Approved: January 31, 1997
date

MINUTES OF THE JOINT SENATE COMMITTEE ON COMMERCE AND FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by Chairperson Alicia Salisbury at 8:00 a.m. on January 30, 1997 in Room 123-S of the Capitol.

Members present: Senators Salisbury, Barone, Brownlee, Feleciano, Gooch, Harris, Jordan, Ranson, Steineger, Steffes and Umbarger.

Members present: Senators Steffes, Barone, Becker, Biggs, Brownlee, Clark, Corbin, Feleciano and Praeger.

Committee staff present: Lynne Holt, Legislative Research Department
Jerry Donaldson, Legislative Research Department
Bob Nugent, Revisor of Statutes
Fred J. Carman, Revisor of Statutes
William G. Wolff, Legislative Research Department
Betty Bomar, Committee Secretary

Conferees appearing before the committee:
Tom Wilder, Kansas Insurance Department
Philip S. Harness, Director, Division of Workers Compensation
James Schwartz, Consulting Director, Kansas Employer Coalition on Health, Inc.
Bill Pitsenberger, Vice-President and General Counsel, Blue Cross/Blue Shield of Kansas
Terry Leatherman, Kansas Chamber of Commerce and Industry

Others attending: See attached list

Legislative Research Department distributed a copy of National Association of Insurance Commissioners (NAIC), *A Progress Report on the Implementation of 24-Hour Coverage*, on file in the Office of Legislative Research and a copy of the Special Committee on Insurance report on "Twenty-four Hour Coverage". Attachment 1

SB 3 - Workers Compensation, 24-hour coverage pilot projects

Tom Wilder, Kansas Insurance Department, testified in support of **SB 3**. Mr. Wilder stated the legislation allows Kansas to establish one or more pilot projects to study the feasibility of "24-Hour Insurance Coverage". **SB 3** provides for combining workers compensation coverage and health insurance into a single product. **SB 3** is based on a Model Act drafted by NAIC, and authorizes the Insurance Commissioners to run the projects and report the findings to the legislature. **SB 3** allows the Insurance Commissioner to promulgate rules and regulations, provides that coverage of benefits cannot be less than that required under the workers compensation statutes, allows any accident and health insurer or workers compensation carrier to participate in the pilot projects provided they can demonstrate the resources and ability to provide service to employers and to employees and their families; allows the Commissioner to enter into contracts, following the bidding procedures of the state; gives the Commissioner the ability to accept grants or gifts; provides that the exclusive remedy will apply to pilot projects; requires any insurer that participates to file their policy rates and forms with the Insurance Department; establishes a "24-Hour Coverage Task Force"; and sunsets the act on January 1, 2002. Mr. Wilder stated the benefits of combining health insurance coverage and workers compensation benefits are: reduction in administrative costs; reduction in health care costs due to use of a single managed care network; allows employers to better monitor health care needs of employees; avoids duplicate claims and fraud for work related injuries; and avoids disputes and litigation with employees over what is or is not a work related injury. Attachment 2

Mr. Wilder stated the pilot projects studied in other states have had a mixed success. Due to the reduction in workers compensation rates, there is less pressure and interest in exploring new and innovative ways to cut health care costs, whether health or workers compensation.

Philip S. Harness, Director, Division of Workers Compensation, raised legal questions associated with **SB 3.** Mr. Harness questioned the constitutionality of the proposed legislation as relates to equal protection. Mr. Harness submitted a number of questions about the impact of **SB 3** and how it will work with the Workers Compensation Act, in particular: the use of the Workers Compensation medical fee schedule;

the choice of physician; requirements of notice and written claims; lifetime medical benefits applicable to non-workplace injuries and illness; indemnity adjudicated by Workers Compensation; attorneys' fees; volunteer coverage; and preexisting functional impairment. Mr. Harness stated that to his knowledge there is not a successful pilot projects in 24-Hour coverage. Attachment 3

James Schwartz, Consulting Director, Kansas Employer Coalition on Health, Inc., testified in support of **SB 3.** Mr. Schwartz stated the Coalition is 70 employers across the state, including: Kansas Association of Public Employees, Western Resources, Cessna, and some private health care companies. Mr. Schwartz stated health care costs are cyclical. Costs presently are in a decline; however, experts are saying health insurance costs are expected to increase by 3% this year and by 10% in 1998. The availability of a "24-hour coverage" is beneficial to certain companies, particularly those competing against foreign firms. Mr. Schwartz stated the pilot project created by the bill will give Kansas a chance to evaluate the methods and benefits of such coverage. The present system has created an artificial division between workplace and non-workplace health coverage. The "24-hour coverage" consolidates delivery of care under a single system. The benefits are: uses own primary care physician; costs of care are reduced, creates an incentive for patients to seek low-cost care; administrative costs reduced; fewer indemnity claims. Attachment 4.

Bill Pitsenberger, Vice-President and General Counsel of Blue Cross and Blue Shield of Kansas, testified in support of **SB 3.** Mr. Pitsenberger stated it is his belief that the 24-hour coverage concept might make the health benefits system easier to negotiate for employees, reduce the adversarial relationship that arises between employees and their employers, an provide coverage without complications and delay. A seamless system makes the cause of the injury immaterial. Mr. Pitsenberger testified the Commissioner and the task force will have a big job as there are substantial differences between the two compensation systems. Intertwining these two systems to create a functional 24-hour coverage system could be beneficial to certain groups or companies throughout the state. Attachment 5

Terry Leatherman, Kansas Chamber of Commerce and Industry, testified in support of **SB 3.** Mr. Leatherman stated the compensation insurance rates are around $60M less than they were prior to the reform legislation enacted in 1993. The present healthy condition of the workers compensation insurance today contributes to the idea of exploring a 24-hour coverage pilot project. This permits a study of an insurance structure that could become a useful alternative for some Kansas employers. Attachment 6

The Committee discussed the impact legislation for 24-hour coverage would have on both employers and employees: whether the proposed legislation creates a paternalistic system; whether the task force membership should be expanded to ensure participation of significant players in the workers compenation and health insurance systems; whether there is a "problem" that requires such legislation.

The hearing was concluded at 9:45 a.m.

The next meeting is scheduled for January 31, 1997.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: January 30, 1997

NAME	REPRESENTING
Martha Gabehart	KCDC
Terry Leatherman	KCCI
John Federico	Pete McGill + Assoc
Brad Smoot	BCBS
Jim Schwartz	KS Employer Coal. on Health
[illegible]	KTLA
[illegible]	KTLA
Bill [illegible]	Alliance
[illegible]	HIAA
Susan Baker	Hein + Weir
David Shufelt	Dept Human Resources - Div Work Comp
Roger Franzke	BKIV
Kevin Robertson	Ks Self-Insurers Assn
Linda [illegible]	Dept. of Admin
[illegible]	Dept. of Adm
Bob Alderson	KPhA
Dick Cook	KS Ins. Dept.
Bill [illegible]	" " "
Stacy [illegible]	Heartland Health, Inc.

SENATE COMMERCE COMMITTEE GUEST LIST

DATE: Jan 30, 1997

NAME	REPRESENTING
Bill Pitsenberger	Blue Cross and Blue Shield of Ks.
Julie Stanek	KDHE/Office of Heath Care Info
Terry Campbell	R. Rice Law Office
Kelly Kultala	City of Overland Park
Bernie Koch	Wichita Area Chamber
Danielle Noe	Office of the Governor
Karen Lowery	KASB
Ward Cook	Rep. Lane (Intern)

SPECIAL COMMITTEE ON INSURANCE

STUDY TOPIC: Twenty-Four Hour Coverage*

SUMMARY: The Special Committee on Insurance was aware that several states have reviewed the concept of combining, in some fashion, health insurance coverage and workers' compensation benefits and that at least five states had enacted legislation for pilot programs.

Upon a review of those programs, the Committee recommends the 1997 Kansas Legislature enact a pilot project which is voluntary to both employers, employees, and insurers; provides a defined benefit package; continues for at least three years; and provides reports and evaluations of the pilot project to the Legislature.

BACKGROUND

Escalating premiums for both employer-provided health insurance and workers' compensation insurance drove payers of those premiums in the 1980s and 90s to search for less expensive alternatives to those two types of coverage. Since workers' compensation insurance is generally a statutory mandate on employers, states, too, began searching for alternatives to the traditional delivery systems.

One alternative quickly seized upon by those seeking premium relief was 24-hour coverage. The National Association of Insurance Commissioners (NAIC) has identified six variations of that coverage which have been under consideration in various jurisdictions and has noted advantages and disadvantages to the proposition. While not important to define each of the six here, suffice it to say that, generally, 24-hour coverage is any combination of traditional health insurance and workers' compensation insurance that attempts to dissolve the occupational and nonoccupational boundaries between the two coverages.

ADVANTAGES. In its consideration of a pilot project, the State of Maine listed the following possible benefits of streamlining administration and combining the delivery of health care services for both on and off the job injuries and diseases: expanded and uninterrupted benefits for employees; lower administrative costs for employers; expanded health coverage for persons not fully covered by the present system; less duplication; and improved quality of health care through an integrated treatment approach.

BARRIERS. Every state looking at the concept has delineated nearly the same list of barriers to implementing a plan, including: the difference between workers' compensation insurance as a "no-fault" exclusive remedy compared to accident and health coverage which is occurrence-based and may involve deductibles and copayments for coverage; the fact that health care benefits for self-insured are Employee Retirement Income Security Act of 1974 (ERISA) protected versus workers' compensation benefits which are ERISA exempt; insurers who provide accident and health insurance are not the same insurers writing workers' compensation coverage and different statutorily required guarantee funds protected the two different types of coverage; and, on the regulatory scene, generally two different agencies administer the laws—insurance commissioners in charge of traditional insurance products and other boards, commissions, or divisions of agencies responsible for workers' compensation benefit supervision.

COMMITTEE ACTIVITY

The Special Committee on Insurance heard conferees representing the Kansas Insurance Department, the Health Insurance Association of America (HIAA), and counsel for Kansas Blue Cross and Blue Shield.

The insurance commissioner and her staff reviewed other states' experiences with 24-hour coverage legislation noting that 16 states have pilot projects or are considering legislation that would allow the sale of 24-hour coverage insurance products. Three of those states, California, Kentucky, and Oregon had pilot projects under way during the course of the Committee's study and, by the end of the study, Oregon had issued a final report on its project.

Department staff also informed the Committee that the NAIC has developed a Twenty-Four Hour Coverage Pilot Project Model Act which states could adopt or adapt to their particular circumstances. The department recommended that the Legislature approve legislation to allow for a 24-hour coverage pilot project in Kansas. The legis-

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* S. B. 3 accompanies the Committee's reports.

Joint Senate Committee on Commerce — Financial Institutions and Insurance
January 30, 1997
Attachment A-1 thru A-2

tion would not have to be the model act; rather it should be designed to give authority to the commissioner to develop the project in conjunction with the insurers, employers, labor representatives, and other governmental regulatory bodies (Department of Human Resources, Division of Workers' Compensation).

The representative of the HIAA indicated the interest of the HIAA grew from the fact the trade association represented over 300 insurers that write 80 percent of the health insurance in the United States. He noted the HIAA supported managed care programs and techniques to achieve high quality, cost effective health care; to increase access to care; and to reduce administrative costs. Twenty-four hour coverage plans that integrate insurance products, he said, might facilitate those goals. While the HIAA supports legislation authorizing pilot projects, certain provisions should be incorporated in the proposal, including that: the project be voluntary; the project be based on the principle of exclusive remedy; and the legislation address the ERISA issues inherent in such an enactment. Further, he said the proposed legislation should include, among other things, elements of managed care; incentives for consumers to be cost conscious; case management; plan language contracts and plans; and sufficient statistical data to measure the effectiveness of the pilot project.

Finally, counsel for Blue Cross and Blue Shield of Kansas reviewed several approaches to 24-hour coverage, the legal issues associated with such coverage, the NAIC model act, and the status of projects in other states.

On this later point, the final report on the Oregon project disclosed disappointing results after three years. According to reports, enrollment in the project fell far short of expectations expressed at the time the project was legislated. Apparently, between the time of enactment and the implementation of the project, rates in the open market for workers' compensation coverage fell by 40 percent, due in part to significant reform of the workers' compensation system, thereby removing any price advantage for the project participants. Further, reforms in health care helped to limit the rate of increase in the cost of traditional health care plans and thereby diminished interest in alternative programs.

Conclusions and Recommendations

The Special Committee on Insurance appreciates the comments of the conferees and finds merit in the concept of 24-hour coverage. If there are benefits to be gained by combining, in some fashion, workers' compensation and traditional health insurance, Kansas employers and employees should have the opportunity to share in those benefits.

The Committee, therefore, recommends introduction of a bill to authorize 24-hour coverage plans in Kansas within the defined limits of a pilot project. ■

Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

MEMORANDUM

To: Senate Commerce Committee;
Senate Financial Institutions
and Insurance Committee

From: Tom Wilder

Re: Senate Bill 3 ("Twenty-Four Hour Coverage" Pilot Projects)

Date: January 30, 1997

I am appearing today in support of Senate Bill 3 that will allow Kansas to establish one or more pilot projects to study the feasibility of "24-Hour Insurance Coverage" which combines workers compensation coverage and health insurance into a single product. Currently, sixteen states have instituted or are considering pilot projects as a means to control the costs incurred by business in providing health insurance coverage and workers compensation benefits to employees.

In 1995, over 47 thousand Kansas businesses paid approximately $337 million in workers compensation premiums. In addition, there are a number of companies which either form pools to purchase workers compensation insurance or they "self-insure" the risk. That same year Kansas employers purchased over $785 million in group health insurance. Clearly, the benefits provided to workers has a major impact on the cost of doing business. The concept behind S.B. 3, and the 24-Hour Coverage pilot projects which have been attempted in other states, is to provide administrative cost savings to employers without taking away benefits from employees who are entitled to compensation, especially for workplace injuries.

The benefits of an insurance product which combines health insurance coverage and workers compensation benefits are defined as follows:

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420 SW 9th Street
Topeka, Kansas 66612-1678

913 296-3071
Fax 913 296-2283

Consumer Assistance Hotline
1 800 432-2484 (Toll Free)

Attachment 2-1 thru 2-8

- Reduced administrative costs because of one source administration of all claims.
- Reduced health care costs because of the use of a single managed care network for employee/family medical needs.
- Allows employers to better monitor health care needs of employees.
- Avoids duplicate claims and fraud for work related injuries.
- Avoids disputes and litigation with employees over what is or is not a work related injury.

The combination of these two types of insurance into a single product is not easy to do. Workers compensation insurance and group health insurance are two distinct types of coverage that are underwritten and marketed in different manners. For example, health insurance coverage is generally priced based on the health history of the employees and their families in the group. There are specific requirements in our laws for group plans and for health insurance sold to small employer groups (i.e.: those businesses with 3 to 50 employees). The insurance provided under the health plan is usually subject to deductibles and co-payments.

Workers compensation insurance is designed to get the injured worker back on the job as soon as possible. The insurance premiums are based on the ability of the employer to provide an injury-free workplace. The cost of insurance coverage is based on the claims history of the employer. Work related injuries are subject to "first dollar" coverage and additional compensation for disabilities is provided.

I have provided the Committees with copies of a most recent quarterly report from the National Association of Insurance Commissioners ("NAIC") on the progress of pilot projects in other states. According to the NAIC report, there are currently 16 states with pilot projects. Most of these states are in the start-up phase of their efforts. In addition, the Robert Woods Johnson Foundation has provided grants to a number of state agencies and private employers to evaluate the performance of their 24-Hour Coverage pilot projects.

Senate Bill 3 will allow the Commissioner of Insurance to set up one or more pilot projects by rule and regulation. These projects would be based on the recommendations of a Task Force appointed by the Governor and Kansas Legislature. The Task Force would help design the 24-Hour Coverage insurance product that would be offered to employers through the projects.

The proposed legislation is based on a Model Act drafted by NAIC. It will give the Insurance Department the authority to run the projects and to ultimately report the findings of the various pilot projects to the Legislature. The law is designed to sunset on January 1, 2002. The provisions of the bill are as follows:

Section 1. Title

Section 2. Definitions used in law.

Section 3. Allows the Insurance Commissioner to promulgate rules and regulations to set up pilot projects. The rules must, at a minimum, include provisions for the amount of benefits paid to employees and how injuries will be compensated after any pilot project ends. Grievance procedures and standards for collecting data must also be established.

Section 4. Provides that coverage of benefits under any pilot project can not be less than that required under the workers compensation statutes.

Section 5. Allows any accident and health insurer or workers compensation carrier to participate in the pilot projects provided they can demonstrate the resources and ability to provide service to employers and to employees and their families.

Section 6. Allows the Commissioner to enter into contracts to establish the pilot projects.

Section 7. Gives the Commissioner the ability to accept grants or gifts from charitable foundations to pay for the work of the pilot projects.

Section 8. Provides that the "exclusive remedy" provision of the workers compensation laws will apply to any pilot project.

Section 9. Requires that any insurer that participates in the pilot project must file their policy rates and forms with the Insurance Department.

Section 10. Insurers must also file their manual of rules, rates and rating systems with the Department. Rates can not be excessive, inadequate or unfairly discriminatory.

Section 11. The Commissioner is required to report each year prior to January 1 the progress of the pilot projects. The report must include information on any cost savings and on the effectiveness of coverage given to employees.

Section 12. Establishes a "24-Hour Coverage Task Force" to assist the Commissioner in setting up the pilot projects and in promulgating rules and regulations.

Section 13. Sunsets the act on January 1, 2002.

The pilot projects which are being studies in other states have a mixed success. Now that workers compensation rates have declined in most areas of the country, there is less pressure to find cost savings within the system. I have attached two articles to my testimony which give additional information on how these projects have worked where they are being tested.

Kansas should consider whether a pilot project would be useful for the businesses in this state. I would ask that the two Committees approve Senate Bill 3.

Opportunities Expanding In 24-Hour Care Programs

by Robert Hergenrader and Katherine King

PERSPECTIVE

Today, more and more insurance companies and brokers across the nation are hearing, "We'd like to see something in a 24-hour plan," from employers interested in the benefits of integrating workers' compensation and group health care benefits. With as much as 53% of the market self-insured for workers' compensation, a major opportunity exists for the broker to assume the role of the consultant who helps self-insured companies develop and implement their own 24-hour programs.

Interest in 24-hour care is strong and growing. Almost three-fourths of California's large employers want to adopt 24-hour coverage, according to a survey on integrating group health and workers' compensation by Price Waterhouse LLP. The survey also finds most employers feel the benefits of 24-hour care, especially cost reduction, outweigh the risks of combining the programs.

The survey polled benefits managers and risk managers at 240 companies with more than 1,000 employees. Seventy percent of respondents said they were either "very interested" or "somewhat interested" in using the same health care organization or provider network for group health and workers' compensation. More than 90% of respondents said they would be especially interested in a single case-manager approach for workers' compensation and group health, 85% said they would want a single claims administrator, 80% said they would support a single medical-provider network and 78% wanted a capitated health maintenance organization. Half of those surveyed said they were interested in pursuing benefit integration without the ability to underwrite a single policy of insurance, with companies numbering more than 5,000 employees showing the most interest.

The appeal of 24-hour care has two main drivers: rising workers' compensation costs and a desire to make workers' compensation and group health care as cost-effective as possible. The growing interest in 24-hour care has spurred an increase in alliances between workers' compensation and group health insurers to develop products and delivery systems that meet this need. It also has prompted states, which regulate workers' compensation benefits, to relax regulations to allow pilot programs and experiments with 24-hour care. Currently, 15 states—California, Colorado, Florida, Georgia, Iowa, Kentucky, Louisiana, Maine, Massachusetts, Minnesota, Montana, North Carolina, Oklahoma, Oregon and Washington—have developed specific regulations or laws that set the stage for employers to begin 24-hour coverage programs.

Opportunities for Brokers

Even without regulatory intervention, 24-hour care offers significant opportunities for companies that are self-insured for workers' compensation, as well as for brokers who can service their needs. Moreover, these self-insured companies represent a substantial portion of the market. A national survey of 259 executives conducted by *Risk & Insurance* and *Human Resource Executive* magazines found 53% of reporting companies were self-insured for workers' compensation, 36% have traditional insurance, 7% were insured through a state pool and 4% insured in other ways.

The employer who is self-insured for both workers' compensation and group health has the option of combining management of both areas while keeping the actual insurance contracts separate—a separation that is mandatory in most states. Self-insured companies also have an advantage in designing 24-hour care programs because they can access data more easily and have more specific knowledge of their plans than companies that are not self-insured. Self-insured companies that choose 24-hour care can consolidate the administration of benefits delivery and payment of claims under one administrator, thus eliminating duplicate payments. The same provider can treat patients for both types of claims. Even if the providers remain separate, a single administrator can negotiate similar discounts from both the workers' compensation and health benefits network.

A 24-hour care program for a self-insured company should include the following elements:

- Centralization of case management, with one case manager handling both occupational and nonoccupational injuries.
- Direct contracting with providers for both group health and workers' compensation. The network-building process should include the identification of providers with a successful track record in providing medical care and applying appropriate return-to-work strategies.
- A single database for workers' compensation and group health benefit claims. This database should be able to analyze provider utilization, illness and injury trends and return-to-work status.
- Employee education about group health and workers' compensation procedures for reporting injuries, filing claims, accessing providers and preventive programs that the employer uses to keep the workplace safe.
- A communication program with injured employees while they are recuperating. Injured employees often fall prey to feelings of isolation and frustration when they try to navigate the system on their own. Maintaining open lines of communication during this period is important not only to help engineer a safe and early return but also to avoid possible litigation.

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Katherine King is vice president, Keenan & Associates, Torrance, Calif., in charge of workers' compensation aspects of 24-hour care programs. Robert Hergenrader is vice president, Keenan & Associates in charge of group health aspects for 24-hour care.

• A system to monitor claims to eliminate "shifting" between group health and workers' compensation.

• An interdepartmental task force, including human resources and risk management personnel, that can address all system components of a 24-hour plan. In the Price Waterhouse LLP study, more than one-third of respondents indicated they have responsibility for both occupational and nonoccupational programs. However, this is not always the case. According to the *Risk & Insurance* study, 51% of companies have human resources handling workers' compensation, while 26% make risk management responsible for this area. When one department handles workers' compensation and another administers group health, an administrative team must be developed to manage the integration of the programs.

The Citrus Valley Case

In the spring of 1994, three health care facilities in southern California—Inter-Community Medical Center, Queen of the Valley Hospital and Hospice of the East San Gabriel Valley—merged and became Citrus Valley Health Partners.

As part of the merger, the benefit plans of the three facilities were reengineeered so one plan would cover the entire employee base. At the time, each hospital organization had its own group benefits plan and workers' compensation program. The merging facilities were already self-insured for workers' compensation, with Keenan & Associates, Torrance, Calif., serving as their third-party administrator (TPA) for workers' compensation. They were also self-insured for group health; however, each hospital used a different TPA for group health.

The merger presented the opportunity to develop a single program to serve all employees. The outcome was a 24-hour program, launched in January 1995, that combines medical care and plan administration for group health benefits and workers' compensation. The new system simplifies administration for the employer and the employee, provides a single access point for all medical care and claims coordination, and results in cost savings. Citrus Valley's 2,400 employees now enjoy immediate medical claim payments regardless of the source of illness or injury, while the organization's human resources department is able to track medical provider services more efficiently and offer a faster and complete claim adjudication process. It also enjoys the convenience of having to deal with only one company for both programs.

The appeal of 24-hour care has two main drivers: rising workers' compensation costs and a desire to make workers' compensation and group health care as cost-effective as possible.

Key service features of Citrus Valley's program for both workers' compensation and group health include:

• Managed care provider bill review. The same company reviews bills for benefits and workers' compensation.

• Preferred provider organization. Separate providers for workers' compensation and group benefits are being used for treatment, with the specific provider depending on the particulars of the situation. Eighty percent of medical providers provide workers' compensation services, and 90.4% of the workers' compensation providers provide medical benefit services.

• Utilization review. Reviewers examine the frequency and duration of treatment, the appropriateness of medical care and medical necessity.

• Reporting system. The same reporting system is used to create reports for both areas. Using a common computer system, reports are generated that provide data on provider utilization, treatment and cost, time and outcomes, and cost of procedures.

• Reinsurance provider. Reinsurance for medical stop loss and workers' compensation excess coverage is provided by the same vendor.

All of the components involved in administration of the medical and workers' compensation programs were consolidated under a common company, Keenan & Associates, with a single contractual agreement.

Broker Role

In addition to acting as the TPA for the new program, Keenan & Associates also served as the broker/-consultant in designing and implementing the program. For example, Keenan advised Citrus Valley on the selection of the most appropriate vendor for reinsurance and managed care. Four major services that broker/consultants can provide to companies considering 24-hour programs are: education in understanding the process and options, help in identifying goals for the program, vendor evaluation, and matching the goal of the program to the vendors' capabilities.

Results

In addition to improved access and convenience, Citrus Valley's new program is yielding substantial cost savings over maintaining two separate systems: 7% in administrative costs for first-year savings of $30,036 and 32% in the cost of reinsurance policies for savings of $116,650. The use of Keenan's proprietary workers' compensation programs saved another $421,865. Thus, the 24-hour care program produced total savings of $568,551 in its first year. Savings will continue and efficiencies will increase as data provided by the streamlined system make it possible to do more detailed provider profiling, identify areas for improvement and fine-tune the hospitals' safety and prevention programs.

The integration of self-insured companies into 24-hour care programs represents a significant opportunity for brokers and insurance professionals with the requisite background and knowledge to help employers design and implement these programs. These opportunities are expected to continue to increase as more and more states relax regulations to support the development of 24-hour care plans.

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sults most reinsurers have been enjoying over the last two years are continuing.

Of the companies reporting thus far—four from the United States: General Re Corp., American Reinsurance, Transatlantic Holdings and Zurich Centre Re; plus three Bermuda firms: Ace Ltd., IPC Holdings and PartnerRe—most showed increased net income and premium growth as well as improved underwriting experience.

For instance, Stamford, Conn.-based General Re Corp. reported that first-half consolidated net income was $461.1 million, up 16.1 percent from the $397.3 million recorded in the first six months of 1995.

In terms of total property-casualty results, General Re reported net premiums of $2.8 billion, compared with the $2.6 billion written during the same period the year before—an increase of 7.5 percent. This breaks down to close to $1.4 billion for the U.S. and $1.4 billion for international risks.

Regarding the company's underwriting experience in p-c lines, General Re posted a 99.1 combined ratio for U.S. business, compared with 99.3 for the first six months of 1995. International p-c business showed a combined ratio of 102.2 versus 101.6 for the same periods.

Last month, General Re announced it was acquiring its Stamford, Conn.-neighbor, National Re, for some $940 million. The deal is expected to close in the fourth quarter.

At the same time, General Re recently disposed of its equity interest in Tempest Re Co. of Bermuda and terminated its underwriting contacts with the Bermuda company for an aggregate consideration of $216.3 million.

Princeton, N.J.-based American Re, which recently announced it is engaging in talks on "possible merger or sale of the company" with "several parties," reported six-month net income of $97.5 million, up 35 percent over the $72.2 million in the same period in 1995. At the same time, American Re's net premiums rose to $965.5 million during the first half, compared with $828.8 million for the first half of 1995.

American Re recorded a six-month combined ratio of 94.9, down from the 99.6 reported for the same time frame in 1995.

Transatlantic Holdings of New York also reported increased net income for the first six months of the year, going from the $63.1 million

[illegible] bined ratio was 100.8 versus 103.2 for 1995's first half. The company noted in its report that the first six months of 1995 included $4.5 million of incurred losses from the Kobe, Japan earthquake.

Transatlantic's president and chief executive officer, Robert F. Orlich, emphasized the "increasingly competitive worldwide marketplace," but said that domestically the company was able to find pockets of opportunity across several classes of business.

Internationally, he added, "we are encouraged by positive developments in our newer locations, Paris and

ings in New York reported net income for the first six months of $10.[illegible] million, compared with $16.7 [illegible] lion last year. The company's [illegible] premiums grew to $364.8 million, up 49 percent over 1995's first-half figure of $244.7 million.

Zurich Re Centre also recorded an improved combined ratio of 103.4 for the first six months of this year, down from the 107.9 during the same period in 1995.

As far as the Bermuda reinsurers are concerned, Ace Ltd. (which reported its nine-month results as of

Cont'd on Page 54

Ore. 24-Hour Cover Pilot Results A Letdown: Study

By Dan Lonkevich

Oregon's three-year-old experiment with 24-hour coverage has produced disappointing but instructive results, according to a study by Tillinghast/Towers Perrin.

Ironically, Oregon's success in reforming its workers' compensation system contributed to disappointing enrollment results for the pilot project, according to the study.

Oregon's WC Reform Success Undermined 24-Hour Cost Savings

Indeed, since 1991, the study said average workers' comp. costs have fallen 40 percent. As such, the pilot project failed to yield any pricing advantages.

Moreover, Oregon's enactment of managed care workers' comp. legislation, allowing employers to direct employees' care to the appropriate health care providers from the date of injury, inadvertently took away a major incentive for participating in the pilot projects.

Cecily Gallagher, a principal with Tillinghast/Towers Perrin and an author of the report, said "the pilot participants have learned much about the practical reality of integrating medical treatment delivery, and most are committed to continuing with the experiment."

The five pilot project participants were: the State Accident Insurance Fund/HMO Oregon (Blue Cross and Blue Shield); EBI Cos./PacificSource/McKenzie Health Care; Kaiser Permanente (Safeway Stores/ESCO); EBI Cos./Providence Good Health Plan; and ESCO/PacificCare. The last pilot project was discontinued after the first year.

As of year-end 1995, the five pilots had enrolled a total of only 3,600 employees, according to the study.

The study suggested enrollment fell short of expectations in part because national health care declined in prominence as a critical issue.

In addition, the study noted that enrollment was dampened by difficulties in integrating group health insurance with workers' comp. A very competitive group health market and broker resistance further depressed enrollment, it said.

According to the study, most of the pilots found that setting up a single medical provider reimbursement schedule is feasible, but challenging. Most also agreed that a unified approach to managing the duration of lost-time injuries was feasible and appropriate.

Nevertheless, most of the projects had difficulty integrating workers' comp. and group health claims-handling functions. Moreover, they attributed the difficulty to differences in the level of investigation of claims.

Workers comp. claims adjusting includes determining compensability, evaluating degrees of dis-

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...class of business, which it recently has been," he said.

Indeed, premiums have far outpaced claims over the past five years. The last major loss to the market was in 1990, when the Iraqis confiscated the entire Kuwait Airways fleet, according to Christopher Hancock, aviation war risk underwriter for Syndicate 270, managed by the Archer Group.

Mr. Hancock tracks the worldwide premium and claims levels for the market and these figures reveal that worldwide aviation hull war risk rates are the lowest since 1989:

- In 1989 (the year after Pam Am 103 blew up over Lockerbie, Scotland), worldwide aviation hull war risk premiums came to $48.5 million, with worldwide claims of $43.5 million.
- In 1990, worldwide premiums were $189.1 million, while claims were $503.1 million (principally from the Kuwait Airways loss).
- In 1991, worldwide premiums were $141.3 million, with claims of $56.4 million.
- In 1992, premiums were $136.2 million, with claims of $13.6 million.
- In 1993, premiums were $166.8 million, with claims of $2.5 million.
- In 1994, premiums were $172.5 million, with claims of $5.8 million.
- In 1995, premiums were $140.0 million, with claims of $.5 million.

Mr. Hancock estimated that 1996 premiums would come to only $85 million.

"I think we need an annual premium closer to what we had in 1995 and 1994, or the $140 million to $160 million mark," Mr. Hancock said.

"A typical maximum hull value is anything between $150 million and $225 million for one aircraft, and we regularly give aggregate coverage of $1 billion to $1.25 billion for hull war coverage for an entire fleet," he said.

He emphasized that it's entirely within the realm of possibility for an entire fleet to be lost, which could be very damaging to the industry.

Mr. Reith said that the aviation hull war market made a determined effort to increase the premium base for the class for the three-year period starting in 1992. But then rates started to creep down again.

"Although a $300 million loss to the market from Kuwait Airways should be enough to make us sit up

Aviation hull war risk underwriters share the risk on a subscription or co-insurance basis, whereby the aircraft is insured as a whole. Recently, there has been a trend among underwriters to quote for their own shares, Mr. Reith said.

"It's a ridiculous situation to have different rates applicable to one piece of equipment," he said, "particularly out of the same marketplace."

A lot of the larger brokers in this class have brokers line slips. With a brokers line slip, all underwriters get

... rebates to the brokers to enhance their market share," he said.

"They're buying their way into the business. In my view, they're adding absolutely no value whatsoever to the equation," he said. This practice ultimately can undermine the leader's position and therefore, potentially, its profit levels, he said. "There seems to be no appreciation in the following market of the amount of work involved when leading this class," he said. ◊

Ore. 24-Hour Cover Pilot Results A Letdown: Study

Cont'd from Page 3

ability (to establish indemnity benefit levels), ensuring compliance with workers comp. regulations, and examining return-to-work options, the study said.

Meanwhile, group health claims administration typically is limited to determining whether the service is covered, the study explained.

The study found that none of the pilot projects thought integrating the financing for workers comp. and group health was possible in the current environment.

The study said the pilots cited different definitions of benefit eligibility in workers' comp. and group health as major roadblocks.

It noted that group health policies cover medical treatment if an individual is eligible for benefits on the date treatment is rendered, while workers comp. policies cover all treatments associated with an injury regardless of when the treatment is rendered.

Medical case management and disability payment are two areas where pilot participants disagreed on the feasibility of workers comp.-group health integration.

The study said some felt the goals of medical case management—group health focuses on medical costs, while workers' comp. focuses on medical and disability costs—created incompatibility, while others felt changes to bring the two approaches into closer alignment were possible and should be pursued.

The pilot projects had poor results applying capitation arrangements with network physicians, typical of group health plans, to workers comp. The study attributed the poor results to insufficient volume, which was amplified by low enrollment.

It said eventually all the pilots reverted to a fee-for-service plan after experimenting with capitation.

The study found that both workers' comp. and group health agents were resistant to selling 24-hour coverage because they lacked knowledge of half of the product.

In addition, the agents cited insufficient rewards for the risk involved in selling the product. Finally, lack of volume sustained the lack of enthusiasm among agents.

The study did find several emerging market forces that could reduce agent resistance to 24-hour cover.

First, the study noted that an unnamed major carrier that markets through its own employees is offering a 24-hour product outside of and in competition with the pilots.

The study noted that interest among agents is likely to be generated because agents from California, which is farther along in its 24-hour coverage experimentation, have begun migrating to Oregon. ◊

Credit Report Reg. Causes Flap In Florida

Cont'd from Page 4

Mr. McCarty said the Florida department "still is looking at the threshold issue of whether credit reports should be used as an underwriting tool."

This is part of a broader department effort to examine all underwriting requirements through an interagency task force. "We will be reviewing underwriting guidelines in general," Mr. McCarty said. ◊

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TESTIMONY BY PHILIP S. HARNESS, DIRECTOR
DIVISION OF WORKERS COMPENSATION

BEFORE THE JOINT COMMITTEE MEETING OF THE SENATE COMMERCE COMMITTEE AND SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE ON 1997 SENATE BILL NO. 3 - JANUARY 30, 1997

Thank you for the opportunity to appear before you to express comments from the Division of Workers Compensation regarding Senate Bill No. 3, dealing with 24-hour coverage.

Although enabling acts should be open in nature, section 8 of Senate Bill No. 3, dealing with the applicability of the exclusive remedy and prohibited defenses provision of the workers compensation act, still does not address several issues to-wit:

(a) There is no mention of a K.S.A. 44-510 schedule of maximum medical fees; will that be retained for both non-workplace and workplace injuries, retained for workplace injuries only, or done away with totally?

(b) The Workers Compensation Act envisions an employer's choice of physician; will that carry through to 24-hour coverage?

(c) There are certain employer defenses within the Workers Compensation Act which would apply to both medical and indemnity payments. Will those defenses be waived? Some examples are use of drugs, failure to use guards, failure to submit to a reasonable physical exam, heart attacks (except for extraordinary stress), intentional injury by the employee, etc. Would those defenses not exist for medical questions, but perhaps for indemnity questions?

(d) What about the requirements of notice and written claims, pursuant to K.S.A. 44-520; will those cease to exist?

(e) The Workers Compensation Act envisions lifetime medical benefits; would that apply likewise to non-workplace injuries and illnesses?

(f) As to indemnity, would the Division of Workers Compensation still adjudicate the issue? What is the appeal mechanism, i.e. would it be to the Workers Compensation Board, a district court, Kansas Administrative Procedures Act, or some other appellate mechanism?

(g) There is no mention as to the existence, or lack thereof, of attorneys' fees, and any maximum cap therefor. Would there be any attorneys' fees granted?

(h) The Workers Compensation Act currently covers some volunteers, including firefighters. Does this bill envision the same coverage?

Joint Senate Committee on Commerce
and Financial Institutions & Insurance
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Attachment 3-1 thru 3-2

(i) There will be interesting interaction with the Workers Compensation Fund, especially in the area of preexisting functional impairment; is the subsequent employer still entitled to that mitigating circumstance of preexisting functional impairment if the original employer participated in the pilot project?

I thank you for your time and patience.

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

Testimony to Senate Committees on Commerce and Insurance

on SB 3

(Establishing 24-hour pilot projects for insurance coverage)

by James P. Schwartz Jr.
Consulting Director
January 30, 1997

I am Jim Schwartz, consulting director of the Kansas Employer Coalition on Health. The Coalition is 70 employers across Kansas who share concerns about the cost-effectiveness of health care we purchase for a quarter of a 200,000 Kansas employees and dependents.

As the state's leading voice for corporate Kansas in the area of employee health, the Coalition has long taken an interest in 24-hour coverage. The pilot project created by the bill would give Kansas a chance to evaluate the methods and benefits of such coverage within reasonable confines. If the results of the project are positive, Kansas employers stand to benefit considerably.

Current law has created an artificial division between workplace and non-workplace health coverage. The result is a dual and somewhat redundant system with inherent inefficiencies. If an employee hurts his back lifting a box at work, he is treated by a particular doctor, at a special place, with particular paperwork. If that same employee hurts his back identically, lifting a box at home, he probably sees a different doctor at a different place and undergoes an entirely different chain of paperwork, even if the treatment is identical.

By undertaking a 24-hour coverage approach, the administration--and possibly the delivery of care--is consolidated under a single system. The potential benefits are

1) The patient can stay under the care of his personal physician, instead of being sent to a strange physician attached to the work-comp plan.
2) Costs of care can be saved. Researchers note that work-comp charges can be twice as high as those of comparable off-work injuries. Extrapolating researchers' estimates,

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Kansas employers stand to save $60M annually in medical expenses if the approach were universal.

3) The inclusion of cost sharing in 24-hour coverage creates an incentive for patients to seek low-cost care, producing savings on the individual level. (Keep in mind that the NAIC model for 24-hour coverage compensates employees for the imposition of first dollar charges.)
4) Because managed care is much advanced in health insurance compared to work-comp, those efficiencies would result from the adoption of 24-hour coverage.
5) Costs could be saved from administration and legal work of determining whether an injury or illness "arose out of and in the course of employment." About 8% of work-comp cases are controverted.
6) Fewer indemnity claims. Evidence suggests that some workers apply for work-comp benefits because they want it to cover their health care costs incurred for off-work injuries.

The main difficulty in implementing 24-hour coverage is reconciling the difference between the two spheres in terms of out-of-pocket payments, where work-comp has none. I was surprised to find that the NAIC model language on this subject was omitted from SB3. Presumably the task force would undertake this reconciliation and the Commissioner would be guided by the NAIC models, even if not required by law.

A small technical suggestion is made for Section 6, paragraph (h): the term "all employers" certainly must mean "all participating employers" as opposed to all employers in existence.

In summary, with much to gain and little to lose, Kansas would do well to embark on a controlled experiment to measure the benefits of streamlining a heretofore inefficient double system.

SENATE BILL No. 3

Testimony of Blue Cross and Blue Shield of Kansas

January 30, 1997

My name is Bill Pitsenberger. I am Vice-President and General Counsel of Blue Cross and Blue Shield of Kansas, an independent domestic Kansas health insurer covering 709,000 Kansans as well as administering Medicare and Medicaid in Kansas.

We support Senate Bill No. 3. It provides a flexible framework for experimentation with a subject of great interest to both employers and insurers.

I have personally been interested in 24-hour coverage concepts for about five years, and have followed the issues and developments in pilot programs elsewhere closely. This interest is shared by numerous people within our company, and naturally so, because of the apparent similarities between workers' compensation and our core businesses, health insurance and - through our subsidiary Advance Insurance Company - disability coverage. Equally, as an employer with over 2,000 employees in Topeka and elsewhere in Kansas, we are sensitive to the costs and other problems of both health coverage and workers' compensation benefits.

My own interest in 24-hour coverage concepts springs from a belief that we might make the health benefits system easier to negotiate for employees, and reduce the sometimes adversarial relationship that arises between employees and their employers, with its attendant costs, delays, hearings and litigation, if we had a seamless system in which the cause of the injury was immaterial, and the coverage was available and accessible without complications and delay.

Developing a 24-hour coverage program that works, that reduces total benefit costs while providing the same or a better level of care, is not an easy task. The Commissioner, and the task force, will have their work cut out for them. There are substantial differences between the two compensation systems. These include:

Deductibles and copayments in traditional health insurance.

The lack of partial permanent disability benefits in traditional nonoccupational disability coverage.

The way in which loss is treated, with workers' compensation medical benefits addressing the injury over the lifetime of the worker while health insurance covers health services provided while the coverage is in effect.

The focus of work comp on occupational health specialists and aggressive treatment aimed at early return to work, compared to managed health care focussing on primary care providers and encouraging conservative treatment.

Senate Bill No. 3 provides the State of Kansas a far better way to develop programs which will address these issues than the model bills of the National Association of Insurance Commissioners, which in trying to suit the varying needs of many states appear to suit none well.

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January 30, 1997

Attachment 5

LEGISLATIVE TESTIMONY

Kansas Chamber of Commerce and Industry

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

SB 3 January 30, 1997

KANSAS CHAMBER OF COMMERCE AND INDUSTRY

Testimony Before the

Senate Committee on Commerce/Senate Committee on Financial Institutions & Insurance

by

Terry Leatherman
Executive Director
Kansas Industrial Council

Committee Chairpersons and members of the Committees:

My name 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 in support of SB 3.

> 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 55% of KCCI's members having less than 25 employees, and 86% 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.

Thanks to the historic reform of the workers compensation system by the Kansas Legislature in 1993, and the diligent efforts of the Kansas Insurance Department in recent years, the state's workers compensation insurance marketplace is in better shape than it has been in recent memory.

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and Financial Institutions and Insurance
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Attachment 6-1 thru 6-2

Today's workers compensation insurance rates are around $60 million less than they were prior to the 1993 reform legislation, due to rate reductions. While the premiums insurance companies receive is less, those companies have returned to Kansas and want to write the policies of Kansas business. This is in stark contrast to the early 90s, when Kansas business had to beg insurance providers to accept bloated premiums to cover their workers compensation exposure. Add to this mix the introduction of "loss-cost" rating and the growth of self insurance pools, and Kansas employers have greater choice flexibility in workers compensation insurance.

Because of the healthy situation in workers compensation insurance today, the idea of exploring a "24-hour coverage" pilot project is not needed to solve a crisis. Instead, it would permit us to study an insurance structure that could become a useful alternative for some Kansas employers.

What 24-hour coverage will look like is not clear. That's the main reason why passage of SB 3 would be useful. For a product to be developed that would be wanted by Kansas employers, the marketplace must be given a chance to develop innovative ideas. SB 3 would give the opportunity for these ideas to be formed, with a task force in place to study and report what is happening.

KCCI supports the passage of SB 3 and would look forward to participate in this exploration of better ways for Kansas employers to provide for the occupational and nonoccupational injuries and illnesses of their workers. Thank you for the opportunity to comment on SB 3. I would be happy to answer any questions.