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Written Testimony to the Senate Committee on Public Health and Welfare

Presented by Beverly Gossage, President HSA Benefits Consulting

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Subject: Senate Bill 163

Madam Chair and Members of the Committee:

It is an honor to address this committee today. My name is Beverly Gossage, President of HSA Benefits Consulting. I am the President and Legislative Chair of the Greater Kansas City Association of Health Underwriters. Today I am here to give testimony on how SB 163 can help cover uninsured Kansans by offering more affordable choices in health insurance policies.

Purpose:
This bill addresses three problems in our state:

Problem 1: Uninsured Kansans
According to the latest Kaiser Foundation Study, approximately 15 percent of nonelderly Kansans are uninsured.

Problem 2: Ever increasing small group and individual insurance premiums
Kansas and federal laws require that health plans provide mandated services and benefits, forcing premiums to increase as each mandate is added.

Solution: Allow insurance carriers to offer lower cost policy options that do not meet all Kansas or federal mandates.

Problem 3: Benefit exclusions in some health insurance policies are not easily discernible
Solution: Standardize the policies with clear language in bold type as to which mandates are not covered by the policy

Background:
According to the Council for Affordable Health Insurance (CAHI):

A health insurance "mandate" is a command from a governing body, such as a state legislature, to the insurance industry or health plans to include coverage for (or, less frequently, offer coverage for) a particular health care provider, benefit and/or patient population. Some examples are:

- *Providers such as chiropractors, podiatrists, social workers and massage therapists;*
- *Benefits such as mammograms, well-child care, drug and alcohol abuse treatment, but also acupuncture and hair prostheses (wigs); and,*
- *Populations such as non-custodial children and grandchildren.*

Although not true in every case, some mandates find their way into a state's laws as a result of a special interest standing to gain business or profit, and a defined user group seeking to receive benefits for little or no payment.

The CAHI study reported that the state with the lowest number of mandates is Idaho with 13 and the highest is Rhode Island with 70. Kansas falls in between with 46. One would assume that the more mandates, the more expensive the health policies. Though that is generally true, mandates do not affect policy premiums equally. As the study states: "Some mandates have a more pronounced effect on premiums than do others. For example, a mental health parity mandate, which requires insurers to cover mental health care at the same levels as physical health care, has a greater impact on the cost of premiums than a collection of mandates for inexpensive procedures utilized by relatively few people." Accumulated mandates can increase premiums from 10% to 50%.

Though the number of mandates on health insurance policies in Kansas is fewer than the national average, they increase the cost of health plans for all Kansans, particularly compared to neighboring states. Mental health parity, for example, is an option in Missouri, but required in Kansas.

State mandate-lite policies are already available to large businesses which self-insure. The 1974 Employee Retirement and Income Security Act, (ERISA), gives self-insured plans an exemption from all state regulations pertaining to insurance. Thus, by self-insuring a firm is able to deflect all costs associated with state insurance regulations. A self-insured firm need not offer state-mandated benefits, and it can avoid paying premium taxes on its plan. An important policy issue in the area of mandates has to do with ERISA's preemption of state laws.

Therefore, SB163 would apply to those individuals not covered by an employer plan and those employers and employees covered by a small group, fully insured health plan. Lower rate options should encourage more of these employers and individuals to purchase policies.

Gail A. Jensen, an associate professor of economics and gerontology at Wayne State University notes that "Any firm that previously did not offer coverage now mandated sees its premiums increase. And those additional costs must ultimately be paid by workers in the form of lower wages, lower levels for other fringe benefits, or lower employment...Studies estimate that about one-fifth of small firms that do not currently offer insurance would offer it in a mandate-free environment."

At last count ten states offer "mandate lite" policies, allowing individuals an opportunity to purchase a policy with fewer mandates, more tailored to their needs and budget.

Arizona and Utah are among those states. The Arizona State Senate Issue Brief reports: "As of June 2010, there are two known insurers offering this type of product in Arizona: Blue Cross and Blue Shield of Arizona and Aetna. Blue Cross and Blue Shield of Arizona reports that their small group "mandate-lite" product with a $2,500 deductible costs approximately 42 percent less than their comparable PPO product with the same deductible, and has 253 enrolled small business group members."

According to the National Conference for State Legislators website, "in 2009 Utah created a low-cost mandate-free insurance option for insurers to offer to the individual and small-business markets and for those eligible for COBRA, mini-COBRA or conversion coverage."

In addition to state laws, HHS has been adding mandates through PPACA, such as broader preventive care services and expansions to both lifetime limits and the dependent age. In 2014, PPACA will require most Americans, with a few exceptions, to purchase a qualified health policy that provides a standard set of "essential health benefits," which are richer benefits than offered by all individual policies and most small group plans.

These mandates added to additional regulations for all policies, including guaranteed issue (which requires health insurers to accept anyone who applies, regardless of their health status) and community rating (which limits an insurer's ability to price a policy to accurately reflect the risk an applicant brings to the pool), will dramatically increase premiums. In fact, when PPACA is more fully implemented, rates could explode to as high as 50% more for small group plans and up to 400% for individual policies, according to local insurance carriers and exchange vendors. The individual mandate tax will become effective in 2014.

An individual will be subject to a tax if he is uninsured or the policy he purchased does not meet the requirements set forth in PPACA.HHS uses a complicated metric to determine the tax, but it is commonly reported to be $95 or 1 percent of income in 2014, $325 or 2 percent in 2015, and $695 or 2.5 percent in 2016, not to exceed the average cost of a bronze plan in the exchange. The CBO estimates that these bronze policies will cost $4,500-$5,000 per person and $12,000-$12,500 per family in 2016.

Given the likely high cost of policies and the questionable amount of premium credits and exchange subsidies (rather state-based exchange subsidies per Oklahoma's lawsuit), it is highly possible that some Kansans, if given a choice, may choose to pay the relatively small tax and purchase a more affordable mandate lite health insurance policy.

Conclusion

Kansas can join other states in allowing mandate-lite policies, giving more health insurance options designed to meet the health needs and financial budgets of its citizens. This could shrink employees' and employers' health insurance allocation. The number of uninsured could decline as a greater number of employees sign up for the more affordable coverage. Employers could have expendable cash for hiring more employees and paying higher salaries.

I will gladly stand for your questions.