



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
CONSUMER PROTECTION AND COMMERCE

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Monday, March 17, 2008
3:30 p.m.

**TESTIMONY ON SENATE BILL NO. 2530, S.D. 2 – RELATING TO HEALTH
INSURANCE SUPPORT FOR SMALL BUSINESS**

TO THE HONORABLE ROBERT N. HERKES, 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 Chamber of
Commerce of Hawaii**

Since 1850

**Testimony to the House Committee on Consumer Protection and Commerce
Monday, March 17, 2008; 3:30 p.m.
Conference Room 229**

**RE: SENATE BILL NO. 2530 SD2 RELATING TO HEALTH INSURANCE SUPPORT FOR
SMALL BUSINESS**

Chair Herkes, Vice Chair McKelvey, 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 Senate Bill No. 2530 SD2, 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.



**Hawaii
Association of
REALTORS®**
www.hawaii Realtors.com

The REALTOR® Building
1136 12th 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 17, 2008

The Honorable Robert N. Herkes
Chair, House Committee on Consumer Protection & Commerce
State Capitol, Room 320
Honolulu, Hawaii 96813

RE: S.B. 2530, SD2 Relating to Health Insurance Support for Small Business
Hearing Date: March 17, 2008 @ 3:30 p.m., Room 325

On behalf of our 10,000 members in Hawaii, the Hawaii Association of REALTORS® (HAR) **supports the intent** of S.B. 2530, SD2.

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.

Last month, 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, SB 2530 SD2 has been amended to reflect such requirements. It is for this reason we urge your passage of SB 2530 SD2 to encourage further discussion.

Mahalo for the opportunity to testify.

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Testimony of
Phyllis Dendle
Director of Government Affairs

Before:
House Committee on Consumer Protection and Commerce
The Honorable Robert N. Herkes, Chair
The Honorable Angus L.K. McKelvey, Vice Chair

March 17, 2008
3:30 pm
Conference Room 325

SB 2530 SD2 RELATING TO HEALTH INSURANCE SUPPORT FOR SMALL BUSINESS

Chair Herkes and committee members, thank you for this opportunity to provide testimony on SB 2530 SD2 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.

711 Kapiolani Blvd
Honolulu, Hawaii 96813
Telephone: 808-432-5210
Facsimile: 808-432-5906
Mobile: 808-754-7007
E-mail: phyllis.dendle@kp.org