LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: (808) 586-2850
Fax Number: (808) 586-2856
www.hawaii.gov/dcca

LAWRENCE M. REIFURTH
DIRECTOR

RONALD BOYER
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON HEALTH

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Wednesday, February 6, 2008
8:00 a.m.

TESTIMONY ON HOUSE BILL NO. 2077 – RELATING TO HEALTH INSURANCE

TO THE HONORABLE JOSH GREEN, M.D., CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is J. P. Schmidt, State Insurance Commissioner, testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). The Department opposes this bill, which requires mutual benefit societies to spend fifty percent of the savings that they receive annually from their general excise tax exemption as a nonprofit organization.

Our first concern is that the moneys spent under this bill's mandate will likely be translated into higher premium rates for consumers. While spending on healthcare may generally be a noble goal, it has to be paid for by someone.

Our second concern is that the bill directs the expenditure of money on health, health-education, and related community benefit programs, but without any specificity. It does not seem to be fiscally responsible to direct the expenditure of substantial sums of money without knowing in advance what that money is going to be used for. Delegating that decision to the management of the mutual benefit societies may not necessarily produce a good result.

It should be noted that mutual benefit societies have no obligation to provide services that benefit the community because of their tax exemption, other than the provision of health insurance itself. Federal charitable organizations under section 501(c)(3) of the Internal Revenue Code must have a charitable purpose to receive their tax exemption. Many private businesses do charitable work in Hawaii just to be good citizens, but get no tax break for it.

We thank this Committee for the opportunity to present testimony on this matter and ask that this bill be held.

HAWAII PSYCHIATRIC MEDICAL ASSOCIATION
1360 S. Beretania Street, 2nd Floor, Honolulu, HI 96814
Ph: (808) 263-3070 Fax: (808) 262-5966 www.Hawaiipsychiatric.org

Please deliver
5 copies to Clerk in Rm. 436
HLT: 2/6/08 at 8:00 in Rm. 329

COMMITTEE ON HOUSE HEALTH
Rep. Josh Green, MD, Chair
Rep. John Mizuno, Vice Chair

Re: HB 2077 Relating to Insurance
HB 2796 Relating to Insurance

SUPPORT

The Hawaii Psychiatric Medical Association (HPMA) submits its testimony in support of the intent of these measures.

The reasons for the lack of adequate supply of psychiatric services in rural areas are several. Among the chief reasons cited is the low reimbursement rate for medical specialty care in all areas but most especially where the cost of living is higher.

The State is paying for insurance coverage for mental health services and has been since 1994 when Med-QUEST was first introduced.. However, patients in areas such as the Big Island are not able to access psychiatric care due to the lack of an adequate number of providers and providers willing to accept new Med-QUEST patients. Because of the low reimbursement, physicians are economically unable see more than a small percentage of Med-QUEST patients. Psychiatrist Janice Strickler, MD emailed in December 2007 to state she had moved to the Mainland and cited low rate of reimbursement as the major reason.

DHS Med-QUEST is a privatized $1.2 billion dollar program. Insurers such as HMSA, Kaiser, AlohaCare, Summerlin, etc. all bid for the Med-QUEST contracts to provide insurance coverage for specific geographic areas. It is a capitated program which means they are paid by the number of insurance enrollees, regardless of utilization. Therefore, there is actually a disincentive for the Med-QUEST insurers to provide access. The less the insurance is utilized, the greater the profit.

A recent Letter to the Editor by Lillian Koller gives just a glimpse to the extent of the problem. In that letter Ms. Koller states "…..there is a serious shortage of psychiatrists on the Big Island. Meanwhile, during the first five months of 2007, HMSA retained nearly $936,000 in unused QUEST funds earmarked for outpatient psychiatric services..."

HB 2077 calls for HMSA to return 50% of its GET savings to community health programs. The Health Committee may want to consider encouraging HMSA to review its profit margins on state contract or to spend down its reserves by expanding the funds for community health services.

Another good option would be to increase the reimbursement paid to private practice providers and Med-QUEST providers. There is nothing in the state's contract with the Med-QUEST insurers to limit the reimbursement level. Increased reimbursement rates would encourage providers to treat the Med-QUEST client and help us to retain those providers who are considering leaving or opting out of seeing Med-QUEST patients.

We feel both of the bills covered by this testimony are important to help build psychiatric and other medical specialty services for underserved areas of Hawaii. Thank you for your consideration.

HAWAII PSYCHIATRIC MEDICAL ASSOCIATION

Hawaii Association of Health Plans

February 6, 2008

The Honorable Josh Green, M.D., Chair
The Honorable John Mizuno, Vice Chair
House Committee on Health

Re: HB 2077 – Relating to Health Insurance

Dear Chair Green, Vice Chair Mizuno and Members of the Committee:

My name is Rick Jackson and I am President of the Hawaii Association of Health Plans ("HAHP"). HAHP is a non-profit organization consisting of seven (7) member organizations:

AlohaCare
Hawaii Medical Assurance Association
HMSA
Hawaii-Western Management Group, Inc.
MDX Hawai'i
University Health Alliance
UnitedHealthcare

Our mission is to promote initiatives aimed at improving the overall health of Hawaii. We are also active participants in the legislative process. Before providing any testimony at a Legislative hearing, all HAHP member organizations must be in unanimous agreement of the statement or position.

Thank you for the opportunity to testify in opposition to HB 2077, which would require that mutual benefit societies annually spend on "health, health education and community benefit programs" no less than 50 percent of the savings that they receive annually from their general excise tax exemption as nonprofit organizations. HAHP's member plans have serious concerns with this measure that potentially adds 2.25% to health plan costs.

First of all, the great majority of health plan premium dollars collected are already spent on "health", so we are perplexed as to the intent of the bill. As an association comprised of the majority of health plans in the State, both small and large, HAHP believes that if the intended effect of the language in this measure is to require new spending by mutual benefit societies, then the bill will seriously harm four of our members: HMAA and its third party administrator HWMG, HMSA and UHA. While HAHP and its member organizations support community initiatives, forcing individual plans to contribute the new sums proposed in this measure to community-wide benefit programs will severely strain the financial reserves two of our members within the next several years unless they raise premium rates by a like amount to cover these new costs. Finally, if the underlying premise of this bill was intended to be extended to all not-for-profit health plans in Hawai'i (including HMOs), both AlohaCare and Kaiser would be penalized as well. For these reasons, we respectfully urge you to hold this bill.

Thank you for the opportunity to testify.

Sincerely,

Rick Jackson, President

• *AlohaCare* • *HMAA* • *HMSA* • *HWMG* • *MDX Hawaii* • *UHA* • *UnitedHealthcare* •
HAHP c/o Howard Lee, UHA, 700 Bishop Street, Suite 300 Honolulu 96813
www.hahp.org

HMSA

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February 6, 2008

The Honorable Josh Green, M.D., Chair
The Honorable John Mizuno, Vice Chair

House Committee on Health

Re: HB 2077 – Relating to Health Insurance

Dear Chair Green, Vice Chair Mizuno and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in opposition to HB 2077 which would require that mutual benefit societies annually spend on health community benefit programs no less than 50 percent of the savings that they receive annually from their general excise tax exemption as nonprofit organizations.

Before embarking on a discussion of the merits of this measure, it is important to understand the roots of HMSA's status as a non-profit organization. HMSA was originally founded in 1938 by a group of social workers and nurses seeking to provide access to quality, affordable health care for the citizens of Hawaii. Since that time, HMSA has lived up to its non-profit status and the principles of our founders.

Although the amount of community support HMSA provides throughout the State has been called into question, HMSA is one of the most generous contributors when it comes to funding health care initiatives, community activities and non-profit events. During 2006, HMSA donated almost $5 million to more than 250 community and non-profit organizations. We believe that we are a good corporate citizen and that our efforts improve the health of our community.

A snapshot of HMSA's community giving is noted below:

<u>HMSA Foundation</u>
Since 1997 the HMSA Foundation has given $12.4 million in grants to community and health organizations across the state to support health promotion and disease prevention, health care delivery and general social welfare.

<u>HMSA Corporate Giving</u>
Each year HMSA extends support to many non-profits and community service organizations in Hawaii. We've given more than $11 million over the past 10 years.

Hawaii Medical Service Association 818 Keeaumoku St. • P.O. Box 860 Honolulu, HI 96808-0860 (808) 948-5110 Branch offices located on Hawaii, Kauai and Maui Internet address www.HMSA.com

HMSA Employee Giving

Our employees support various community service organizations, including United Way, Blood Bank of Hawaii, Hawaii Foodbank and many more. In the past decade, it is estimated that our employees have volunteered countless hours and donated more than $2 million to the community.

HMSA Kaimana Awards and Scholarship Program

Annually, HMSA presents scholarships to more than 20 outstanding high school athletes and awards to 10 outstanding schools. The program represents one of the largest sponsorships in the Hawaii State Athletic Association's history, totaling more than $230,000 since the program began in 2006. In 2006, as part of this program, HMSA donated nearly 100 automated external defibrillators (AEDs) for Hawaii high schools.

Fun 5

HMSA helped develop Fun 5, a physical activity and nutrition program that encourages kids to exercise five days a week and eat five servings of fruits and vegetables every day. Fun 5 is designed for elementary school kids at all skill levels and has been implemented at Afterschool Plus (A+) programs statewide.

In addition to our work in the community, HMSA has also spearheaded initiatives aimed at assisting medical professionals with implementing new technologies. In 2006, HMSA launched a three year, $50 million initiative (HI-IQ) to fund quality improvement projects at Hawaii's hospitals and to help physicians implement electronic medical record systems in to their practices. This program is being funded through HMSA's reserves.

Neighbor Island Access Initiatives

We also assist our Neighbor Island communities in the difficult task of physician recruitment. This assistance has taken the form of providing funding for recruitment expenses and, in some cases, for office and testing equipment. Additionally, HMSA awarded a grant to the University of Hawaii to develop a family medicine training program in Hilo. This will enhance physician recruitment for Neighbor Island practices by exposing students to Neighbor Island life, culture and communities. Studies have shown that oftentimes individuals remain to practice medicine in the area where they have completed their residency training. It is believed that this program will assist in increasing the number of family practice physicians on the Big Island.

It is also important to understand how HMSA determines health plan rates. As the only state in the U.S. with an employer mandate, the majority of health care coverage in the state is purchased by local businesses whose cost is typically paid for by the employers across the state due to the requirements in the Prepaid Healthcare Act. HMSA's rates are simply based on the costs of providing benefits and the costs associated with administering our plans including processing claims and providing customer service. If HMSA were now required to pay state taxes, the cost of providing health care coverage would increase which would translate directly into increased rates for the purchasers of our health care coverage. As the only state in the U.S. with the only true employer mandate, the majority of health care coverage in the state is purchased by local businesses.

We would also contend that as the largest health plan in the state our entire mission is to fund "health, health education and community benefit programs." In 2006, HMSA applied 93.4 percent of dues to member benefits such as payments for physicians, hospitals and prescription drugs while 8.8 percent was incurred for our operating expenses. 93.4 percent of dues received were paid out to physicians and hospitals for services rendered to our members. This represents $1.6 billion in benefits paid for our private business and QUEST operations. We believe that this sum represents an incredible amount invested in the health of our community.

We believe that that language in HB 2077 represents a targeted and particularly egregious form of regulation. As such, we would strongly urge the Committee to hold HB 2077. Thank you for the opportunity to testify in opposition to HB 2077.

Sincerely,

Jennifer Diesman
Director, Government Relations