

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairperson Ruth Teichman at 9:30 a.m. on February 17, 2004 in Room 234-N of the Capitol.

All members were present except:  
Senator David Adkins- Absent

Committee staff present:  
Bill Wolff, Legislative Research  
Terri Muchmore, Legislative Research  
Ken Wilke, Office of the Revisor of Statutes  
Nancy Shaughnessy, Committee Secretary

Conferees appearing before the committee:  
Laura Howard, SRS  
Jerry Slaughter, Kansas Medical Society  
Jarrod Forbes, Kansas Insurance Dept.

Others attending:  
See Attached List.

The Chair announced in opening the meeting that the Committee would be looking at **SB-392** **Authorizing the committee on surety bonds and insurance to competitively negotiate certain contracts**, for purposes of further discussion only.

The Chair also notified the Committee regarding a bill that was assigned this week to the committee so tomorrow the FII Committee will be hearing **SB 509**—**Credit service organizations, inclusion of debt management services**. Additionally, the Committee will look at possibly working **SB 392** and **SB 347**—**Prohibiting counting an insurance related inquiry as an insurance claim**. She also indicated that she will be unable to attend the Committee meeting on Thursday Feb. 19<sup>th</sup>, and Senator Barnett will be chairing the Committee.

The Chair then opened the hearing on **SB 367**—**Removal of capitated managed care requirement**, and then introduced Laura Howard of SRS as a proponent on the bill. SRS proposed this particular legislation to provide some additional flexibility in the reimbursement mechanism that is used in management of the State Children's Health Insurance Program.(SCHIP). (Attachment 1)

The statutory requirement that SCHIP be managed through a capitated model prevents SRS from exploring alternative service delivery mechanisms that might increase efficiency and hold down costs, while continuing to provide quality care to consumers. Primary concerns are pharmacy and transportation.

Senator Barnett wondered how pharmacy works now and how it would work in the future if this legislation passes.

Ms. Howard replied that currently FirstGuard has the responsibility for the array of physical health services including pharmacy. SRS reimburses FirstGuard on a per member per month basis for the comprehensive care that's provided. If pharmacy were carved out from that requirement we would manage that as we manage pharmacy within the remainder of the Medicaid program.

Th Chair clarified her understanding and inquired if SRS was comfortable carving out just pharmacy and transportation and would leave the capitated care on the rest.

Yes, that is their intent and purpose.

Jerry slaughter of the Kansas Medical Society provided brief comments and testimony(Attachment 2) on **SB 367**. They concur with the intent of this bill and support the bill.

CONTINUATION SHEET

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE at 9:30 a.m. on in Room 234-N of the Capitol.

The Chair asked if the amended language was ready to be presented today as she had wanted to work the bill today. Ms. Howard indicated the new language would be sent over ASAP.

The hearing was closed on **SB 367**.

The Chair then opened the Hearing on **SB 348—Conformance with Federal Law re: Health Savings Accounts**.

Jarrold Forbes of the Kansas Insurance Department testified as a proponent of the bill. (Attachment 3) The bill would amend the current law allowing Medical Savings Accounts(MSA) to also allow Health Savings Accounts(HSA) The bill comes out of federal legislation and must be passed before we can offer these accounts to Kansans. He stated that under the new legislation old MSA's will be allowed to exist but they will no longer be offered.

Senator Barnett asked if there were any clauses with the legislation that if the HSA is not used in your lifetime, it is forfeited.

The Chair replied that according to her information the asset is passed on to the surviving spouse or the estate.

Senator Steineger asked staff about why the language in the bill specifically references mental health issues. Doctor Wolff replied that section of Kansas law requires first (1<sup>st</sup>) dollar payment by the plan or insurance company. Under an HSA you would not have first dollar coverage. The exemption was written at the time federal law was passed.

The Chair informed the Committee that Representative R.J. Wilson does support this bill and would like to see it passed out. The hearing was closed.

Senator Steineger made a motion to pass the SB 348 out favorably. Senator Barnett seconded. The motion passes.

The Chair moved the agenda to continue discussion of **SB 392**. The bill was brought to the committee by Senator Oleen and deals with the open meeting law and how they do their bidding. She asked Dr. Wolff to comment. He stated that in existing law some of the language is almost diametrically opposed to what the provisions are in what **SB 392** is proposing. Basically he has some concerns about current law and new proposed law and feels that the language is too broad.

The Chair indicated that her concern is with the open meetings law and she does not feel that the FII Committee wants to do anything that conflicts with the open meeting law. She further indicated that she does not feel they are at the place where they can bring this bill out. Senator Helgerson shared her concern and asked for additional study. The Chair will meet with Senator Oleen and share information and determine if this can be smoothed out.

The Chair reviewed the agenda for tomorrow and adjourned the meeting at 10:10 a.m.

The next meeting is scheduled for February 18, 2004.

SENATE FINANCIAL INSTITUTIONS & INSURANCE

Date: 2-17-04 - Tuesday

Name:

Representing:

Sam Jobe

KID

Rebecca Wampo

KLIA

Cheryl Gillard

Coventry Health Care

Laura Howard

SRS

Tanya Doff

SRS

Rd May

FLEM Loan Fm

Chase Finnell

Health Planning and Finance

Marty Kennedy

~~Health~~ Consortium

Joy Whelan

GUARDIANS

Mike Hattles

First Guard

John Peterso

First Guard

JOHN C. BOTTENBERG

DELTA DENIAL

Hanni Anderson

KATH

Jeff Bottenberg

AAHP

Kansas Department of

# Social and Rehabilitation Services

Janet Schalansky, Secretary

**Senate Financial Institutions and Insurance  
Committee**

February 17, 2004

**Senate Bill 367 - State Children's Health Insurance  
Program / HealthWave**

**Division of Health Care Policy**  
Laura Howard, Deputy Secretary  
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For additional information contact:  
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Senate FI & I Committee

Meeting Date: 2-17-04

Attachment No.: 1

**Kansas Department of Social and Rehabilitation Services**  
**Janet Schalansky, Secretary**

Senate Financial Institutions and Insurance Committee  
February 17, 2004

**Senate Bill 367 - State Children's Health Insurance Program / HealthWave**

Madam Chair and members of the Committee, thank you for the opportunity to appear before you today in support of S.B. 367. My name is Laura Howard, and I am the Deputy Secretary of SRS Health Care Policy.

SRS proposed this legislation in order to achieve some additional flexibility in the reimbursement mechanism used in management of the State Children's Health Insurance Program (SCHIP). The State Children's Health Insurance Program (SCHIP) began in 1997 under Title XXI of the Federal Social Security Act. The 1998 Kansas Legislature then passed state statutory provisions that govern operation of the program in Kansas. Specifically, the Kansas law required SRS to implement the SCHIP program in Kansas as a capitated managed care plan. S.B. 367 would delete the requirement that the managed care provided through SCHIP be reimbursed through a capitated managed care arrangement.

SRS implemented the SCHIP program in Kansas in January, 1999, and integrated it with the state's Medicaid capitated managed care program in SFY 2002 for a seamless combined program known as HealthWave. Blending the two programs, as directed by the state SCHIP statutes, allows SRS to provide children and eligible families with uniform and seamless health care coverage, regardless of which program (i.e, Title XIX or Title XXI) funds the coverage. SRS provides family coverage in a capitated format. The State contracts with FirstGuard Health Plan Kansas, Inc. (FirstGuard), a managed care organization (MCO), to provide a full array of physical health care services. Through a contractual arrangement, the Mental Health Consortium provides mental health and substance abuse services, while Doral Dental serves as the dental services Administrative Service Organization (ASO) for Medicaid HealthWave and the managed care organization for SCHIP HealthWave.

The statutory requirement that SCHIP be managed through a capitated model prevents us from exploring alternative service delivery mechanisms that might increase efficiency and hold down costs, while continuing to provide quality care to consumers. As an example, let me share some of the ideas we are exploring to better manage pharmacy and transportation costs across the Medicaid and SCHIP programs.

In Kansas, and around the country, escalating pharmacy costs continue to place a strain on health care budgets in both the private and public sectors. Not only has SRS experienced this increase as a part of the Medicaid budget, so too has FirstGuard in regard to escalating pharmacy costs within the HealthWave population. Current law would prohibit SRS from managing and paying for certain services for SCHIP beneficiaries such as pharmacy outside of the capitated rate.

Carving out certain services would provide SRS with the opportunity to examine alternative

methods for generating possible cost savings and maximizing the use of existing data resources. For example, the Heritage Information Data System, currently being utilized by SRS, allows a number of different analyses to be made on pharmaceutical claims. These analyses range from "profiling" a beneficiary (i.e., reviewing their medical claims, pharmacy claims, procedure codes, diagnosis codes, etc. all from one data location) to measuring compliance in taking prescribed medications. The examination of beneficiary utilization could not only increase quality of service provided but also prevent inappropriate usage. In addition, a business PlanFormance component allows a review of the financial aspects of the pharmacy claims, totally independent of the clinical and medical review. Analyses from this component of the data system permits more detailed review of medical expenditures. Furthermore, SRS could access drug rebates for HealthWave beneficiaries. SRS also could then explore the use of pharmacy benefit management or reimbursement methods designed to incentivize certain practices.

Along with the possibility of more tools for managing pharmacy services for both the Title XIX and Title XXI populations, SRS could employ the current SRS management processes for transportation services to administer these services for HealthWave beneficiaries. Such flexibility would provide SRS the option of pursuing a contract with a transportation broker if such an option would prove beneficial. States that have moved to a transportation broker from a state-run program report decreased costs and increased oversight of service authorization and greater control of program fraud and abuse.


Allowing increased flexibility in administering HealthWave also would provide SRS with the opportunity to examine alternative service delivery models and to revise the benefits plan under emergency and/or catastrophic situations in order to more effectively address the needs of our beneficiaries. The passage of Senate Bill 367 would grant SRS the capability of taking any or all of the actions I have outlined above with no additional fiscal impact.

Thank you for the opportunity to testify in support of S.B. 367. I would ask the committee for your support, and would stand for any questions from the committee.



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**To:** Senate Committee on Financial Institutions and Insurance

**From:** Jerry Slaughter  
Executive Director 

**Date:** February 17, 2004

**Subject:** SB 367; Concerning the state children’s health insurance program

We appreciate the opportunity to comment on SB 367, which amends the statutes that contain the framework for the children’s health insurance program. The bill eliminates the word, “capitated,” from these statutes, but that is potentially a significant change. We strongly support the children’s health insurance program as it is currently structured.

The current program, which has been in existence since 1999, has been a success by almost any measure. SRS deserves a lot of credit for creating a managed care program from scratch that now covers over 30,000 children that were previously without insurance. The program requires the contractor, FirstGuard Health Plan, to deliver the required benefits to the insured children for a fixed dollar, or capitated, amount. It is a publicly-financed, but privately delivered, health insurance program that has wide acceptance and credibility among physicians. It delivers comprehensive benefits efficiently, and has done exactly what the legislature intended when Kansas first elected to participate in the new children’s health insurance program five years ago.

Our concern with the bill is that it could inadvertently weaken the program. One of the key success factors of the program is that it requires the contractor to organize and deliver comprehensive medical benefits. This structure allows care to be managed in a way that yields very positive results, both in terms of better patient care, with less administrative complexity for the physicians who provide the care. By striking the word “capitated” from the statute, it would allow SRS to unbundle services from the management of the primary insurer. If that were to go too far, we could end up with a program where there was little opportunity for care management, which would probably be more costly for the state, and less effective for the insured children.

We know there has been discussion about “carving out” certain services, such as pharmacy benefits, because of the complexity of the pricing and discount scheme which has evolved in the Medicaid program over the years. We also understand there has been

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discussion about carving out transportation services. We do not oppose creating more flexibility for SRS in purchasing those particular services for the program. We would prefer that the legislation specifically identify which services are to be carved out, as conditions dictate from time to time, but keeping the overall capitated, case management model intact. Thank you for the opportunity to offer these comments.





# Kansas Insurance Department

Sandy Praeger COMMISSIONER OF INSURANCE

COMMENTS  
ON  
SB 348—HEALTH SAVINGS ACCOUNTS  
SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE  
February 17, 2004

Madam Chair and Members of the Committee:

Thank you for the opportunity to visit with you on behalf of the Kansas Insurance Department. Senate Bill 348 would amend current law allowing Medical Savings Accounts (MSA) to also allow *Health Savings Accounts (HSA)*.

This bill comes out of federal legislation passed and signed by the President allowing such accounts. We have received confirmation from the federal government that this bill must pass before these accounts can be offered to Kansans. Health Savings Accounts work by individuals saving pre-tax monies to put toward their health insurance. In addition these plans must have a high deductible in order to receive their federally qualified designation.

In the days of a tight insurance market the Department believes HSA's should be available to Kansans. Clearly, this is not a product that will benefit everyone, but we do believe it should be available to those it can benefit.

With that madam chair, I would be happy to stand for questions.

Jarrod Forbes  
Legislative Liaison

Senate FI & I Committee

Meeting Date: 02-17-04

Attachment No.: 03