

Approved:  
Date: 2-19-02

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Sandy Praeger at 9:30 a.m. on February 13, 2002 in Room 234 N of the Capitol.

All members were present except:

Committee staff present: Dr. Bill Wolff, Kansas Legislative Research Department  
Ken Wilke, Office of the Revisor of Statutes  
JoAnn Bunten, Committee Secretary

Conferees appearing before the committee:

Kyle Wendt, Kansas Employee Health Care Commission  
Randy Allen, Ex. Dir., Kansas Association of Counties  
Rich Vargo, Riley County Clerk  
Brad Smoot, Blue Cross/Blue Shield  
Larrie Ann Lower, Kansas Association of Health Plans  
Linda Tenute, Coventry Health Care, Kansas City  
Ron Auer, Coventry Health Care, Kansas City  
Bruce Witt, Preferred Health Systems, Wichita  
Cheryl Dillard, Mid America Health, Kansas City  
Larry Magill, Kansas Association of Insurance Agents  
Sandy Jacquot, Legal Counsel, Kansas League of Municipalities  
Craig Grant, K-NEA  
Linda DeCoursey, KID

Others attending: See attached list.

**Hearing on SB 469 - State employees health plan; inclusion of additional entities**

Kyle Wendt, Kansas Employee Health Care Commission, addressed the Committee and expressed support for **SB 469** which would set conditions for local government participants in the state's health care benefits program. Participation would be conditioned upon the following: at least 70% of the local government employees must participate in the state health care plan; the amount of the premium paid as the employer's share must be equal to the amount the state pays for its employees; and the local government must not create, maintain or permit any exemption from participation in the state health care plan for its employees. These conditions would go into effect on July 1, 2002. Mr. Wendt offered an amendment that would change the wording in condition No. 2 of the bill on page 3 from "the amount paid by the state" to "the rate paid by the state" as outlined in his written testimony. (Attachment 1)

The following conferees testified in favor of **SB 469** and submitted written testimony. Some of their comments were as follows:

Randy Allen, Executive Director, Kansas Association of Counties, commented that while it does not appear in the bill, they acknowledge a need for counties and other local governments to commit to participating in the plan for a reasonable length of time (3-5 years) and that the state commit to their participation for the same length of time, (Attachment 2); Rich Vargo, Riley County Clerk, felt that by allowing counties to participate directly in the current state plan would create a much larger health insurance pool that would result in controlling premium costs for both state and county governments, (Attachment 3); Brad Smoot, Blue Cross/Blue Shield, noted that the criteria specified in Sec. 2(d) of the bill are minimum requirements to protect the state employees plan from adverse selection by groups and individuals within those groups, and he felt they are precisely the requirements that the insurance industry would need to protect their pool of insureds. Mr. Smoot also outlined a few general concerns from the viewpoint of the private insurance market as shown in his written testimony, (Attachment 4); Larrie Ann Lower, Kansas Association of Health Plans, expressed

## CONTINUATION SHEET

her support by stating that requirements must be met to ensure the financial stability of the state employees health insurance program by protecting against adverse selection, (Attachment 5); Linda Tenute, Coventry Health Care, Kansas City, speaking from experience with the State of Missouri plan, stressed the Kansas plan should require 70% participation of employees, employer contribution toward health coverage should be no less than 50% of the total premium, and the employer required to participate for a minimum of three years, (Attachment 6); Ron Auer, Coventry Health Care, Kansas City, did not provide written testimony but stressed the necessity of accurate underwriting of the group; Bruce Witt, Preferred Health Systems, Wichita, recommended a revision to the bill by adding a number (5) to subsection (d), which would read as follows: "(5) the entity shall elect to participate for a minimum of three consecutive years in the state health care plan," (Attachment 7); Cheryl Dillard, Mid America Health, Kansas City, cautioned that the plan not be experimented with as administrations change and a buffer be established, (Attachment 8); Larry Magill, Kansas Association of Insurance Agents, suggested the Committee add a stipulation to the bill that requires local governments take the same coverage/plan as that provided to state employees, and noted that without the safeguards in the bill, adverse selection would result and the cost of the state plan would be raised, (Attachment 9); and Sandy Jacquot, Legal Counsel, Kansas League of Municipalities, noted there is a high level of interest on the part of cities and counties to participate in the state health insurance program in order to provide affordable health care insurance, (Attachment 10).

Written testimony only was received from Mahlon Tuttle, Kansas Legislative Policy Group, expressing his support of the bill. (Attachment 11)

Craig Grant, K-NEA, appeared before the Committee by stating their problem with the bill is that it potentially restricts the Health Care Commission's flexibility at just the time when more school districts and colleges are seriously considering the move to the state health plan. The bill would actually restrict the ability of districts to enter the plan. He noted that currently districts can "ramp-up" their employer payments over three to five years in order to reach the same amount of premium as the state of Kansas pays for its employees. Subsection (2) on page 3 of the bill would eliminate the possibility of the popular ramp-up provision. He also noted they almost have enough members in the plan to force a study to see if the inclusion of school districts has caused any harmful effects, and believe that before they codify any rules or regulations that restrict what they already do into law, they should wait for that study and allow the Commission to make its regulations in these areas. (Attachment 12)

Linda DeCoursey, Kansas Insurance Department, noted that current statutes already allow the Kansas State Employees Health Care Commission to include employees of a county, township, city special district or other local governmental entities by rules and regulations. Ms. DeCoursey noted that the Commissioner of Insurance supports the concept of including those entities already listed in the statutes. **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, and while the Commissioner is not opposed to the actual codifying of the language into statute, she does have concerns about what is being codified. KID has confirmed that the 70% participation rate is sufficient to protect against adverse selection, and the additional criteria that the employer/employee contribution must be identical to the state plan within three years is both economically unfeasible for too many districts and adds nothing to the adverse selection concern. Ms. DeCoursey pointed out that it is critical to decide what rules will apply to those groups interested in joining the health plan, because those very rules that are chosen to codify into law may be the reason for fewer groups coming into the state benefit program. (Attachment 13)

### **Adjournment**

The meeting was adjourned at 10:30 a.m. The next meeting is scheduled for February 19, 2002.

SENATE FINANCIAL INSTITUTIONS & INSURANCE  
COMMITTEE GUEST LIST

DATE: 2-13-02

NAME	REPRESENTING
ED ROZING	DECTA DENTAL PLAN
ROGER ROBINSON, SUPT.	USD #463 UDALL
GARY MAVITY SUPT	USD 358 OXFORD
RON AUER	Country Healthcare
Linda Jenate	Country Healthcare
Rich Vargo	Riley County
Bruce Witt	Pre-Card Health Systems
Mary Seyk	Leadership Lawrence
Ken Deering	Leadership Lawrence
Terry Campbell	Leadership Lawrence
Craig Grant	KNEA
Diane Gjerstad	Wichita Public Schools
Wayne Kruse	Lawrence Educ. Association
Barbara Lynch	Lawrence Public Schools
Charles Drost	Leadership Lawrence
Bob Long	Leadership Lawrence
Linda Toberin	Leadership Lawrence
Jon King	Leadership Lawrence
Nancy Longhurst	Leadership Lawrence







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

February 13, 2002

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

Madam Chair 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).

While 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, it supports sound underwriting standards.

We would request the Committee consider changing the wording in condition #2 from "the amount paid by the state" to "the rate paid by the state" since, as per condition #4 a non-state entity rate could be different than the state rate. A "rate" is more appropriate since the word "amount" infers a flat dollar amount, while a rate is percentage based.

We would appreciate your favorable consideration of SB 469. I will be happy to answer any questions you may have.

Senate Financial Inst. & Insurance  
Date: 2-13-02  
Attachment No. 1



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

**TESTIMONY**

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

Senate Committee on Financial Institutions and Insurance

Presented by Randy Allen, Executive Director

Kansas Association of Counties

February 13, 2002

Chairperson Praeger and members of the committee, my name is Randy Allen, Executive Director of 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 four conditions listed in Section 2 (d) (1-4) of the bill (page 3) 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.

While it does not appear in the bill, we further acknowledge a need for counties and other local governments to commit to participating in the plan for a reasonable length of time (3-5 years). We understand this, and only ask that if such guarantee of participation is requested of counties and cities, that the State commit to our participation for the same length of time. This seems only fair.

Very soon, if not already, counties will be working on 2003 budgets for the fiscal year beginning January 1, 2003. It is important that Health Care Commission action to allow participation be made as soon as possible to give sufficient time for the Department of Administration to develop information so that county commissioners can make informed decisions about participating in the plan and incorporate accurate cost projections in 2003 county budgets.

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Senate Financial Inst. & Insurance

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Attachment No. 2

As you probably know, health insurance premiums constitute an extraordinary share of county budgets and property tax levies. Individual counties by themselves have markedly less negotiating power in the marketplace to secure more competitive rates. We appreciate all of the work and consideration that your committee and other committees have given to this policy decision, and respectfully ask that SB 469 be reported favorably for passage. Thank you.

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.





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**Testimony Before the Senate Financial Institutions and Insurance Committee  
February 11, 2002**

I am Rich Vargo, Riley County Clerk/Election Official. On behalf of the Riley County Commission, the Riley County Employees and the Kansas Association of Counties, I thank you for the opportunity to discuss allowing counties to opt into the State Employees Health Care Benefit Program.

Riley County would like the State to allow counties the opportunity to participate in the State of Kansas Employees Health Benefit Plan. Riley County believes allowing counties to participate directly in the current State plan, similar to the way counties participate in KPERS, will create a much larger health insurance pool. This in turn will help control the health insurance premium cost for both State and County Governments.

In 1998, Riley County hired a Health Insurance Consultant to assist us in developing more affordable health insurance plans due to significant increases in premiums proposed by Blue Cross. The consultant recommended ways to reduce the premium cost, prepared bid specifications, reviewed and made recommendations on the bids received. Many bid packets were requested and sent to companies such as Aetna, Prudential, Cigna, Principle and local insurance companies. In the end, many declined to bid, and of the couple that did submit bids, they did not have a sufficient network of local doctors and hospitals that readily accepted their insurance. Our only choice once again, was to continue coverage with Blue Cross.

It is an increasingly important budget issue for counties and also a personnel issue in attracting new personnel and keeping current personnel. In conducting interviews for open positions, I have lost applicants due to the employee's portion of the health insurance premium even though we paid a slightly higher wage. Each year employees get a cost of living adjustment and merit increase. There have been years when the cost increase in the employee's portion of the health insurance premium has exceeded the increase of their wages. Annually the increase in the health insurance premium takes a significant portion of the employees pay increase. Riley County offers employees two plans, Premier Blue and Blue Select. Both plans have increased over 20 % in the last two years.

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Riley County's current rates for health insurance including prescriptions and dental are as follows:

**Premier Blue**

Single	\$ 330.04
Employee/Children	634.60
Employee/Spouse	662.71
Family	724.96

**Blue Select**

Single	\$ 463.07
Employee/Children	891.28
Employee/Spouse	929.67
Family	1,002.81

Upon renewal of our contract with BC/BS for 2002 the BC/BS representative recommended Riley County increase the health insurance premium portion of our budget by 30% for 2003 due to the increase cost of prescription drugs. This projected increase does not include an adjustment that would be necessary if a group our size has one significant claim in 2002.

While we realize insurance cost will continue to increase, our goal is find a way to reduce the drastic increases, which can and have occurred in the past, on smaller groups of local units of government. I am confident that with the passage of SB 469 many units of local government would have access to a health insurance policy, which is more affordable than their current options and with better benefit coverage.

In conclusion, counties need to find a way to provide affordable health insurance coverage with good benefits to their employees. I am confident that allowing counties to join the current State Employees Health Care Benefit Program, would be financially beneficial to State and County Governments in the long term. Thank you for your time.



# BRAD SMOOT

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STATEMENT OF BRAD SMOOT  
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SENATE FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE  
REGARDING 2002 SENATE BILL 469

FEBRUARY 13, 2002

Madam Chair 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.

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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.

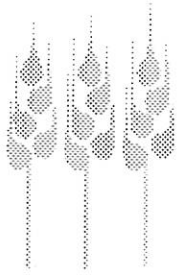
Second, the notion that a larger state plan will increase buying power for the state is a myth. Administrative costs are such a small portion of the health insurance dollar that even some improvement in the state's leverage (the state plan is already the largest group in Kansas) will not result in noticeable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



# Kansas Association of Health Plans

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**Testimony before the  
Senate Financial Institutions and Insurance Committee  
Hearings on SB 469  
February 13, 2002**

Madam Chair 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.

I also have in attendance today Linda Tenute with Coventry Health Care in Kansas City, Bruce Witt of Preferred Health Systems in Wichita and Cheryl Dillard from Mid America Health (previously known as HealthNet). All three would like to offer a few comments and suggestions and Linda would like to offer a bit of insight as to the experience of the Missouri State Employees health plan.

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

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February 12, 2002

To the Committee:

My name is Linda Tenute. I am employed with Coventry Health Care of Kansas, Inc. With me today is Jim Paprocki an actuary employed by Coventry Health Care. We are here today to express Coventry's support of Senate Bill 469. Coventry Health Care believes that for the long-term financial health of the State Employee Pool, there must be requirements for participation by public entities and school districts. In fact, our experience in the State of Missouri would dictate that these requirements are critical.

Prior to Missouri implementing guidelines for public entity participation, only those entities and school districts which could not find coverage in the open market joined the State Pool adversely impacting the Pool. Also, insurance carriers stopped responding to the State Employee RFP process because carriers lost millions of dollars providing coverage to the State Pool. In fact, in the Western Region there were 6 health plan choices for Missouri state employees in 1997; today there are 3.

Coventry Health Care supports:

- Participation requirements of 70% of employees
- Employer contribution toward health coverage be no less than 50% of the total premium
- Employer required to participate for a minimum of 3 years.

Thank you for your allowing me to speak before the committee today.



# Preferred Health Systems

**Testimony on Senate Bill No. 469 before the  
Senate Financial Institutions and Insurance Committee  
The Honorable Sandy Praeger, Chairman**

**By  
Bruce Witt  
Corporate Compliance Officer  
Preferred Health Systems  
February 13, 2002**

Thank you for the opportunity to testify on Senate Bill No. 469. I would like to begin by providing you some background information on Preferred Health Systems. We are a provider owned managed care organization based in Wichita, Kansas, and the parent corporation of Preferred Plus of Kansas, Inc., a health maintenance organization (HMO), Preferred Health Systems Insurance Company, a life and health insurance company, and Preferred Health Care, a statewide preferred provider organization. When you combine the covered lives of our HMO and PPO plans, we now have a total insured population of approximately 150,000 lives. Preferred Health Systems is wholly owned by Via Christi Regional Medical Center.

I have just a couple of comments relating to Senate Bill No. 469. First, we agree that if it is the desire of the State of Kansas to allow other governmental entities (i.e. school districts, cities and counties) the option of participating in the State of Kansas Group Health Insurance Program (GHIP), the participation requirements of such entities should be delineated in statute. The participation requirements so delineated should be no less restrictive than the participation requirements the Kansas State Employees Health Care Commission has currently established for school districts. We believe codifying the participation requirements in statute will provide for a more consistent and stable expansion of the GHIP to additional governmental entities, thus protecting the integrity of the existing program.

The second comment I have is in order to be completely consistent with the participation requirements currently applicable to school districts, we recommend a revision to the bill by adding a number (5) to subsection (d), which would read as follows:

*(5) the entity shall elect to participate for a minimum of three consecutive years in the state health care plan.*

We believe it is essential for the stability of the GHIP to require these entities that elect to participate in the plan to stay in for at least three consecutive years. This will reduce the problem of adverse selection. Adverse selection occurs when an entity with poorer than average health risks opts in and out of the GHIP depending on their ability to find affordable coverage on a direct basis. If these entities are not locked-in to participating for a specific time period, the potential adverse selection could be financially devastating to the existing GHIP.

Thank you for your consideration of the comments presented in this testimony. I would be happy to answer any questions.

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Senate Insurance Committee  
Kansas Legislature  
February 13, 2002  
SB 469

Madam Chairman and Committee members. I am Cheryl Dillard, Vice President, Public Affairs, with Mid America Health (formerly HealthNet). I'm appearing today in favor of SB 469.

Mid America Health has been offered to Kansas State employees since 1996. We provide health benefits coverage for 2435 state employees and their families. We are currently in the first year of a three-year contract with the State Employees Benefit Commission, with annual rate caps of 20%.

SB 469 codifies, for new groups entering the state plan, the rules that are currently in place for school districts to participate in the state employees' plan. Implementing participation and contribution rules will help strengthen the state's plan, offering some protection against adverse selection. In addition, as you know, the Commission that administers the state employee plan is dictated by statute. Members of the Commission serve either by gubernatorial appointment or election to office. It has certainly been the case in other states that the philosophy of similar bodies can change dramatically with the election of a new governor and/or the election or appointment of new leadership in the insurance department. SB 469 buffers state employees and the contracted health plans from the Commission's possible temptation to experiment while still allowing for innovative programs like disease management or standardized benefit designs.

Thank you for the opportunity to appear in support of this legislation.

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**Financial Institutions and Insurance Committee**  
**February 13, 2002**  
**S.B. 469**  
**By Larry W. Magill, Jr**  
**Kansas Association of Insurance Agents**

Thank you madam Chair 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. 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 would be the effect of the language on page 3, lines 17-19.

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

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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:**

#### **Who Controls Design of the Plan?**

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 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. One further protection you might consider putting in the statute is a requirement that once they join the state plan, they cannot leave for three years.

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".

#### **Isn't This Tax Shifting?**

Aren't the local government units who don't join because they are paying less subsidizing with their tax dollars the groups who do join because they are paying more? Unless local government units pay their own claims costs and administration costs, they will shift costs from one group of taxpayers to another.

Granted that a larger group realizes some economy of scale in administration cost but administration is only about 10% of the cost of health insurance and if you affect it by 20% you've had a 2% overall impact. And how much will you raise the cost of the State's employee benefits in the process?

The real cost drivers are medical and pharmaceutical usage and inflation and they aren't impacted 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. ✓



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League of Kansas Municipalities

TO: Senate Financial Institutions and Insurance Committee  
FROM: Sandy Jacquot, Director of Law/Legal Counsel  
DATE: February 13, 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. Most recently, 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. While we recognize that a statutory change is not necessary to allow cities into the program, we welcome any efforts to accomplish the ultimate goal. Therefore, the League supports SB 469.

**Testimony to the  
Senate Committee on  
Financial Institutions and Insurance  
Regarding Senate Bill No. 469  
By  
Mahlon Tuttle  
Kansas Legislative Policy Group  
February 13, 2002**

Madam 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.

I am aware this matter has been under consideration for several years and required extensive study. We commend your leadership and the support of the Senate Committee on Financial Institutions and 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.

Senate Financial Inst. & Insurance  
Date: 2-13-02  
Attachment No. //





Craig Grant Testimony  
Senate Financial Institutions and Insurance  
Wednesday, February 13, 2002

Thank you, Madame Chair. I am Craig Grant and I represent Kansas NEA. Today I am also representing the Kansas Association of School Boards in our testimony on SB 469.

At the outset, let me indicate that neither of our organizations has 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.

We are also not opposed to the underlying reasons for the criteria. We do not, nor do the members of our organizations, wish to do anything to harm the state employee health care plan or cause hardship for the state employees who are part of the plan. We welcome reasonable safeguards to see that this does not happen.

Our problem with SB 469 is that it potentially restricts the commission's flexibility at just the time when more school districts and colleges are seriously considering the move to the state health plan. In fact, the State Board of Education has a plan that would, over the next three years, have the state (in matching funding with local districts) fund a single membership in the state health plan. This would free local district budgets to be used for other items while greatly increasing the number of districts who could afford to come into the state health insurance plan. This would help one of our organizations' top priorities.

SB 469 would actually restrict the ability of districts to enter the plan. Currently, districts can "ramp-up" their employer payments over three to five years in order to reach the same amount of premium as the state of Kansas pays for its employees. Subsection (2) on page three of the bill would eliminate the possibility of the popular ramp-up provision. Currently a few districts pay 100% of the health insurance premiums for single and/or family plans for employees in the district. The health commission has indicated that this would certainly not hurt the plan, but might enhance the plan. Subsection (2) would not allow that to happen.

We almost have enough members in the plan to force a study to see if the inclusion of school districts has caused any harmful effects to the plan. We believe that before we codify any rules or regulations that restrict what we already do into law, we should wait for that study and allow the commission to make its regulations in these areas.

For these reasons, we currently oppose SB 469. Thank you for listening to our concerns.



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

TO: Senate Committee on Financial Institutions and Insurance

FROM: Linda J. De Coursey, Director of Government Affairs

RE: SB 469 – State health care benefits program; participation by local governmental entities in such program.

DATE: February 13, 2002

Madam Chairwoman and members of the committee:

Thank you for allowing me this opportunity to discuss our thoughts on this bill.

Commissioner Sebelius did appear before the interim Special Committee on Financial Institutions and Insurance this past fall on this topic. In her testimony, she discussed that access to comprehensive, affordable health insurance is a key benefit for all workers. 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.

One strategy being explored in states around the country, and with the federal employees health plan, is to use the bargaining clout of a state employees purchasing pool to extend coverage to other groups of uninsured or underinsured workers. Kansas has begun to explore this strategy, recognizing that insurance is “the law of large numbers” and spreading the risk to a large pool of applicants is one of the most effective ways to contain costs.

Current statutes (K.S.A. 75-6506) already provide 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, by rules and regulations. As a member of the Health Care Commission, Commissioner Sebelius supports the concept of including those entities already listed in the statutes.

The Commissioner also strongly recommended to the interim committee that the criteria and data that have been compiled be examined, because she continued to hear from numerous superintendents that the criteria and uncertainties are discouraging interested parties from considering membership.

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 Commissioner Sebelius is not opposed to the actual codifying of the language into statute, she does have concerns about what is being codified.

A plan was crafted during 1999 to offer admission of school district employees into the state employees health plan, after several years of discussion in the Health Care Commission, a legislative interim study, an actuarial report, and input from interested parties. Rules were designed for either immediate inclusion or a multi-year "ramp-up plan" so that Districts could meet the enrollment criteria over a three-year period of time.

Some data exists on in a study by the Department of Administration which examined the length of the ramp-up period, and attempted to gather data on factors designed to limit adverse selection: the employer-employee contribution and minimum enrollment rules.

Commissioner Sebelius has always supported criteria designed to eliminate adverse selection, but our consultants and the Insurance Department actuary has confirmed that the 70%

participation rate is sufficient to protect against adverse selection, and the additional criteria that the employer/employee contribution must be identical to the state plan within three years is both economically unfeasible for too many districts and adds nothing to the adverse selection concern.

Once again, there are numerous Kansans working in the public sector with no health insurance benefits. There seems to be a compelling public policy reason to provide the state purchasing pool as a viable alternative to other public employees throughout Kansas.

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, Madam Chairwoman and members of the committee, for this opportunity to discuss this important topic.