Approved: March 23, 2000
Date

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairperson Rep. Robert Tomlinson at 3:35 p.m. on February 22, 2000 in Room 527-S of the Capitol.

All members were present except:

Committee staff present: Dr. Bill Wolff, Research
Ken Wilke, Revisor
Mary Best, Secretary

Conferees appearing before the committee: Commissioner Kathleen Sebelius, Kansas Insurance Department
Secretary Dan Stanley, Kansas Department of Administration

Others attending: See attached Committee Guest List

HB 2950-Insurance; Imposing limitations on the state health care commission's exemption from the bidding process and HB 2951-Health Insurance; state employees' health care commission; reorganization.

The Chairman recognized Kathleen Sebelius, Commissioner of Kansas Insurance Department, gave Neutral Testimony to the committee. A copy of the written testimony is (Attachment #1) attached hereto and incorporated into the Minutes by reference.

Commissioner Sebelius explained that it was her understanding this bill made "all contracts subject to the provisions of competitive bid process within the division of purchases (K.S.A. 75-3738 to 75-3740)." The Commissioner spoke of the study made of the problems in other states and included a copy of this study within her testimony. The information is based on 1996 data. Ms. Sebelius wrote, the bill excludes those contracts, "that are directly related to providing health care benefits, and long term care insurance for the state employees health care benefits plan." She discussed the possibility of chances of changes in this matter but felt it should be a legislative decision. She went on to discuss her frustration with the contract with IBENEX, relating to the retirees' health claim contract and the fact that the Commission was not consulted before the contract was awarded. She stated they were never given the opportunity to discuss services or their impact on the retirees. She went on to inform the committee that it was unknown if there was a bidding process on this contract, or what the criteria was.

The Commissioner then addressed the bill on abolishing the Kansas state employee's health care commission and place all powers, duties and functions with the committee on surety bonds and insurance. Prior to her commission, security bonds and insurance received bids and assisted in the evaluation of these bids regarding Kansas Insurance Department. This same committee was said to have relied on Kansas Insurance Department to assist in specifications of health care contracts. Surety bonds and insurance had no authority to write specifications or negotiate contracts. They currently have no budget or staff, however, Kansas Insurance Department feels certain there are state employees who could meet the necessary qualifications for such a department.

Commissioner Sebelius quoted Richard Huncker of the Kansas Insurance Department to say, "The functions performed by the health care administrator used to be completed by state employees who had other full time responsibilities. And, those activities were consuming so much time, that employees had little time for their real jobs. To function as a whole, it took a great dal of cooperation between the different agencies in order to complete the budget analysis, and system issues such as deducting premiums. It became clear that some entity of oversight was need, and the health care commission was formed."

Ms. Sebelius feels that should the questions continue regarding this issue then this would be a good interim study topic. The state pool contains approximately 10,000 lives, including retirees but before the inclusion of school employees, making it one of the largest pools in the state. This makes providing and negotiating rates very complicated.

Commissioner Sebelius also included information from the National council of State Legislatures showing the results of the 1997 Segal Company study. She feels with this information, structures budget and staffing allocations, and plan participant numbers of other states, she should have some perspective of the better practices of other states. The commissioner went on to state she did not feel the current structure of the Surety Bond Committee is the proper administrative structure for the health plan, but her office would by supportive and would work with any interim study or oversight group to, "research and identify alternatives for Kansas. With this the Commissioner stood for questions from the committee.

Questions were Representatives Empson, Boston, and Chairman Tomlinson. Questions ranged from: how often the committee met, decision on companies bidding on competitive rates, how significant the complaint problem is on the matter, to agents of record on long term care and who was qualified to bid, to the role of the committee in the contracts, and does the committee approve the manuals that go out in regard to the matter. Ms. Terry Bernatis answered questions for the Commissioner on some of the questions.

With no further questions of the Commissioner, the Chairman recognized Mr. Dan Stanley, Secretary of the Department of Administration. Mr. Stanley offered the committee Proponent Testimony. A copy of the testimony is (Attachment #2) attached hereto and incorporated into the Minutes by reference. Mr. Stanley offered the committee related numbers and analysis of the bids. He also included a summary of the information as was found in the Annual Reports from 1995 through 1999.

Mr. Stanley showed the committee the Health Care Commission had be working to assure a quality and cost effective Health Benefits Plan. Mr. Stanley informed the committee that **HB 2950** would not change the way to do business, while **HB 2951**, he stated, "The Insurance Commissioner should head a regulatory committee." He suggested other state programs be looked at. He feels maybe it should be put under KPERS rather that an organizations of advocates. Mr. Stanley highlighted the last five years from the transition from a one state wide fully insured program with voluntary HMO options to a predominately self insured program providing employer contributions for all plan options; Design and implementation of a Statewide student Insurance Plan with an employer contribution for graduate teaching and research assistant; Design and implementation of a Long Term Care Insurance Plan extending eligibility to dependent children, retirees and parents of active employees; Development of guidelines for voluntary participation of Unified School Districts, Community Colleges, Vocational Technical Schools and Colleges; Proactive steps to limit future increases in prescription drug costs with a plan design change for 2000; to, continuing to search for solutions for the cost of the direct bill continuation option.

Mr. Stanley felt it was unfortunate there had been misreporting regarding the actions of the Health Care Commission. Examples of the misreporting were cited by Mr. Stanley. Mr. Stanley continued on to discuss the staffing problems. He explained staffing was established to administer, process and assist with group health program, employees membership, and agency personnel officers. In the past five years only one position has been added to the staff performing services. The commission is not staffed for telephone support to the 37,00 employees and their dependents, plus 10,000 retirees and their dependents. Mr. Stanley attached points on "Non-Competitive Bidding", also stating, "If the assumption is that 'non-competitive bidding" is driving up the cost, the real issue is that utilization is driving cost increases. Since 99% of retirees participate in the self insured traditional plan, utilization increases directly result in cost of coverage increases". Mr. Stanley also attached 'USDs" , "There are still vocal school districts out there that believe they ought to be able to enter the state plan without participation or contribution requirements"; "Retiree Cost of Coverage"", "The real issue is not cost of living increase under KPERS. Retirees have gone to the right place, is. The Legislature to get money to help defray costs" "Everyone's cost of coverage went up for PY 2000 unless enrolled in single only HMO coverage. This is not a retiree specific issue."; "Customer Service", "Expected internal customer service from a group that is not designed, staffed or funded for customer service. We provided customer service as available but not to the satisfaction of some direct bill participants.

Until FiscalYear 1999, total administrative budget was about $1MM. A little over ½ of 1 percent of total plan costs....."

With this testimony completed Mr. Stanley stood for questions. Questions from the committee were asked by Rep. Kirk, Cox, Chairman Tomlinson. Questions ranged from complaints from schools, people against adverse selection, Universal Funds, to state self funded pool. Answers included: Disagreement with opinion explaining KNEA same rules state has, suggestion to do individual claim history study, there were rates provided for rural areas, otherwise used a blended rate, schools pays less and the teacher pays more and finally responded to the Chairman's question. With all questions asked and answered, the Chair addressed the rest of the attendee's as to whether anyone else wanted to address the bill or committee. With no further discussions the meeting was adjourned. Time 4:57 p.m.

The next meeting will be held March 2, 2000 at 3:30 p.m.

HOUSE INSURANCE COMMITTEE GUEST LIST

DATE: Feb 22, 2000

NAME	REPRESENTING
Connie Donovan	KAIA
[illegible]	Rep. Troy Findley
Bill Sneed	KDOA
[illegible]	Heinlein
Bill Curtis	Ks Assoc of School Bds
Keith Haxton	SEAK
Danielle Noe	D of A
Ken Guthrie	Health Midwest
David Hanson	Ks Insur. Assns
Anne Spiess	Peterson Public Affairs Group
John Federico	Federico Consulting
Dan Stanley	DofA
Maria A. Espinoza	Federico Consulting
Carrie Ann Rowe	KAHP

30 attending guests.

Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

TO: House Committee on Insurance

FROM: Kathleen Sebelius, Insurance Commissioner

RE: HB 2950 – State employees health care commission contracts
HB 2951 – Reorganization of the Kansas state health care commission

DATE: February 22, 2000

Mr. Chairman and members of the Insurance Committee:

Thank you for the opportunity to discuss with you HB 2950 and HB 2951. It is my understanding that HB 2950 makes all contracts subject to the provisions of competitive bid process within the division of purchases (K.S.A. 75-3738 to 75-3740). Except, the bill excludes those contracts from that process which are directly related to providing health care benefits, and long term care insurance for the state employees health care benefits plan. I believe that if changes need to be made in this area, it is a policy decision of the legislative body to make that change.

My frustration with the contract issued to Network Management, now known as IBENEX, to administer the retirees' health claims, is that the Commission was never consulted. We had no opportunity to discuss whether these services should be out-sourced, or what the impact on retirees would be. In fact, we were never informed about the decision. I don't know if there was a bidding process to award this contract, or what criteria were used, so it is impossible for me to comment on whether the selection criteria should be changed.

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HB 2951 abolishes the Kansas state employees health care commission (heretofore: health care commission) and places all the powers, duties and functions of the health care commission with the committee on surety bonds and insurance (K.S.A.75-4101, et seq.)

Prior to the formation of the health care commission, the surety bonds and insurance committee received bids and helped evaluate those bids regarding health insurance. However, according to Fran Welch of the Purchasing Division, the committee relied heavily on the insurance department to develop the specifications for the health care benefit contract. Ms. Welch also shared that currently the surety bonds and insurance committee has no legal authority to write contract specifications, nor the authority to negotiate contracts. The committee reviews and generally makes awards to the low bidder meeting the specifications. Since the health care commission formed in 1983, the surety bond committee has primarily worked with property and casualty insurance contracts. Currently, the surety bond and insurance committee has no budget, and no staff.

We are fortunate that some of the state employees are still working in the insurance department who provided the expertise needed by the surety bond and insurance committee on health care issues. Richard Huncker of the Kansas Insurance Department is one of those employees, and he shared that, " The functions performed by the health care administrator used to be completed by state employees who had other full time responsibilities. And, those activities were consuming so much time, that employees had little time for their real jobs. To function as a whole, it took a great deal of cooperation between the different agencies in order to complete the budget analysis, and system issues such as deducting premiums. It became clear that some entity of oversight was needed, and the health care commission was formed. "

Mr. Chairman, if the purpose of HB 2951 is to ask the question is the current system working correctly, or is the right expertise in the right spot, then I am suggesting that this may be a good interim study topic. The current state pool, before the inclusion of school employees, covered approximately 90,000 lives, including 10,000 retirees. That makes it one of the largest insurance pools in the state, and in this current environment, the selection of benefit plans, the negotiation of rates with a variety of companies, and administering enrollment and claims is a very complicated job, requiring a good deal of specific expertise.

Since the Commission has now moved to include school employees, and will soon be asked to consider the inclusion of other public employees in the state pool, it may be an opportunity to once again examine the administrative structure, as was done in the mid-80's. We can look at the structure other states have established to run the employees health plans, especially states with shared pools. I've included a partial list of states and their designated authority for the state employee health benefit plan.

I have also attached some information received from the National Council of State Legislatures (NCSL) that was a part of a 1997 study by the Segal Company. The study lists the participants included in various state employee health benefit plans. I am told this study is in the process of being updated, and will be available soon, but is not yet completed.

It is unclear to me whether there has ever been a thorough study of the most cost-efficient and consumer- friendly administrative structure to administer the state health plan. I am not certain that the Department of Administration has ever been given the appropriate number of FTEs or an adequate budget to meet the expectations of the policyholders. Looking at the administrative structure, budget and staffing allocations, and numbers of plan participants in other states may give us some perspective on the best practices around the country.

I do not think that the Surety Bond Committee, as currently structured, is the appropriate administrative structure for the health plan. But our office would be pleased to work with an interim study, or any other appropriate oversight group, to research and identify alternatives for Kansas.

Alabama		State employees insurance board contracts, manages, administers the state employees group benefits plans; state insurance board are members of the personnel board, director of finance, secretary of the employees retirement system.; personnel board has 5 members, 2 appointed by the governor, 1 appointed by the speaker of the house, one person appointed by the lieutenant governor and 1 is a classified state employee elected by state employees.
Alaska		Commissioner of Administration manages, contracts and administers state employee group benefits
Arizona		Department of Administration contracts, administers and manages state employees group benefits plan
		State and Public School Life and Health Insurance Board contracts and manages group insurance for state employees and school district employees. The Board has 10 members and is made up of: 1 state employee appointed by the Governor, a certified classroom teacher appointed by the Governor, the Insurance Commissioner or her designee, the direct of the Department of Education or her designee, the Director of Finance and Administration or her designee, two members who are engaged in employee benefits management or risk management in private industry to be appointed by the Governor, one additional member position shall be filled alternately by a retired teacher and by a retired state employee appointed by the Governor, one public school administrator to be appointed by the Governor, one member who is a licensed health care provider.
California		
Colorado	CO St. 24-50-603 CO St. 24-50-604	Personnel director contracts, administers, and manages the state employees group benefit plans
Connecticut		The Comptroller, with the approval of the Attorney General and of the Insurance Commissioner shall arrange and procure hospitalization& medical &surgical insurance for state employees
Delaware		The Group Health Insurance Committee oversees the health insurance for state employees. The Group Health Insurance Committee consists of the Insurance Commissioner ;or designee, the State Treasurer or designee, the Budge Director or designee and State Personnel Director or designee. The State Personnel Director shall be the contracting agent for the state employees insurance plan.
Florida		Division of State Group Insurance manages, contracts and administers health insurance for state employees. The Division of State Group Insurance is within the Department of Management
Georgia		Board of Community Health is authorized to establish a health insurance plan for employees of the state and to adopt and promulgate rules and regulations for its administration. The members of the Board are appointed by the Governor.

Hawaii		A Board of Trustees shall administer and manage the health benefit plan for state employees. The Board has 9 members, 3 are representatives of different organization of public employees, 3 from business organization, a member of the clergy, a teacher and director of finance or a designee
Idaho		Director of Administration manages, administers and contracts the state employees group health insurance
Illinois	5 ILCS 375	Director of Central Management Services contracts group life insurance, health benefits and other employee benefits on terms deemed by the Director to be in the best interest of the State and its employees
Indiana		The State Personnel Department with the consent of the Governor may establish self-insurance programs to provide group health insurance and may contract for administrative services.
Iowa		The governing body of the state, school district or any institution supported in whole or part by public funds may establish plans and group health insurance for the employees of the state, school district or tax supported institution. The governing body of the state is the executive council of the state. The executive council consists of Governor, Secretary of State, State Auditor, State Treasurer, and Secretary of Agriculture.
Kansas		
Kentucky	KY St. 18A.225	Secretary of the Finance and Administration Cabinet, upon recommendation of the secretary of the Personnel Cabinet, procures health, hospitalization, medical, major medical and dental insurance policies for state employees
Louisiana		
Maine	ME St. 5 Sec. 285-A; 5 Sec. 286	State Employee Health Commission serves as trustee of the group health plan and advises the Executive Director of Health Insurance and the Director of the Bureau of Human Resources on issues concerning the employee health and wellness issues. Commission membership consists of 20 labor and management members including representatives from each bargaining unit, retiree chapters, Turnpike Authority, individuals appointed by the Commissioner of Administrative and Financial Services, appointment by Court Administrators, Executive Director of Health Insurance; Executive Director of Health Insurance has responsibility for daily operation of the program

Maryland	MD St. Sec. 2-501 Thru 2-506.	State Employee and Retiree Health and Welfare Benefits Program is developed and administered by the Secretary of Personnel. The Health Insurance Advisory Council, consisting of 15 members including the Secretary of Personnel, representatives appointed by the governor from Department of Budget and Management, Health and Mental Hygiene, the University system, Department of Transportation, the Insurance Commissioner, State Comptroller, President of the Senate, Speaker of the House, Classified Employees Association, Troopers Association, the public, three representatives of the American Federation of State, County, and Municipal Employees, advises the Secretary on various matters related to the Benefits Program
Massachusetts	MA St. 32A:3; 32A:3a; 32A:4	Group insurance commission established within the executive office of administration, but not under its jurisdiction, consisting of the commissioner of administration and finance, commissioner of insurance, and nine members appointed by the governor. Commission negotiates with and purchases policies of group life, health, dental, etc., insurance. Committee consisting of employees and retirees also acts as an advisory body to the commission.
Michigan		
Minnesota	MN St. 43A.316; 43A.23	Commissioner of employee relations requests bids and negotiate benefit plans for the public employee insurance plan
Mississippi	MS ST. 25-15-3; 25-15-5; 25-15-9	State and School Employees Health Insurance Management Board designs, accepts bids for, and administers the group insurance plan
Missouri		
Montana	MT St. 2-18-809; 2-18-810; 2-18-811	Department of Administration negotiates and administers the state employee group benefit plans after consulting with the state employee group benefits advisory council
Nebraska		
Nevada		
New Hampshire	NH St. 21-I:27' 21-I:28	Commissioner of administrative services authorized to enter into contracts and administers the state employees group insurance benefits
New Jersey		
New Mexico	NM St. 10-7B-3: 10-7B-4	Group benefits committee composed of nine members including individuals appointed by the two departments of the state having the largest number of full time employees; the superintendent of insurance or his designee; the director of the state personnel office; the executive secretary of the public

		employees retirement association; the chief financial officer of a state agency appointed by the governor; and two other public employees. Committee reviews and advises the director of state personnel on all group benefits coverages, contracts, rules and regulations, guidelines, etc.
New York		
North Carolina		
North Dakota		Public employees retirement board contracts for and administers health benefits plan.
Ohio	OH St. Sec. 124.81	Department of Administration in consultation with the superintendent of insurance negotiates contracts for state employees group life and health insurance.
Oklahoma	OK St. 74 Sec. 1364; 74 Sec. 1365	State employees benefits council, composed of five members including Administrator of Office of Personnel Management, two members appointed by the Governor, one member appointed by President Pro Tempore of the Senate, and one member appointed by the Speaker of the House, vested with responsibility for administration and design, selection, and operation of benefits.
Oregon	OR St. 243.125	Public Employees' Benefit Board responsible for design of plan specifications, analyzing bids, and decisions to award contracts
Pennsylvania		
Rhode Island	RI St. 36-12-6	Director of administration authorized to contract with insurance companies for group life and health care benefits
South Carolina		
South Dakota	SD ST. 3-12A-2; 3-12A-3	Bureau of personnel establishes group health insurance plan as deemed appropriate by commissioner of bureau of personnel, the chief administrative officer for the plan.
Tennessee	TN St. 8-27-101; 8-27-102	State insurance committee, composed of the commissioner of personnel, the state treasurer, the commissioner of commerce and insurance, the comptroller of the treasury, the commissioner of finance and administration, an individual representing the state employees association, and three state employees, approves the group insurance plan for state employees and authorized to enter into contracts and promulgate rules and regulations for administering the plan
Texas		
Utah	UT St. 49-8-401	Group insurance division of the retirement office acts as self-insurer of employee group benefit plans and administers those plans in consultation with the Department of Human Resources Management and the executive bodies of other political subdivisions
Vermont	VT St. 3 Sec. 631	Secretary of administration contracts on behalf of the state for benefits of group insurance

Virginia	VA St. 2.1-20.0:01	Health benefits advisory council advises Secretary of Administration regarding health insurance coverage for employees. Council consists of 17 members including retired employees, management and non-management state employees, individuals appointed by the Speaker of the House and individuals appoint4ed by the Senate Committee on Privileges and Elections.
Washington	WA St. 41.05.006	State health care authority, with administrator appointed by the governor, purchases and administers state employees' insurance benefits
West Virginia	WV St. 5-16-3; 5-16-6	Public employees insurance agency advisory board provides advice and makes recommendations to the agency director concerning group health insurance benefits. Advisory board consists of 15 members including representatives of licensed health care professionals, employees covered by the plan, insurance commissioner, representative of state health care cost review authority, five members appointed by the governor.
Wisconsin	WI St. 40.03	Group insurance board enters into contracts for group insurance plans
Wyoming	WY ST. 9-3-204	Health insurance board of administration, consisting of 7 members, including state treasurer, employees, retired employee, personal with background in health insurance, administrator of human resources division, contracts for and administers and manages the state employees' group insurance program

Table 10
Participants in State Employee Health Benefit Plans
Active Employee Groups
January 1996

State	State Gov't Employees Covered	Other Groups Covered: Univ. & Colleges	Public Schools	Cities & Counties	Other	Total Employees Covered
Northeast						
Connecticut	58,050	**	--	--	--	58,050
Maine	13,300	--	--	1,300	--	14,600
Massachusetts	79,300	**	--	--	**	79,300
New Hampshire	11,050	--	--	--	--	11,050
New Jersey	70,850	31,300	75,600	49,600	350	227,700
New York	242,500	**	100,100	***	--	342,600
Pennsylvania	87,100	--	--	--	650	87,750
Rhode Island	16,300	--	--	--	--	16,300
Vermont	6,600	--	--	--	100	6,700
Regional Totals	**585,050**	**31,300**	**175,700**	**50,900**	**1,100**	**844,050**
South						
Alabama	38,000	--	--	5,950	--	43,950
Arkansas	18,200	--	--	--	--	18,200
Delaware	27,600	--	--	--	--	27,600
Florida	134,200	**	--	--	--	134,200
Georgia	66,150	--	134,450	--	--	200,600
Kentucky	41,000	--	82,000	50	3,550	126,600
Louisiana	36,600	18,250	27,950	1,050	--	83,850
Maryland	66,550	**	--	--	1,600	68,150
Mississippi	47,050	**	60,450	--	--	107,500
North Carolina	253,800	--	**	--	--	253,800
Oklahoma	38,750	--	39,300	6,150	--	84,200
South Carolina	71,600	--	70,900	13,900	--	156,400
Tennessee	64,700	--	28,350	10,400	--	103,450
Texas	158,200	53,150	--	--	--	211,350
Virginia	83,100	**	4,900	5,000	--	93,000
West Virginia	20,550	9,650	33,850	6,700	--	70,750
Regional Totals	**1,166,050**	**81,050**	**482,150**	**49,200**	**5,150**	**1,783,600**

Numbers of covered active employees shown above includes all those enrolled in indemnity plans, HMOs, POS plans and PPOs.

Footnotes:

-- *State Employee Health Benefit Plan does not include this group.*
* *A breakdown of active employees by covered group is not available.*
** *Figure shown for State Government includes this group.*
*** *Figure shown for Public Schools includes this group.*

Table 10 (continued)
Participants in State Employee Health Benefit Plans
Active Employee Groups
January 1996

State	State Gov't Employees Covered	Other Groups Covered: Univ. & Colleges	Public Schools	Cities & Counties	Other	Total Employees Covered
Midwest						
Illinois	81,050	41,650	--	8,100	--	130,800
Indiana	36,850	--	--	--	--	36,850
Iowa	27,100	--	--	--	--	27,100
Kansas	37,100	**	--	--	--	37,100
Michigan	59,300	--	--	--	--	59,300
Minnesota	61,800	--	--	--	--	61,800
Missouri	42,400	700	250	2,150	--	45,500
Nebraska	15,000	--	--	--	--	15,000
North Dakota	7,300	5,600	600	1,800	--	15,300
Ohio	57,400	--	--	--	--	57,400
South Dakota	8,000	4,150	--	--	--	12,150
Wisconsin	62,650	**	***	5,650	--	68,300
Regional Totals	**495,950**	**52,100**	**850**	**17,700**	--	**566,600**
West						
Alaska	11,800	--	900	***	--	12,700
Arizona	47,900	**	--	--	--	47,900
California	188,250	**	120,650	***	--	308,900
Colorado	26,200	--	--	--	--	26,200
Hawaii	9,400	4,400	5,700	7,750	--	27,250
Idaho	17,400	--	--	--	--	17,400
Montana	10,600	--	--	--	--	10,600
Nevada	16,000	5,400	650	2,700	--	24,750
New Mexico	17,600	--	--	2,250	250	20,100
Oregon - SEBB	27,700	**	--	--	--	27,700
- BUBB	17,100	--	--	--	750	17,850
Utah	16,700	600	--	9,900	--	27,200
Washington	52,850	37,200	1,800	1,500	1,700	95,050
Wyoming	11,300	**	--	--	--	11,300
Regional Totals	**470,800**	**47,600**	**129,700**	**24,100**	**2,700**	**674,900**
All States						
National Totals	**2,717,850**	**212,050**	**788,400**	**141,900**	**8,950**	**3,869,150**

Numbers of covered active employees shown above includes all those enrolled in indemnity plans, HMOs, POS plans and PPOs.

Footnotes:

-- *State Employee Health Benefit Plan does not include this group.*
* *A breakdown of active employees by covered group is not available.*
** *Figure shown for State Government includes this group.*
*** *Figure shown for Public Schools includes this group.*

Table 11
Participants in State Employee Health Benefit Plans
Retiree Groups
January 1996

State	State Gov't Retirees Covered	Other Groups Covered: Univ. & Colleges	Public Schools	Cities & Counties	Other	Total Retirees Covered
Northeast						
Connecticut	26,750	**	--	--	--	26,750
Maine	7,700	--	--	250	--	7,950
Massachusetts	46,050	**	6,550	--	**	52,600
New Hampshire	6,800	--	--	--	--	6,800
New Jersey [a]	21,600	--	27,800	26,500	--	75,900
New York	98,250	**	51,150	***	--	149,400
Pennsylvania	50,350	--	--	--	--	50,350
Rhode Island	9,600	--	--	--	--	9,600
Vermont	2,300	--	--	--	--	2,300
Regional Totals	**269,400**	**--**	**85,500**	**26,750**	**--**	**381,650**
South						
Alabama	11,100	--	--	150	--	11,250
Arkansas	4,900	--	--	--	--	4,900
Delaware	15,200	--	--	--	--	15,200
Florida	20,450	**	--	--	--	20,450
Georgia	17,450	--	29,600	--	--	47,050
Kentucky	9,300	--	--	4,450	--	13,750
Louisiana	14,300	5,550	11,050	150	--	31,050
Maryland	23,500	**	--	--	--	23,500
Mississippi	6,800	**	2,550	--	--	9,350
North Carolina	86,000	--	**	--	--	86,000
Oklahoma	14,450	--	23,550	--	--	38,000
South Carolina	16,850	--	21,600	1,100	--	39,550
Tennessee	3,800	--	1,450	100	--	5,350
Texas	36,300	8,300	--	--	--	44,600
Virginia	30,200	**	400	--	--	30,600
West Virginia [b]	25,450	**	**	**	--	25,450
Regional Totals	**336,050**	**13,850**	**90,200**	**5,950**	**--**	**446,050**

Numbers of covered retirees shown above includes all those enrolled in indemnity plans, HMOs, POS plans and PPOs.

Footnotes:

-- *State Employee Health Benefit Plan does not include this group*
* *A breakdown of retirees by covered group is not available.*
** *Figure shown for State Government includes this group.*
*** *Figure shown for Public Schools includes this group.*
**** *Figure shown for Universities and Colleges includes this group.*
[a] The number of University and College retirees in New Jersey is dispersed throughout the other three categories.
[b] Only the retirees who are using sick and annual leave credits to pay premiums can be identified by group. The vast majority of retirees pay their own premiums in full and cannot be identified by group.

Table 11 (continued)
Participants in State Employee Health Benefit Plans
Retiree Groups
January 1996

State	State Gov't Retirees Covered	Other Groups Covered: Univ. & Colleges	Public Schools	Cities & Counties	Other	Total Retirees Covered
Midwest						
Illinois	53,700	--	32,000	--	--	85,700
Indiana [c]	250	--	--	--	--	250
Iowa	5,500	--	--	--	--	5,500
Kansas	9,150	**	--	--	--	9,150
Michigan	30,050	--	--	--	--	30,050
Minnesota	10,000	--	--	--	--	10,000
Missouri	7,450	100	50	50	--	7,650
Nebraska [d]	400	--	--	--	--	400
North Dakota	1,450	1,000	450	650	--	3,550
Ohio [e]	109,050	--	--	--	--	109,050
South Dakota	650	**	--	--	--	650
Wisconsin	16,800	--	**	**	400	17,200
Regional Totals	**244,450**	**1,100**	**32,500**	**700**	--	**279,150**
West						
Alaska	10,800	5,000	****	**	-	15,800
Arizona [f]	*	*	*	*	*	14,700
California	91,500	**	27,300	***	***	118,800
Colorado [g]	27,550	**	**	**	**	27,550
Hawaii	*	*	*	*	*	29,000
Idaho	2,500	--	--	--	--	2,500
Montana	2,800	--	--	--	--	2,800
Nevada	3,400	150	150	950	--	4,650
New Mexico [h]	4,550	50	8,000	2,125	25	14,750
Oregon [i]	*	*	*	*	*	30,900
Utah	4,450	--	--	1,300	--	5,750
Washington	19,500	**	16,300	**	--	35,800
Wyoming	2,300	**	--	--	--	2,300
Regional Totals	**169,350**	**5,200**	**51,750**	**4,375**	**25**	**305,300**
All States						
National Totals	**1,019,250**	**20,150**	**259,950**	**37,775**	**25**	**1,412,150**

Numbers of covered retirees shown above includes all those enrolled in indemnity plans, HMOs, POS plans and PPOs.

Footnotes:

-- *State Employee Health Benefit Plan does not include this group.*
* *A breakdown of retirees by covered group is not available.*
** *Figure shown for State Government includes this group.*
*** *Figure shown for Public Schools includes this group.*
[c] Coverage in Indiana is available only to retirees between 55 and 65 with 20 or more years of service.
[d] Coverage in Nebraska is available only to retirees under 65.
[e] Figures shown are for the plan operated by the Public Employees Retirement System of Ohio.
[f] Figures shown are for the plan operated by the Arizona State Retirement System.
[g] Figures shown are for the plan operated by the Public Employees Retirement Association of Colorado.
[h] Figures shown are for the plan operated by the New Mexico Retiree Health Care Authority.
[i] Figures shown are for the plan operated by the Oregon Public Employees Retirement System.

February 14, 2000

In order to help provide a framework for your discussions regarding the Health Care Commission on Thursday, February 17, 2000, I thought that you might find the attached helpful in terms of the direction and actions of the Health Care Commission since 1995. It is a summary of information provided in the Annual Reports from 1995 through 1999.

In 1995, there were five new Health Care Commission members. As evidenced by the attached, this Health Care Commission has been dedicated to assuring a quality and cost effective Health Benefits Plan. It has had to grapple with overcoming the weight of the status quo and responding quickly to trends and market forces that are evident at national, regional and local levels. It has debated, at times lively, the role of an employer sponsored health and welfare plan. It has debated the move from a single employer's benefit plan. It has provided access to health and long term care insurance to citizens of Kansas beyond those offered in an employer-employee relationship.

Following are highlights from the last five years:

- Transitioned from one state-wide fully insured program with voluntary HMO options with no employer dependent contribution, to a predominately self-insured program that provides employer contributions for all plan options. This resulted in significant savings to the state and participants as individuals moved to managed care options (ie., the total cost of the plan went from $170MM in 1995, to $151MM in 1996 to $162MM in 1997 to $171MM in 1998.) For Plan Year (PY) 2000, forty-eight percent of active employees choose some form of dependent coverage. More participants are covering dependents than ever before. The agency composite rate in 1999 was the same as it was in 1995. The HMO benefit design already includes biologically based mental health parity and Well Woman Exams that are being currently debated as coverage mandates.

- Designed and implemented a Statewide Student Insurance Plan with an employer contribution for graduate teaching assistants and graduate research assistants. Students at all Regents institutions now have both high and low benefit option plans.

- Designed and implemented a Long Term Care Insurance Plan. The Health Care Commission led the way in the state of Kansas of providing "group" long term care rather than individually underwritten long term care. The plan provided guaranteed issue for active participants and extended eligibility to dependent children, retirees and parents of active employees.

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- Developed guidelines for voluntary participation of Unified School Districts, Community Colleges, Vocational Technical Schools and Technical Colleges. Staff has provided direct contact with 121 USDs, CCs and technical schools. This does not include employers that attended the initial regional information meetings, the Kansas Association of School Board meetings, the Secondary School Principal Association meeting, School Board Clerk meetings, KNEA meetings, the Superintendent Council meetings, the Community College President's meetings and purchasing cooperative meetings. Seventy-two employers have requested and received face to face meetings. Staff has driven over 17,000 miles to provide information about the state plan to interested parties. As of March 1, 2000, five employers have elected to join the state plan for a total of 400 contracts.

- The Commission took proactive steps to limit future increases in prescription drug costs with a plan design change for Plan Year 2000. The Employee Advisory Committee had been working for over two years to develop a design that would rein in the costs of prescription drugs. Although the state plan has had a formulary for years, there was no financial incentive for participants to choose a more cost effective option. The new plan design encourages participants to work with their physicians and provides safety nets for those who cannot use the formulary medication or have catastrophic illnesses or conditions. The results from the first month indicate that costs are being controlled even in light of a 20% national trend rate and an increase of 5% utilization since January 1999.

Drugs

- The Commission continues to search for solutions for the cost of the direct bill continuation option. The original intent was for direct bill participants to pay the full cost of coverage. Effective January 1, 1989, a complex financial arrangement was developed for Blue Select and Blue Traditional, the prescription drug plan, and the dental plan. Direct bill premiums for Blue Select and Blue Traditional were set at 85% of requested premium. Over the years, some of the withheld premiums were used to pay for claims incurred by plan members which resulted in a subsidy to direct bill participants of up to $115.13 per month. Direct bill premiums were not adjusted to include these additional costs and the Blue Cross members inadvertently received a subsidy. Compounding this is the fact that direct bill participants use drugs almost four times as much as active participants. With a trend rate in excess of 30%, direct bill participants had a significantly higher premium increase even with a .60 adjustment factor for medical claims.

It is unfortunate that there has been misreporting regarding actions of the Health Care Commission. For example, a Saturday, June 26, 1999 Topeka Capital-Journal article said, "The commission's actions effectively barred school workers from joining the state employee health-care plan." In fact, for the first time, as a result of that vote, school district employees had access to the plan. A September 14, 1999 Wichita Eagle article indicated that a separate pool would have resulted in an employer cost of between $40 to $70 more than the employer contribution for state employees. In fact, the difference was less than 1.5%. The employees would have seen no cost difference. The same article sub-headline is "State Health Care Commission reverses earlier decision,

says teachers can join." Since the June, 1999 vote, school district employees had access to the state health plan; there was no reversion in decision, merely the pooling mechanism which provided a slight employer contribution decrease. A September 1999 Topeka Capital Journal article reports: "Breaking an impasse over whether teachers should be allowed to join the state health insurance plan, the State Employee Health Care Commission voted Friday to allow the entrance of the Central Heights school district." As noted before, the Commission voted to allow access to the state plan in June 1999. There was no impasse. The September vote was to allow a common pool until 1,250 self insured contracts had been obtained. Additionally, the Commission voted in September to run a temporary regulation to allow any school district access to the state plan prior to the scheduled January 1, 2000 date established by the permanent regulation.

With the expansion of types of plans, USD payment options and numbers of employers, customer service is an issue. Staffing levels were established to administer a group health insurance program, to process active employee membership and to assist agency personnel officers. It is not staffed to provide telephone support in consultation to 37,000 employees plus dependents and 10,000 retirees plus dependents. In the past five years, only one position has been added to the staff performing services for plans offered by the Health Care Commission. Outsourcing direct bill and COBRA allowed the discontinuation of a direct bill membership/accounting system that was "hooked" to ShaRP and would have required Y2K testing. Information about this change was provided to direct bill participants. Unfortunately, although they were asked not to contact eBenX regarding cost increases, up to 300 people a day called anyway. Even without outsourcing, staff would not have been able to answer, let alone respond to that many phone calls. Only 210 direct bill participants actually made an enrollment change for 2000.

The Department of Administration adheres to all state purchasing law requirements. Since K.S.A. 75-6504 does not indicate that contracts other than those entered into to provide group health insurance for coverages for all or part of the state health care benefits program are exempt from purchasing laws. The contracts for outsourcing (eBenX) and the claims/utilization system (MedStat) were released subject to K.S.A. 75-3738 to K.S.A. 75–3740. Multiple responses were received for each of the RFPs and multiple vendors were negotiated with. These RFPs were released by the Department of Administration.

I look forward to meeting with you on Thursday, February 17, 2000. If there are specific issues or areas of concern that you would like me to address, please let me know.

Sincerely,

Dan Stanley

Non-Competitive Bidding

- Since 1995, the HCC has released 6 RFP's, received 64 responses and signed 17 contracts. These contracts are for medical, dental, prescription drug, vision, LTC, SWSI and consulting services.

- Since 1995, DPS has released 6 RFP's for group health insurance administration and HealthQuest related activities, received 17 responses and signed 6 contracts. Division of Purchases is used for all of these contracts. Contracts include health claims data analysis, outsourcing COBRA and direct bill membership/accounting, LifeLine, HealthCheck and newsletter copy.

- Although HCC bids are not subject to purchasing statutes (K.S.A. 75-3738 to K.S.A. 75-3740), HCC uses the Division to distribute the health insurance related RFPs to assure that distribution guidelines are met.

- No contract/or anyone is awarded a contract without competitive bidding and negotiations.

If the assumption is that "non-competitive bidding" is driving up the cost, the real issue is that utilization is driving cost increases. Since 99% of retirees participate in the self insured traditional plan, utilization increases directly result in cost of coverage increases.

Testimony Feb 22, 2000
See Dan Stanley
Ks. Dept of Admin.

USDs

- Provided direct contact to 115 USDs, Community Colleges, Vocational Technical Schools and Technical colleges since July, 1999. Many are multiple contacts. This does not include the USDs that have attended initial regional informational meetings, the Kansas Association of School Board meeting, Secondary School Principal Association meeting, School Board Clerk meetings, KNEA meetings, Community College President's meetings and purchasing cooperatives. It also does not include periodic mailings to all potential participants which included specific information about the state plan.

- HCC met all Legislative timelines regarding the actuarial report and providing underwriting guidelines for voluntary participation in the state plan. Any perceived slowness between the end of January, 1999 when the guidelines were presented and voting by the Commission (June, 1999) was a direct result of conducting surveys to try to determine interest by the school districts. Even absent any specific information, the HCC went ahead and voted to allow access to the state plan via a separate pool arrangement. In September, 1999, the Commission voted to allow pooling with state plan until 1,250 self insurance contracts were enrolled. Within three weeks after that action, the first school district was participating.

- Sixty-six employers have requested and received face to face meetings since July, 1999. Many have had multiple face to face meetings and follow-up telephone calls.

- Staff has driven over 16,300 miles to provide information about the state plan to interested parties.

- Health Benefits Administrator has driven 11,700 of those miles. Most of the miles are driven at night or the weekends since that's when the meetings are.

- The Commission approved for the regulatory process a temporary regulation to allow a school district entry into the plan prior to the effective start date of January 1, 2000.

- Provided immediate response to enrolling school districts. For example, we were contacted on Thursday, December 9, 1999 that Weskan wanted to participate effective January 1, 2000. Staff was at Weskan on Monday, December 13, 1999 to enroll participants.

- Got the carriers to agree to no Plan Year 2000 additional rate increases regardless of how many, where or when school districts started participating.

- Currently, four school districts are participating. Total number of employees/retirees who have elected to participate is 245. A potential of two more within the next 60 days. Several others have expressed interest in start dates for the summer and fall.

- Some school districts are not interested because they are large enough or in purchasing pools to provide reasonable coverage, have multiple year contracts, not interested in eliminating cash out options, various reasons that are specific to the school district.

There are still vocal school districts out there that believe they ought to be able to enter the state plan without participation or contribution requirements.

Retiree Cost of Coverage

- Direct Bill was established as "participant pay all." That held until late '80's when Gov. Hayden provided a subsidy for Blue Cross Blue Shield only. This commission voted to phase out the subsidy. Subsidy has been eliminated for dental and prescription drug. Stopped the phase out in 1998 when the cost increases started. Only about six hundred of the BCBS enrollees do not receive a subsidy. The subsidy is between $10.21 to $115 per month.

- Medicare participants medical premiums are reduced by .68 for the Blue Cross Traditional option (99% of retirees elect Traditional.)

- Conversely, the plan adjusts (increases) for the prescription drug component. Direct bill participants costs are almost 4 times as much as active participants. They receive a 3.3 adjustment factor. Result, when prescription drug costs go up, direct bill costs go up 3.3 times for prescription drugs. Already getting a subsidy.

- If active and retirees were pooled together, there would be a $4MM increase to the state. Additionally, active employees would see increases in cost of coverage.

- Without change in prescription drug plan for PY 2000, direct bill participant costs would have been 12% higher.

- Retirees pay no internal staff or operating administrative expenses.

- Have encouraged Medicare eligible participants to try a Medicare Plus Choice Plans offered though HMO's by allowing them to come back into the state plan if they don't like it.

- State absorbed prescription drug increases for retirees for PY 1999 since more cost effective prescription drug alternatives were available.

- Plan design and funding is an agenda item for the Commission during 2000 as voted by the Commission at the December, 1999 meeting.

The real issue is no cost of living increase under KPERS. Retirees have gone to the right place, ie. the Legislature to get money to help defray costs.

Met with KID in November regarding cost increases for retirees. Went over formulas with Tom Foley. No mention from the Insurance Commissioner (since she wasn't there) or Tom about this being an issue at the December meeting. Waited until January to present this as an issue.

Everyone's cost of coverage went up for PY 2000 unless enrolled in single only HMO coverage. This is not a retiree specific issue.

Customer Service

- Staffing levels were established to administer the group health insurance program, to process active employee membership and to assist agency personnel officers. We are not staffed to provide telephone support in consultation to 37,000 employees plus dependents and 10,000 retirees plus dependents.

- There are sixteen people who are involved in some form with the health insurance plan. This includes two clerical staff and a file clerk. One person deals only with health promotion activities. Four people are responsible for other benefit plans including workers compensation, deferred compensation, shared leave, cafeteria benefits plan and flexible spending accounts. Two people are responsible for ghi, long term care and the statewide student insurance plan. Only six people are solely dedicated to the group health insurance plan; five of which do only membership.

- The two staff who handled direct bill are long term employees. At a minimum of 8 weeks a year, there was only one person to do direct bill.

- Outsourcing direct bill and COBRA was to allow discontinuation of the direct bill membership/accounting system which was "hooked" to ShaRP and would have required Y2K testing, and move two staff to other membership activities and issues.

- Open Enrollment is always difficult. Two people have not been able to handle the phone call volume. Historically, most direct bill participants are not calling to make changes but to voice their displeasure about the cost of insurance. For PY 1999, only 180 direct bill participants (less than 2% of enrollees) actually made changes. Three hundred made changes for PY 1998. For PY 2000, 210 actually made changes, although 300 people per day were calling eBenX.

- Written materials were distributed to direct bill participants prior to October 1. At that time there were advised as to why the rates had increased, the open enrollment meeting schedule, that membership had been outsourced to eBenX and only membership questions should be

directed to eBenX. They called anyway which resulted in long wait times. Less than 10% of direct bill participants attended a statewide open enrollment meeting.

- EBenX was awarded the outsourcing contract after competitive bidding/negotiations.

- EBenX had trouble giving out the right forms for open enrollment. Would send out payment change forms rather than election change forms. Initially they had trouble setting up enrollment correctly.

- Only eleven overdrafts as a result of early band draft withdrawals out of a potentional 3,800. No participant paid any overdraft fee - - either withdrawn by bank or paid by eBenX.iving out the right forms for open enrollment.

- Because of their inability to produce a carrier file, payment was withheld for the July through October bill until December 23, 1999.

- EBenX experienced another increase in phone calls the week before Christmas when KPERS sent a letter to all participants who have a KPERS deduction.

- Letters to participants regarding less costly alternatives for prescription drugs is an API issue not an eBenX issue. Once we became aware of the problem, KID was alerted to the situation. Letters were sent to all participants, not just direct bill participants. This letter was not required; it was sent to give people one more piece of information before the new Plan Year so they could talk to the physician during the current plan year to make any changes necessary.

- There was an unacceptable wait time at the API call center between Christmas and the New Year. The call center was moved to Sacramento. Wait time is now within negotiated limits.

- A website has been implemented to provide Q's and A's for all participants. Specific retiree Q's and A's are in production. Issues include Medicare coordination, enrollment processes and cost increases.

Expected internal customer service from a group that is not designed, staffed or funded for customer service. We provided customer service as available but not to the satisfaction of some direct bill participants. Since 1995, Grant Goodman has been one of the most vocal critics of retiree services.

Until Fiscal Year 1999, total administrative budget was about $1MM. A little over ½ of 1 percent of total plan costs. Usually, administrative budgets are in the 2-3% range. Even with the increase for FY 1999 and 2000, the administrative budget is still only 1%.

State's composite rate for FY 1999 was the same as FY 1995. There were reductions in the composite rates from the FY 1995 rate for FY's 96, 97, and 98.