

Approved 2-9-88  
Date

MINUTES OF THE SENATE COMMITTEE ON PUBLIC HEALTH AND WELFARE

The meeting was called to order by SENATOR ROY M. EHRLICH at  
Chairperson

10:00 a.m./p.m. on February 5, 1988, 19   in room 526-S of the Capitol.

All members were present except:

Committee staff present:

Emalene Correll, Legislative Research  
Bill Wolff, Legislative Research  
Norman Furse, Revisors Office  
Clarene Wilms, Committee Secretary

Conferees appearing before the committee:

Ron Gaches, Public Affairs, Boeing Military Airplane Company  
James P. Schwartz, Jr., Consulting Director, Kansas Employer Coalition  
on Health  
Jim Gartner, Southwestern Bell Telephone Company - written testimony,  
Attachment 5, February 4, 1988 minutes  
Written testimony on HB-2504 by Larry E. Waymire, Secretary/Treasurer  
Randolph Sheppard Vendors of Kansas, Inc.

The chairman called the meeting to order and called on Senator Bond who announced that the subcommittee on HB-2504 would meet today, February 5, 1988, at 11:00 a.m., Room 254.

Ron Gaches, Boeing, who was answering committee questions at the time of adjournment on February 4, 1988, continued testimony. Mr. Gaches stated that due to the fact that pharmacy costs were the most rapidly rising component in the benefit package the motivation of change was cost. When asked whether or not the employees participated in selection Mr. Gaches stated that six bargaining units were consulted at the time this change was being considered. Senator Salisbury asked if there were some way Kansas pharmacies could compete with both quality and quantity of service being considered. Mr. Gaches replied that proposals could be submitted by February or March, 1989, prior to the start of bargaining for the period beginning January 1, 1990. Senator Morris asked whether or not an increase would occur if a smaller group such as just Kansas employees were involved. Mr. Gaches replied that quantity normally reduced costs.

Jim Schwartz, Jr., Consulting Director of Kansas Employer Coalition on Health, Inc. appeared in opposition of SB-524 and presented written testimony. Mr. Schwartz told the committee that his organization now comprises 108 companies across the state. The funding of employee health benefits is a serious problem for Kansas employers. It was further stated that this bill discourages employers from seeking innovative, competitive solutions to the cost problems. The organizations that have done well are those who are doing it through concepts of managing health care and the chief tenant of managed health care is that employers act as large purchasers of health care and they get volume discounts for health care services. Mr. Schwartz urged caution about trying to improve pharmacists or any other interest group's market position through governmental regulation. Attachment 1

Jim Gartner, Southwestern Bell, whose written testimony was presented to the committee February 4, 1988, testified before the committee in opposition to SB-524. Mr. Gartner outlined the options of members to purchase drugs. He also stated that failure to continue the mail order prescription plan would constitute an unfair labor practice in the view of the Communication workers of America and would cause additional expense to employees, the company, stockholders and customers.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON PUBLIC HEALTH AND WELFARE,  
room 527-S Statehouse, at 10:00 a.m./~~p.m.~~ on February 5, 1988.

Senator Francisco requested statistics on how many of the 59,000 employees used the mail order option of the health plan. Senator Morris questioned whether or not prescription and non-prescription drugs were covered and also, whether or not the out of state company payed state sales tax. Senator Anderson asked for clarification on the amounts paid, local pharmacists versus mail order usuage. Staff asked whether the primary pharmacists versus mail order usage. Staff asked whether the primary utilization of out of state purchases were for maintenance drugs. Senator Mulich questioned what the average prescription costs were, also that he was concerned about whether or not the mail order pharmacies were paying state sales tax.

Written testimony by Larry Waymire was presented to the committee. Mr. Waymire stated that his group were opposed to any "grandfathering" of House Bill 2504. Attachment 2

The meeting adjourned at 10:40 a.m. and will meet at 10:00 a.m., Monday, February 8, 1988.

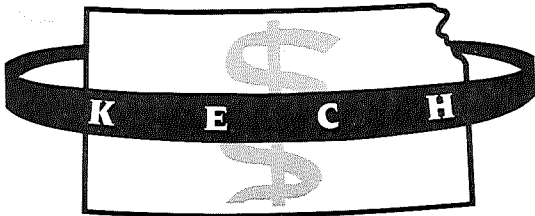
SENATE  
PUBLIC HEALTH AND WELFARE COMMITTEE

DATE February 5, 1988

(PLEASE PRINT)  
NAME AND ADDRESS

ORGANIZATION

NAME AND ADDRESS	ORGANIZATION
KEITH R LANDIS Topeka	CHRISTIAN SCIENCE COMMITTEE ON PUBLICATION FOR KANSAS
Bob Williams Topeka	KANSAS PHARMACIST ASSOCIATION
Tom GACHES WICHITA	Boeing
Jim Gartner Topeka	SW Bell Tel,
Jim Schwartz Topeka	KS Employer Coalition on Health
GARY Ruppberg	KS OPT ASSN
Allen Popkewitz Topeka	SRS
Paul M. Kitz Topeka	Assoc. of CMHCs KS
DENNY S KOCH Topeka	SW Bell Tel Co.
Chip Wheelen Topeka	KS Medical Society



## Kansas Employer Coalition on Health, Inc.

1271 S.W. Harrison • Topeka, Kansas 66612 • (913) 233-0351

**Kansas Employer Coalition on Health  
James P. Schwartz Jr., Consulting Director  
Testimony before Senate Health and Welfare Committee  
Senate Bill 524  
February 4, 1988**

Five years ago a score of Kansas employers started the Kansas Employer Coalition on Health as an entity to help employers cope with skyrocketing costs of group health insurance. Today the coalition comprises 108 companies across the state, representing business, health care providers, insurers, government groups, and professional and labor associations.

As recent publicity about the State employees' health care plan has illustrated, the funding of employee health benefits is a serious problem for Kansas employers. Those employers currently pay well over a \$1 billion annually for what was once called a "fringe benefit." The cost of employee health insurance is now the fastest rising cost of doing business in America, outpacing overall inflation 3 to 1 and redoubling every 5 years.

Since we started addressing the problem, we've had some successes in mitigating the increases. Most of the success stems from applying our business skills to the purchase of health care. No longer are we content to write blank checks for medical care. We are now shoppers for value. We are learning to negotiate for the most cost-effective health care products and services we can find.

That's why we're concerned about S524. This bill, even with its proposed amendment, discourages employers from seeking innovative, competitive solutions to the cost problem.

How would the bill have such an undesirable effect?

First, it creates an additional administrative cost. Comparison shopping on the level of the individual prescription would require an additional layer of administration at some significant cost.

Second, and more importantly, the bill stifles a valuable trend toward negotiated contracts for health care products and services. Contracts, including mail order pharmaceutical contracts, operate on the principle of volume discounts. In return for a large share of business, the provider grants a discount. The proposed bill undermines this principle by requiring that the contract be susceptible to piecemealing by any number of local pharmacists.

We see this issue not only as a problem for drug benefits in health plans, but as a poor precedent for regulation of commerce generally. For instance, this bill could be reformulated to require businesses to accept local bids on, say, office furniture in lieu of a more desirable overall contract with a distant firm. Where would such a principle stop? How many other vendors would demand special consideration from the legislature?

A third undesirable effect of this bill would be to tempt more employers to escape this and all state mandates for health benefits by becoming self-insured. Already more than half of this coalition's members are self-insured, up from less than a quarter just a year ago.

A final reason to avoid this restriction is that it discourages employers from offering drug benefits at all. What's worse, restricting solutions to the health cost problem is driving some employers to consider dropping their health coverage altogether.

The pharmacy association is a valued member of this coalition, so I hasten to suggest ways to meet their needs without restraining free commerce.

First, all parties should know that Kansas employers value their neighbors, including pharmacists, and want to do business with them.

Second, we invite pharmacists and all other health care providers to be more businesslike in their dealings with large purchasers of health care, like employer groups. By that I mean not waiting for clients to enter the store and pay whatever the cash register says. Instead, providers need to organize their services into packages that appeal competitively to the bulk purchaser. Remember that when we build a factory we want a bid on the whole building, not on each brick.

I understand that the pharmacists have started a "preferred provider" network of pharmacists to compete more effectively for the group business. We applaud this effort and will help make it a success by spreading the news of its inception.

But we urge caution about trying to improve pharmacists' or any other interest group's market position through governmental regulation. After all, pharmacists are not a handicapped or oppressed group; they are simply in need of a better marketing orientation.

Kansas employers are wobbling under the weight of health care costs. Let's encourage them to apply their negotiating skills for the good of us all; don't saddle them with a needless restriction.

DEBRA BRUMMER  
PRESIDENT

GERALD GRIGGS  
VICE PRESIDENT

LARRY WAYMIRE  
SECRETARY-TREASURER

CATHERINE DAWSON  
EASTERN DIVISION

SANDRA TERRY  
WESTERN DIVISION

# State Committee of Blind Vendors

1222 West 25th St.  
Topeka, Kansas 66611

Larry E. Waymire  
Randolph Sheppard Vendors  
of Kansas, Inc.

February 3, 1988

Senator Roy Ehrlich  
Chairman Senate Committee of  
Public Health & Welfare  
State House  
Topeka, Kansas

Dear Senator,

On behalf of RSVK, Inc., I wish this letter to inform you and the committee that we are opposed to any "grandfathering" of House Bill 2504. We feel that this will only weaken the intent of this legislation in addition to hindering yours and our efforts to bring into conformity with Federal Randolph Sheppard Regulations.

Please feel free to contact me if you or any member of your committee have any questions or in general, would like to further discuss this issue.

Respectfully,

Larry E. Waymire  
Secretary/Treasurer  
Randolph Sheppard Vendors  
of Kansas, Inc.