

Approved: February 7, 2000  
Date

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Senator Don Steffes at 9:00 a.m. on February 2, 2000 in Room 231-N of the Capitol.

All members were present except:

Committee staff present: Dr. William Wolff, Legislative Research  
Ken Wilke, Office of Revisor of Statutes  
Nikki Feuerborn, Committee Secretary

Conferees appearing before the committee: Lee Wright, Farmers Insurance Group  
Kathy Greenlee, General Counsel, Kansas Insurance  
Department  
Jerry Slaughter, Kansas Medical Society  
Joy Wheeler, First Guard

Others attending: (See Attached)

Senator Becker moved to introduce legislation which would make a public officer, municipal corporation or quasi-municipal corporation making a deposit of public funds in an approved depository exempt from liability should the depository fail. Motion was seconded by Senator Clark. Motion carried.

Senator Steffes moved to introduce legislation addressing insurance for mental health parity. The motion was seconded by Senator Praeger. Motion carried. Senator Steffes then appointed a Subcommittee naming Senator Praeger as Chair and asking Senators Brownlee and Barone to serve.

Lee Wright, representing Farmers Group Insurance, asked for the conceptual introduction of a bill regarding the Mortgage Brokers Act.

Senator Becker moved that the proposal as presented by Mr. Wright be introduced into legislation. Motion was seconded by Senator Praeger. Motion carried

Kathy Greenlee, General Counsel for the Kansas Insurance Department, presented testimony explaining the organizational chart of the Heartland Physicians Health Network, Inc., Horizon Health Plan, Inc., and Heartland Health (Attachment 1). The founders of HPHN are affiliated with both the Kansas Medical Society and KaMMCO, a physician-owned, medical malpractice corporation. She gave the status of Horizon and the history of their financial plight and ultimate plans for liquidation. First Guard will pay Horizon \$2 million within the next few months for the assignment of the SRS contracts. This money will be used to pay on debt.

Jerry Slaughter, Kansas Medical Society, explained that Horizon was chosen for the HMO as they were the only bidder on Regions II and III in the state. Even though the Kansas Insurance Department had investigated their solvency before they were awarded the contract, current legislation does not require an HMO to have a certain value or worth in order to do business. The Kansas Insurance Department requires a net worth of \$800,000 and they met this standard after a substantial loss in 1997 when Horizon received an infusion of \$1.7 million from KaMMCO in order to keep them afloat. It was imperative to keep Medicaid and HealthWave together in order to make them a saleable commodity. The higher reimbursement from HealthWave was a shoring up for Horizon. The failure of Horizon was attributed to lack of funding, low reimbursement, and structural problems from within. Provider rates for private insurers are not available to the public.

Joy Wheeler, First Guard, further explained their involvement with Horizon and HPHN and their plans for the future (Attachment 2). She stated they are currently working on an asset purchase agreement in which they will pay \$2 million for the current contracts. Such contract will be renegotiated every six months. The money will go to providers owed by Horizon after the court procedures have been completed. All claims due and owing by Horizon must be submitted by February 24, 2000, or they will not be paid. Reimbursement

CONTINUATION SHEET

rates at this time are workable. Ms. Wheeler attributed their success to vast experience in the managed care arena, a medical management team, financial team expertise in managing risks, having a core business, and their focusing on meeting needs.

The discussion will be continued on Wednesday, February 9, 2000.

Senator Becker moved that the minutes of February 1 be approved as presented. Motion was seconded by Senator Corbin. Motion carried.

The meeting adjourned at 10:00 a.m. The next meeting is scheduled for February 3, 2000.

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

GUEST LIST

DATE: Feb. 2, 2000

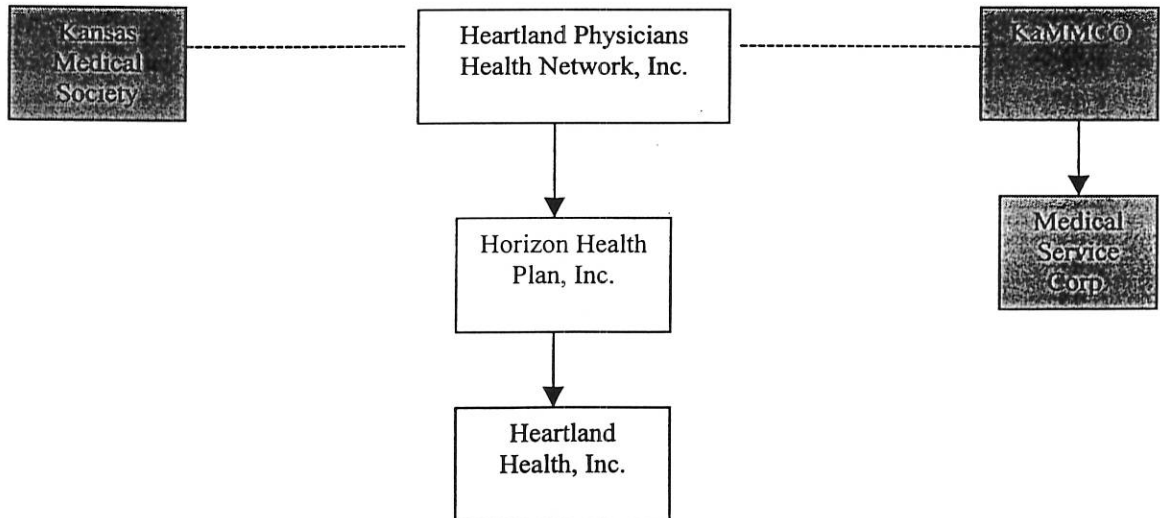
NAME	REPRESENTING
DARYL Rutschmann	Kansas Association for Medically Under Served
Judy Eyerly	KS Assn. for the Medically Under Served
Joyce Volmunt	" "
Rich Ottman	Health Midwest
John C. Sotterby	Delta Dental
J. B. Potting	Delta Dental
Bill Sreed	Am Ins Life
Marc Hamann	KS Div. of the Budget
Barb Conant	KTLA
Chip Wheelen	Osteopathic Assn
Don Gasque	Kansas Ins Dept
Kathy Sweeney	Kansas Ins Dept
Sandra Lee Cawsey	KS Ins. Dept
Pat Morris	KATA
John Petersen	Ks Governmental Consultng
Harry Boman	Dep of Administration
Larrie Ann Lower	KATH
Steve Montgomery	United Healthcare
Mike Huttles	First Guard
Joy Whelan	First Guard
Kathy Damron	MAXIMUS
Bob Hayes	HCSP
ALEX B. BACHELOR	HCSP
Tom Bell	Ks. Hosp. Assn.



Kathleen Sebelius  
 Commissioner of Insurance  
**Kansas Insurance Department**

Testimony before Senate Financial Institutions & Insurance Committee  
 February 2, 2000  
 Provided by Kathy Greenlee, General Counsel

**Heartland Physicians Health Network, Inc.**  
**Organizational Chart effective 2/1/98**



The founders of HPHN are affiliated with both the Kansas Medical Society and KaMMCO, a physician-owned, medical malpractice corporation.

Senate Financial Institutions & Insurance

Date 2/2/00

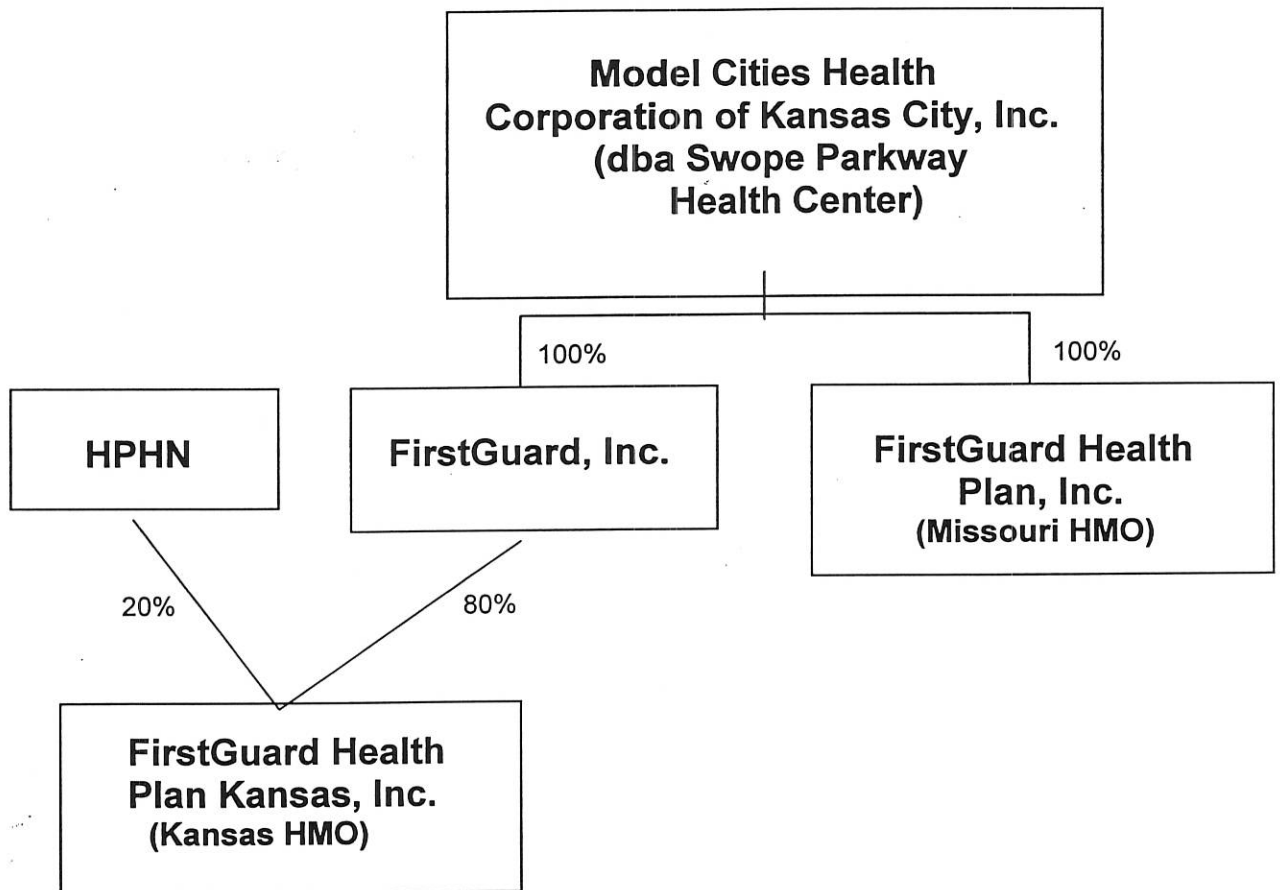
Attachment # 1

420 SW 9th Street  
 Topeka, Kansas 66612-1678

785 296-3071  
 Fax 785 296-2283  
 Printed on Recycled Paper

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

**Proposed Model Cities Health Corp. Organizational Chart  
After Closing With Heartland Physicians Health Network (HPHN)**



## COMPANY BACKGROUND AND STATUS

### **1. Heartland Physicians Health Network, Inc. (HPHN)**

Heartland Physicians Health Network, Inc. is a for-profit Kansas corporation. HPHN is a holding company and a statewide provider network owned exclusively by members of the Kansas Medical Society (KMS). The company was incorporated August 5, 1994 and is governed by an eighteen member Board of Directors, all of whom are Kansas physicians. HPHN has two subsidiaries, Horizon Health Plan, Inc. and Heartland Health, Inc.

### **2. Kansas Medical Mutual Insurance Company (KaMMCO)\***

Kansas Medical Mutual Insurance Company was organized and incorporated on March 20, 1989 as a Kansas domestic, not-for-profit, mutual insurance company. The company was formed by the Kansas Medical Society (KMS) for the purpose of issuing contracts of insurance which provide medical professional liability insurance for health care provider members of KMS.

### **3. Horizon Health Plan, Inc. (Horizon)\***

Horizon Health Plan, Inc. was organized as a health maintenance organization (HMO) on January 17, 1996. Horizon was formed as a vehicle to contract with the State of Kansas to provide Medicaid beneficiaries with a managed care program know as PrimeCare. In 1998, Horizon bid and received a contract with the State of Kansas to provide the children's health insurance program known as HealthWave. Horizon is a direct subsidiary of Heartland Physicians Health Network, Inc.

STATUS: The Commissioner of Insurance placed Horizon into liquidation in Shawnee County District Court on December 29, 1999. The liquidator is Robert Kennedy, an attorney from Lawrence. Horizon had been placed under the supervision of the Commissioner of Insurance on May 20, 1999. Approximately two weeks ago, the liquidator mailed a claims printout out to all Horizon providers. The providers were asked to compare the printout to their billing records in order to make certain that our records accurately reflect their outstanding bills. Providers have been given until February 21, 2000 to notify the liquidator of any problems. At this point, outstanding claims total \$10.5 million. Within the next month or so, FirstGuard will pay Horizon \$2 million for the assignment of the SRS contracts. No further payments are due from SRS. The liquidator intends to file a distribution plan with the court within the next 60 days. Our estimate at this point is that providers will receive 56-57 cents on the dollar. The Kansas Life and Health Guaranty Association does not cover the outstanding claims of an HMO.

\*Indicates that the entity is regulated by the Kansas Insurance Department.



**4. Heartland Health, Inc. (Heartland)\***

Heartland Health, Inc. was admitted to Kansas on January 5, 1995 and wrote accident and health coverage. Client health plans included self-insured employers, health insurance companies, health and welfare trusts, co-ops and health insurance programs. Heartland is a direct subsidiary of Horizon Health Plan, Inc.

STATUS: The Commissioner of Insurance placed Heartland in liquidation in Shawnee County District Court on May 10, 1999. The liquidator is Dan Watkins, an attorney from Lawrence. All claims for services to Heartland insureds have been processed and forwarded to the Kansas Life and Health Guaranty Association. In early January, the guaranty association paid \$886,000 to non-network providers. However, \$4.5 million in network provider claims have not been paid by the guaranty association. The guaranty association has taken the position that the network provider claims are not covered under guaranty association act since the contracts between the providers and Heartland contained a "hold harmless" provision. The Commissioner of Insurance believes that the guaranty association is responsible for these claims. This dispute is now being litigated in the context of the liquidation proceeding. The guaranty association and the Kansas Hospital Association have intervened. Heartland has less than \$750,000 in assets available to pay claims.

**5. FirstGuard Health Plan Kansas, Inc. (FirstGuard)\***

FirstGuard Health Plan Kansas, Inc. is a Kansas domestic HMO which is organized for profit. It has been licensed in Kansas since April 30, 1999. It is committed to serving underserved populations. The primary reason the company was formed was so that it could assume the Kansas Medicaid business that had previously been provided by Horizon Health Plan, Inc.

STATUS: On May 1, 1999, FirstGuard assumed the PrimeCare and HealthWave contracts. FirstGuard did not assume any liabilities of Horizon Health Plan but only purchased certain contract rights. FirstGuard did not assume responsibility for the run out of unpaid claims and expenses incurred before the transfer of the SRS contracts. Soon after assuming the SRS contracts, FirstGuard became concerned that the per member per month (PMPM) rate they were receiving was less than they had anticipated. SRS took steps to increase payments to FirstGuard. The Health Care Financing Administration has approved the assignment of the SRS contracts from Horizon to FirstGuard. The Kansas Insurance Department is working closely with FirstGuard and SRS to ensure that the contracts are adequately funded and that the company remains financially sound.

\* Indicates that the entity is regulated by the Kansas Insurance Department.

Senate Testimony February 2, 2000

9:00 A.M. Senate Financial Institutions  
10:00 A.M. Senate Public Health and Welfare

**I. Membership Status**

- Membership  
Total 34,300  
  
Primecare 24,600 (22,284, < 21y.o., 65%)  
HealthWave 9,700
- Default Methodology Change: 600-700/Month →FG
- Projections for August/Sept.  
Primecare 40,000  
HealthWave 15,000  
Total 55,000
- Major Growth Opportunity – Sedgewick County  
Revenue Problem
- Region I

**II. Operations**

**A. Phone Access**

- Under estimated call volume  
Enrollment processes  
Inadequate historical information  
Provider Insecurity
- Corrections  
6 Additional Representatives  
Call handling changes – time savers  
Manpower planning software  
Advanced phone management technology and personnel  
Modify claims inquiry process
- New member calls

**B. Provider Services**

- 150 Additional credentialed physicians
- Conducted over 75 educational seminars statewide
- Distributed over 1800 provider administration manuals
- Provider newsletters and First Alert
- Open access to Health Depts. For KBH screens
- Average days from receipt to claims paid: 15.34 days
- Developed vision services optometry provider list

Senate Financial Institutions & Insurance

Date 2/2/00

Attachment # 2



- Web-site Introduction
- Claims Status
- --Eligibility List
- --Provider Directory

C. Care Management—Quality Management

- Guardian Angel Program Expansion
  - Prenatal packet, new mother-baby booklet
  - Post partum gift pack; bibb, bottle, educational material, Kan Be Healthy
  - Routine vs. High Risk Assessment→Case Management
  - Steady improvement in birth weight: 3200 gram vs. 3400
- Implement Asthma Disease Management Program
  - 2900 cases identified total to date
  - Physician education in December: Clinical Guidelines
  - Claims and pharmacy data pull for ongoing identification
  - Member contact: Assessment
    - Teaching
    - Ongoing support needs by severity
    - Asthma Action Hotline 24 hrs./7 days
    - 1 Year
- Implement PrevenTrac –Kan Be Healthy
- Kansas QM Peer Review Committee Established
- Shower Card Mailing

D. Plans for Year 2000

- Grow membership with Appropriate Revenue
- Third party liability recovery
- Fraud and abuse provider education
- Kan Be Healthy Focus
- Diabetes management program
- Web-site expansion (Benefits, Medical Protocols, etc.)
- Electronic claims

E. Challenges

- Appropriate Revenue
- Pharmacy Cost Management
- Risk Based Capital
- Horizon Liquidation
- KAN Be Healthy Coordination State-Wide

III. Network Configuration

Primecare	982 PCP's	Healthwave	795 PCP's
	1952 Specialists		1841 Specialists
	121 Hospitals		116 Hospitals

IV.

ue

- Present
  - Primecare \$130 pm pm
  - Healthwave \$ 95 pm pm
- Past
  - 1999 Appropriation: 1.9 m Gap
  - May 1999 GAP\* 4.0 m
  - \* Revenue shortfall from Horizon projections

Payments:

9/99	4.4 million (1.9 + 500k / 5mo )
10/99, 11/99, 12/99	500k / mo

Total 5.9 million