

Approved: February 14, 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 8, 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: Roland Smith, Roland Smith Insurance Services
Jim Schwartz, Alliance Employees Health Access
Senator Alicia Salisbury

Others attending: (See Attached)

Action on SB 487 - State money laws, daily cash sheet

Senator Becker moved that this technical bill be reported favorably. Motion was seconded by Senator Barone. Motion carried.

Chairman Steffes informed the Committee that the discussion of availability of affordable health care for small businesses would be a joint effort of both Senate Financial Institutions and Insurance and the Senate Commerce Committees.

Roland Smith, formerly Executive Director of the Wichita Independent Business Association and now owner of Roland Smith Insurance Services, presented an overview of health insurance for small businesses in Kansas (Attachment 1). He gave a history of the problems encountered by small businesses attempting to provide insurance for their employees throughout the years. Increased rates, lack of companies willing to participate, and fewer choices in plans for participants were included in the list of problems encountered. The WIBA-sponsored plans have been well received and have performed in an outstanding manner with a high level of satisfaction. Self-employed participants, especially those with health problems, are also included in guaranteed group health insurance coverage provided by WIBA. The majority of employees in WIBA's programs are more than 45 years of age. Mr. Smith explained that 50% of the small businesses in Kansas have less than 10 employees and 25% of all small businesses in our states do not have health insurance plans. He pointed out that no one goes without medical care as nonprofit health providers are available but those with insurance pay the cost indirectly through higher insurance rates and/or in taxes. Young employees of small businesses are often reluctant to pay for group health insurance until they begin having children of their own. Two major factors in getting small businesses in Kansas to provide a health insurance plan for their employees are cost and marketing. Mr. Smith encouraged the Legislature to extend for two additional years the measure to encourage small businesses with two to 50 employees that has not had a health insurance plan for two years by offering an income tax credit for several years if they applied to the insurance department certificate and received an approval and followed certain procedures. Only 40 applications have happened to date. Communicating this option to small businesses has been difficult as it is not a profitable venture for insurance agents or brokers.

The average cost for family health coverage for an employee 25-30 years of age is \$300 per month; 40-45 years of age is \$400-500 per month. The cost can be paid entirely by the employee, partially by the employee and employer, totally by the employer, or offering only payment for the employee. Mandates drive the cost of health insurance up for the small businesses. Most of the larger businesses have developed self-insurance plans which are not required to adhere to the mandates. HMO's are not the bargain they once were as cost factors such as new techniques and pharmaceutical costs are being driven up.

Committee members recognized the gap of low-wage earners in the uninsured group. Many of these workers are in service industries.

Jim Schwartz, Alliance Employee Health Access, said their "seed money" was from a grant from the United Methodist Health Foundation in Hutchinson. Their thrust is to help small businesses collectively obtain affordable health insurance. They are working with chambers of commerce in a 15-county area surrounding

CONTINUATION SHEET

Wichita in their attempt to make such insurance available. Even though forty-five brokers in the Wichita area have been trained through the Alliance, there appears to be a major communication problem between them and the trainers regarding Section 125, tax credit availability. Mr. Schwartz made the following recommendations, acknowledging this would definitely be considered very ambitious legislation:

- Design state law which would explain how all small groups would have access to insurance through alliance groups.
- Link small employers somehow to State Employee's Health Plan in that any plan offered to the State would be available to small business employers.
- Enforce Kansas Insurance Department's tax credit plan. Problems seen with the plan include complicated instructions, upfront administrative costs, lack of communication to small businesses, not enough KID field people available for assistance, and reluctance of small businesses to become involved with the government.

Senator Salisbury asked that Senators Barone and Brownlee from the Commerce Committee serve on a Subcommittee to explore the possibilities of developing legislation addressing the issue of making available affordable insurance to small businesses. Senator Steffes appointed himself, Senator Feleciano, and Senator Praeger to also serve. Co-Chairpersons are Senators Salisbury and Praeger. Their first meeting will be at 9:00 a.m. on Thursday, February 10, 2000, in Room 231 N.

The meeting was adjourned at 10:00 a.m. The next meeting will be held on February 9, 2000.

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

GUEST LIST

DATE: 2-8-2000

NAME	REPRESENTING
Pat Morris	KAIA
Jim Schwartz	Alliance Employee Health Access
John Federico	Humana, Inc
Jennifer Crow	Federico Consulting
Margaret Gmsick	Kansas Health Institute
Peggy Hanna	Treasurer's Office
Bill Sneed	NEAA
Kathy Damron	St Luke's Shawnee Mission
Patricia Brauker	TOWNS
Fred Smoot	BeBS
SEAN CASH	WIBA
Cliff R. Sones	WIBA
BOB GRANT	KCC1
Kern Boren	Helm/Weir Chrt'd.
Alicia Salisbury	Commerce
Jim Shallenbarger	Treasurer
Dorian Mc Coursey	KID

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Roland E. Smith - Agent

February 8, 2000

STATEMENT TO THE KANSAS SENATE COMMITTEE FOR FINANCIAL INSTITUTIONS AND INSURANCE

By Roland E. Smith

SUBJECT: Health Insurance for Small Business in Kansas

Mr. Chairman and members of the committee, I am Roland Smith, owner of Roland Smith Insurance Services in Wichita. I specialize in providing group health insurance for small businesses in Kansas. Some members of this committee know that I served several years as the Executive Director for the Wichita Independent Business Association and gave testimony at various times regarding group health insurance for small businesses. As Executive Director I devoted considerable time and effort to help bring about improvements in numerous areas of concern for small independent businesses including that of group health insurance for them. This included lobbying on their behalf in the Kansas Legislature and with our delegation in Washington D.C. I served from 1981 through 1997 as the WIBA Executive Director of WIBA and was very deeply involved in legislative issues on health insurance throughout that time before retiring from WIBA in 1998.

Now I am spending my time as an independent insurance agent serving small businesses in Kansas. I am also the "Agent of Record" for the WIBA sponsored HMO and PPO Health Plans provided by Preferred Health System of Kansas. I also serve a number of small business clients that are not enrolled in the WIBA program. I am licensed with six additional insurance companies besides Preferred Health Systems, Inc. for group and individual life and health insurance products. I have been asked to appear before you and give you an overview of health insurance for small businesses in Kansas from my perspective.

To do this I believe I need to give you some background on where I am coming from as to my experience in this market and relate some of problems encountered and over come in order to accomplish an outstanding insurance program for small businesses in Kansas.

Personally coming from a small business background I have a very deep concern and compassion for the small independent businesses and the problems they face, especially in the providing group health insurance for them and their employees. When I came to WIBA on January 1, 1981 WIBA was sponsoring a Blue Cross Blue Shield indemnity health insurance plan for member businesses with 1 to 5 employees. It was a guaranteed issue plan and true community rated. The single monthly premium rate was around \$70.00 and the family rate was under \$200 per month. It wasn't long however before they started to age rate and then to underwrite each case in order to avoid getting all high risks the other

*Group Life - Health - Disability - Dental Insurance
Individual Life - Health - Dental - Cancer - Accident - Long Term*

Senate Financial Institutions & Insurance

Date 2/8/00

Attachment # 1

carriers did not want. The rates continually increased and eventually went clear out of sight. For example one couple over 60 with health problems had to pay over \$1400 per month to retain coverage. Some of the older age members stayed in business only to retain their health insurance before going on Medicare. Fortunately in 1984 WIBA was able to sponsor an additional health care plan. It was a new HMO in Wichita called Health Care Plus. WIBA was flooded with new members seeking this plan as it was guaranteed issue for member businesses with 1 to 25 employees with very reasonable modified community rates. A couple years later the Health Care Plus was sold to Equicor and then again several years later to Cigna. By 1989 over 1000 businesses had enrolled in the HMO plan. Because of the increasing adverse selection, large increases in the premiums resulted. Many began dropping out of the plan if their employees were in good health and under 45 years of age as lower premium plans were becoming available to them in the market place.

I was continually seeking better ways to improve the health insurance program for WIBA members. While attending the Institute of Organizational Management at Notre Dame I decided to visit some health plans in other states on my way back to Wichita that I had become aware of. I visited with the Chamber of Commerce in Cleveland, Ohio that had a multiple plan program that had at that time enrolled 34% of the small businesses in the Cleveland area with the average group size of seven employees, The Small Business Association of Michigan and the Independent Business Association of Wisconsin. I wanted to learn of their successes and failures. WIBA did profit from the things I learned from them. One result was that we could require 75% of the eligible employees to enroll and that would slow down the adverse selection. It was not until WIBA changed the enrollment requirements to require 75% of the eligible employees that the enrollment stabilized and began to improve again. Another major factor to overcome was at that time federally qualified HMO's had to take rejected employees the other insurance companies did not want and they kept the healthy employees. The Insurance Department approved WIBA requiring the 75% and this put the plan on a more level playing field and not just a dumping ground for rejects. After attending an ASAE Conference in Minneapolis I spent some time looking at several plans in place there that had been reported in the media. One was especially interesting where through a business organization two or three large companies had joined the association plan with small business. Most of those small businesses had under 10 employees and the total plan generated over \$2,000,000 of premium per month which included the large companies premiums. I learned this was home-grown large corporations that were involved. This has happened in a couple other states where large home-grown corporations saw the need to assist small businesses in getting lower cost health insurance as a way to improve the lot of small businesses and the community as a whole. Unfortunately that was not an option for us as Wichita did not have then or now any large home-grown corporations or other large corporations that would be willing to share such an arrangement. Unfortunately through buyouts and mergers Wichita has lost all but one of the large home-grown corporations.

In 1990 Blue Cross Blue Shield cancelled the WIBA sponsored Health Insurance Plan and moved the 250 WIBA members with their coverage into their Employers Trust. Most of them were very high risks and 200 opted to stay with BC/BS. The remaining 50 moved to the WIBA sponsored HMO. To replace BC/BS, WIBA added another HMO, Health Care America. It wasn't long before CIGNA, with higher rates, cancelled WIBA and we then moved 300 WIBA members over to Health Care America in a 60-day period. After two years Health Care America could not manage to control their costs and wanted to change their rating based on high, medium or low risks. WIBA did not accept this concept and cancelled their contract and negotiated one with Preferred Plus of Kansas in 1994. The PPK premium rates remained level for two years and decreased the third year by 2%. They remained level the fourth year and increase only 5% the fifth and 7% the sixth year which was far below what we saw competitive carriers increasing.

There are now over 700 small businesses in the WIBA sponsored health plans provided by Preferred Health Systems, Inc. To better serve more small businesses in Kansas WIBA added a statewide PPO plan in November of 1999 and they are now in the process of developing a statewide marketing program. This means that all small businesses in Kansas with 1 to 25 now have access to this plan if they become a member of WIBA or the new statewide organization being formed by WIBA, the Kansas Organization for Private Enterprise [KOPE] soon to be launched. The PPK HMO in place is limited to a specific service area in Kansas but the PPO is not. Both plans are modified community-rated and have the same enrollment criteria. Currently those businesses in the WIBA sponsored health plans 47% are self-employed, 51% have 2 to 10 employees and 2% have 11 or more employees. Typically the market these plans serve are for those small businesses when the majority of the employees and owners are over 45 or have large families and/or have health problems. Over the years we have observed that the majority of small business owners have high blood pressure due to their stress and are higher risks than most. Many have found the WIBA plans meets their needs both in service and costs.

Both plans have open enrollment once a year when health questions are not required. New members can access the plan the first 60 days of membership in WIBA. In non-enrollment period the self-employed (one employee) may be denied coverage due to pre-existing conditions until the opening period then accepted. Due to the Kassebaum-Kennedy legislation, those small businesses with 2 to 50 employees are guaranteed issue for all carriers. However, in the WIBA plans the modified community rate is the same for everyone regardless of age or health conditions wherein other carriers can charge whatever they want to based on age and health conditions of the employees. The WIBA sponsored plans are well received and have preformed in an outstanding manner with a high level of satisfaction. They are also unique in their service to the self-employed as I have found nothing like it in the country to my knowledge that provided guaranteed group health insurance coverage for the self-employed especially those with health problems.

I attended a SBA conference in San Diego in 1996 and also was a delegate the White House Conference on Small Business in Washington DC in 1995 and was surprised to learn from those attending from other states that Kansas was far ahead of many other states in their health care legislation regarding small businesses. In 1992 I was appointed to the Kansas Insurance Commissioner's special committee to review legislation and recommend changes to improve access to health insurance for small businesses in Kansas. A Senate bill was passed that provided two types of policies that all carriers had to offer and limited the annual premium increases to 15% between age tiers, but did not set the rates. It did cause many carriers to modify their underwriting to include more small businesses than before. To my knowledge not one small business was ever enrolled in either of the proposed plans. There was a provision for a state plan to cover those that had been turned down by at least three carriers or their rates were above a certain level. Many did take advantage of that program even though it was very limited coverage. When the Kassebaum-Kennedy legislation was passed Kansas modified the state statutes to comply. This revision did away with the two plans along with other prior provisions. In the process of the revision it appears the 15% limitation was removed and replaced by 70% without regard to the age tier.

When the changes were made to conform to the federal law by lowering down the definition of a small group from 5 to 2 and guaranteed issue for businesses with 2 to 50 employees the prediction by many carriers was that this would result in at least a 15% increase in premiums. This appeared to take place in the first year of renewals with most carriers that I was aware of. However, this was not the case with the WIBA PPK plan, which really proved to be ahead of its time in this market.

Many annual premium increases in group health insurance premiums for small businesses that I see coming to me have ranged from 17% to 60%. Most of the health insurance carriers age rate each employee in order for the younger employee to have a lower rate than older employees. Some will average the premium for each employee but that is rare as the younger employees may refuse to participate.

It is not the availability of group health insurance that keeps small businesses in Kansas from getting insurance.... It's the cost. Affordability is relative but many small businesses simply can not afford to offer health insurance to their employees, however the current economy is increasing the numbers that can. In many cases a family premium can mean over 50% of an employees weekly pay. There are many factors driving up health care costs and I believe some are due to the hospitals, physicians and health care providers forming larger provider groups that have been able to demand more reimbursement. This along with new procedures, new drugs and the many new technologies continue to increase the cost. Because of this factor more and more government subsidies are likely to come about at the taxpayers expense.

Unfortunately most employees do not understand all insurance plans have limitations regardless of the type of plan. Expectations usually are for Cadillac coverage at a used Ford price. All health insurance plans have some limitations, but it seems everyone seems to pick on the HMOs because of their limited coverage and choices of providers, which is most always outlined in their certificate of coverage. Most employees unfortunately do not read them or understand them. WIBA sponsored HMO plan has not experienced any of the serious problems that have been blasted by the media and some legislators here in Topeka. The Preferred Plus of Kansas HMO has an outstanding record of service and satisfaction. Any problems experienced have been minimal and are usually due to the employee not following the right procedure in obtaining their care.

As for the availability of health care plans in Kansas for small business, there are many group plans on the market to choose from. Blue Cross/Blue Shield is doing an excellent job in marketing their Choice Plan to the self-employed that are under the age of 45 where WIBA sponsored plans may not be as competitive. Many other plans are becoming more competitive with groups of 10 to 50 employees as long as they do not have employees with preexisting conditions or have large claims history. If they do have they are hit hard with higher premium costs. At least one carrier I know of offers a basic health plan and the employee can buy up additional coverage if he or she chooses. I don't have recent figures but I know from past figures more than 50% of the small businesses in Kansas have less than 10 employees. With this thriving economy many small employers regardless of size are having to reevaluate their benefits in order to retain and hire good employees. Cost again is the determining factor and how much are they going to contribute and how much does the employee assume. Employers usually contribute in one of three ways to an employees cost of health care coverage: [1] Pay a set amount toward the premium each month [2] Pay the employee's premium and the employee pays for their dependents [3] Pay the entire premium. Most of them opt for 1 or 2 and very few pay the entire premium. Because of the tight labor market many small employers are being forced to start offering a health plan or increase their contribution to the employee's premium. I am encouraging those with three or more employees to set up a cafeteria type plan as set forth in the IRS Section 125 of the IRS code. This would lower the employee's contribution because it would be pretax. The employer would save the employment tax on the employee's contribution.

When it is said 25% of the small businesses in Kansas do not have health insurance plans we must realize no one in Kansas is really without medical care. Anyone can go to a non-profit health provider, the catch is those with insurance pay the cost indirectly through higher insurance rates and/or in taxes. Many younger employees do not believe they need health care coverage and choose not to participate in a plan. Some employers that pay for the employee's premium do so so the older employees may have the coverage they want and need. Usually it isn't until the younger employee starts a family that he is interested in health care coverage.

The two major factors in getting small businesses in Kansas to provide a health insurance plan for their employees are: [1.] Cost [2.] Marketing

Last session the legislature passed a measure to encourage small businesses with 2 to 50 employees that has not had a health insurance plan for two years by offering an income tax credits for several years if they applied to the insurance department certificate and received an approval and followed certain procedures. This was publicized by the Insurance Commissioner in several news releases and personal appearances. In checking with the insurance department only 40 have applied and 39 were approved. These are very disappointing figures. I have been asked if I believed this legislation should be extended for two additional years and I believe it should, as the word has not hit home in the small business community that needs this encouragement.

It is my belief that there is little more the legislature can do to lower health care costs in Kansas. Business organizations and Associations offer the best option in volume bargaining power for their members. The organizations must have reasonable due structures if they are to attract the real small businesses. I believe those with annual dues over \$200 is going to have a hard time attracting businesses with 1 to 10 employees unless they have a great deal of benefits for them other than insurance. The organizations must be creditable and have good reputations. There has been some misleading marketing by some looking for a fast buck. The business organizations and associations have the ability to reach more small businesses because of the other services that attract them. As I stated earlier most insurance agents are not aggressively seeking out the small businesses with under 10 employees unless they can market multiple insurance products which leave open a large segment of the small business market.

Those of us involved will do our best to provide health care plans to as many small businesses in Kansas as we can.

Thank You! for allowing me to share this time with you and hope this has been helpful in some manner to you.

I'll be glad to answer any questions you may have.