

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE.

The meeting was called to order by Chairman Representative Robert Tomlinson at 3:30 pm on March 14, 2002 in Room 527-S of the Capitol.

All members were present except:

Representative John Edmonds  
Representative Gene O'Brien

Committee staff present:

Bill Wolff, Legislative Research  
Ken Wilke, Legislative Revisor  
Mary Best, Administrative Assistant

Conferees appearing before the committee:

Ms. Linda DeCoursey, Kansas Insurance Department  
Mr. Craig Grant, Ks. NEA  
Ms. Sandy Jarquot, Kansas League of Municipalities  
Mr. Tom Laing, InterHab  
Mr. Larry Magill, Association of Insurance Agents  
Ms. Judy Mohler, Association of Counties  
Ms. Larry Ann Lower, Kansas Health Plans  
Mr. Doug Smith, Ks Legislative Policy Group  
Mr. Brad Smoot, BC/BS  
Mr. Kyle Wendt, State of Kansas Employee Health Care Commission

Others attending:

See Attached Guest List

**SB 469: State employees health plan - Inclusion of additional entities.**

Dr. Bill Wolff, Kansas Research Department, gave an overview of the bill, per the Chairman's request.

Mr. Kyle Wendt, State of Kansas Employee Health Care Commission, offered Proponent Testimony to the committee. A copy of the written testimony is (Attachment # 1) attached hereto and incorporated into the Minutes by reference.

Mr. Wendt explained to the committee the aforementioned bill amends "existing statutes by adding certain conditions, restrictions, limitations and exclusions for entities specified in K.S.A. 75-6501, Sec. 2(c) to be qualified for entry into the Kansas State Employees Group Health Insurance Plan (GHIP)."

He stated they support the amendment because "it codifies sound underwriting standards as the Health Care Commission considers the admission of other non-state employee groups into the state's group ...." plan.

He continued to inform the committee that the Commission had approved permission for the Staff to begin adoption of K.A.R. 108-1-4, regarding local unit health care plan. This allows cities and counties to take part in the state's GHIP, and for this he feels **SB 469** continues to be of "paramount interest" to the Health Care Commission.

Mr. Wendt stood for questions. A question was posed by Representative Nancy Kirk.

Mr. Craig Grant, Kansas National Education Association, was the next Conferee to come before the committee to give Proponent Testimony.

A copy of the written testimony is (Attachment # 2) attached hereto and incorporated into the Minutes by reference.

## MINUTES OF THE HOUSE COMMITTEE ON INSURANCE

March 14, 2002

Mr. Grant informed the committee that the KNEA was first opposed to the bill, but now with changes to the bill regarding the "ramp up" and the possibility that a school district could pay more than the state for health insurance were not included, we can indeed support the bill. There were questions asked by Representatives McCreary and Phelps.

Ms. Judy Mohler, Associations of Counties was the next Conferee. Ms. Mohler offered Proponent Testimony of which a copy is (Attachment # 3) attached hereto and incorporated into the Minutes by reference.

Mr. Douglas Smith, Kansas Legislative Policy Group, offered Proponent Testimony to the committee. A copy of the written testimony is (Attachment # 4) attached hereto and incorporated into the Minutes by reference. His group felt the bill offered a viable opportunity to have the option of participating in the state health care benefits program and would enable smaller counties to be included in a larger insured pool with more stable rates. There were no questions.

Mr. Larry Magill, Kansas Association of Insurance Agents, offered Proponent Testimony to the committee next. A copy of the testimony is (Attachment # 5) attached hereto and incorporated into the Minutes by reference.

Mr. Magill stated his people were for the bill but with concerns regarding the pro's and con's of the framework to establish a level playing field (prohibits the state from being an unfair competitor). They are opposed to a broad aspect of the public sector. They are not opposed to the State self-insuring its benefit program, but local units of government, they feel are separate legal entities. They feel, "asking the State to provide health insurance coverage for local government is asking the State to become an insurance company and compete with private insurance companies." They do not feel this is appropriate.

Mr. Magill felt there is a need for more competition, not less. While they remain opposed to the state acting as the "health insurer of the last resort" for all local units of government, they understand there is not a need for legislation at this time. He stated, that by giving "apparent willingness on the current administration's part to allow local units to use the State Plan," they could support the bill and asked the committee to do the same. The Chairman asked a question.

Mr. Tom Laing, InterHab, was the next Proponent Conferee. A copy of the written testimony is (Attachment # 6) attached hereto and incorporated into the Minutes by reference.

Mr. Laing offered a change in the definitional language in section two, subsection c, (pages 2, lines 34-35). The amendment addresses language which defines entities that are eligible to apply for coverage under the state health care benefits program. This section, "in the current law has the unintended effect of allowing some community disability service providers to be eligible to apply for coverage under the state health care benefits program while other service providers are excluded for no discernible reason." InterHab proposes an amendment to the language in Section 2, Subsection c, which lists eligible entities to clarify this point, and thereby make all community service providers of disability services eligible to apply for coverage." They wish to insert the words "19-4001 et seq and amendments thereto, *and affiliates thereof*, or...." They feel that an amendment would be consistent with the original intent of the statute.

Ms. Larry Ann Lower, Kansas Association of Health Plans, also gave Proponent Testimony. A copy of the testimony is (Attachment # 7), attached hereto and incorporated into the Minutes by reference. They are in support of the bill. There were no questions.

Ms. Sandy Jacquot, League of Kansas Municipalities, presented Proponent Testimony. A copy of the testimony is (Attachment #8) attached hereto and incorporated into the Minutes by reference.

Ms. Jacquot told the committee of the LKM testifying before the interim committee in the past year, which recommended cities and counties be brought into the system. There was a survey sent out and believe the end results show an interest on the parts of the cities. She stated the State Employees Health Care Commission voted on February 28, 2002 to begin the rules and regulations process to bring cities and counties into the state health insurance plan. They welcome any effort to accomplish bringing LKM into the state health insurance plan.

MINUTES OF THE HOUSE COMMITTEE ON INSURANCE

March 14, 2002

There were no questions.

Mr. Brad Smoot, BC/BS and Ms. Linda DeCoursey both respectively offered written testimony. Copies of their Proponent Testimonies are (Attachment #'s 9, 10, 11) attached hereto and incorporated into the Minutes by reference.

With no further testimonies the public hearing were closed and the meeting was adjourned.

The time was 4:25 p.m.

The next meeting will be March 19, 2002.

# HOUSE INSURANCE COMMITTEE GUEST LIST

DATE: March 14, 2002

NAME	REPRESENTING
Craig Grant	KNEA
Robert Choromanski	KTLA
Shirley Jacquet	LKM
Linda DeCoccey	KS Ins. Dept
Tom Laing	Inter Hab
Garrie Ann Tower	KATH
Kyle L. Wheeler	HC Comm.
Doug Smith	Ks. Legislative Policy Group
LARRY MAGILL	KAIA

Testimony To The  
Insurance Committee  
By  
Kyle L. Wendt  
Health Benefits Administrator  
State of Kansas Employee Health Care Commission

March 14, 2002

**RE: SB 469--State employees health plan; inclusion of additional entities**

Mr. Chairman and members of the Committee. Thank you for the opportunity to speak to you in support of SB 469. This bill amends existing statutes by adding certain conditions, restrictions, limitations and exclusions for entities specified in K.S.A. 75-6501, Sec. 2(c) to be qualified for entry into the Kansas State Employees Group Health Insurance Plan (GHIP).

As I have previously testified to the Financial Institutions and Insurance Committee, we're not sure the amendment needs to be added to K.S.A. 75-6501, since it provides similar criteria which is already a part of participation requirements established by the Health Care Commission for the admission of non-state employee groups. However, we support the amendment because it codifies sound underwriting standards as the Health Care Commission considers the admission of other non-state employee groups into the state's group health insurance plan.

At its recent February 27 quarterly meeting, the Health Care Commission unanimously approved permission for its Staff to begin the process for adoption of a new proposed regulation K.A.R. 108-1-4, regarding a local unit health care plan. The approval of this proposed regulation will allow cities and counties to participate in the state's GHIP. Therefore, the need to support sound underwriting standards as included in SB 469 continues to be of paramount interest to the Health Care Commission.

We would appreciate your favorable consideration of SB 469. Mr. Chairman, I stand for questions.

*HOUSE INSURANCE*

DATE: *March 14, 2001*

ATTACHMENT #1





Craig Grant Testimony  
House Insurance Committee  
Thursday, March 14, 2002

Thank you, Mr. Chairman. I am Craig Grant and I represent Kansas NEA. I appreciate this opportunity to visit with the committee in support of SB 469. The Kansas Association of School Boards has also asked me to include them as part of my testimony and I am happy to do so.

We were opponents of the original SB 469. I think there was an oversight in the original bill in regard to subsection 2 on page three of the bill. Let me indicate that neither of our organizations had a problem with the criteria that the Health Care Commission has placed on school districts when entering the state health care plan. We had input into these regulations and agreed to them before they were adopted. They have been changed slightly since initially put into effect; however, the changes enhanced the participation by local school boards and community colleges. The seventeen districts and colleges that currently are part of the plan have had a good experience with the service and quality of the product.

As the bill was first drafted, the "ramp up" and the possibility that a school district could pay more than the state pays for health insurance were not included. This has been changed to meet our concerns. We appreciate the Senate Committee listening to our thoughts and making such changes. This has removed any problems we have with the bill.

Both KASB and KNEA support SB 469 in its present form and hope this committee will pass it favorably. Thank you for listening to our concerns.

*HOUSE INSURANCE*

DATE: *March 2, 2002*

ATTACHMENT # *2*



**KANSAS**  
ASSOCIATION OF  
**COUNTIES**

## **TESTIMONY**

### **re. SB 469 - Conditions for Participation in State Health Insurance Program House Insurance Committee**

Presented by Judy Moler, Legislative Services Director/General Counsel  
Kansas Association of Counties  
March 14, 2002

Chairman Tomlinson and members of the committee, my name is Judy Moler, Legislative Services Director and General Counsel for the Kansas Association of Counties. I appreciate the opportunity to testify in support of SB 469, establishing conditions under which the Health Care Commission can accept participation of counties and other units of government in the State Health Care Benefits Program. The seven conditions listed in the bill are all ones that we have been aware of in our previous discussions with the Health Benefits Administrator, the Secretary of Administration, and legislative committees.

We understand the need to preserve the financial health of the State pool and to guard against adverse selection. We believe that none of the hurdles will be an obstacle for counties that want to opt-in to the program. We have consistently and frequently expressed our support for these conditions, whether they are contained in Health Care Commission rules and regulations or codified in statute. Further, we have always acknowledged that enrollment and management of county employees in the State health insurance plans was not self-executing and therefore could not be accomplished without sufficient staff and resources in the Department of Administration. We know there will be costs, and are willing to pay our proportional share of additional costs that will be incurred. We further acknowledge the rationale behind requiring both local governments and the State to commit to participating in the plan for a reasonable length of time (i.e. 3 years). This seems only fair.

We were are pleased about the Health Care Commission's recent action to direct staff to prepare rules and regulations allowing counties to participate in the State health plan subject to certain conditions, many of which mirror language in this bill. As counties are already working on 2003 budgets for the fiscal year beginning January 1, 2003, the Commission's action was timely in that county commissioners can make informed decisions about participating in the plan and incorporate accurate cost projections in 2003 county budgets. Thank you for the opportunity to express our support for SB 469. If you have questions, I will address them at the appropriate time.

The Kansas Association of Counties, an instrumentality of member counties under K.S.A. 19-2690, provides legislative representation, educational and technical services and a wide range of informational services to its member counties. Inquiries concerning this testimony should be directed to Randy Allen or Judy Moler by calling (785) 272-2585.

6206 SW 9th Terrace  
Topeka, KS 66615  
785•272•2585  
Fax 785•272•3585  
email kac@ink.org

*HOUSE INSURANCE*

DATE: *March 14, 2002*

ATTACHMENT # 3

**Testimony to the  
House Committee on Insurance  
Regarding Senate Bill No. 469  
By  
Douglas E. Smith  
Kansas Legislative Policy Group  
March 14, 2002**

Mister Chairman, Members of the Committee:

It is my pleasure to appear before you today in support of Senate Bill No. 469. Kansas Legislative Policy Group is an organization consisting of 36 Counties located in western Kansas. I am appearing today in their behalf.

Like all units of government, counties are challenged by the necessity of providing quality, affordable health care coverage for their employees. The cost of providing health care coverage is one of the largest increasing components of county government budgets.

Kansas Legislative Policy Group supports Senate Bill No. 469. This measure will provide counties a viable opportunity to have the option of participating in the state health care benefits program. Particularly, this would enable smaller counties to be included in a larger insured pool, which would provide stability in insurance rates.

Our member counties are aware this matter has been under consideration for several years and required extensive study. We commend your leadership and the support of the House Committee on Insurance for the hard work and positive progress on an issue of great importance to Kansas Legislative Policy Group.

Thank you for your time and consideration of my testimony.

HOUSE INSURANCE  
DATE: *March 14, 2002*  
ATTACHMENT # *4*



**House Insurance Committee**  
**March 14, 2002**  
**S.B. 469**  
**By Larry W. Magill, Jr**  
**Kansas Association of Insurance Agents**

Thank you Mr. Chairman and members of the Committee for the opportunity to appear as a proponent of Senate Bill 469. This legislation will set critical standards for local units of government to participate in the State of Kansas Health Self-insurance fund.

**Philosophically Opposed to the State Being a Health Insurer**

While we support Senate Bill 469 for reasons we will discuss below, we remain opposed to the basic concept of the State competing with private enterprise to provide health insurance to other units of government. When legislation was passed in 1984 to allow other public entities to join on the State's health insurance plan, it was a fully insured plan subject to open, competitive bidding. Since then the State has converted to a self-insured plan. That makes sense for the state but it completely changes the character of what the state is doing by providing insurance, through it's self-insurance fund, to other separate legal entities. The State is now acting as an insurance company competing for public entity health insurance.

This creates an inherently un-level playing field with other health insurance companies. It is doubtful that the State will consider all the functional costs that a free enterprise health insurance company would incur to open its doors and keep them open. The state should charge the local governments the cost of heat, light, rent, salaries, taxes, supplies, telephone and all the other general and administrative expenses that a business would incur to provide the coverage. We assume that the language on page 3, lines 17-19 is intended to at least partially address this issue.

We have no problem with the State self-insuring its employee benefits program. In fact, given its size, it makes complete sense. But local units of government are separate legal entities. In our view, asking the State to provide health insurance coverage for local government is asking the State to become an insurance company and compete with private insurance companies. We do not believe that is an appropriate role for State government.

**Local Business Important to Local Economy**

Small communities today in Kansas are struggling to remain economically viable as their local businesses struggle to remain in business. Often the local governments are among the larger purchasers of goods and services in the community. In many cases, local government can obtain some savings by quantity purchasing but in most cases, the savings are slight and the impact on local business can be significant.

For that reason, most local government units have not chosen to ask the state to enter into purchasing programs for the myriad of goods and services bought at the local level. We realize that we are asking local government to potentially spend additional tax

dollars but aren't they doing that now? If efficiency were the only criteria, wouldn't we be looking at consolidating units of government, for example, to save money?

### **Practical Problems:**

#### **Multiple Plan Designs**

Will everyone be on one plan or will the State be forced to administer a host of individualized group life, health, disability, dental, vision and long term care? The cost for the state to administer multiple different benefit programs could be enormous. The Committee should add a stipulation to S. B. 469 that requires that local governments take the same coverage/plan as that provided to state employees.

#### **Two Kinds of Adverse Selection**

Without the safeguards in this bill, you will have **guaranteed adverse selection** and raise the cost of the state plan. Without underwriting and rating protection, the only local government units that will join will be those that cannot find a cheaper alternative in the voluntary market. The more "high loss" groups join, the higher the state's rates will go and the more relatively "low loss" groups are driven back to private insurance. The older, higher loss groups will select against the State. This is adverse selection by the entire group (local unit of government).

A second kind of adverse selection can occur within a group where the younger, healthier lives choose not to take the insurance, leaving those most likely to have a claim in the plan. This can cause a "death spiral" as well where the more the young, healthy participants leave, the worse the group's experience becomes and the higher its rates. The higher it's rates go the more people leave the plan, and on it goes. The provision in S.B. 469 to require that at least 70% of the entity's employees participate; that the entity can't make exemptions from participation for some groups of its employees; and that the entity pays at least what the state pays toward the employees' cost will take care of some of this concern.

You will still only attract the local government units that are paying more than the state's rates now and will lose them just as soon as they can buy coverage in the open market for less. The requirement that once a group joins the state, they must remain in the state plan for three years after a "ramp-up" period is designed to reduce the adverse selection by the group as a whole.

Adverse selection is real. It's why several local government health insurance pools have failed in Kansas. Local units of government have had the authority for years to pool their purchases of employee benefits and most such pools have failed due to adverse selection. The only groups that stayed with it once their claims costs began to mature were the ones who couldn't find a cheaper alternative and it went into a "death spiral".

Local government units are paying more because the cost of health care is increasing. While combining with the state plan might save a small part of the administrative expense, that will not impact overall costs significantly. The real cost drivers are

medical and pharmaceutical usage and inflation and they aren't impacted by joining the state plan any more than managed care and PPO's impact them now. HMO's and PPO's are available to most local government units now from various insurers or by forming their own pool and contracting with a network.

### **Could Move us Toward Single Payer**

To the extent that a large volume of private health insurance would now be assumed by the State, this could move Kansas closer to a single payer health insurance delivery system. We need more competitors in this market, not fewer. We need to do everything possible to encourage insurers to stay in the market or to enter Kansas.

### **Summary**

While we remain philosophically opposed to the state acting as the "health insurer of last resort" for all the local units of government, we understand that no legislation is needed on that point. The state has had the authority to allow local government units in since 1984. It wisely chose not to because of the almost certain increased cost to state employees and to the State.

Given the apparent willingness on the current administration's part to allow local units to use the State Plan, we urge the Committee to act favorably on S.B. 469. By doing so, you will insure that the minimum requirements to avoid some of the adverse selection will remain in place.



**March 14, 2002**

**TO: Rep. Robert Tomlinson, Chair, and  
Members  
House Insurance Committee**

**FR: Tom Laing, Executive Director  
InterHab; The Resource Network for Kansans with Disabilities**

**RE: SB 469, as amended; regarding the state health care benefits program;  
standards by which eligible entities may secure coverage. .**

We support the amendments to current law set forth in SB 469, as amended, but respectfully request your consideration of an amendment in a section of current statute in the bill which defines the entities that are eligible to apply for coverage under the state health care benefits program.

**The use of the definitional language in section two, subsection c, (page 2, lines 34-35) in the current law has the unintended effect of allowing some community disability service providers to be eligible to apply for coverage under the state health care benefits program while other service providers are excluded for no discernible reason.**

Both sets of service providers deliver similar if not identical programs sponsored by the State, services provided by both types of organizations are licensed under the same State rules and regulations, both receive the majority of their funding from state and federal sources, and most are non profit organizations.

Organizations defined in K.S.A. 19-4001 are unique in that they are the CDDOs of the state, therefore such statutory reference excludes the majority of other service providers that are not CDDOs.

We propose an amendment to the language in section 2, subsection c, which lists eligible entities to clarify this point, and thereby make all community service providers of disability services eligible to apply for coverage .

*HOUSE INSURANCE*

DATE: *March 14, 2002*

ATTACHMENT *#6*

Lines 34 and 35 contain the following language:

**“... nonprofit community facility for the mentally retarded, as provided in K.S.A. 19-4001 et seq. and amendments thereto, or ...”**

*(That is the statutory language by which “Community Developmental Disabilities Organizations” are defined by reference thereto in K.S.A. 39-1801 et seq. (otherwise known as the Developmental Disabilities Reform Act).*

The language quoted above excludes many of the state’s community disability service providers for no discernible reason.

We recommend the following amendment (*italicized, and underlined*):

**“... nonprofit community facility for the mentally retarded, as provided in K.S.A. 19-4001 et seq. and amendments thereto, and affiliates thereof, or...”**

We foresee no negative impact arising from this amendment. It will merely allow all such similar entities to be covered rather than arbitrarily allowing some and not others.

**Summary:**

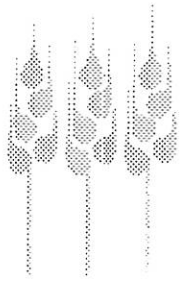
Our organizations, like other small businesses, are having a hard time securing affordable group health insurance coverage. We recognize that with or without our amendment, there is no guarantee for coverage in the state’s plan, but if there is chance of it, it should be a chance that both CDDO service providers and non CDDO service providers should be entitled to apply for.

Such an amendment would be consistent, we think, with the original intent of the statute.

The ultimate control over any impact of the more inclusive language we propose is that the Commission will continue to maintain the authority to regulate the admission of new applicants and reject those who cannot comply with the Commission’s rules or standards, or who might otherwise risk the actuarial integrity of the pool.

**We would appreciate your support for such a change, and we thank you for your consideration.**





# Kansas Association of Health Plans

1206 SW 10th Street  
Topeka, KS 66604

785-233-2747  
Fax 785-233-3518  
kahp@kansasstatehouse.com

**Testimony before the  
House Insurance Committee  
Hearings on SB 469  
March 14, 2002**

Chairman Tomlinson and members of the Committee. Thank you for allowing me to appear before you today. I am Larrie Ann Lower, Executive Director of the Kansas Association of Health Plans (KAHP).

The KAHP is a nonprofit association dedicated to providing the public information on managed care health plans. Members of the KAHP are Kansas licensed health maintenance organizations, preferred provider organizations and others who support managed care. KAHP members serve all of the Kansans enrolled in a Kansas licensed HMO. KAHP members also serve the Kansans enrolled in HealthWave and medicaid HMO's and also many of the Kansans enrolled in PPO's and self insured plans. We appreciate the opportunity to provide comment on Senate Bill 469.

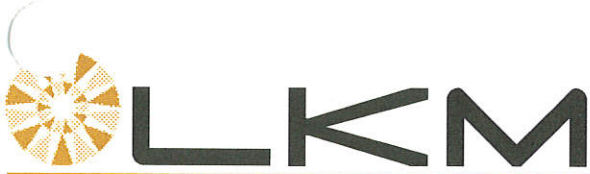
The KAHP appears today in support of Senate Bill 469. This bill ensures that various local entities including counties, townships, cities and school districts who wish to participate in the state employees health care benefits program may do so at the direction of the state health care commission, but must meet many of the same conditions currently required of the state of Kansas. These requirements will help ensure the financial stability of the state employees' health insurance program, by protecting against adverse selection.

Again thank you for allowing us to appear before you. I'll be happy to try to answer any questions you may have.

*HOUSE INSURANCE*

DATE: *March 14, 2002*

ATTACHMENT # *7*



League of Kansas Municipalities

300 SW 8th Avenue  
Topeka, Kansas 66603-3912  
Phone: (785) 354-9565  
Fax: (785) 354-4186

TO: House Insurance Committee  
FROM: Sandy Jacquot, Director of Law/Legal Counsel  
DATE: March 14, 2002  
RE: SB 469

Thank you for allowing the League of Kansas Municipalities to testify today in favor of SB 469. The League has been involved in discussions for several years about allowing cities to become a part of the state health care program. We testified to an interim committee this past year, which, as you know, recommended that cities and counties be brought into the state system. There has been survey upon survey sent to gauge local government interest and we believe the results have always shown a high level of interest on the part of our cities. The State Employees Health Care Commission voted on February 28, 2002 to begin the rules and regulations process to bring cities and counties into the state health insurance plan. While we recognize that a statutory change is not necessary to establish the underwriting criteria that cities and counties would have to follow, we welcome any efforts to accomplish the ultimate goal of bringing us into the state health insurance plan. Therefore, the League supports SB 469.

*HOUSE INSURANCE*

DATE: *March 14, 2002*

ATTACHMENT *48*

# BRAD SMOOT

ATTORNEY AT LAW

800 S W JACKSON, SUITE 808  
TOPEKA, KANSAS 66612  
(785) 233-0016  
(785) 234-3687 (fax)

10200 STATE LINE ROAD  
SUITE 230  
LEAWOOD, KANSAS 66206  
(913) 649-6836

STATEMENT OF BRAD SMOOT  
LEGISLATIVE COUNSEL  
BLUE CROSS BLUE SHIELD OF KANSAS  
BLUE CROSS BLUE SHIELD OF KANSAS CITY

HOUSE INSURANCE COMMITTEE  
REGARDING 2002 SENATE BILL 469

MARCH 14, 2002

Mr. Chairman and Members:

Blue Cross Blue Shield of Kansas is a mutual insurance company serving more than 700,000 Kansans in 103 counties and Blue Cross Blue Shield of Kansas City is a hospital and medical service corporation serving nearly 250,000 Kansans in Wyandotte and Johnson Counties. We are pleased to have an opportunity to comment on 2002 Senate Bill 469.

Both Blue plans currently provide insured and administrative services (ASO) to Kansas schools, cities and counties. We are very aware of the difficulties these entities face in mastering the costs and complexities of the group health insurance market. Many of these employers have tried various insurance arrangements to satisfy the needs of their employees and taxpayers, ranging from fully insured, to self-insured to municipal group pools. All with varying degrees of success.

Kansas law has allowed such municipalities to join the state health plan since 1984. However, the state employees health care commission had been reluctant to open its doors to local units for fear of adverse impact on state employees and the state budget. At the urging of the legislature the commission agreed to admit school districts on the condition that they not adversely affect state employees' benefits. On this basis, the commission wisely adopted standards for admission to the state plan which included: Elimination of the cash out option; employer contribution requirements and participation rates for eligible employees. The commission created a "ramp up" plan to allow districts time to comply with the employer contribution requirement and pooled school districts with all other state employees.

We commend the commission and the Department of Administration for establishing admission standards. The standards are necessary to prevent adverse selection and cost shifting to state employees and the SGF. Some 2000 teachers and their dependents are now participating and we at BCBS cover many of them through the state plan. It was inevitable that other municipalities would see the state plan as a desirable option (see S 258, requiring the commission to admit them) and that others would want to reduce or remove the standards imposed by the commission. Your interim committee report reflects these new demands on the state plan.

HOUSE INSURANCE

DATE: *March 14, 2002*

ATTACHMENT # *469*

The interim committee report also reflects the following: The commission was not favorably disposed to expansion of the plan without input from the legislature; admission criteria similar to that used for school districts would be necessary to prevent harm to the existing plan and its participants; and the state employees advisory committee to the health care commission was supportive of admitting cities and counties so long as there would be no adverse impact on the existing plan and recommended use of criteria similar to that used for school districts to protect the fiscal integrity of the plan. See Committee Reports to the 2002 Kansas Legislature, pp. 3-4 through 3-6. The committee concluded that legislation should specify certain basic criteria for admission to the plan. We agree with the interim committee.

The criteria specified in S 469 Sec. 2(d) are minimum requirements to protect the state employees plan from adverse selection by groups and individuals within those groups. They are precisely the requirements that those of us in the insurance business would need to protect our pool of insureds. They will guarantee that healthy employees and dependents who are not likely to utilize health care services join the plan as well as those who are most likely to make use of such benefits. This is the very essence of insurance.

During the last year we have seen dramatic increases in the costs of health care and health insurance. Your interim committee heard horror stories of 10% to 15% rate increases from private carriers. The state plan itself suffered a 25% increase this last year resulting in dramatic reductions in its benefit package (shifting costs to employees, dependents and retirees). State health care plan reserves have been spent down to the minimum and a \$12.4 million supplemental appropriation has been requested to preserve the integrity of the plan. Similar rate increases are expected in the future. Please remember that these cost increases are not caused by private insurance companies since the bulk of the state's employees are under the self insured portion of the state plan. These costs are simply a reflection of the claims experience of state employees, retirees and school districts in the plan.

Finally, we must comment on a few general concerns from the viewpoint of the private insurance market: First, while we are pleased to support S 469 as a sound approach to expanding the state employees plan, we need to clearly state our concern that it is not now, nor will it ever be, a panacea for rising health care costs and premiums. Many of those local governments that complain to you about the dramatic premium increases and general unaffordability of health insurance in the private market will have the same complaints about the state plan. And, of course, only those who cannot find a better deal elsewhere will join the state plan.

Second, the notion that a larger state plan will increase buying power for the state is a myth. Administrative costs are such a small portion of the health insurance dollar that even some improvement in the state's leverage (the state plan is already the largest group in Kansas) will not result in noticeable premium savings. Again, premiums are driven by claims.

Third, when a self-insured group begins to recruit or admit other groups, it literally becomes an insurer, competing with the existing private insurance market. With that comes the responsibility to remain solvent. We in the private sector must maintain a level of reserves and abide by fiscal standards which the state plan does not. This creates an unfair market advantage for the state and, correspondingly, a potential unfunded liability that ultimately becomes the responsibility of the Kansas taxpayer.

Fourth, unless the criteria for admission to the state plan is adequate (as proposed in S 469), the state general fund will inevitably subsidize some schools, cities and counties, but not all. This raises some very fundamental fairness questions for local governments and taxpayers.

Fifth, the problems of schools and municipalities have been a long time in the making. Cash out options, inadequate funding, priorities other than health insurance and the failure of municipal pools have all played a role in bringing us to this point. Admission to the state plan may be a temporary answer for some; a permanent answer for others. Still other local governments may need the increased taxing authority as proposed by S 442, recently considered by the Senate Education Committee or H 2721, proposing state funding for health insurance benefits for all school districts. Simply changing the method by which one purchases coverage will not solve the insurance problems for all Kansas' local governments.

In summary, we support S 469 as an intelligent, fiscally responsible approach to improving the health insurance options for local governments. It enables the state to lend a helping hand without overly burdening the state taxpayer or state employees. And putting the rules in statute protects the state employees health care commission from considerable political pressure while sheltering future Legislatures from unanticipated financial obligations. Local governments, as well as those who follow you in the legislature, should appreciate the foresight of S 469.





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

TO: House Committee on Financial Institutions and Insurance  
FROM: Kathleen Sebelius, Insurance Commissioner  
RE: SB 469 – State health care benefits program; participation by local governmental entities in such program.  
DATE: March 14, 2002

Mr. Chairman and members of the committee:

Thank you for allowing me this opportunity to address you on this issue of importance. Many, many times in the past several years, I have stated my support of the concept of including those entities already listed in the statutes for the State Employees Health Care Plan. K.S.A. 75-6506 provides that the Kansas State Employees Health Care Commission can include employees of a county, township, city special district or other local governmental entity, public school district, and others by rules and regulations.

At the February 27, 2002 Health Care Committee meeting, I was pleased to vote in favor of allowing public entities into the state health care benefit program. Far too many public employees in Kansas do not have access to the same high quality, affordable coverage offered to state employees. All too often, small counties and municipalities have limited groups, and find providing comprehensive coverage prohibitive. I believe that access to comprehensive, affordable health insurance is a key benefit for all workers.

But, are we still excluding some of the very groups we are trying to help. SB 469 would codify into law after July 2002, the current criteria set out for other groups to join the state health care benefits program. While I am not opposed to the actual codifying of the language into statute, I remain concerned about what language is being codified into law.

I continue to hear from school superintendents that the criteria and uncertainties are discouraging interested parties from considering membership.

Specifically, I am concerned about the employer-employee contribution and minimum enrollment rules. I have always supported criteria designed to eliminate adverse selection, but the consultants for the Health Care Commission and the Insurance Department actuary have confirmed that the 70% participation rate is sufficient to protect against adverse selection. The additional criteria that the employer/employee contribution must be at least equivalent to the state plan within a three to five time period is both economically unfeasible for too many school districts, and adds nothing to the adverse selection concern.

It is critical to decide what rules will apply to those groups interested in joining the health plan, because those very rules that you may chose to codify into law may be the reason for fewer groups coming into the state benefit program.

Thank you, Mr. Chairman and members of the committee, for this opportunity to discuss this important topic with you.