Approved: 3/25/96
Date

MINUTES OF THE Senate Committee on Financial Institutions and Insurance.

The meeting was called to order by Chairperson Dick Bond at 9:10 a.m. on March 19, 1996 in Room 529-S of the Capitol.

All members were present.

Committee staff present: Dr. William Wolff, Legislative Research Department
Fred Carman, Revisor of Statutes
June Kossover, Committee Secretary

Conferees appearing before the committee: Kevin Haugh, Institute for Health Policy Solutions
Jim Schwartz, Kansas Employer Coalition on Health
Tom Wilder, Kansas Insurance Department
John Bottenberg, Delta Dental Plan of Kansas
Terry Leatherman, Kansas Chamber of Commerce & Industry
Joe Lieber, Kansas Cooperative Council

Others attending: See attached list

Senator made a motion, seconded by Senator Corbin, to approve the minutes of the meeting of March 14 as submitted. The motion carried.

The chair opened the hearing on **SB 682**, relating to the Kansas voluntary health care purchasing cooperative act. Kevin Haugh, Institute for Health Policy Solutions in Washington, D.C., explained the work of his organization. Mr. Haugh also stated that purchasing cooperatives can provide a more cost effective alternative and more choices for buyers of health care services, specifically small employers. In response to Senator Bond's question, Mr. Haugh stated that the Kassebaum-Kennedy bill is currently in committee in the U.S. Senate and Senate President Dole is expected to bring it to the full Senate for hearing in mid-April. Mr. Haugh stated that at this time it is unclear what impact passage of this bill would have on individual states.

Senator Bond also questioned whether single line carriers are excluded in other states and Mr. Haugh advised that they are excluded in some states but there is no valid reason to exclude one line companies.

Jim Schwartz, Kansas Employer Coalition on Health, explained that **SB 682** would restructure the market for health insurance; that it contains requirements for serving as a state qualified purchasing cooperative; that it exempts the cooperative from the rate bands that apply to the small group market; and that it limits the number of cooperatives to one per service area. Mr. Schwartz advised that a health plan purchasing cooperative would provide a multiple choice of comparable benefits. (Attachment #1)

Tom Wilder, Kansas Insurance Department, stated that the department supports the concept of **SB 682**, but requests that the legislation be referred to an interim legislative committee for additional study. (Attachment #2) In response to Senator Steffes' question, Mr. Wilder stated there was no inconsistency in the department's position, that there simply has been insufficient time to look at other models and study the broader picture.

John Bottenberg, Delta Dental, stated that his company would approve of this legislation if single line carriers were not excluded. (Attachment #3)

Terry Leatherman, KCCI, testified in favor of this legislation and expressed the desire to be a participant in any study conducted regarding purchasing cooperatives. (Attachment #4) Senator Praeger questioned how often choice, in comparison to price, is mentioned in the KCCI surveys, and Mr. Leatherman responded that as cost escalates, options are sacrificed.

Joe Lieber, Kansas Cooperative Council, voiced his concern that this act does not follow the principals for forming cooperatives. (Attachment #5)

There being no further conferees, the hearing on **SB 682** was closed.

The committee adjourned at 9:58 a.m.

SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: 3/19/96

NAME	REPRESENTING
Tom Wilder	Kansas Insurance Dept
JOHN BOTTENBERG	DELTA DENTAL Plan
Teresa Tallman	HIAA
Sue Bord	
Melissa Wangemann	Hein Elert & Weir
Ivy Lubin	KS Gov Council
Charles Simpson	
TERRY LEATHERMAN	KCCI
DARYL Rutschmann	SRS
Meg Henson	KS Medical Society
J Schwartz Jr	KECH
KEVIN HAUGH	Institute for Health Policy Solns.
DONNA ALLEN	SHAWNEE COUNTY

Kansas Employer Coalition on Health, Inc.
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(913) 233-0351 • FAX (913) 233-0384

Testimony to Senate Committee on Financial Institutions and Insurance

on SB 682

(Establishing Health Care Purchasing Cooperatives)

by James P. Schwartz Jr.
Consulting Director
March 19, 1996

I am Jim Schwartz, consulting director for the Kansas Employer Coalition on Health. The Coalition is nearly 100 employers across Kansas who share concerns about the cost-effectiveness of health care we purchase for a quarter of a million Kansas employees and dependents.

SB 682 is the culmination of a major initiative by the Coalition. For six years we have been the Kansas business community's most vocal proponents of meaningful health reform. For six years we've seen lawmakers here and in Washington try to do something about health care. Kansas has done itself proud by being among the leaders in small group reforms. But we all know that just narrowing the cost band doesn't lower overall costs. That's because first generation reforms don't restructure the market in any fundamental way; they just prohibit certain abuses.

Congress, on both sides of the aisle, has recognized the potential of healthplan purchasing cooperatives. Senators Dole and Kassebaum, as well as President Clinton, featured cooperatives or "alliances" as key ingredients of their larger proposals. Even though those larger proposals proved too cumbersome for passage, the purchasing cooperative concept survives as the best remnant of comprehensive reform. Cooperatives form a vital piece of Sen. Kassebaum's current scaled-down reform bill. If that bill passes, the need for state legislation is less. Still, state legislation could inject local preferences, and if her bill fails, the program survives in Kansas. Incidentally, threats to Sen. Kassebaum's bill have nothing to do with the cooperative section, which enjoys broad support.

SB 682 restructures the market for health insurance. In the dozen other states where purchasing cooperatives have been launched, enabling legislation has been instrumental in their success. Let's have a look at what's involved here.

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Attachment #1

The bill does three basic things. First it sets out requirements for serving as a state-qualified purchasing cooperative. The coop can't bear risk. It can't be operated by vendors of healthcare-related services. It can't exclude applying small groups. It can't skim the cream of the risk market. It has to offer multiple choice of healthplan at the individual employee level. It has to provide feedback to consumers about plan performance. And so forth.

Second, the bill exempts the cooperative from the rate bands that apply to the general small group market. When the coop requests bids on a specified benefit package, we want the coop to be able to realize all the savings inherent in their design, without the baggage of the general market, and to pass the savings on to groups. This if fair because pains are taken in the law to prevent the coop from skimming risk. For instance, any small group can join.

Third, the bill limits the number of coops to one per service area. The National Association of Insurance Commissioners allows any of three models: one stipulates a single purchasing coop per state. California did so. Another model is unlimited competing coops. Iowa did so. After much debate, our board of directors chose the third model: one coop per service area. Having one per state is efficient, but stifles local flavor. Having multiple competing coops is less regulatory but carries two big disadvantages: first, especially in a rural state, competing coops can dilute each other's chances of achieving a large enough participation to be effective. Coops need at least 15,000 lives. Second, if multiple coops are allowed to compete in the same area, the temptation for them to compete on the basis of risk selection would be irresistible. It's always easier to control costs by finding healthy customers than by improving efficiencies. We know that the arguments for all three models are strong. After wrestling with this issue for a year, we feel confident that the middle course is right for Kansas.

Let's take a minute to review what healthplan purchasing cooperatives do for small businesses. First coops create efficiencies that spell lower costs for participating groups. True, they create an additional administrative component. But that component is often just what small groups need. Large groups have sophisticated benefits departments that negotiate terms with health plans. Small groups generally don't. The coop consolidates enrollment, premium distribution, marketing, education and other functions into a single structure. In the small group market, overhead generally consumes 25 to 40% of the premium. In coops, that figure runs 12 to 15%, more like the medium and large group

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market. By the way, that figure includes the carrier's administrative piece; the coop's piece is much smaller yet.

The efficiencies derived by coops go beyond administration. Coops specify a standardized package of benefits that health plans bid on. By competing on a set specification, carriers and HMOs are encouraged to compete on price—instead of differences in the fine print. That sort of competition inspires bidders to organize networks of providers who can control costs. Coops give the green light to managed care, and the consumer is the winner.

Besides creating efficiencies, purchasing cooperatives serve the public interest by offering choice of health plan on the *individual level.* The big drawback of managed care is the limit on choice of plan and participating providers. Coops overcome this negative by offering at least three different carriers to each enrollee. Because individual preferences are not lost in group decisions, this arrangement creates a more responsive market. In addition, employers are relieved of liability associated with steering employees to a single network. Plus, employees can keep their personal physicians when they change jobs to another participating company.

Finally, coops provide a long-needed feedback loop to groups and individuals about the quality of the plans offered. Quality of care has been a considerable mystery for most patients. Almost all of our knowledge is limited to our personal experience or the experience of close friends and family. Coops undertake a sophisticated evaluation of healthplan performance and publish report cards for consumers. So armed, consumers have a chance to choose high *value*, not just low price. In the price-competitive environment coops create, it's important to introduce competition for quality, lest quality suffer in pursuit of price.

SB 682 doesn't try to create a new insurance product. If does, though, give a competitive footing to new insurance products formed by provider groups who can control costs. Instead of getting employers into the business of insuring or delivering medical care, coops simply organize the payers to be better purchasers. Multiple choice of comparable benefits. That's a healthplan purchasing coop. It's a market solution to a chronic societal problem that afflicts small Kansas businesses acutely. Let's give it a chance.

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Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: Senate Financial Institutions
and Insurance Committee

From: Tom Wilder, Director of
Government and Public Affairs

Re: S.B. 682 (Health Care Purchasing Alliances)

Date: March 19, 1996

The Kansas Insurance Department supports S.B. 682 which would allow for small business organizations to form cooperative alliances for the purchase of health insurance. Each cooperative would be regulated by the Insurance Department and would be licensed to provide purchasing services for all small employers in a specific geographic area approved by the Commissioner. The alliance would be required to accept any small business organization in that area which wanted to join the alliance. The purchasing cooperative would negotiate with health insurers to provide coverage for all employees who worked for the businesses in the alliance. The rates offered under the insurance plans would be subject to the small employer group rating law established in the Kansas Insurance Code.

The legislation is based on model legislation developed by the National Association of Insurance Commissioners ("NAIC"). The NAIC has approved three model purchasing alliances acts and is working on other alliance model legislation. Currently, 16 states have passed legislation enacting one or more of the NAIC model purchasing alliance acts (California, Colorado, Florida, Iowa, Kentucky, Montana, Nevada, New Mexico, New York, North Carolina, North Dakota, Ohio, South Carolina, South Dakota, Texas and Washington).

Kansas insurance laws allow for group health plans to be sold to more than one employer in a limited set of circumstances. The most common group employer purchasing plans are run through trade associations or multiple employer trusts. There are a number of organization problems with these type of arrangements which have

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Attachment #2

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limited the growth of purchasing alliance health insurance plans. In addition, the present prohibition on insurance rebates also inhibits the development of purchasing groups. Senate Bill 682 would allow small employers to band together and use their resources in a more economical manner to purchase health insurance coverage for their employees.

The Kansas Legislature should undertake a study of the purchasing alliance laws in existence in other states as well as the model legislation from the National Association of Insurance Commissioners. Senate Bill 682 would provide a good starting point for the development of purchasing alliance plans in Kansas. The Department of Insurance asks that this legislation be refereed to an interim legislative committee for additional study.

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BOTTENBERG & ASSOCIATES

JOHN C. BOTTENBERG

STATEMENT
by John C. Bottenberg

DELTA DENTAL PLAN OF KANSAS

RE: SB 682

Presented to the Senate
FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE
Senator Dick Bond, Chairman

Statehouse
Topeka, Kansas
March 19, 1996

Mr. Chairman and members of the Committee:

Delta Dental Plan of Kansas has been providing dental benefits to Kansans since 1972. We cover over 900 employer groups ranging in size from one employee to almost 50,000 employees covered by Delta under the State employees program. Delta originated dental benefit programs and collectively all the independent state Delta plans continue to provide the majority of employee sponsored dental plans.

The proposal before the Committee today is based on a model act developed by the National Association of Insurance Commissioners. The NAIC's Private Health Care Voluntary Purchasing Alliance Model Act is one of three separate acts which were adopted by the NAIC in 1995.

While Delta Dental Plan of Kansas has no position on the merits of this proposed legislation, we do object to its enactment in its present form.

SB 682, as it is currently written excludes one-line carriers, such as Delta Dental Plan of Kansas, from providing, in our case, dental benefits to purchasing co-operatives and would permit only multi-line carriers to participate.

Senate H+I
3/19/96
Attachment #3

800 SW Jackson • Suite 1120 • Topeka, Kansas 66612 • (913) 235-2324 • FAX (913) 435-3390

As the NAIC worked to adopt the alliance model acts, our national trade association pointed out the problem with the acts as drafted. The working group developing the models recognized the problem, but did not want to slow down the adoption process by taking time to deal with it.

At a meeting in November of last year, the members of the NAIC's Regulatory Framework Task Force directed that the minutes of the meeting note the short-coming in the model acts as adopted. The minutes reflect that states considering the adoption of a model alliance act should not interpret them to reflect a policy determination by the NAIC that dental-only plans should not be permitted to market through alliances. In fact, the members indicated just the opposite: that it would be appropriate for dental plans to offer dental benefits through an alliance.

In addition, the Task Force recommended that the NAIC Executive Committee charge it with the responsibility for developing appropriate amendments to the Model Alliance Acts which would clearly permit stand-alone dental plans to contract with alliances to provide dental benefits. The NAIC Executive Committee agreed with the Task Force and directed the NAIC's Accident and Health Committee to develop language amending the model alliance acts to permit dental plans to offer dental benefits through an alliance.

We ask this Committee to do one of two things. Our first preference would be for you to hold this legislation until the NAIC has amended its model acts to permit dental plans to participate in an alliance. If that is not acceptable, please allow us to submit language to you that the Committee would then amend into the Bill to permit Delta Dental and other dental plans to market through the health alliance. While we believe we would be in a position to provide you with this language within a week, the downside of this alternative is that the Kansas alliance act likely will vary somewhat from the final NAIC model.

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DELTA DENTAL®
Delta Dental Plan of Kansas

March 4, 1996

Senator Richard L. Bond, Chairman
Senate Financial Institutions and Insurance Committee
State House
Topeka, KS 66612

1010 N. Main St.
P.O. Box 49198
Wichita, KS 67201-9198
Telephone 316-264-1099

Dear Senator Bond:

This letter is in reference to Senate Bill 682 which establishes the Kansas Voluntary Healthcare Purchasing Cooperative Act.

As you know, this act would allow small employer groups to form cooperatives for purchasing "approved health benefit plans." This act, as it is currently written, excludes one-line carriers such as Delta Dental Plan of Kansas from providing, in our case, dental benefits to purchasing cooperatives and would permit only full-line carriers, such as Blue Cross to participate.

It is my understanding that this bill was fashioned after one of the NAIC's three model health purchasing acts, which currently does not permit stand-alone dental plans to market dental benefits through a state purchasing alliance. Please be advised that the NAIC has charged its accident and health committee to develop amendments to the three model purchasing acts to permit stand-alone dental plans to market dental benefits through a state purchasing alliance.

It does not seem reasonable to exclude Delta Dental, the nation's largest underwriter and administrator of group dental plans, from being able to market dental benefits through small group alliances created by this act. The Delta Dental Plan of Kansas currently provides dental benefits for the state's two largest employers—the Boeing Company and the State of Kansas employees. In the spirit of open competition, we should not be excluded from participation under Senate Bill 682.

If there is any further information that I can provide you or if you have any questions concerning our position as it relates to Senate Bill 682, please do not hesitate to contact us.

Sincerely,

Ronald Gessl
President & CEO

RG/ncm
cc: Mr. John Bottenberg

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3/19/96
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LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

835 SW Topeka Blvd. Topeka, Kansas 66612-1671 (913) 357-6321 FAX (913) 357-4732

SB 682

March 19, 1996

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Financial Institutions and Insurance

by

Terry Leatherman
Executive Director
Kansas Industrial Council

Mr. Chairman and members of the Committee:

My name is Terry Leatherman. I am the Executive Director of the Kansas Industrial Council, a division of the Kansas Chamber of Commerce and Industry. Thank you for the opportunity to appear today on SB 682.

The Kansas Chamber of Commerce and Industry (KCCI) is a statewide organization dedicated to the promotion of economic growth and job creation within Kansas, and to the protection and support of the private competitive enterprise system.

KCCI is comprised of more than 3,000 businesses which includes 200 local and regional chambers of commerce and trade organizations which represent over 161,000 business men and women. The organization represents both large and small employers in Kansas, with 46% of KCCI's members having less than 25 employees, and 77% having less than 100 employees. KCCI receives no government funding.

The KCCI Board of Directors establishes policies through the work of hundreds of the organization's members who make up its various committees. These policies are the guiding principles of the organization and translate into views such as those expressed here.

KCCI supports developments of market based incentives to encourage health care providers and insurers to pursue innovative purchasing and managed care techniques to make health insurance more affordable and available. Quite literally, that is a purchasing cooperative, such as the one in SB 682.

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Attachment #4

The only reservation KCCI has regarding SB 682 is what would happen in the real world . . . is approved by the Legislature. Some concerns which we have heard is that the insurance product would not vary from ones that are offered in Kansas today, that the cooperative itself would add to administrative costs and make the insurance product less affordable, or that the coverage guarantee aspect would drown the cooperative with small employer groups with high claim activity.

Small employer health insurance costs remain very high. A purchasing cooperative, by its nature, is supposed to pursue health care coverage arrangements to bring employers greater choice and lower premium options. KCCI does see merit in the purchasing cooperatives. If the Legislature's intention is to study the impact a program like the one in SB 682 would have in the Kansas market, the Kansas Chamber would welcome the opportunity to participate. If the Legislature's plan is to approve SB 682 in 1996, KCCI will no doubt try its best to participate in this new avenue for group health insurance.

Thank you for the opportunity to comment on SB 682. I would be happy to try to answer any questions.

Testimony on SB 682
Financial Institutions and Insurance Committee
March 19, 1996
Prepared by Joe Lieber
Kansas Cooperative Council

Mr. Chairman and members of the committee, I'm Joe Lieber, Executive Vice President of the Kansas Cooperative Council. The Council has a membership of over 200 cooperative businesses. Most of our members are farm supply cooperatives, but we do have insurance cooperatives as members.

We are not opposed to the concept of SB 682, but we have concerns with the way the board is selected on page 4, New Section 3.(a).

One of the stipulations for being a true cooperative is there must be democratic control. The members must be involved in the election of the directors on the board.

Yes, the board can be made up of representatives of the employers, employees and individual participants in the cooperative, but New Section 3 (a) should explain the number of board members, how many will represent the employers, employees, and individual participants and who is eligible to vote.

Again, we are not opposed to the concept of SB 682, but if it is meant to establish a cooperative, then it should follow the principles of cooperatives.

Thank you for your time and I will be happy to answer any questions.

Senate FI&I
3/19/96
Attachment #5