

Approved 2/18/92 Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by SENATOR RICHARD L. BOND at
Chairperson

9:15 a.m. ~~p.m.~~ on Thursday, February 13, 1992 in room 313-S of the Capitol.

~~All~~ members ~~were~~ present ~~except~~:

Senators Bond, Francisco, Kerr, McClure, Parrish, Reilly, Salisbury, Strick, Ward, and Yost.

Committee staff present:

Fred Carman, Revisor
Bill Wolff, Research
June Kossover, Committee Secretary

Conferees appearing before the committee:

William Sneed, Health Insurance Association of America
James P. Schwartz, Jr., Kansas Employer Coalition on Health
Paul M. Klotz, Assn. of Community Mental Health Centers
Roland Smith, Wichita Independent Business Association
Gigi Felix, National Association of Social Workers
Bob Eisler, Humana
Richard Brock, State Insurance Department

The meeting was called to order by Chairman Bond at 9:15 a.m.

The Chairman reopened the hearing on SB 561.

William Sneed, Legislative Counsel for the Health Insurance Association of America, appeared before the committee to support SB 561 in its current form, but stated that the HIAA will continue to monitor three areas: whether individuals will be allowed to be placed in the reinsurance pool, whether the retention levels in the bill can fairly treat small companies and large companies, and whether the assessment mechanism contained in the bill will fairly treat all size carriers and maximize the value of the reinsurance program. (Attachment #1.)

James P. Schwartz, Jr., Kansas Employer Coalition on Health, appeared before the committee to testify in support of SB 561, stating that although the bill may not have much effect on the overall number of uninsureds, it will make the present system fairer. (Attachment #2.)

Paul M. Klotz, Association of Community Mental Health Centers, testified in support of SB 561, although amendments were requested to ensure that the mentally ill are included in this legislation. (Attachment #3.)

Roland Smith, Wichita Independent Business Association, appeared before the committee to oppose the bill in its current form. He noted that a provision should be added requiring carriers to pool association members risks, that the bill excludes association member business with fewer than three employees, and only the high risk individuals should be placed in the statewide risk pool created by this legislation. (Attachment #4.)

Also appearing before the Committee in opposition to SB 561 was Gigi Felix, National Association of Social Workers. She urged the committee to delete section 4 and let all Kansans have equal access to coverage. (Attachment #5.)

Bob Eisler of Humana also spoke in favor of SB 561, stating that he is impressed with the compromises reached by the ad hoc committee, and strongly urged that the bill be passed as written.

There being no further conferees, the Chairman closed the hearing on SB 561.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE,
room 313S, Statehouse, at 9:15 a.m./p.m. on Thursday, February 13, 1992

Richard Brock explained the proposed Insurance Department amendments, stating that they are technical in nature and are added for the purpose of clarification. (Attachment #6.)

A motion was made by Senator Kerr and seconded by Senator Salisbury to adopt the proposed amendments. The motion carried.

Senator Parrish questioned the origin of the requirement that a group must consist of at least three employees. Mr. Brock explained that this was a compromise by the ad hoc committee and is a starting point since it is not known at this time what impact this bill will have on rates. Senator Parrish also questioned whether HB 2511 and SB 561 will work together. Mr. Brock explained that individuals will have accessibility under HB 2511.

Senator Yost asked Mr. Brock for his response to the three specific concerns raised by Mr. Smith of the WIBA.

Chairman Bond announced that the hearing on SB 561 will be continued on Tuesday, February 18, 1992, at 9:00 a.m.

Senator Strick made a motion, seconded by Senator Salisbury, to approve the minutes of the meeting of 2/12/92. The motion carried.

The committee adjourned at 10:00 a.m.

MEMORANDUM

TO: Senator Dick Bond
Chairman, Financial Institutions and Insurance Committee

FROM: William W. Sneed
Legislative Counsel
Health Insurance Association of America

DATE: February 12, 1992

RE: Senate Bill 561

Mr. Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for the Health Insurance Association of America ("HIAA"). HIAA is a health insurance trade association consisting of over 325 insurance companies that write over 85% of the health insurance in the United States today. Please accept this memorandum as our testimony and support of S.B. 561.

After the enactment of H.B. 2001, the Kansas Insurance Department was directed to create an ad hoc committee to address several issues in regard to the small employer group health insurance issue. My client was named a participant of that ad hoc committee along with several member companies, particularly the Principal Financial Group, who also attended and provided assistance on the work product before you. We believe that the bill taken as a whole provides an excellent opportunity for the State of Kansas to address the availability of health insurance to the small employer. This Committee might recall that when debating H.B. 2001, as a part of my testimony we presented the HIAA Model Small Group Reinsurance Pool mechanism as an alternative to the "community rating" provisions that were eventually excluded from H.B. 2001. Thus,

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my client has been aggressively addressing this issue in an attempt to find solutions to this problem facing the State of Kansas. It would be inaccurate to say that all parties involved in working on this bill came away satisfied with all of the various components, but taken as a whole, and recognizing the practicality of compromise, we believe the bill takes a step forward in the right direction to find solutions in this area.

I must state for the record that my client plans to continue to work with the governing board that is established by this bill on certain areas that we believe still need to be addressed. Although I will not attempt to provide a laundry list, there are certain areas I feel are important to mention to the Committee.

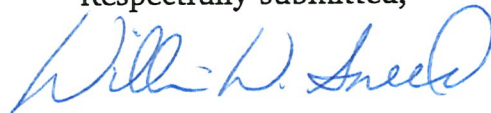
1. The bill currently allows groups and not individuals to be placed in the reinsurance pool. We believe, for several reasons, that individual risks should be allowed to be placed in the reinsurance pool. We acknowledge that as a part of the compromise, after a year of operation the governing board will re-evaluate this area, and it is our belief that individuals should be allowed to be placed in the reinsurance pool.

2. The bill has attempted to compromise the amount of risk that an individual company must retain before the reinsurance pool is activated. This type of "retention" is difficult to determine relative to what percentage and/or amount is most appropriate. We have concerns as to whether the retention levels set in the bill can fairly treat small companies and large companies, and it is thus our intent to continue to monitor this area and work with the governing board and/or the Legislature in the future.

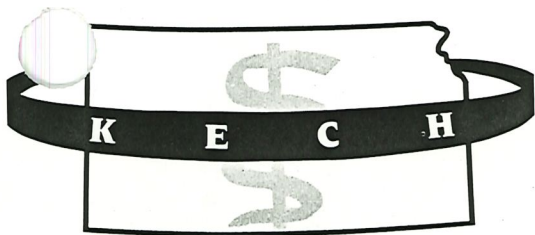
3. The bill also provides an assessment mechanism in an attempt to cover any losses that the premium for the reinsurance pool did not anticipate. Again, we are concerned as to whether this particular assessment process will (a) fairly treat all size carriers who are in the small employer group business; and (b) whether the current assessment plan will maximize the value of the reinsurance program.

As stated earlier, this bill has been comprised of a great deal of give-and-take and compromise. I urge the Committee to avoid changing the bill, outside of technical changes, so that the integrity of the bill that has been compromised can remain intact. We believe this will go a great distance in an attempt to resolve the problems at hand, and strongly support the successful passage of S.B. 561.

Respectfully submitted,



William W. Sneed
Legislative Counsel
Health Insurance Association of America



Kansas Employer Coalition on Health, Inc.

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

Testimony to Senate Committee on Financial Institutions and Insurance on SB 561 (Guaranteed issue and other reforms)

by James P. Schwartz Jr.
Consulting Director
February 13, 1992

The Kansas Employer Coalition on Health is nearly 100 employers across Kansas who share concerns about the cost of health care we purchase for our 350,000 employees and dependents. Even though the coalition comprises mostly larger employers, we consider ourselves to have a special responsibility to smaller firms, who suffer most from inequities in the current health insurance system.

The Kansas Employer Coalition on Health supports SB 561 as generally consistent with our policy for health care reform. Guaranteed issue is a plank of our well-known reform strategy and an element needed to fulfill the intent of HB 2001.

The rating limitations, while stopping short of pure community rating, are steps in the right direction and lay the groundwork for meaningful cost containment in the future.

The provision for overturning state coverage mandates is, by itself, reason enough for most small businesses to support the bill. This portion of the bill is sure to undergo attack, though, and we urge you to retain this provision as proper in a voluntary health insurance system.

Only two aspects of the bill give us concern. First, the reinsurance mechanism gives carriers an opportunity to avoid some responsibility for expensive groups. Granted, the bill contains some protections in this regard. Those protections must be guarded well against future efforts to weaken them. We hope it is broadly understood that the bill expects carriers to assume risk, to manage that risk, and to resist dumping it into a pool of marginal accountability.

Our last concern is that this legislation might be considered by some to constitute adequate reform of the health funding system. Such conclusions undermine efforts to truly resolve the basic problems of cost and access. This bill, in our opinion, will not much affect the overall number of uninsureds or the costs. It just makes the present system fairer, by spreading the costs better. It might be helpful to think of SB 561 as stabilizing the patient prior to surgery.

With this intent in mind, we support SB 561 and urge its passage.

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Attachment #2



**Association of Community
Mental Health Centers of Kansas, Inc.**

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**TESTIMONY TO:
SENATE FINANCIAL INSTITUTIONS
AND INSURANCE COMMITTEE
on
S.B. 561**

**Paul M. Klotz, Executive Director
Association of Community Mental Health
Centers of Kansas, Inc.**

February 12, 1992

John G. Randolph
President
Emporia

Eunice Ruttinger
President Elect
Topeka

Ronald G. Denney
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Independence

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Mary E. McCoy
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Hutchinson

Kermit George
Past President
Hays

Paul M. Klotz
Executive Director
Topeka

Thank you for this opportunity to comment on S.B. 561. I honestly believe that this proposal is clearly aimed at trying to improve insurance coverage for Kansas citizens. However, the bill, as currently written could do injury to over 400,000 Kansans who happen, through no fault of their own, to be mentally ill. While we support S.B. 561, we request that it be amended to ensure that the mentally ill are included in the same fashion that others are covered by this legislation.

A few facts on Mental Illness:

- One in three adults will face a mental or substance abuse disorder in his or her lifetime. By comparison, the chances of getting cancer during a person's lifetime is only one in ten. Both illnesses can be, or often are, totally disabling or can result in death at any age.
- Suicide is now the third leading cause of death for young people aged 15 to 24.
- 60% of all visits to primary care physicians involve mental or substance abuse issues. Thus, discrimination against people with mental disorders, as a cost containment strategy, simply does not work.

This is not meant to suggest that all is well in the nation's mental health system--that we have all the answers. To the contrary:

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- Our costs are also going up too fast--but no faster than overall health care costs. We are not the problem, but part of the problem. Certainly psychiatric institutional costs are a major problem. This Association is as upset with that fact as most of you are.
- Hospital beds are over utilized and under regulated, particularly free standing, for-profit hospitals. Children, particularly are over hospitalized.
- There is little accountability from private hospitals, even though they must receive public licensure.
- Community based, out-patient services have only recently achieved statewide capacity to provide an alternative to in-patient treatment.

What can be done:

- Pre-admission screening/certification together with responsibility and capacity to offer less expensive community based, out-patient services.
- Stricter regulation of free standing psychiatric institutions. Increase accountability standards, both program and fiscal.
- Financial and/or tax incentives to develop community out-patient services.
- Change mandate law to permit or require providers and consumers to convert in-patient days to partial or out-patient alternatives, whenever possible.
- Capitation of mental health services.
- Better data collection and improved utilization review.

Community mental health centers are already doing all of the above. We know it can produce real costs savings and that quality can be maintained. We stand ready to assist in any way possible.

Thank you for this opportunity to comment.



WICHITA INDEPENDENT BUSINESS ASSOCIATION

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ROLANDE SMITH, *Executive Director*

February 12, 1992

STATEMENT TO: Senate Financial Institutions and Insurance Committee
FROM: Roland Smith, Executive Director, Wichita Independent Business Association
SUBJECT: Senate Bill No. 561 relating to health insurance for small employers

Chairman Bond and Members of this Committee, I would like to thank you for this opportunity to speak regarding Senate Bill 561. So you might have a better understanding of where I am coming from, I want to define WIBA a little more even though all of you are receiving the WIBA monthly newsletter. WIBA is in its 61st year of trying to help preserve the existence of independent businesses. To survive in today's economy the independent business must find a niche that the larger businesses don't serve well or the mass merchandiser has not yet dominated. No other business organization in the State of Kansas, that I know of, has 95% or more of its membership in the category of businesses being dealt with in this proposed legislation, that is businesses that have fewer than 25 employees. WIBA represents over 1100 locally owned business in the Wichita trade area.

One of the benefits offered to WIBA member businesses is group healthcare coverage. At the present WIBA sponsors two HMO's, CIGNA Healthcare Plans, Inc. and Healthcare America Plans, Inc. and they cover many of our member businesses. I personally "Thank the Lord" for these HMO's as they have met the needs of many employers who have an employee or employees that are considered by many small group carriers as uninsurable. No indemnity carrier or PPO wants to have anything to do with WIBA unless they can pick and choose who they insure. During the past five years, I have personally interviewed representatives from over 20 insurance companies that market health insurance in the small business market with indemnity and/or PPO products. The story has always been the same... they want to pick and choose who to insure within the association membership and at various premium rates depending on the type of business, age and other factors. Fortunately, our HMO carriers have given us the opportunity to have our members covered at a uniform rate, which is a modified community rate determined by the demographics of the entire association. The premium rates for our members are not the lowest in the market place, but are far from the highest.

There are three critical issues in addressing the health care insurance crisis for small employers. (1) accessibility, (2) affordability and (3) cost containment. The only one addressed in this bill is accessibility.

The Insurance Commissioner's Task Force that served as a resource for the drafting of this bill did a lot of hard work trying to resolve the multitude of problems small employers face. I appreciated the opportunity to serve on the task force representing the small employers. The task force was, however, dominated by

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the insurance industry and the end product, I believe, reflects that. There are a lot of good parts of this bill to protect the Insurance Companies, but very little for the small employer other than access. One provision of this bill excludes over 900 WIBA member businesses with less than three employees from being offered guaranteed issue coverage.

This proposed bill may provide a small part in solving a part of the problems small employers in Kansas face in healthcare insurance coverage. I am very disappointed that WIBA can not support this bill in its present form. There are three significant changes that would have to be made before WIBA could support it and I know the health insurance carriers are greatly opposed to any of these changes.

1. The purpose for an association sponsoring health care insurance is to increase the risk pool to the extent that many businesses may band together as a group and benefit by spreading the risk over a large number of persons within the association. Community rating within the individual carriers' market would even be better in spreading the risks, however there seems to be little support for any concept of community rating. At least then, a provision should be added to this bill requiring carriers to pool association members risks. Sadly this bill allows a carrier to place the individual business in different classes of business within an association and rate them accordingly. That is not actually group insurance. It really allows the continuation of the current practice of classification. A carrier may have nine "Classes of Business" and more with the approval of the Commissioner. Again, with WIBA that has over 400 types of businesses, there can be no uniform rate for association members unless the carrier wants to offer it.

2. On page five, lines 28 thru 31, of this bill it excludes association member businesses with less than three employees from participating. This excludes over 900 WIBA members. WIBA member businesses in our HMO sponsored plans average 1.9 employees in one plan and 2.9 in the other. This bill eliminates too many businesses in Kansas as it is now written and should be changed to include the one-person self-employed persons. Again let me emphasize that group insurance is based on sharing the risk over a larger number of persons and this provision in the bill further defeats the group insurance concept.

3. It is my opinion and that of some insurance company actuaries, that only the high risk individuals should be placed in the state-wide risk pool created by this legislation, if passed as is. This bill provides for an entire small group to be placed in the risk pool at the carriers option. That in reality makes it a watered down type of a risk pool. If a change was made to allow associations to be considered as one group risk under this legislation then it would become even more important to have only the high risk individuals placed in the state-wide risk pool.

It is of great concern that some meaningful legislation on health care and health care insurance come out of this session. This bill, even with the proposed changes, may only delay a mandated national health plan for a somewhat longer time. This legislation, if passed, will help some, but it could cause more adverse selection on association sponsored HMO plans for small businesses and drive up the costs even higher.

Thank You! I'll be glad to answer any question that I can.

H-2

KANSAS NASW

National Association of Social Workers, Inc.
Chapter Office
817 Southwest Sixth Avenue
Topeka, Kansas 66603-3130

Telephone: 913-354-4804

Gigi Felix, LMSW
Executive Director, K-NASW

Testimony OPPOSING SB561

As a social worker, I am a bit mystified at insurance regulations, actuarials, base premium rates, and the like. I am here to testify to a concern of the profession of social work. Contained within this legislation is the proviso that the small employer workers who enroll in the SECH plan will be entitled to less service and care than the other persons within our state. Namely, the "mandated benefit" package for all other insureds (pg. 5, 35 - 40). Our concern goes beyond the mandated benefits of the clinical services of a LSCSW (Licensed Specialist Clinical Social Worker) to all the benefits mandated by Kansas law. The preventative services are of special concern: the pap smear for women, mammograms, and others. Why should the care of a person who is employed by a small business rate a lower quality of service? What is happening, is that a double standard is being set up. Only those who work in large companies, or can afford health care will be able to take advantage of the mandated package. This seems very unfair.

In listening to testimony over the years regarding the cost of health care, I remember Blue Cross/Blue Shield testifying that the mandated benefit package represented less than 5% of health care costs. The largest factors contributing to the cost escalation were the elaborate technology testing used in diagnostic work, the "defensive" testing done by physicians to ward off possible malpractice suits, the very old with chronic illnesses, the sick baby, and long term fatal illnesses. With this in mind, I urge you to delete Sec. 4, subsection (c) which contains this mandate elimination proviso.

Thank you for your time and the opportunity to speak to you today.

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Technical Amendments

Senate Bill No. 561

- Page 1, line 20 - Delete the word "allocation" and insert the word "reinsurance" in lieu thereof.
- Page 4, lines 25-27 - Delete the definition of "rating period" and substitute the following: "Rating period" means the calendar period for which premium rates established by a small employer carrier are assumed to be in effect but any period of less than one year shall be considered as a full year.
- Page 7, line 23 - Insert the words "employee or" immediately preceding the word "dependent".
- Page 8, line 23 - Insert the words "in a health benefit plan sponsored by another employer" immediately following the word "coverage".