SB 2120

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COMMERCE, CONSUMER PROTECTION AND AFFORDABLE HOUSING

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Friday, February 1, 2008
1:15 p.m.

TESTIMONY ON SENATE BILL NO. 2120 – RELATING TO HEALTH INSURANCE

TO THE HONORABLE DAVID Y. IGE AND RUSSELL S. KOKUBUN, CHAIRS, AND MEMBERS OF THE COMMITTEES:

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 this bill targets only mutual benefit societies and does not target non-profit HMOs. Any measure that is applied to the market should be applied to all similarly situated market participants to avoid giving one a competitive advantage over the other.

Our second 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 third 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.

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

HMSA

Blue Cross
Blue Shield
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 1, 2008

The Honorable David Ige, Chair
The Honorable Russell Kokubun, Chair

Senate Committees on Health and Commerce, Consumer Protection and Affordable Housing

Re: SB 2120 – Relating to Health Insurance

Dear Chair Ige, Chair Kokubun and Members of the Committees:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify in opposition to SB 2120 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 founding members.

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.

Following demonstrates how some of HMSA's funding was provided:

<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 into their practices. This program is being funded through HMSA's reserves.

We are also assisting 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.

After reviewing HMSA's community involvement, it is also important to understand how HMSA determines our health plan's rates, 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 forced 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.

Finally, we would like to take the opportunity to state that HMSA pays hospitals and physicians in the state approximately 140 and 120 percent of the Medicare fee schedule respectively for HMSA's commercial plans. This amount subsidizes shortfalls in government programs (Medicare and Medicaid) and represents a hidden unfunded mandate on the businesses in the state since they are required to provide health care coverage to their employees. These payments into the health care system equal millions of dollars a year which directly benefit community programs. HMSA is already being heavily "taxed" through government cost shifting which is passed on to the purchasers of our services, primarily businesses. The language in SB 2120 would burden local businesses to an even larger extent.

We believe that the language in SB 2120 represents a targeted and particularly egregious form of regulation. As such, we would strongly urge the Committees to hold SB 2120.

Thank you for the opportunity to testify today.

Sincerely,

Jennifer Diesman
Director, Government Relations