgrounds, different profit motives and so forth. Legislative Proposal No. 3 was primarily developed by the Kansas HMO Association to clarify provisions of existing law that are lacking in specificity such as documentation of fiscal solidity. Also such clarification will result in the removal of inconsistencies that result from differing HMO organizational structures, specifically staff or group model as opposed to independent practice associations. In addition, the minimum deposit requirements for new and existing HMO's has been increased from \$10,000 to \$150,000 with a transition period provided to facilitate compliance.

Explanatory Memorandum For SB No. 536  
~~Legislative Proposal No. 4~~

Legislative Proposal No. 4 relates to health maintenance organizations and would require such organizations to make a conversion contract available to persons who are terminated from a group but remain in the HMO's service area and for persons whose coverage in an HMO is terminated because the HMO is ceasing to do business in the service area. This proposal would provide HMO subscribers with essentially the same conversion options as are available from commercial health insurers and mutual nonprofit hospital and medical service corporations. Because of the unique nature of HMO's, the geographical area served by the conversion option is more limited than that required by other health care financing entities but will accommodate the needs of most people.



TESTIMONY OF KANSAS HMO ASSOCIATION  
BEFORE KANSAS HOUSE COMMITTEE ON INSURANCE

SENATE BILL NO. 537  
MARCH 15, 1988

Mr. Chairman, I am Cheryl Dillard, Government Relations Manager for Kaiser Permanente in Kansas City and the President of the Kansas HMO Association. I am pleased to appear before you today to speak in support of Senate Bill No. 537.

The Kansas HMO Association has as members 12 health maintenance organizations who operate in Kansas. The Association, which was incorporated in 1986, represents Kansas-based as well as national organizations. The 12 organizations in the Association provide health care and health care coverage for more than 200,000 Kansans.

I want to express the Association's wholehearted support of Senate Bill No. 537, a measure that strengthens and brings up-to-date Kansas statutes governing health maintenance organizations. We believe the proposal will give additional protection to those Kansans who choose our form of health care delivery, increase the stability of a growing industry, and thereby contribute to efforts to control escalating health care costs through effective, constructive competition among providers.

Senate Bill No. 537 amends the original Kansas HMO Act, adopted a number of years ago under circumstances different from today. At that time HMOs were new to our part of the country. Prime Health, the first HMO serving Kansans, began operating in 1976. When Kaiser Permanente acquired an existing HMO in Kansas City in 1985, there were 5 HMOs being offered to Kansans in the Kansas City area. There are now 10 organizations competing to serve residents of the metro area. The number of HMOs in Kansas is increasing, and the number of their subscribers has grown each year.

HMOs today take many different forms, some of which did not exist in 1976 when the Kansas HMO Act went into effect. HMOs have certain things in common; all of them provide direct health care rather than reimbursement for expenditures. Most of them provide substantially more comprehensive services than do indemnity plans, and by their nature share the subscriber's interest in the maintenance of good health and the early detection of conditions before they become serious. All HMOs require subscribers to use selected providers. All HMOs' operations are monitored by the Insurance Department, and by the federal government for those who are federally qualified or who have Medicare contracts.

HMOs differ widely in their structure. Some offer services through HMO-operated health care facilities, using physicians who are full-time employees of the HMO, or who comprise a medical group that contracts with the HMO. Others provide services in the offices of the affiliated physicians. The first are known as staff or group model HMOs. The second are known as Independent Practice Associations (IPAs).

Senate Bill No. 537 recognizes the differences in these methods of operation, and provides effective and workable regulation of all types. It clarifies the regulation to assure financial stability of HMOs, and increases the statutory requirement for deposit of funds to assure payment of expenses. The bill adds provisions to clarify the contracts between HMOs and their subscribers, for the subscribers' protection.

The changes are not radical, but we believe they are important. They alter the law to make it consistent with standard industry practices. They protect the consumer without unnecessarily hindering the operations of HMOs in the state. Our Association urges their adoption. Thank you for this opportunity to testify. I will be glad to try to answer any questions you may wish to ask.





TESTIMONY OF KANSAS HMO ASSOCIATION  
BEFORE KANSAS HOUSE COMMITTEE ON INSURANCE

SENATE BILL NO. 536  
MARCH 15, 1988

Mr. Chairman, I am Cheryl Dillard, Government Relations Manager for Kaiser Permanente in Kansas City and president of the Kansas HMO Association. I am pleased to appear before the committee to speak in support of Senate Bill No. 536.

The Kansas HMO Association has as members 12 health maintenance organizations who operate in the state of Kansas. Our members represent both Kansas-based as well as national organizations. The Kansas HMO Association was incorporated in 1986 and was formed for a number of purposes:

- to inform various audiences, among them legislators and regulators, about the managed health care industry;
- to provide services for members of the association;
- to establish a good working relationship with the commissioner and the Kansas Insurance Department.

It is the latter area where the association has had the most success. We have established a relationship which we think joins the goals of the association with those of the insurance commissioner - namely, to protect consumers, to increase consumer confidence in the HMO industry and to promote the growth in Kansas of the HMO industry.

Senate Bill No. 536 is a product of the cooperative effort between the association and Commissioner Bell. In 1987, an HMO terminated coverage for members in a number of unprofitable markets in Kansas, but continued operations in others. Commissioner Bell's attention was drawn to the issue of members of HMOs losing health benefits coverage as the result of such an event. Senate Bill No. 536 was drafted as a result of that interest.

The Commissioner approached the association on the subject of this conversion bill and invited our assistance in drafting legislation which would protect consumers and, at the same time, not unnecessarily handicap HMO industry operations in the state. The bill you are considering today meets both requirements and is the product of a joint effort between the department and the association.

HMOs grow and become successful by gaining new members. The great majority of HMO members join our plans through group contracts; that is, employers who have decided to offer an HMO to their employees as part of a company benefit plan. It is important to our industry that both employers and their work forces view HMOs as stable organizations, capable of providing health benefits coverage for a long period of time. When one HMO has financial difficulties or offers poor service to its members, the reputation of the whole industry can suffer. The enactment of Senate Bill No. 536, will, we hope, increase consumer confidence in the HMOs who operate in Kansas.

The bill provides that HMO members whose coverage is terminated for any reason have the right to obtain a converted contract, subject to certain exclusions. This policy, already contained in the contracts of many HMOs, evidences our corporate responsibility to our subscribers and their families and allows them to continue coverage in an uninterrupted fashion.

Because it will increase consumer confidence in the HMO industry and because it seeks to codify the socially responsible manner in which most HMOs currently conduct their business, Senate Bill No. 536 has the support of the Kansas HMO Association.