

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE

The meeting was called to order by Chairman Ruth Teichman at 9:30 A.M. on January 26, 2005 in Room 234-N of the Capitol.

Committee members absent: Vicki Schmidt- excused

Committee staff present: Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Ken Wilke, Office of Revisor of Statutes
Sandy Yingling, Committee Secretary

Conferees appearing before the committee: Dr. Richard Warner, KMS Second Vice President
Greg Scandlen, The Galen Institute

Others Attending: See attached list.

Madam Chair opened the meeting by taking bill introductions:

Larry McGill, representing The Kansas Association of Insurance Agents introduced an amendment to KSA 40-905 relating to fire insurance companies. Real Property shall not be issued for more than its replacement cost. (Attachment 1)

Senator Barnett moved the introduction of the bills, the motion was seconded by Senator Barone. The motion carried.

Madam Chair asked for other bill introductions, there were none.

Madam Chair turned the meeting over to Senator Barnett who arranged the speaker for the day. Senator Barnett introduced Dr. Richard Warner who spoke briefly giving a summary on his background stating he is the former president of the Johnson County Medical Society and First Vice President of the Kansas Medical Society. Dr. Warner brought an article that was published two years ago in the Kansas Position Newsletter on the subject of medical employee benefits. Dr. Warner then introduced Greg Scandlen, Director of the Center for Consumer Driven Healthcare at The Galen Institute who presented HSAs: The Progress of Consumer Driven Health. (Attachment 2)

Mr. Scandlen gave a brief introduction of himself and proceeded with his presentation. He began by defining HRA (Health Reimbursement Arrangements), a term explained by the IRS in June, 2002 and HSA (Health Savings Accounts) that passed as part of the Medicare Reform bill last year. HRA is employer money that can never be owned by the individual. It can be for any amount of money and go with any kind of health insurance plan. HSAs are aimed towards individuals and small groups. HSAs are required to go with a high deductible health plan. It is just a savings account that both the employer and employee puts monies into and draws money to pay for the workers share of coverage of the deductibles among other reasons. It is limited to the amount of the deductible and can build up year after year tax free. The funds belong to the employee who has total control over the money and how it is invested and set up his/her own account administrator. The employer has no control over the funds after the contribution, it is the worker's money and no one else. If the employer should withdraw the money and spend it on non-medical services a 10% penalty and taxes will be applied.

Upon conclusion of Mr. Scandlen's testimony, Madam Chair asked him to explain how HSAs worked in connection with financial institutions.

Mr. Scandlen explained in most cases the insurance company will provide the high deductible health plan and the financial institution will provide the savings account administration.

Madam Chair recognized Senator Barnett who inquired on how the plan could be maximized for state employees and Mr. Scandlen answered that the HSA plan could be maximized through state employee groups by setting the standard for other employees. They could have either HSA or HRA to help with

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retirement expenses. Senator Barnett inquired as to the helpfulness to low wage earners, to which Mr. Scandlen answered the out of pocket expense to the individual is not that much different. The opportunity is that there is build-up money.

Senator Barnett inquired in regard to the Business Health Partnership in Kansas and the opportunity to target small business and the supplement fund from tobacco tax. Was there a way to marry that with HSA and Business Health partnership? Mr. Scandlen stated that he would discourage that because it would not be solving the problem of affordability and personal ownership. Senator Barnett explained that these were small businesses who cannot provide insurance and they would try to encourage them to provide a HSA option or some opportunity to encourage the employer to provide a HSA option and questioned if Mr. Scandlen would discourage that. Mr. Scandlen stated that he would discourage that, he stated he would rather spend that energy and money helping the individual workers to buy their own coverage. Dr. Warner disagreed with Mr. Scandlen he believes it would make perfect sense to wed them.

Senator Wysong questioned how the HSA works as a deductible on an individual's income tax and Mr. Scandlen pointedly answered no, it would not be a deduction.

Senator Steineger inquired what percent of GNP (Gross National Product) did this country spend on health care and Mr. Scandlen answered 14%. Senator Steineger asked what percent of health care costs are spent on administration and Mr. Scandlen answered approximately 25%. Senator Steineger asked what are the estimations on administrative fees per account on HSA and were the fees paid outside of the contribution or is it deducted from the HSA, Mr. Scandlen pointed out that there is no set amount. Some might be per transaction charge and other might be a set-up fee with small charges thereafter and typically it would be taken from the agency. Senator Steineger pointed out with this arrangement right away some of the health monies would be lost for administration. Senator Steineger asked if there were estimates for total revenue that would be generated to financial firms to manage these accounts? Mr. Scandlen said he had not seen any estimates and would depend on how many people sign up. Lastly, Senator Steineger wanted to know how would a HSA dissuade people from smoking, over eating and other health risk problems. Mr. Scandlen said that by having the individual more involved in their own health care decisions begins to help them understand better everything about health care.

Senator Brownlee questioned what percent of buyers of HSAs are uninsured, and Mr. Scandlen answered approximately 30%. Senator Brownlee pointed out that the allowable amount compared to the amount the healthcare provider charges differs considerably and her question was how would she be charged if she had an HSAs, the higher or lesser amount? Mr. Scandlen said the way individuals are billed is shocking and changes need to be made. Lastly, Senator Brownlee asked Mr. Scandlen to comment on AHP (Associate Health Plan), Mr. Scandlen said they get the highest risk, because the healthiest groups can go out of the association and buy coverage on their own at a more favorable rate. The advantage of AHPs is it would allow the federal government to preempt some of the state regulations. He does believe there is a need for deregulation in insurance.

Senator Brungardt's curiosity about the roll of the uninsured and if they would have a car wreck and incur a huge medical expense prompted him to ask how important are they to the big picture and how do you include them economically? Mr. Scandlen believes the 45 million uninsured most of which are full time working, intelligent people is a market of opportunity not a crisis. He stated the uninsured is a very attractive population without a lot of money that should be targeted with health care product that would be of value and at least up until HSAs came along, that it has not been done. Senator Brungardt pointed out that it is often said that when the uninsured seek care it is the least efficient and highest priced and that this is a big drag on the system. Mr. Scandlen believes that is an overstatement. He quoted an article in Health Affairs that tried to quantify that fact. They published that uninsured used approximately 90 billion dollars in health care services and out of that the individual paid directly from their own pocket about 1/3 of that amount, 1/3 was paid by government qualifying programs and 1/3 was paid through uncompensated care, i.e. the hospitals, etc. About 35 million dollars was hospital uncompensation which represented approximately 3 1/2 % of total health spending in the country.

Senator Wilson questioned if America was ready for a major shift and change in saying we are ready to

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take personal responsibility of and start eating and exercising better. Mr. Scandlen stated he has no data on this, but quoted a study by Harvard done over five countries with different systems and summarized that it is time for policy to catch up to the people.

Senator Barnett asked Mr. Scandlen's thoughts on policy proposals to expand the Medicaid system. Mr. Scandlen simply stated that Medicaid was a "lousy program" and why would anyone want to expand it, that money would be better spent by helping individuals find coverage of their own.

Madam Chair thanked Mr. Scandlen and Dr. Warner for testifying.

Meeting was adjourned at 10:32 a.m.