



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 FINANCE

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Wednesday, April 2, 2008
2:00 p.m.
Agenda # 1

**TESTIMONY ON SENATE BILL NO. 2864, S.D. 2, H.D. 1 – RELATING TO
INSURANCE**

TO THE HONORABLE MARCUS R. OSHIRO, 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 the Commissioner to
study the adequacy of provider reimbursements and other issues related to healthcare
and insurance.

The Department believes that this study will provide useful information to the
Legislature. We have no technical comments on the bill and believe that the study
contemplated therein is realistic in its scope. However, we note that some of the data
contemplated by this study may be withheld by the owner, for example reimbursement
data of mainland insurers or business information of local healthcare providers. We
also note that it is not clear to us that this study will provide a definitive quantitative
conclusion about the adequacy of provider reimbursements. It is one thing to collect
reimbursement data, provider business data, and salary information. It is another thing

DCCA Testimony of J.P. Schmidt
S. B. No. 2864, S.D. 2, H.D. 1
April 2, 2008
Page 2

to tie them together in a meaningful and conclusive way. Nevertheless the study should provide information on an important issue.

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



OFFICERS

Cynthia Jean Goto, MD
President

Gary Okamoto, MD
President Elect

Linda Rasmussen, MD
Immediate Past President

Thomas Kosasa, MD
Secretary

Jonathan Cho, MD
Treasurer

Paula Arcena
Executive Director

April 2, 2008

To: Rep. Marcus R. Oshiro, Chair
Rep. Marilyn B. Lee, Vice Chair
House Finance Committee

From: Cynthia J. Goto, M.D., President
Linda Rasmussen, M.D., Legislative Co-Chair
Philip Hellreich, M.D., Legislative Co-Chair
Paula Arcena, Executive Director
Dick Botti, Government Affairs Liaison

PLEASE DELIVER to:

Finance Committee

Wed.
4/2/08
2:00pm
Room 308

Re: SB2864, SD2, HD1 Relating to Insurance

While we appreciate the intent of this measure to identify issues that affect our current medical access to care crisis, the basic fact is that physicians and healthcare institutions are not allowed to establish their charges based on the cost of providing goods and services.

Our healthcare system is not predicated on a free enterprise system. Rather, healthcare providers are paid based on contractual agreements with health plans insurers. These agreements require the service provider accept a fixed payment. The only allowable payment above and beyond the fixed service fee is the contractually set co-pay from the patient. When the cost of providing goods and services exceed the fixed fee, the provider takes a loss.

The solution the problem is to have these conditions removed from health plan insurer contracts. This will allow medical service providers to charge and collect sufficient fees and sustain their financial viability.

This is called the Free Enterprise. If the consumer decides to shop around for a better price and get it elsewhere, then this is called competition. This is all but non-existent in Hawaii. Service providers who do not contract with HMSA, Hawaii's dominant insurer, are at a disadvantage.

Hawaii offers physicians fixed and low fees and uncontrolled malpractice insurance premiums. The logical course of action is to leave Hawaii and go where the business climate is more friendly.

Thank you for the opportunity to provide this testimony.

Hawaii Medical Association
1360 S. Beretania St.
Suite 200
Honolulu, HI 96814
(808) 536-7702
(808) 528-2376 fax
www.hmaonline.net

Testimony of
Phyllis Dendle
Director of Government Affairs

Before:
House Committee on Finance
The Honorable Marcus R. Oshiro, Chair
The Honorable Marilyn B. Lee, Vice Chair

April 2, 2008
2:00 pm
Conference Room 308

SB 2864 SD2 HD1 RELATING TO INSURANCE

Chair Oshiro and committee members, thank you for this opportunity to provide testimony on SB 2864 SD2 HD1 which requires the Legislative Auditor to prepare a report regarding health care reimbursements in Hawaii.

Kaiser Permanente Hawaii supports the intent of this measure.

We appreciate the legislature's desire to collect information regarding reimbursement of physicians and hospitals. This information could be of great assistance in considering future public policy.

Kaiser Permanente Hawaii is uniquely situated as a provider of health care with physicians and a hospital as well as a health plan. While some of the information that is proposed to be collected will look very different for us than for the other health plans we think it will also be helpful to see those differences. We also think it will be instructive to see Medicare and Medicaid rates as well as private insurance rates.

We look forward to cooperating with the Legislative Auditor in the ambitious collection of this information on reimbursement.

Thank you for your consideration.

HMSA



Blue Cross
Blue Shield
of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

April 2, 2008

The Honorable Marcus Oshiro, Chair
The Honorable Marilyn Lee, Vice Chair

House Committee on Finance

Re: SB 2864 SD2 HD1 – Relating to Insurance

Dear Chair Oshiro, Vice Chair Lee and Members of the Committee:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 2864 SD2 HD1 which would require the State Auditor to conduct a study of Medicare and Medicaid reimbursement shortfalls, health plan reimbursements to physicians and hospitals, medical malpractice insurance rates, and hospital costs of providing health care in Hawaii.

If the Legislature is interested in gaining truly accurate, comprehensive and useful information on Hawaii's health care system, the content of SB 2864 SD2 HD1 needs to be drastically changed to ensure that this undertaking is as thorough and complete as possible. We would also point out that a study of this magnitude and depth would likely require outside consultants and local resources and could end up costing the state at least \$1 million dollars, if not more to conduct.

As you know, government payors account for a large component of reimbursements to hospitals and some physicians. Given that this study seeks to understand reimbursement levels for both QUEST and Medicaid it is important for all QUEST health plans to be included. As such, we recommend an amendment to include AlohaCare on page 2, line 6.

In addition, we would like to briefly point out some issues raised by the language in SB 2864 SD2 HD1:

- A comprehensive list of physicians to include primary care and specialists should be included rather than just limit the study to 6 types of specialists
- Reimbursement rates are proprietary. The information should be kept proprietary indefinitely rather than at the will of the entity conducting the study.
- Hospitals and Physicians are reimbursed by many different entities – including Medicare and Medicaid – the mix of their overall reimbursements should be reviewed to determine overall compensation.

- The different types of settings in which care is received and paid for needs to be included in order to have a complete understanding of the total reimbursements to the system.
- Any differences that might exist between the cost of practicing medicine on Oahu vs. the Neighbor Islands should be reviewed
- Copayment levels vary depending on the actual payor (Medicare, Medicaid, Private) and should be reviewed to determine the overall cost impact to consumers
- The top 25 most used medical procedures needs to be expanded to the top 200 medical codes in order to obtain a statistically and actuarially sound understanding of overall reimbursement levels
- Hospital reimbursements need to be further dissected to understand the costs and reimbursements associated with categories of services such as ER, Acute Inpatient, Outpatient Surgery
- Graduating medical students should be asked what factors, if any, create a disincentive to practice in Hawaii including cost of living, housing costs, etc. and to prioritize these factors
- The overall cost to manage and operate hospitals and physician practices in Hawaii should be compared to their mainland facilities counterparts
- Any review of health plan premium rates needs to take into account the overall benefit design to ensure that an 'apples to apples' comparison is conducted

In order to ascertain a relevant and detailed review of Hawaii's health care system the incorporation of these types of issues is crucial. We appreciate your consideration of our comments.

Sincerely,



Jennifer Diesman
Assistant Vice President
Government Relations