

Approved: January 23, 1995
Date

MINUTES OF THE SENATE COMMITTEE ON WAYS AND MEANS.

The meeting was called to order by Chairperson August Bogina at 11:00 a.m. on January 18, 1995 in Room 123-S of the Capitol.

All members were present except:

Committee staff present: Kathy Porter, Legislative Research Department
Eric Milstead, Legislative Research Department
Norman Furse, Revisor of Statutes
Judy Bromich, Administrative Assistant
Ronda Miller, Committee Secretary

Conferees appearing before the committee:

Dave Charay, Health Benefits Administrator, Kansas State Employers Health Care Commission

Others attending: See attached list

Senator Salisbury moved, Senator Lawrence seconded, that the minutes of the January 11, 1995 meeting stand approved as presented. The motion carried on a voice vote.

Copies of subcommittee assignments (Attachment 1), instructions for scheduling subcommittee meetings (Attachment 2), and instructions regarding public notification and subcommittee deliberations (Attachment 3) were distributed to members of the Committee.

Mr. Dave Charay, Health Benefits Administrator, presented an overview of the annual report for the 1994 plan year by the Kansas State Employees Health Care Commission (Attachment 4) and included additional documents for the Committees' information (Attachment 5). He discussed the performance experience of the Indemnity Plan and HMO portions of the Health Plan. Mr. Charay stated that as of November, 1995, there is \$68 million in reserve, \$30 million of which is unencumbered. According to Mr. Charay, the administration has recommended that a portion of the unencumbered reserves be used to lower the state's portion in FY 95 and FY 96.

It was noted by Mr. Charay that an employee survey of the 1994 Plan conducted by Buck Consultants from Denver reveals that the health plan receives a rating of 65%, but there is concern over the dental plan and about the amount the state contributes to dependent coverage. One member of the Committee suggested that another possible use for the reserve might be to improve the state's dependent coverage contribution.

Legislators were interested in how the State Employees Health Care Plan compares with the "corporate Kansas" plan. Mr. Charay stated that factors that make the Kansas Plan unique, such as the older average age of the employee, make comparisons with private sector plans difficult.

It was brought to the attention of the Committee that some private sector employees elect to be insured under the Kansas Plan with the spouse as a dependent rather than choosing a private sector plan that might be available to them. In answer to a question, Mr. Charay stated that experience is combined with the indemnity plan, but the HMO's are evaluated alone. He responded to further questions by stating that the state's share of the Health Plan is 65.5% and the average increase in the participant rate from 1989-1994 was 5%.

In response to a request, Mr. Charay stated that he would provide additional information regarding the percentage of retired state employees who participate in the Kansas Health Care Plan.

The Chairman adjourned the meeting at 12:10 P.M. The next meeting is scheduled for January 23, 1995.

SENATE WAYS AND MEANS COMMITTEE GUEST LIST

DATE: JANUARY 18, 1995

NAME	REPRESENTING
Chip Wheelen	KS Medical Soc.
Ted Ayres	Bd of Regents
ALAN COBB	Delta Dental Plan of KS
Don Lynn	Bc/BS of KS
MIKE MATTOX	" " "
Elaine Frisbie	Division of the Budget
Jerry Nebbia	Mercer (Consultant)
Michelle Peterson	Ks Gov Consulting
Kelly Jennings	KAPF
Heather Gray	Senator Karr
Joe Ferguson	The Chiropractic Assoc

SENATE SUBCOMMITTEE ASSIGNMENTS

**Senate Bills
1995**

	<u>Subcommittee</u>	<u>Analyst</u>	<u>Final Committee Action</u>
Senate Bill No. _____			
<u>Transportation</u>	Kerr Morris Rock	Efird	February 2
Senate Bill No. _____			
<u>Other Education</u>			
School for Blind School for Deaf	Salisbury Brady	Milstead	February 9
Historical Society Kansas Arts Commission	Kerr Moran Petty	Colton	
State Library Council on Voc-Ed	Vancrum Rock	Pierron Rampey	
Senate Bill No. _____			
<u>Corrections</u>			
Department of Corrections Topeka Correctional Facility	Vancrum Brady	Robinson	February 16
Hutchinson Correctional Facility Norton Correctional Facility El Dorado Correctional Facility	Salisbury Moran Petty		
Larned Correctional Mental Health Facility Winfield Correctional Facility	Morris Karr		
Lansing Correctional Facility Ellsworth Correctional Facility	Lawrence Kerr Rock		

SWAM
January 18, 1995
Attachment 1

Senate Bill No. ____

Capital Improvements

Bogina
Vancrum
Karr

Staff

February 20

Senate Bill No. ____

Department of Education

Bogina
Salisbury
Kerr
Karr
Rock

Rampey

February 8

Senate Bill No. ____

Judicial

Judicial Council
Board of Indigents Defense Serv.

Morris
Kerr

Porter

February 24

Judicial Branch

Lawrence
Rock

Senate Bill No. ____

Agriculture

Board of Agriculture

Morris
Petty

Colton

February 10

Animal Health
Grain Inspection
Wheat Commission
Kansas State Fair

Lawrence
Kerr

Mills
Cawby
Cawby
Colton

Conservation Commission
Water Office

Vancrum
Rock

Mills

Senate Bill No. _____	<u>Subcommittee</u>	<u>Analyst</u>	<u>Final Committee Action</u>
<u>SRS</u> Department of SRS	<u>Bogina</u> <u>Salisbury</u> <u>Vancrum</u> <u>Rock</u> <u>Petty</u>	West	February 22
Larned State Hospital Osawatomie State Hospital Rainbow Mental Health Facility Topeka State Hospital SRS Community Mental Health	<u>Kerr</u> <u>Lawrence</u> <u>Brady</u>	Wiegers Colton	February 21
Parsons State Hospital Winfield State Hospital Kansas Neurological Institute SRS Community MR/DD	<u>Morris</u> <u>Moran</u> <u>Karr</u>	Pierron Colton	

SENATE SUBCOMMITTEE ASSIGNMENTS

House Bills
1995

Final
Committee
Action

Subcommittee Analyst

Department of Administration -- KPERS

Department of Administration Public Broadcasting	<u>Vancrum</u> Salisbury Karr	Porter	March 16
Governmental Standards Human Rights Commission	<u>Morris</u> Brady	Pierron Wiegers	
Kansas Corporation Commission Citizens Utility Ratepayer Board	<u>Kerr</u> Petty	Rampey	
KPERS Budget KPERS Issues	<u>Bogina</u> Morris Rock	Efird	March 16 March 24

House Bill No. _____

Health and Environment

Department of Health and Environment Corporation for Change	<u>Vancrum</u> Rock	Mah West	March 29
Human Resources	<u>Salisbury</u> Brady	Milstead	
Department on Aging	<u>Kerr</u> Karr	Colton	
Veteran Affairs/Soldiers' Home Homestead Property Tax	<u>Morris</u> Petty	Wiegers Milstead	
Wildlife and Parks	<u>Moran</u> Brady	Mills	

	<u>Subcommittee</u>	<u>Analyst</u>	<u>Final Committee Action</u>
House Bill No. _____			
<u>Higher Education</u>			
KU	<u>Kerr</u> Karr	Howard	March 27
KUMC	<u>Morris</u> Bogina	Howard	
KSU KSU -- Salina KSU -- Vet. Med. KSU -- Extension	<u>Vancrum</u> Petty	Howard	
Wichita State University	<u>Salisbury</u> Brady	Howard	
Pittsburg State University Emporia State University	<u>Moran</u> Rock	Mills	
Fort Hays State University Board of Regents	<u>Lawrence</u> Bogina	Mills Howard	
Regents Systemwide	<u>Bogina</u> Kerr Vancrum Karr Rock	Mills/Howard	March 13

House Bill No. _____	<u>Subcommittee</u>	<u>Analyst</u>	<u>Final Committee Action</u>
<u>Commerce/Revenue</u>			
Department of Revenue	<u>Salisbury</u> Morris Karr	Efird	March 20
Lottery Commission Racing Commission	<u>Kerr</u> Petty	Efird	
Board of Tax Appeals	<u>Lawrence</u> Brady	Mah	
Department of Commerce and Housing	<u>Moran</u> Rock	Milstead	March 20
Kansas Inc. Kansas Technology Enterprise Corporation	<u>Bogina</u> Vancrum	Milstead	
House Bill No. _____			
Capital Improvements	<u>Bogina</u> Vancrum Karr	Staff	March 30

House Bill No. _____	<u>Subcommittee</u>	<u>Analyst</u>	<u>Final Committee Action</u>
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Fee Boards

Abstracters' Board of Examiners	<u>Morris</u>	Mah	March 15
Board of Accountancy	Kerr	Porter	
Board of Mortuary Arts	Lawrence	Cawby	
Board of Pharmacy	Salisbury	Pierron	
Board of Barbering	Petty	Cawby	
Board of Cosmetology	Brady	Cawby	
Board of Veterinary Medical Examiners	Rock	Cawby	
Kansas Dental Board		Pierron	
Board of Nursing		Milstead	
Board of Examiners in Optometry		Colton	
Real Estate Commission		Mah	
Consumer Credit Commissioner		Wiegiers	
Bank Commissioner		Wiegiers	
Department of Credit Unions		Wiegiers	
Securities Commissioner		Wiegiers	
Board of Technical Professions		Rampey	
Behavioral Sciences Regulatory Board		Pierron	
Board of Hearing Aid Examiners		Rampey	
Board of Healing Arts		Pierron	

Legislative and Elected Officials

Legislative Agencies	<u>Moran</u>	Conroy	March 10
Governor	Rock		
Lt. Governor			
Attorney General	<u>Lawrence</u>	Rampey	
Secretary of State	Bogina	Pierron	
Insurance Commissioner	Petty	Mah	
Health Care Stabilization Board of Governors		Mah	
State Treasurer		Porter	

	<u>Subcommittee</u>	<u>Analyst</u>	<u>Final Committee Action</u>
<u>Public Safety</u>			
Youth Center at Topeka	<u>Vancrum</u>	Cawby	March 22
Youth Center at Beloit	Lawrence		
Youth Center at Atchison	Morris		
Ombudsman for Corrections	<u>Vancrum</u>	Robinson	
	Brady		
Parole Board	<u>Lawrence</u>	Robinson	
Adjutant General	Brady	Mills	
Fire Marshal	<u>Salisbury</u>	Cawby	
Highway Patrol	Karr	Colton	
KBI	<u>Moran</u>	Porter	
	Petty		
EMS	<u>Lawrence</u>	Mah	
Civil Air Patrol	Moran	Cawby	
Sentencing Commission		Robinson	

MEMORANDUM

TO: Senate Ways & Means Committee

FROM: Senator Bogina, Chairman

DATE: January 18, 1995

Since Senate Ways & Means subcommittees are small and members serve on many different committees, scheduling the meetings within our tight time schedule can be a problem. I'd like to suggest:

Subcommittee Chairman - Check with your members to find a mutually agreeable time before setting the meeting. The key is to schedule early. Even though your subcommittee meetings on **house bills** will not take place until after we receive the bills, you can schedule your meeting time and reserve a committee room now. Please inform your secretary that she will need to put your subcommittee agenda in the calendar and keep a list of conferees. Agenda instructions are attached.

Subcommittee Members - Please place high priority on these meetings and make the time available.

Your hard work and cooperation are appreciated.

Thank you.

SWAM
January 18, 1995
Attachment 2

TO: Subcommittee Chairman
FROM: Senator Bogina, Chairman
RE: Subcommittee meetings and notices

Public notification of all Subcommittee meetings are required. Therefore, please have your secretary provide an agenda as instructed in her packet of information.

As usual, in order to reduce the risk of potential problems in the future, we must be prudent in our decisions and actions. It is proper to review the FY 94 and 95 appropriation, the mission statements and goals and objectives. These latter items should be more complete and informational than they were last session. Do not hesitate to request explanations and reviews of the goals and objectives. Performance based budgets can work if the agencies are serious in their attempts to describe their objectives and results.

Many people believe the House will be major "budget cutters". This may or may not come to pass. We should, in any case, be responsive and responsible in recommending the funding amounts. The Governor's Budget requests seem to be a good start on a suitable and adequate budget.

Please include the following in your Subcommittee deliberations:

Review fee fund balances - only increase where necessary to maintain workable balances.

Review carefully the shift of federal and special funds that affect State General Fund expenditures.

Review the utility budgets carefully. Look at actual year to date FY 95, annualize, and require justification of costs by each agency.

Justify OOE budgets.

Retain or cut administrative, personnel, general overhead and questionable programs in all budgets. Eliminate unfilled positions - take reasonable turnover from existing positions search for duplication in recent increases in various position descriptions. Delete positions and funding where possible.

In general, keep a tight rein on the budgets. Make the agencies justify their entire appropriation.

Retain or reduce the Governor's recommended budget.

Be alert for opportunities to reduce our monetary responsibilities especially relating to the SGF.

SWAM
January 18, 1995
Attachment 3

Review and check the computer acquisitions and capabilities that are separate from DISC, in conjunction with JCCT. Also review DISC charges for computers and FTE programmers and program analysts - especially regents.

Good luck!

Thanks for your help!

P.S. Do not hesitate to ask questions of the agencies, staff or conferees. Also any help you may want and need will be furnished upon request.

EXECUTIVE SUMMARY

This Annual Report is being submitted by the Kansas State Employees Health Care Commission to the Legislature in accordance with K.S.A. 75-6509.

The Indemnity Plan Portion of the Kansas State Employees Group Health Insurance Program experienced a good claims year in 1994. Although claims will continue to be received for this plan year, through June of 1996, there is a possibility that funded reserves held by the State, will be retained by the State. The 85%/15% funding arrangement will be continued, and Blue Cross will have the right to call upon the reserves held by the State, if the funds remitted to Blue Cross during the 1994 contract year are insufficient to cover the cost of claims paid on behalf of State employees during 1994. However, Blue Cross can never require the State to pay an amount greater than the 15% withheld from the 1993, and 1994 premiums plus any interest earned on these amounts. Since over 70% of all plan participants are in the indemnity plan, these results should insure that the overall performance of the plan will again be successful for 1994.

Unfortunately, several HMO's had premium increases significantly higher than the indemnity plan. MetLife rates for 1994 increased plan cost by 33%, Preferred Plus of Kansas increased their rates by 14% and the other four HMO's; HMO Kansas, Humana Prime Health, Humana MedPlan and Kaiser had rate increases under 8%. The State of Kansas limited the HMO offering to State employees to six HMO's as part of the multi-year agreement signed with Blue Cross and Blue Shield of Kansas in 1993. The State of Kansas agreed to no increase in the number of HMO's offered or expansion of existing HMO service areas in either 1994 or 1995.

Some of the HMO's experience seems to have improved during 1994 as evidenced by a reduction in the premiums bid for the 1995 contract year. Kaiser has proposed rates that would result in a 5.85% **decrease** in their overall plan costs in 1995. The rates proposed by HMO Kansas would result in a 9.06% **decrease** in their plan cost for 1995 and the rates proposed by Preferred Plus would **decrease** rates by .5% over last year.

Unfortunately, two health plans again had significant premium increases contained in the 1995 bid. Humana has proposed rates for two plans, one for Humana Prime Health and the other for Humana MedPlan. The rates proposed for the Humana Prime Health would **increase** plan cost by 6.39% over the current year cost, if the current enrollment level continues. The rates proposed for MedPlan would result in a 8% overall increase in plan cost. The rates proposed by MetLife would result in a 12% **increase** in their plan cost for 1995.

Kaiser Permanente and Humana signed two year contracts with the State of Kansas in 1993, and therefore did not have to competitively bid this year. MetLife offered in the Kansas City area, and HMO Kansas and Preferred Plus offered in the rest of Kansas, signed one year contracts for 1994 and they had to competitively bid for the 1995 contract.

Health Plan costs for 1994 were better than expected. This unexpected good claims experience improves the future financial reserve base for the health plan. The ability of the State to retain health claim reserves because of its financial arrangement with Blue Cross has allowed the Health Care Commission to keep health cost at an affordable level for the State as well as the employee. For example, in 1995, employees will be receiving only a small premium increase, and the State's increase will be under 7 percent. Unfortunately, the option of using reserves to offset future rate increases will not always be available. Eventually the State may exhaust the reserves and be faced with a sizable increase in the amount of "new" money needed to fund the plan.

BACKGROUND

The Kansas State Health Care Commission was created by the 1984 Legislature through the enactment of K.S.A. 75-6501 et. seq.

The Commission is composed of five members:

Robert C. Harder, the representative of the general public and the current Chairperson,

Ron Todd, Commissioner of Insurance,

Gloria Timmer, Secretary of Administration,

Judy Rickerson, a current State employee from the classified service, and

Richard Roberts, a retiree from the classified service.

The Commission is responsible for the Administration of the Kansas State Employees Health Benefits program which provides coverage for about 48,000 participants and their dependents including active employees, individuals who have retired from State service, former elected State officials, and surviving spouses of State employees. In addition, the State provides coverage for approximately 350 individuals electing to continue participation under the Consolidated Omnibus Reconciliation Act of 1989 (COBRA). Health plans are available to eligible individuals based upon the location of their residence.

STATE PLAN OVERVIEW

BASIC MEDICAL PLAN

Health care coverage is available to eligible State employees, university employees, elected public officials, retirees and designated government entities identified in the statute. The fully insured Basic Medical Plans and the comprehensive medical plan are administered through Blue Cross and Blue Shield of Kansas. Included in all medical plans are prescription drug benefits.

In 1989, the Health Care Commission adopted a philosophy of "managed care" that establishes the standard for all medical health plans offered to eligible participants. Over 75% of all participants are enrolled in either an HMO or Blue Select thereby making the majority of State employees covered under a managed care program. The Plan incorporates a utilization management program that is managed by Blue Cross and Blue Shield.

HEALTH MAINTENANCE ORGANIZATIONS/MANAGED CARE ORGANIZATIONS

Based on geographical eligibility, participants may choose one of the six alternative health plans. These are HMO Kansas, Kaiser, Humana MedPlan, Humana Prime Health, Preferred Plus of Kansas and MetLife. 9,698 elected to participate in HMO's in 1993.

DENTAL COVERAGE

The State offers a comprehensive dental program that provides preventive, basic and major dental care benefits. The dental program is designed so that employees pay 50% of the eligible dental benefits with a \$2,000 annual maximum. Eligible participants are required to take out single dental coverage and may choose dependent dental presently offered by Blue Cross and Blue Shield of Kansas. To enroll in dependent dental, the employee must be enrolled in a dependent medical plan. In 1993, there were over 46,000 participants in the dental plan.

HEALTH PLAN RESERVE ACCOUNTS

In 1989, the Health Care Commission entered a financial agreement with Blue Cross and Blue Shield of Kansas that allows the State of Kansas to retain 15% of the monthly premium. At the end of the plan year (calendar) Blue Cross and Blue Shield has access to this reserve held by the State, if the premiums paid to Blue Cross and Blue Shield are insufficient to pay the claims cost plus retention charges.

Over a period of eighteen months, three settlements are made. The first settlement is made shortly after the end of the plan year. The second settlement is made six months after the end of the plan year. The third and final settlement is made one year from the second settlement.

As indicated in Exhibit B; during the past four years, the State was successful in retaining excess premium reserves not spent on premiums and retention expenses totaling over 49 million dollars. The State is projecting over 21 million dollars will be received from the 1993 health plan reserve account.

Exhibit B shows the total of all funds including interest on reserves which are credited to a particular fund. The reserve fund for 1989 is separate from 1990, 1991 etc. Currently there are six reserve accounts containing differing funding amounts. Money can be called upon from these reserve accounts in settling the claims from a particular contract year if the funds paid to Blue Cross are insufficient to cover claims. Reserve funds are more likely to be used if the premium increase over the previous year has been minimal. For instance there was no premium increase for 1992 however medical costs and utilization continued to climb. As a result, \$13.5 million of the \$16.4 million reserve fund was required to cover the cost of claims.

Another use of reserve funds is for current premium expenses. For instance, the 1989 reserve fund could be called upon by Blue Cross for 18 months or through July of 1991. Since July of 1991 funds have been withdrawn from the 1989 reserve fund to pay state premium costs for 1992, and 1993. This process offsets the need for the legislature to provide "new" money to finance premium increases.

REVIEW OF 1994

CLAIMS EXPERIENCE

Claims loss experience ratios for health plan have been lower than anticipated. The composite year-to-date loss ratio as of November 1, for the Blue Cross Blue Shield Plan is 88.81%, which is a combined ratio that includes retention and an estimate of the incurred but unreported claims. This loss ratio indicates that for every dollar of premium, about .89 cents has paid out in benefits as of November 1, 1994. The retention charges are the fee paid to Blue Cross to cover the cost of administering the program. The program is structured in such a way as to restrict Blue Cross profits to the retention fee. In accordance with the financial contractual terms of the agreement with Blue Cross and Blue Shield of Kansas, it appears that the State of Kansas will be expected to retain over \$10 million of the 1994 premium.

In some years, claims reports from the indemnity plan showed a higher claims loss ratio for the Blue Cross "managed care" plan (Blue Select) than the Traditional plan. Studies conducted by Blue Cross indicate that part of the difference in loss ratios is due to the lack of specialists in the rural areas compared to the urban areas of the State. Another factor contributing to the higher cost in a managed care plan is the "severity" of illness. Complex medical illness are usually treated at an urban medical center which are usually more expensive than physician and hospital cost in a rural setting.

HMO claims experience was partially available for some of the HMO's offered to plan participants. In particular, MetLife and Humana sustained large underwriting losses during the first several months of the year as evidenced by their large premium increases bid for 1995. HMO Kansas, Preferred Plus of Kansas and Kaiser Permanente experienced good claims years and offered decreases in their premium rates.

EFFORT TO ATTRACT BIDDERS

The Health Care Commission again took action to encourage bids in response to the Commission's request for proposal (RFP) for provision of HMO plan coverage for 1995.

Prior to the issuance of the RFP, most major HMO's were contacted and alerted to the fact that the Commission would be seeking bids. These HMO's were also informed that the Commission would consider multi-year bids.

A notice was placed in the trade publication, "Business Insurance", prior to the issuance of the RFP.

The RFP included very detailed information about the plan participants, the current benefits and claims experience. However, it was made clear to all vendors that the commission would be going out to bid for all contracts for 1996 and that any contracts initiated for 1995 would be one year agreements only.

Health Plan Providers submitting proposals for all or part of the State's Health Plan coverage were allowed to make presentations to the Health Care Commission in order to describe their bids in more detail. Over seven health plans negotiated with the Health Care Commission in hopes of becoming offered to State employees.

ENROLLMENT

As illustrated in Exhibit A, the number of active employees who were covered by has increased as well as the age of employees covered. A large number of State employees in HMO programs have been switching to Blue Select since it was lower in premium cost. In 1994, approximately 9,900, or approximately 27%, of the membership was enrolled in HMO coverage.

Two important factors are demonstrated by Exhibit A. First is that older employees tend to select the Blue Cross program which serves to drive up the cost of the Blue Cross program. Second is that the majority of the HMO participants is in the 25 through 39 age ranges while the peak age for Blue Cross participants is 30 through 45. Again, the Blue Cross attracts older participants leading to increased costs.

1995 PLAN

There will be very few changes in the health benefits program for 1995. Since the Blue Cross, Kaiser, and Humana contracts will be in the second year of their multi-year contracts, benefits will not be changing. What few changes there are will not be significant.

MEDICAL

Kaiser Permanente eliminated the benefit for durable medical equipment for 1995. This did not constitute a benefit change since the durable medical equipment benefit was included by mistake. Kaiser was honoring a typographical error in their bid response for 1994.

DENTAL

There were no changes to the dental program for 1994.

DRUGS

There were no changes to the prescription drug card program for Blue Cross or most HMO's. However, Preferred Plus of Kansas, Inc., instituted a Mail order prescription drug program for 1995.

HEALTH MAINTENANCE ORGANIZATIONS

In order not to divide the State Employee group into too many plans, the Health Care Commission will continue to offer no more than four HMO's in the Kansas City area and two HMO's in the Wichita area. It was felt that dividing the group into more plans would result in the State health plan not having much influence with the HMO's in ensuring good service for State participants.

The following HMO's were selected to provide health coverage to State participants:

1. HMO Kansas signed a one year contract.
2. Humana Prime Health and Human Medplan continued under the second year of a two year rate guarantee.
3. Kaiser Permanente continued under the second year of a two year rate guarantee.
4. MetLife signed a one year contract.
5. Preferred Plus signed a one year contract.

CONCERNS

- * For the first time in several years, the State will most likely be required to remit a portion of the funds held in reserve to Blue Cross & Blue Shield. As of 10/31/94, the State had remitted approximately \$100 million in premium to Blue Cross. Current claims and administrative expenses through 10/31/94 is approximately \$104 million. It seems likely that approximately 5% of the reserve funds will be needed to make up the premium deficit.

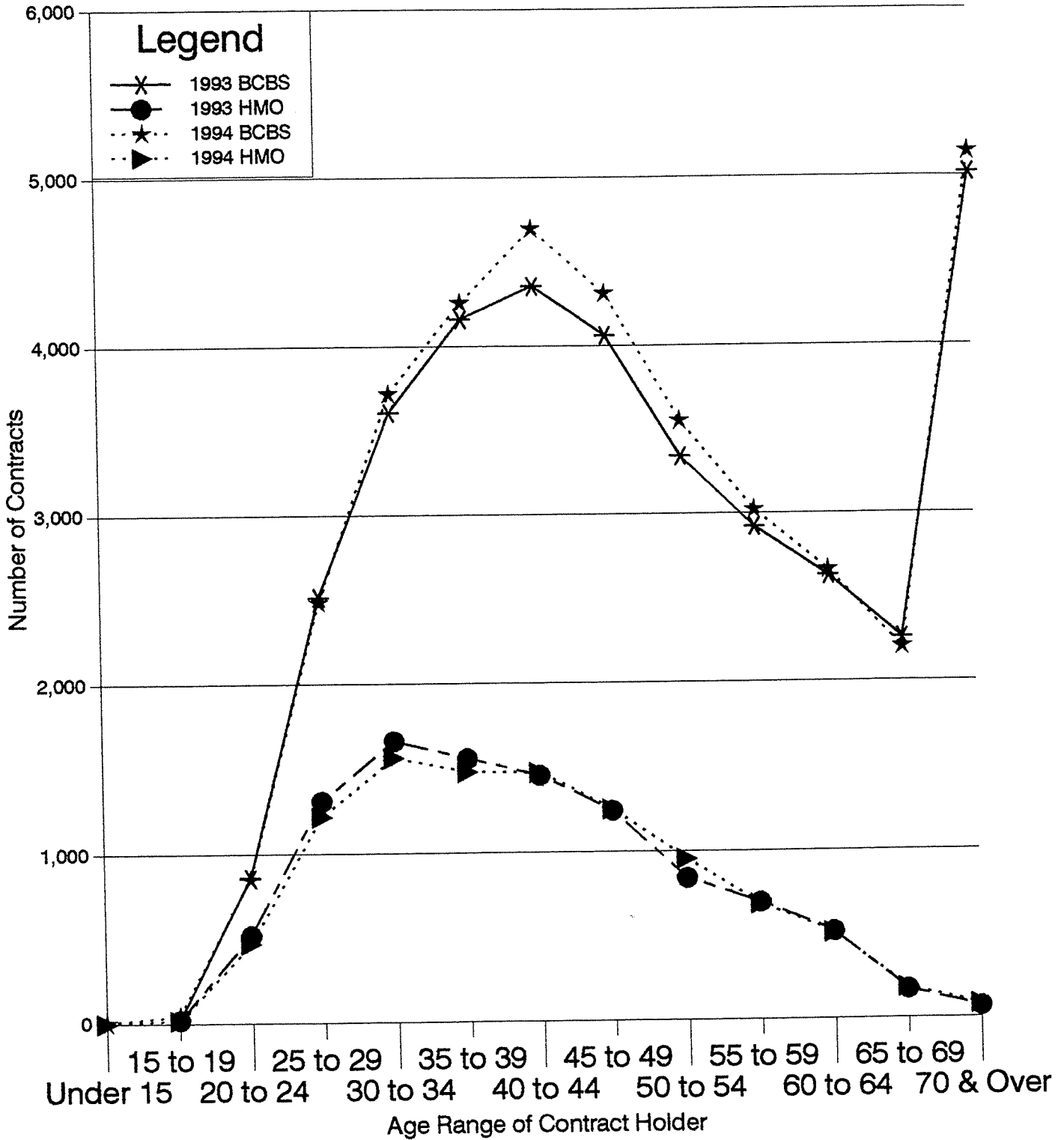
The reserve funds required for the 1995 contract could be substantially higher. Blue Cross bid approximately a 1% increase in premiums. However, it is likely that the cost of medical inflation will exceed one percent. The result will be a higher claims loss ratio and additional reserves will be required for the 1995 plan year.

- * The cost of medical inflation, which has remained below 10% for the State over the past several years could increase substantially. Many health care providers have delayed price increases due to fear of adverse reaction from Washington while Congress was debating health care reform options. Health care reform seems to have lost its momentum at the Congressional level and it now seems likely that any health care reform activities will be minimal at best. Under these circumstances, many providers of health care may no longer feel that they have anything to fear from policy makers and begin instituting price increases.

If this activity begins occurring during 1995 the State's health care costs will far exceed the 1% increase in premium. Under the current agreement with Blue Cross, the State will remit additional premium as needed from the reserve funds up to the 100% amount funded for the program. Funding obligations could seriously deplete current financial reserves. However, the cost containment effectiveness of managed care plans could reduce the large increase of health premiums by insurance providers.

- * A recent stratified random survey of participants in the State health plan has indicated general dissatisfaction with some of the benefits; particularly dental coverage. If benefits are increased, financial requirements can be expected to increase for the 1996 contract year. Combined with the potential demand on reserve accounts, additional funding may be required for the 1996 contract year.

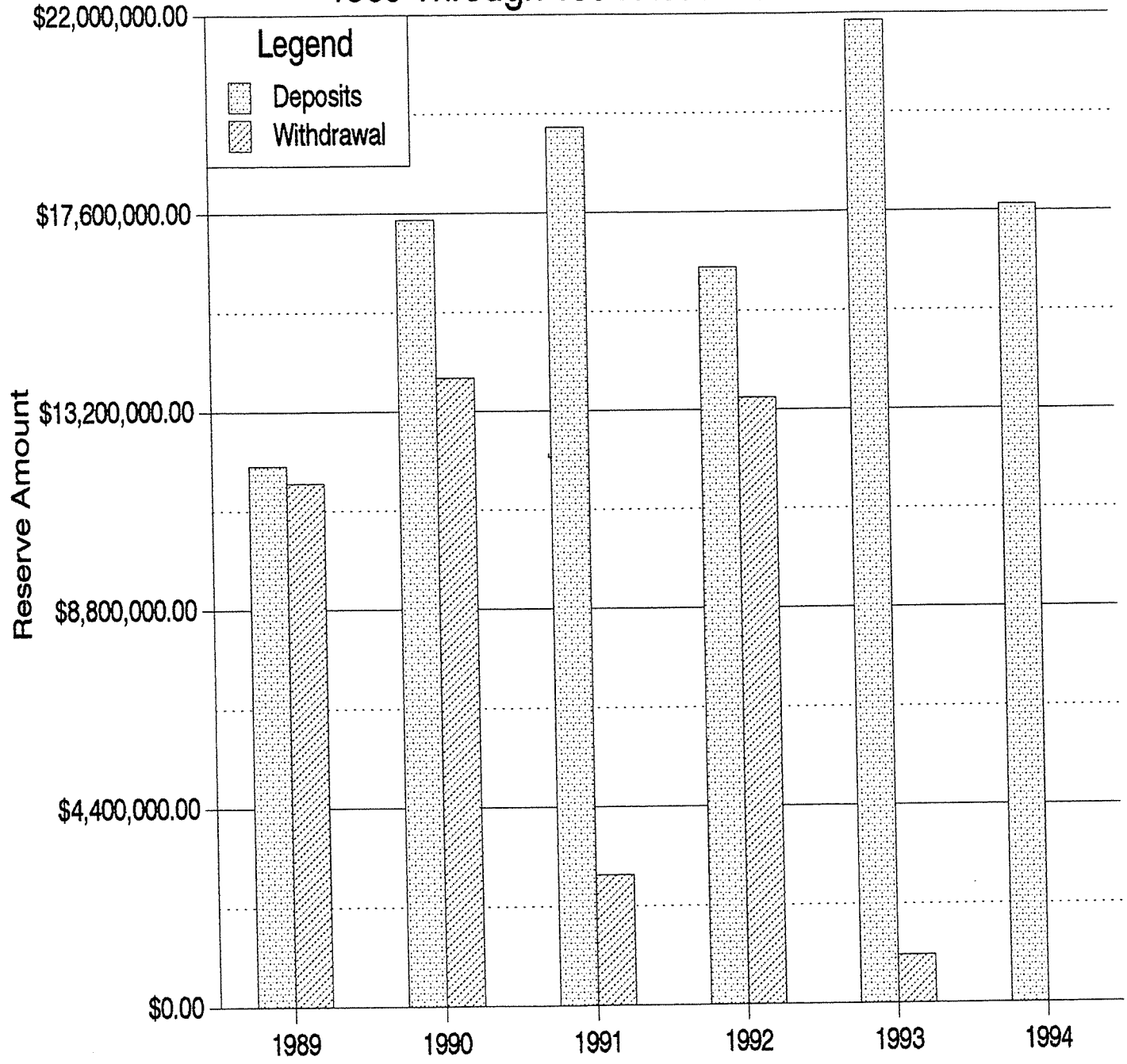
HMO & Blue Cross Enrollment By Age Category Contract Year 1993 and 1994



1993 BCBS		20	857	2,513	3,606	4,159	4,356	4,060	3,340	2,920	2,628	2,258	5,021
1993 HMO		20	518	1,310	1,663	1,556	1,454	1,244	842	695	518	171	66
1994 BCBS	2	44	849	2,483	3,718	4,258	4,696	4,311	3,551	3,018	2,662	2,202	5,142
1994 HMO	0	18	470	1,218	1,563	1,477	1,472	1,251	956	684	512	183	79

Health Plan Reserve Fund Usage

1989 Through 1994 Accounts

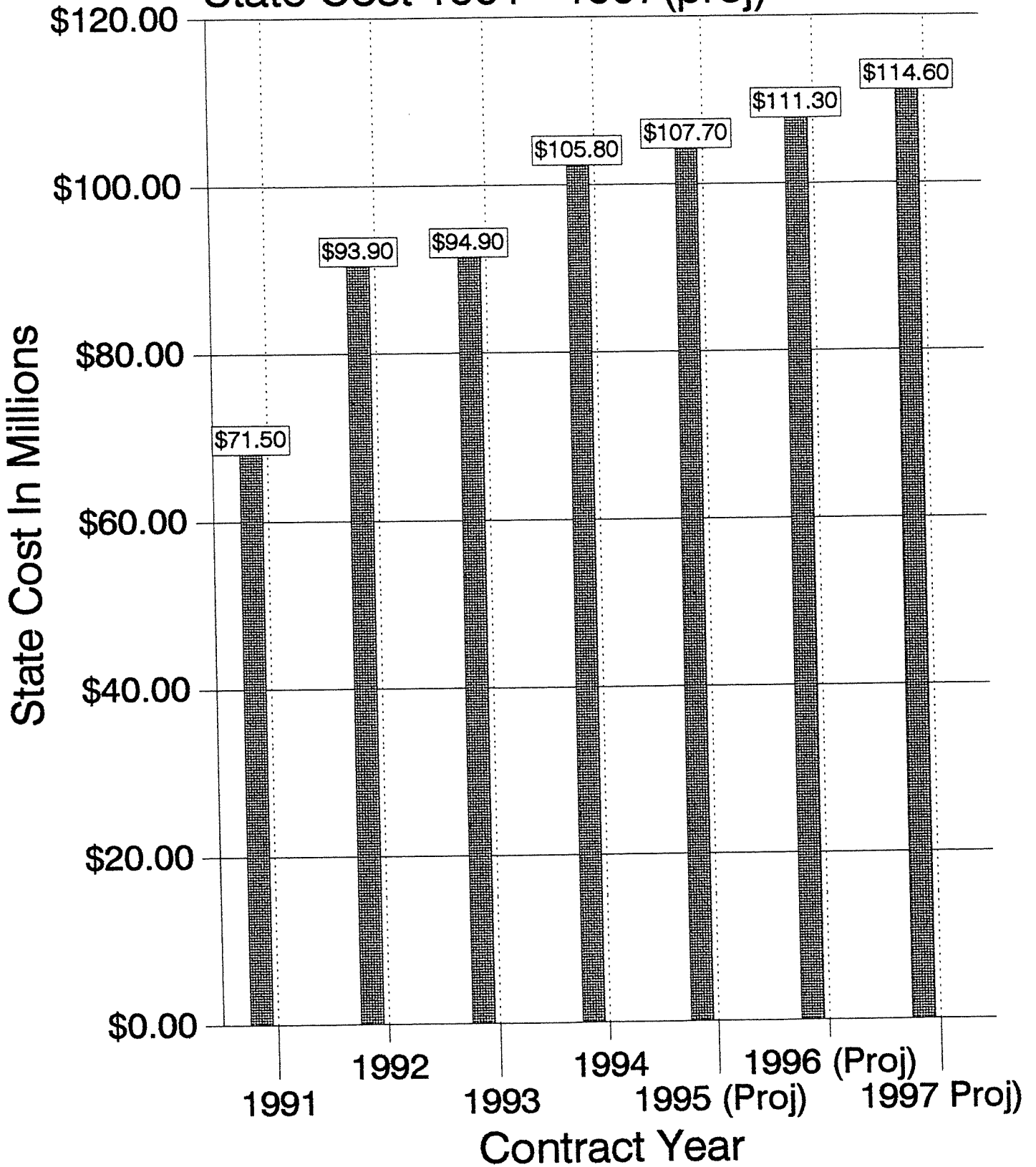


Deposits	\$11,991,700.11	\$17,445,242.69	\$19,500,602.06	\$16,372,225.54	\$21,829,510.17	\$17,739,580.85
Withdrawal	\$11,618,336.48	\$13,943,689.79	\$2,895,460.61	\$13,462,461.79	\$1,058,300.57	\$0.00

Fund Balances as of December 1994

Kansas Employees Health Plan

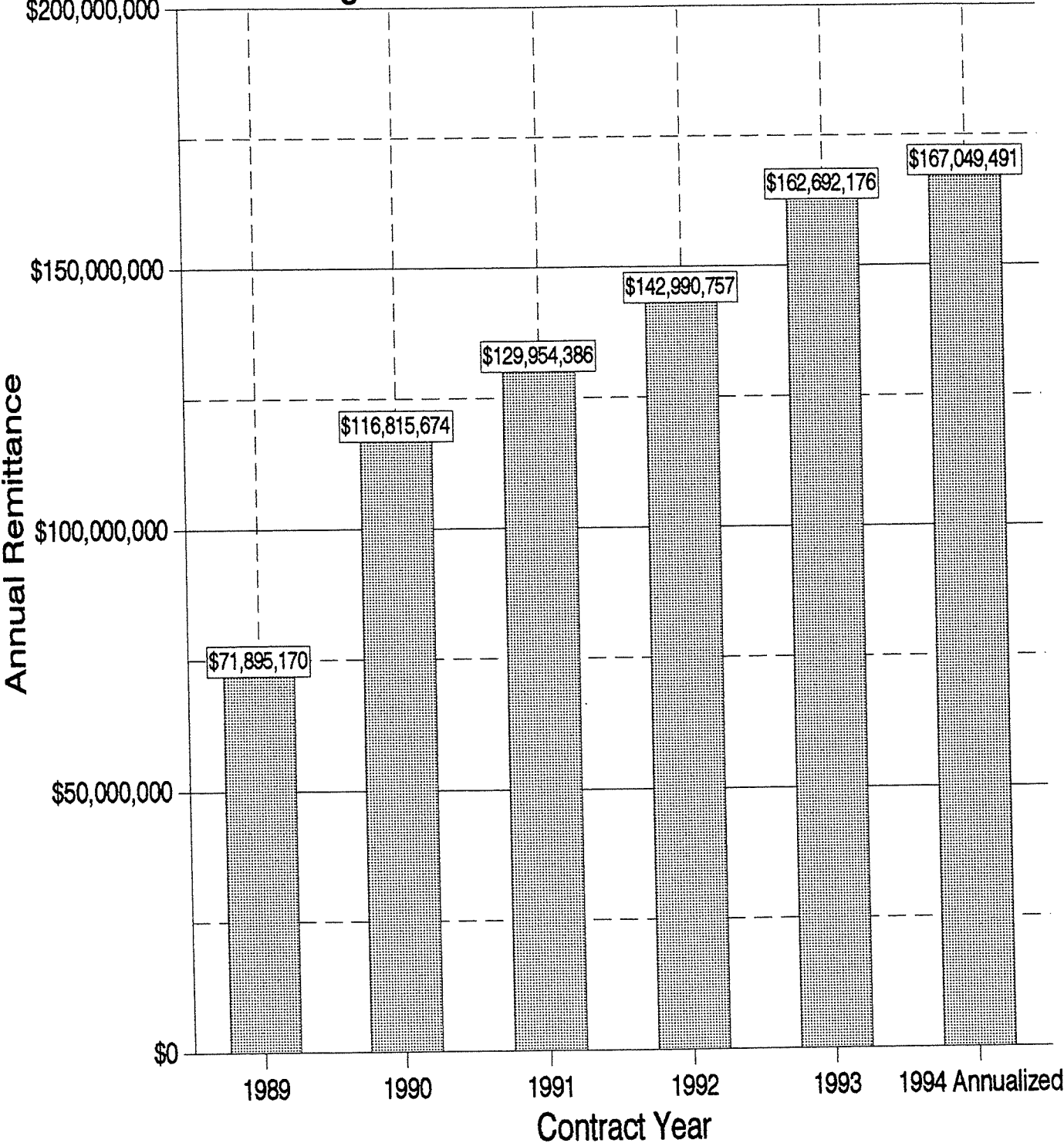
State Cost 1991 - 1997(proj)



5/31/94 HBA

Kansas Employees Health Plan

Program Costs 1989-1994est.



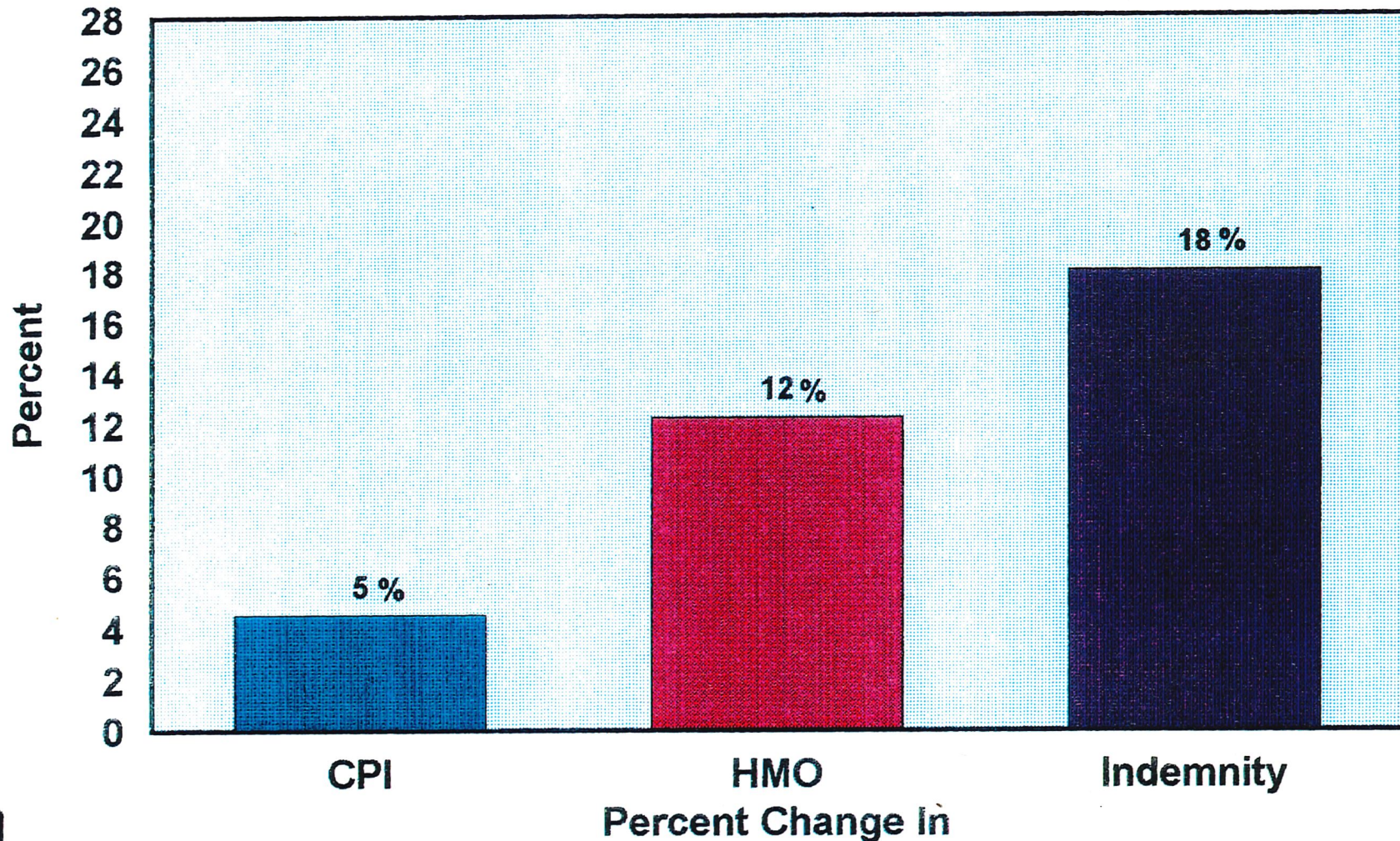
ACTIVE EMPLOYEE PARTICIPATION

	EMPLOYEE ONLY	EMPLOYEE & SPOUSE	EMPLOYEE & CHILD	EMPLOYEE & FAMILY	COMBINATION CODES	1993 TOTAL	1994 TOTAL
BLUE SELECT	13,696	2,458	3,007	6,613	1,261	23,899	27,035
TRADITIONAL	1,195	319	273	755	79	4,900	2,621
TOTAL BC/BS	14,891	2,777	3,280	7,368	1,340	28,799	29,656
HMO KANSAS	3,775	278	1,106	219	33	5,710	5,411
KAISER	556	23	103	32	7	710	721
MED PLAN	312	42	125	149	13	801	641
PRIME	301	15	36	35	10	318	397
PREFERRED PLUS	939	146	339	192	49	1,594	1,665
METLIFE	443	66	105	41	2	589	657
TOTAL HMO	6,326	570	1,814	668	114	9,698	9,492
GRAND TOTAL	21,217	3,347	5,094	8,036	1,454	38,497	39,148
RETIREES, Medicare Eligible		6,717					
RETIREES, Under 65, Non-Medicare Eligible		1,754					

SWAM
 January 18, 1995
 Attachment 5

AVERAGE MEDICAL TREND FACTORS

Indemnity vs. HMO
1987-1994



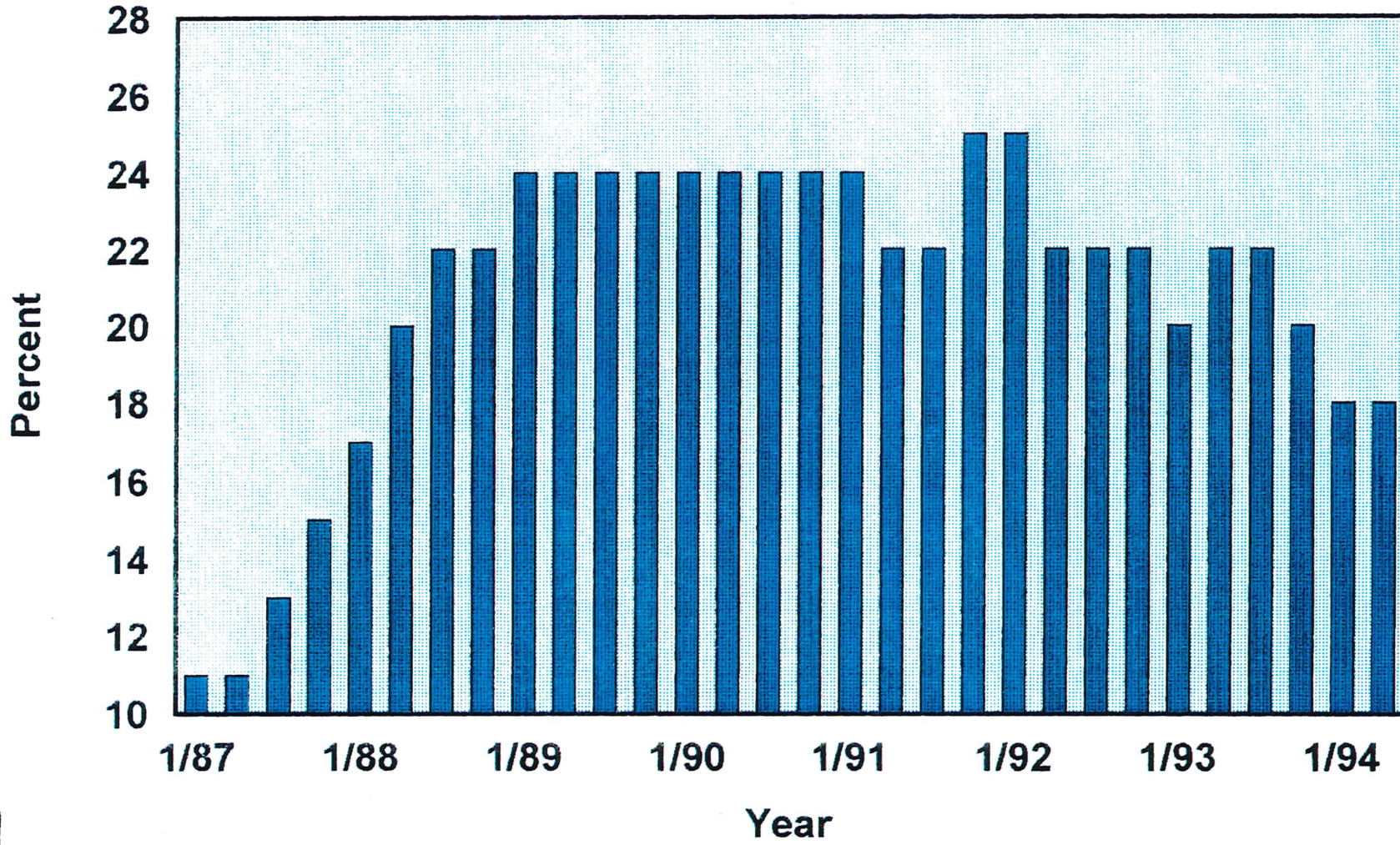
CIGNA HealthCare

NOTE: These are representative of national trend; rates may vary on a local market basis.

HISTORICAL INDEMNITY

Medical Trend Levels

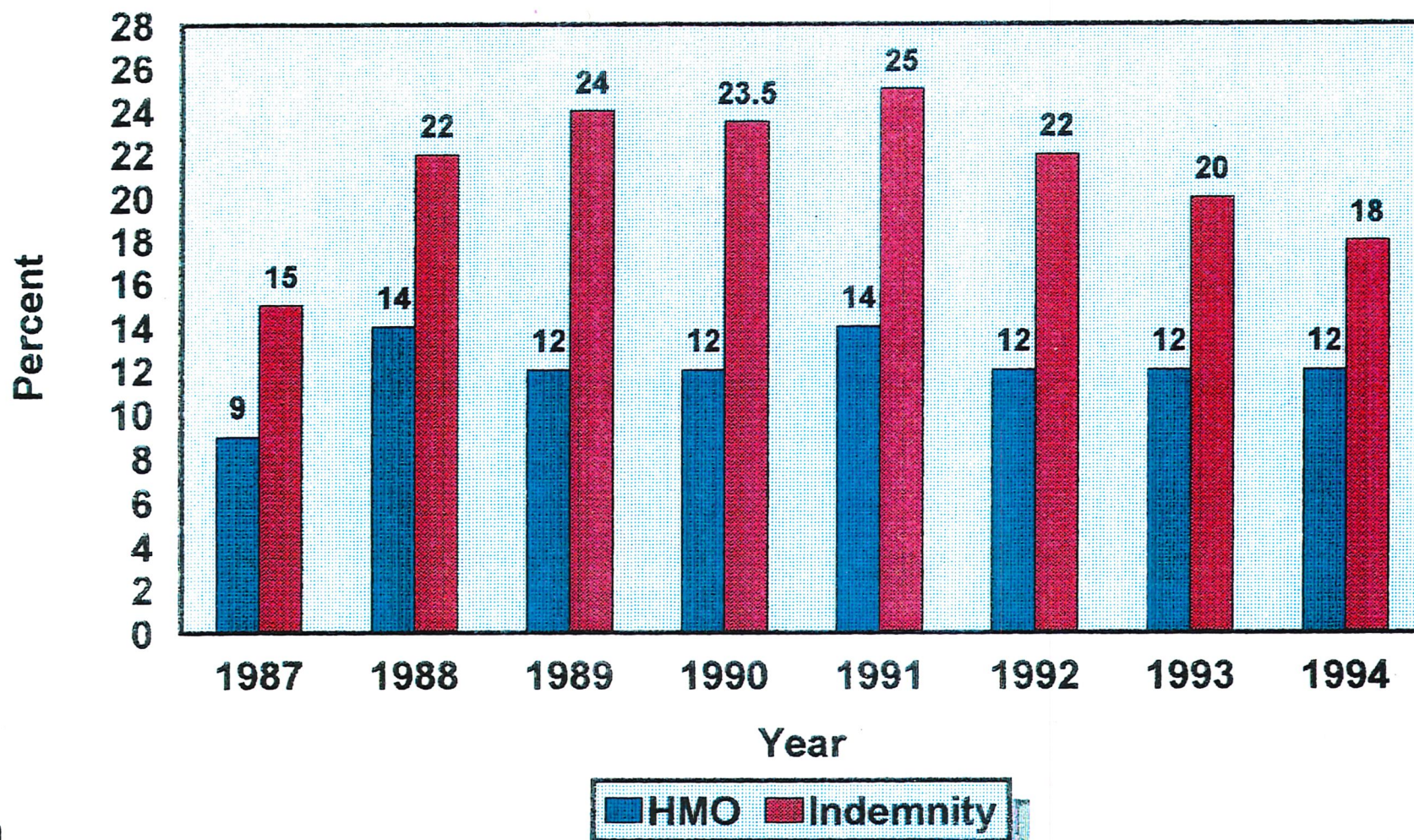
1987-1994



NOTE: These are representative of national trend; rates may vary on a local market basis.

MEDICAL TREND FACTORS

Indemnity vs. HMO 1987-1994



NOTE: These are representative of national trend; rates may vary on a local market basis.