



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](http://www.hawaii.gov/dcca)

LAWRENCE M. REIFURTH  
DIRECTOR  
RONALD BOYER  
DEPUTY DIRECTOR

TO THE SENATE COMMITTEE ON  
JUDICIARY AND LABOR

TWENTY-FOURTH LEGISLATURE  
Regular Session of 2008

Friday, March 28, 2008  
9:30 a.m.

**TESTIMONY ON HOUSE BILL NO. 2224, H.D. 1, S.D. 1 – RELATING TO  
INSURANCE**

TO THE HONORABLE BRIAN T. TANIGUCHI, CHAIR, AND MEMBERS OF THE  
COMMITTEE:

My name is J. P. Schmidt, State Insurance Commissioner (“Commissioner”), testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department supports this bill, which requires group health insurers to offer small group health plans to self-employed individuals who meet certain requirements. This bill could go a long way towards reducing the number of the uninsured coming from the ranks of the some 12,000 sole proprietors in the market.

Sole proprietors are in an unusual situation. If they are incorporated, they can get health insurance under existing guaranteed issue requirements. If they are not incorporated, they cannot. There is no significant difference in risk associated with the lack of incorporation so it should not be a bar from obtaining health insurance. The bill allows the Commissioner to exempt health plans from the requirement of guaranteed issue if they do not have the capacity to deliver services given their existing obligations. This should provide an adequate safety valve if it turns out that the sole proprietor market creates an above-normal risk for the health insurer. We do not think this will be

the case, however, because the bill offers additional protections for health insurers including certain limitations on enrollment that are designed to prevent adverse selection.

We also support giving the Commissioner discretion over whether group health issuers may offer only one small group health plan to small employers that employ only one employee. In general, we should be consistent with HIPAA in offering multiple group health plans to small employers, whether they have two or more employees, one employee, or are sole proprietors. Allowing the Commissioner to grant a health issuer an exception to the general rule for employers with only one employee basis strikes a fair balance.

We thank this Committee for the opportunity to present testimony on this matter and ask for your favorable consideration.



The REALTOR® Building  
1136 12<sup>th</sup> Avenue, Suite 220  
Honolulu, Hawaii 96816

Phone: (808) 733-7060  
Fax: (808) 737-4977  
Neighbor Islands: (888) 737-9070  
Email: har@hawaii Realtors.com

---

March 25, 2008

**The Honorable Brian T. Taniguchi, Chair**  
Senate Committee on Judiciary and Labor  
State Capitol, Room 016  
Honolulu, Hawaii 96813

**RE: H.B. 2224, HD1, SD1**  
**Relating to Insurance**  
**Hearing Date: Friday, March 28, 2008 @ 9:30 a.m., Room 016**

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) **supports the intent of H.B. 2224, HD1, SD1.**

The intent of the measure is admirable as it seeks to expand health insurance coverage to people who live in our communities. In recent years, costs and premiums have soared, driving up the price of doing business. Despite being the only state requiring companies to provide health insurance to employees, the percentage of Hawaii residents outside of the employer mandate of the Prepaid Health Care Act is rising. This directly affects many sole proprietors and independent contractors who are not eligible, despite our large numbers, to apply for coverage as a group.

In December 2007 an important membership survey was circulated to assess the needs of health insurance for REALTORS®. The response rate was about 20 percent or almost 2,000 members. Of the respondents, 18 percent did not have insurance at all. And, they expressed a sincere desire to enroll in health plans that offer a benefit package, cost sharing, and premium rates that are comparable to what are offered to employees in group plans.

This survey was prompted by a meeting we convened last November with representatives from the Chamber of Commerce, Hawaii State Bar Association, HMSA, and Kaiser Permanente to explore whether a health plan could be designed for sole proprietors and independent contractors that provided the kind of benefit package and at premium rates that are available to employer groups. We acknowledge that it will be necessary for the health plans to develop conditions and requirements to minimize the potential impact of adverse selection that's likely to occur in a voluntary program. To this end, H.B. 2224, HD1, SD1 has been amended to reflect such requirements. It is for this reason we urge your passage of H.B. 2224, HD1, SD1.

Mahalo for the opportunity to testify.

Written Testimony of  
Phyllis Dendle  
Director of Government Affairs

To the Senate Committee on Judiciary and Labor  
The Honorable Brian T. Taniguchi, Chair  
The Honorable Clayton Hee, Vice Chair

Decision-making  
March 28, 2008  
9:30 AM  
Conference Room 016

**HB 2224 HD1 SD1 RELATING TO INSURANCE**

Chair Taniguchi and committee members, thank you for this opportunity to provide written testimony on HB2224 HD1 SD1 which expands the ability of self-employed individuals to purchase health insurance coverage.

**Kaiser Permanente supports the intent of this bill.**

**We also request a technical amendment.**

**Page 2 Line 17—replace the word “licensed” with “registered”.**

DCCA registers businesses it does not license them.

We have previously expressed concern about this proposal and other proposals like this that create a voluntary pool of insurance participants.

It is commonly known in the health insurance industry that the actuarial risk is higher in a voluntary pool than a mandatory pool. Experience tells us that a voluntary pool will have participants that use more health care. This is because they may choose not to purchase health coverage when they are healthy but will buy it when they need health care services. In a mandatory pool both the healthy that use few services and the less healthy that use more services are compelled to purchase insurance, which provides some balance. Given that assumption, the premiums are likely to be higher in a voluntary pool than in a mandatory pool.

This bill addresses this concern by requiring that self employed individuals enroll only during periods of enrollment or when they experience a qualifying event which is the same as group health insurance. It also sets up a system that creates disincentives to drop coverage. These limitations may serve to lessen the impact of adverse selection by self employed individuals.

We appreciate that this bill has a sunset date that will permit the reevaluation of the effects of this bill after a few years. This will help to assure that that if there is a negative impact on small business then the law can be revised. Thank you for your consideration.

**LATE**

**The Chamber of  
Commerce of Hawaii**  
Since 1850

**Testimony to the Senate Committee on Judiciary and Labor  
Friday, March 28, 2008; 9:30 a.m.  
Conference Room 016  
State Capitol**

**RE: HOUSE BILL NO. 2224, HD1, SD1 RELATING TO INSURANCE**

Chair Taniguchi, Vice Chair Hee, and Members of the Committee:

My name is Jim Tollefson and I am the President and CEO of The Chamber of Commerce of Hawaii ("The Chamber"). The Chamber supports the intent of House Bill 2224, HD1, SD1, relating to Health Insurance Support for Small Business, however with concerns.

The Chamber is the largest business organization in Hawaii, representing over 1100 businesses. Approximately 80% of our members are small businesses with less than 20 employees. The organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The measure requires group health issuers to offer small group health plans to self-employed individuals who are licensed by the department of commerce and consumer affairs and are located in the group issuer's service areas. It authorizes the insurance commissioner to exempt certain group health plans based on specified criteria, and allows limits on timing of enrollment and reenrollment to control adverse selection and plan costs.

Providing adequate and quality health care is essential in producing a healthy population and economy. Although we support the intent, the Chamber has serious concerns about the potential unintended consequences of this measure. We believe this bill could adversely impact the business community such as increases in premium costs due to adverse selection. Businesses, especially small companies already face high costs of doing business.

The Chamber believes that further evaluation of the impact of this measure and concerns of all parties need to be addressed first.

Thank you for the opportunity to testify.

# HMSA



Blue Cross  
Blue Shield  
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

March 28, 2008

The Honorable Brian Taniguchi, Chair  
The Honorable Clayton Hee, Vice Chair

Senate Committee on Judiciary and Labor

**Re: HB 2224 HD1 SD1 – Relating to Insurance**

Dear Chair Taniguchi, Vice Chair Hee and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on HB 2224 HD1 SD1 which would require health plans to allow sole proprietors and small businesses with no employees be eligible for group health care coverage. HMSA supports the intent of this measure.

This measure represents an initiative which has been debated by the Legislature for the past few years. Last year HMSA worked with the other stakeholders to come to consensus on language that would not only accomplish the intent of the measure but offer health plans some protection from adverse selection. SB 2224 HD1 SD1 currently contains this language as well. It also includes a 2013 sunset date which would allow for all interested parties to revisit the issue in five years to determine the cost and impact of the legislation.

Thank you for the opportunity to provide testimony today.

Sincerely,

Jennifer Diesman  
Assistant Vice President  
Government Relations