

Approved: Robert Tomlinson
Date April 30, 1999

MINUTES OF THE HOUSES COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Bob Tomlinson at 3:30 p.m. on March 11, 1999 in Room 527-S of the Capitol.

All members were present except:	Full committee Present
Committee staff present:	Bill Wolff, Research Ken Wilke, Revisor Mary Best, Secretary
Conferees appearing before the committee:	Linda Decoursey-Kansas department of Insurance David Hansen-Kansas Insurance Associations
Others attending:	See Attached Conferee List

The meeting was called to order and public hearings were opened.

HB 2517: Insurance department funding and employees salaries

Ms. Linda DeCoursey gave Proponent Testimony to the committee. A copy of her testimony is (Attachment #1) attached hereto and incorporated into the Minutes by reference. Ms. Decoursey stated they (the Insurance Department) were not looking for a raise but were asking the caps be removed on salaries. Ms. DeCoursey offered testimony on other salaries in the same industry, but again stated to the committee they were not looking for raises in salaries.

Questions were asked by Representatives Empson, Grant, McCreary, Hummerickhouse and Chairman Tomlinson.

Public discussions on HB 2517 were completed and closed.

SB 74: Insurance; risk-based capital improvements

Ms. Linda DeCoursey, Kansas Insurance Department, gave Proponent Testimony to the committee. A copy of the written testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference. The request on this bill is to reflect a technical change in wording of the definition of "RBC instructions". The bill was amended in the Senate and they are requesting the same from the House.

David Hanson, Kansas Insurance Associations, gave Proponent Testimony to the committee.. A copy of the testimony is (Attachment #3) attached hereto and incorporated into the Minutes by reference. Mr. Hanson stated they had requested the reference date in the statutory definition to make sure that the adopted instructions and formula were limited to those that they had an opportunity to review, rather than potential future revisions, which could adversely affect companies risk-based capital and resulting action or control levels.

With no further discussion on the bill, public hearings were closed.

SB 75: Insurance: Medicare eligible persons to receive coverage

Ms. Linda DeCoursey of the Kansas Insurance Department, gave Proponent Testimony to the committee. A copy of the written testimony is (Attachment #4) attached hereto and incorporated into the Minutes by reference.

A request for language was made to state: "any person who is eligible for Medicare or eligible for Medicare or eligible for Medicaid benefits will help alleviate the first situation mentioned, and would not affect the spend-down applicants for Medicaid."

As there were no questions from the committee, the public discussions were closed.

The committee then commenced to work SB's 74 & 75.

Rep. Cox moved to pass out SB 74 favorably to the consent calendar. Rep. Grant seconded the motion. A vote of the committee was taken and passed unanimously.

SB 75, Rep. Kirk moved to pass the bill out favorably on consent calendar, Rep. Burroughs seconded the motion. With no discussion, a vote was taken and passed unanimously.

With no further business, the meeting was adjourned at 4:10 p.m.

The next committee meeting will be March 16, 1999.



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Insurance
FROM: Linda J. De Coursey, Director of Government Affairs
RE: HB 2517 – Salary Cap Removal and Service Regulation Fund
DATE: March 11, 1999

Mr. Chairman and members of the Committee:


I am appearing in support of HB 2517. The bill consists of two sections: 1) removes the limitation placed on salaries paid for employees at the Kansas Insurance Department, and 2) corrects an inconsistency created by the passage of a 1997 law (HB 2082), and is technical in nature.

Technical Correction – K.S.A. 40-112

The privilege fee credit language is technical in nature. The amendment to K.S.A. 40-112 extends to HMO's the current premium tax credit for retaliatory fees on Kansas insurance companies that result from the fee fund assessment. In 1997, when the law was passed (HB 2082), the HMO statutes were unintentionally excluded. This bill would eliminate the inconsistency created by the passage of the law and rightfully extend the credit to HMOs.

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*House Committee on Insurance
Attachment #1
March 11, 1999
LJ
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Salary Cap – K.S.A. 40-110

Current law provides that no employee can be paid more than the Insurance Commissioner. This provision limits the ability of the Department to hire and retain key personnel. Last year, legislation came forth from recommendations made by the 1997 Insurance Industry Task Force chaired by Senator Don Steffes. The thirteen member Task Force was made up of legislators, the insurance commissioner, members of the industry, and public members. It was charged to examine the current climate of the Kansas insurance industry, as well as other states which have a successful insurance industry, to determine whether actions can be taken to strengthen and improve the insurance industry in Kansas.

One of the concerns by the Task Force was the issue of inadequate staffing of the regulatory entity. Effective and efficient regulation depends on the Insurance Department's ability to maintain a professional staff and the appropriate technology. The Insurance Commissioner did not disagree and explained that due to the provisions of K.S.A. 40-110, no employee of the Insurance Department may be paid a salary higher than the Commissioner's salary. She explained that the law causes salary compression with existing employees, and didn't allow for hiring an actuary or other professional staff that command higher salaries. Last year, legislators visited this issue and passed legislation allowing the insurance department to hire two actuaries and pay them at a higher salary than the Commissioner. The problem was only solved for one portion of the issue.

The Insurance Department is still left with the problems caused by the salary cap. Over time, this cap has caused:

- Serious salary compression for employees of the Kansas Insurance Department
- A wide gap between the comparative level of pay for the employees and the market rates.

- Retention problems escalate into the “revolving door” effect.

Compression Issue

The Insurance Department is **not asking for any additional salary funds** above what is contained in our current budget request. In fact, the law actual states that she may hire employees “within the limits of available appropriations”. And, the Commissioner is **absolutely not** asking you to raise her salary. The Commissioner is asking that you allow her the flexibility to run her agency within the existing funding provided and approved by the Legislature.

Because of the compensation limits (salary of the Insurance Commissioner is approximately \$68,860), salaries are reduced automatically to stay within the parameters of the salary cap leveled against the Commissioner’s salary. You will see below the executive level salaries paid by other state agencies. The average salary for agency heads is \$86,139; the assistant or deputy is \$70,746; and the chief counsel is \$70,175.

Salaries of Comparable Positions in other State Agencies

Department	Agency Head	Assistant/Deputy	Chief Counsel
Adjutant General	74,458		
Department on Aging	85,644	74,200	58,300
Department on Agriculture	85,658	58,630	60,355
Kansas Corporation Commission	83,132	74,235	73,000
Department of Administration	87,189	68,905	79,393
Health and Environment	84,240		68,000
Kansas Department of Transportation	97,148	90,656	73,574
Department of Human Resources			73,625
Department of Revenue	85,000		75,728
Social & Rehabilitation Services	89,907	80,713	76,384
Wildlife & Parks	85,648		
Department of Corrections	89,511	70,746	60,190
Average Salaries	86,139	70,746	70,175

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Gap Issue

A wide gap exists between the comparative level of pay for the employees and the market rates. The salaries of the Kansas Insurance Department employees are well below the market rate paid by other state agencies, insurance companies, CPA firms, and the National Association of Insurance Commissioners. I have included a table of examples of employees who have left the Kansas Insurance Department for jobs with other state agencies, the insurance industry or the private sector that require the same education, training and skills they were using at the Kansas Insurance Department, but were offered more compensation.

Employee	Salary at Departure	New Job Salary	Moved from KID to:
Employee A	\$34,920	\$60,000	Insurance Company
Employee B	\$27,643	\$39,643	Insurance Company
Employee C	\$34,421	\$44,421	Insurance Company
Employee D	\$36,212	\$40,000	State Agency
Employee E	\$34,080	\$50,000	Insurance Company
Employee F	\$42,000	\$55,000	NAIC
Employee G	\$41,000	\$60,000	NAIC
Employee H	\$63,703	\$120,000	NAIC

Retention Issue

The retention problems escalate into a “revolving door” effect in 80% of the professional level positions. Kansas is in a low-unemployment market, consequently employees are becoming increasingly difficult to recruit. The reduction of turnover and retaining well trained employees would save time and money, not to mention the caliber of employees necessary to accomplish the Department’s regulatory responsibility. I’ve also enclosed information about actual costs to recruit employees.

	Financial Analyst	Company Examiner	Technology
Advertisement	\$1,500	\$1,500*	\$2,250*
Staff time	\$452	\$930	\$884
Training Costs	\$5,221	\$10,879	\$8,999
Totals	\$6,423	\$13,309	\$11,383

* Company Examiner and Financial Analyst positions are advertised an average of two times, but usually it takes three sets of advertisements to fill a position. Vacancies remain open for a minimum of three to six months due to the inability to pay the market rate.

* Technology positions also can take three or more advertisements to find a suitable applicant. One technology position remains unfilled due to the inability to pay the market rate.

In summary, the salary cap causes salary compression for all the employees of the Insurance Department. There is a “ripple effect” which reduces the salaries paid to other personnel at our agency. This artificial limit on wages results in a number of employees leaving the Department for employment in other state agencies, the insurance industry, and the National Association of Insurance Commissioners.

The Insurance Commissioner should have the flexibility to manage the Department without the salary cap provision, which does not exist in most state agencies. In efficient government, agency managers need the tools necessary to hire and keep employees. The budget of our agency will still be subject to approval by the Legislature. The Insurance Department just wants the ability to adequately compensate employees for the skills they bring to the job. The turnover is a direct drain on the bottom line of the Kansas Insurance Department’s mission and purpose – regulating insurance effectively and providing quality services to its consumers. The retaining of our best employees accomplishes this mission.

I would respectfully ask for your favorable consideration for HB 2517.

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Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Insurance
FROM: Linda J. De Coursey, Director of Government Affairs
RE: S.B. 74 (Risk Based Capital)
DATE: March 11, 1999

I am appearing in support of Senate Bill 74 which was introduced at the request of the Kansas Department of Insurance. This bill makes a change to the law dealing with the filing of financial reports by insurance companies with the Department.

Risk based capital ("RBC") is the method used by the Department to evaluate the financial solvency of insurance carriers doing business in this state. Those companies must file financial reports with the Department using RBC instructions and formulas developed by the National Association of Insurance Commissioners ("NAIC"). These instructions are amended each year by the NAIC to reflect changes in accounting procedures.

Our current law (K.S.A. 1998 Supp. 40-2c01) requires companies to use the 1997 version of the RBC instructions. The bill would reflect a change in the date of the standard so that insurance carriers use the RBC formulas in effect as of December 31, 1998, and adopted as rules and regulations by the Commissioner.

The bill was amended in the Senate at our request to reflect a technical change in the wording of the definition of "RBC instructions". As amended, the bill reads: "RBC instructions" means the risk-based capital instructions promulgated by the NAIC, which are in effect on December 31, 1998, and adopted as rules and regulations by the commissioner." I would ask that this committee favorably approve SB 74.

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ATTACHMENT #2
HOUSE COMMITTEE ON INSURANCE
MARCH 11, 1999
Consumer Assistance Hotline
1 800 432-2484 (Toll Free)

KANSAS INSURANCE ASSOCIATIONS

David A. Hanson, Legislative Counsel
900 Mercantile Bank Tower
800 S.W. Jackson
Topeka, Kansas 66612-1259

PHONE 785-232-0545
FAX 785-232-0005

Kansas Association of Property & Casualty Ins. Cos.

Member Companies:

Armed Forces Insurance
Exchange
Ft. Leavenworth

Bremen Farmers Mutual
Insurance Co.
Bremen

Columbia Insurance Group
Salina

Farm Bureau Mutual
Insurance Co.
Manhattan

Farmers Alliance Mutual
Insurance Co.
McPherson

Farmers Mutual
Insurance Co.
Ellinwood

Kansas Mutual Insurance Co.
Topeka

Marysville Mutual Insurance Co.
Marysville

Mutual Aid Association of the
Church of the Brethren
Abilene

Upland Mutual Insurance, Inc.
Chapman

House Insurance Committee Testimony on Senate Bill 74 Presented by David A. Hanson on behalf of Kansas Insurance Associations March 11, 1999

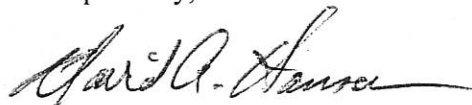
Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present information on behalf of the Kansas Association of Property and Casualty Insurance Companies and the Kansas Life Insurance Association, whose members are domestic insurance companies in Kansas.

The risk based capital provisions referenced in Senate Bill 74 were developed by the NAIC for adoption and use by the states as a standardized method of monitoring the solvency of insurers and the need for corrective action. We had requested the reference date in the statutory definition of "RBC instructions" to make sure that the adopted instructions and formula were limited to those that we had had an opportunity to review, rather than potential future revisions, which could adversely affect our companies' risk-based capital and the resulting action or control levels. While we believe our companies' remain in good standing under the previously adopted NAIC instructions and formula, we also believe any significant changes in those instructions and formula by the NAIC should be carefully considered before adopting them in Kansas.

Our companies have been reviewing the proposed changes and we do not believe there will be any substantial adverse effect from the revisions proposed in Senate Bill 74. Thank you for your consideration.

Respectfully,



DAVID A. HANSON

Kansas Life Insurance Association

Member Companies:

The American Home Life
Insurance Co.
Topeka

American Investors Life
Insurance Company
Topeka

Employers Reassurance
Corporation
Overland Park

Kansas Blue Cross/
Blue Shield
Topeka

Kansas Farm Bureau Life
Insurance Company
Manhattan

The Pyramid Life
Insurance Company
Shawnee Mission

Security Benefit Life
Insurance Company
Topeka

ATTACHMENT #3
HOUSE COMMITTEE on
Insurance
March 11, 1999



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Insurance
FROM: Linda J. De Coursey, Director of Government Affairs
RE: SB 75 (Changes to Uninsurable health insurance plan)
DATE: March 11, 1999

Mr. Chairman and members of the Committee:

Thank you for the opportunity to discuss SB 75, which was introduced at the request of the Kansas Insurance Department. The bill makes changes to the law dealing with eligibility of certain individuals for the Kansas Health Insurance Association coverage (high risk health insurance plan).

K.S.A. (1998 Supp.) 40-2122 (d) (1) states: "The following persons shall not be eligible for coverage under the plan: (1) Any person who is eligible for Medicare or a recipient of Medicaid benefits." Representatives from both the Social and Rehabilitation Services and Kansas Insurance Department discussed the problems arising from the current wording of the law. SRS representatives explained that a person could be eligible for, but not necessarily receive Medicaid benefits. For example, an individual could have a Medicaid card, but not use it. That individual, having not received Medicaid benefits, would believe that he/she would qualify for the Kansas Health Insurance Association (KHIA) coverage. However, if that individual uses the Medicaid card, it renders the individual ineligible for benefits under KHIA coverage, because now that individual is a recipient of Medicaid benefits. KHIA then has to seek reimbursement from

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March 11, 1999

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Medicaid for the dates of service that the individual was covered by Medicaid, but had not received a benefit.

In the case of Medicaid applicants trying to meet their spenddown, SRS stated that these individuals are not eligible for Medicaid until their spenddown is met. These individuals would qualify for KHIA coverage while trying to meet their spenddown, because they are ineligible for Medicaid at that time.

By changing the language to state: "any person who is eligible for Medicare or eligible for Medicaid benefits will help alleviate the first situation mentioned, and would not affect the spenddown applicants for Medicaid.

I would be happy to answer any questions. I respectfully ask for your favorable consideration of SB 75.