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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. 2864, S.D. 2 – RELATING TO INSURANCE

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

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DCCA Testimony of J.P. Schmidt
S. B. No. 2864, S.D. 2
March 17, 2008
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We thank this Committee for the opportunity to present testimony on this matter and ask for your favorable consideration.



HOUSE COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Rep. Robert Herkes, Chair

Conference Room 325
March 17, 2008 at 3:30 p.m.

Testimony in support of SB 2864 SD 2.

I am Rich Meiers, President and CEO of the Healthcare Association of Hawaii, which represents the entire spectrum of health care, including acute care hospitals, two-thirds of the long term care beds in Hawaii, as well as home care and hospice providers. Thank you for this opportunity to testify in support of SB 2864 SD 2, which requires the Insurance Commissioner to conduct a study of the adequacy of payments by health care insurance plans to hospitals and physicians in Hawaii.

In recent months the media have featured a number of articles highlighting the complex and multi-faceted crisis that is plaguing Hawaii's health care system. Payments for health care from Medicare, Medicaid, and private insurance are too low. Medical malpractice insurance premiums are too high. Some physicians have already left Hawaii to practice on the mainland where financial conditions are more reasonable. Kahuku Hospital was on the verge of bankruptcy a year ago and about to close its doors before it was acquired by the Hawaii Health Systems Corporation (HHSC). Meanwhile, HHSC itself is requesting emergency funding during the current session in order to pay its suppliers. This bill addresses one aspect of Hawaii's health care crisis.

Due to historical and other reasons, Hawaii's health care insurance market is characterized by the dominance of a single entity. That company and a few smaller insurers contract with numerous providers for health care services that are received by insurance plan subscribers. This type of market structure, where there are a few buyers and many sellers, is called an oligopsony. It predicts that insurance companies will under-pay health care providers for services. In this case, theory is corroborated by actual experience because health care providers are suffering financially.

This bill seeks to determine the degree to which providers are being underpaid by health care insurers as the first step toward creating a sense of fairness in financing health care in Hawaii. I would like to make it clear that my testimony is not an attack or even a criticism of any particular company. Rather, the market structure is unfair to health care providers, and there is historical precedent, both nationally and locally, for government to intervene when market structures are unfair.

This bill addresses one factor that affects the financial condition of health care providers in Hawaii, and we appreciate that the Legislature is willing to involve itself in this complex matter.

For the foregoing reasons, the Healthcare Association supports SB 2864 SD 2.

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 2864 SD2 RELATING TO INSURANCE

Chair Herkes and committee members, thank you for this opportunity to provide testimony on SB 2864 SD2 which requires the insurance commissioner 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 insurance commissioner in the ambitious collection of this information on reimbursement.

Thank you for your consideration.

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March 17, 2008

To: Rep. Robert Herkes, Chair
Rep. Angus McKelvey, Vice Chair
House Consumer Protection &
Commerce 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

Re: SB2864, SD2 Relating to Insurance

The Hawaii Medical Association appreciates the intent of SB2864, SD2, but prefers other alternatives to addressing the issue of inadequate reimbursement for physician services.

In combination, Hawaii's high medical malpractice insurance premiums, high cost of living and low physician reimbursements had made it difficult to recruit and retain an adequate physician workforce.

The Hawaii Medical Association suggests two ways that would have the most meaningful impact on this negative situation.

De-link Physician Reimbursement from the Medicare fee schedule

- The Medicare fee schedule has decreased annually, with a 40% decrease predicted over the next nine years.
- Private and public health plans pay physicians a percentage of the Medicare fee schedule, which is not based on the cost of providing medical care.
- The Medicare fee schedule is expected to decrease by 40% by the year 2010.
- Decreases in the Medicare fee schedule have been detrimental to elderly patient access to care.

PLEASE DELIVER TO:

CPC Committee

Monday
3/17/08
3:30pm
Room 325

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Approve direct payment legislation

- Currently, health care insurers make payment to contracted network providers only. HMSA dominates Hawaii's health plan market with a 70% plus share of the market. This gives physicians little choice but to sign an agreement with HMSA and accept contractual conditions because physicians have little leverage for negotiation.
- Benefits to consumers include:
 1. Ability to choose physicians within or outside a health plan network;
 2. Physicians will need to provide patients with the prices for their services; and
 3. Patients will become much more aware of how much health services cost.
- The incentive to physicians to remain in-network will continue because it provides a competitive advantage.
- Health plans will continue to have the ability to review physician claims and they will continue to have the ability to reject requests for reimbursement. Like now, the insurer will have the ability to report suspicious activity to appropriate authorities.
- It will encourage competitive services and charges.
- It will not disrupt the Hawaii State Board of Medical Examiners authority to penalize doctors for licensure violations and the Regulated Industries Complaint Office investigation of patient complaints.

In our opinion, these two actions would improve Hawaii's healthcare significantly by addressing root problems with meaningful solutions.

Thank you for the opportunity to provide this testimony.

Faith Action for



Community Equity

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Executive Director

March 10, 2008

COMMITTEE ON CONSUMER PROTECTION & COMMERCE
Robert N. Herkes, Chair

RELATING TO INSURANCE
SB 2758 HD2

TESTIFIER: Rev. Bob Nakata, President, FACE
Clementina D. Ceria-Ulep, PhD, RN,
Chair, Healthcare Committee, FACE

DATE: Monday, March 17, 2008
TIME: 3:30 p.m.
ROOM: 325

Chair Herkes and members of the Committee on Consumer Protection & Commerce:

We are Rev. Bob Nakata President of FACE and Clem Ceria-Ulep, the Chair of the FACE Healthcare Committee and we are in support of legislative intervention in the reimbursement by private insurers to our hospitals, physicians and other health care providers.

F.A.C.E., as a faith-based community grassroots organization, believes that all the citizens of the State of Hawaii should have access to quality education, affordable homes, and **quality healthcare**. On February 16, 2008, we held our first healthcare summit to address the crisis in the access and delivery of healthcare to Hawaii's people regardless of their socio-economic status. We are hearing from our members that this crisis is having a profound effect on their families, employers and employees. However, as an organization it became apparent that our membership must first understand the history of healthcare in Hawaii, the root causes of our current crisis and the financial implications.

Hawaii always known as *The Health State* now finds itself in the midst of growing uninsured, limited access to care, inadequate reimbursements to hospitals, physicians and other providers. Also our public and private hospitals are on the brink of financial insolvency and our rural areas are becoming increasingly underserved and there is an ongoing growing loss of our physician population.

F.A.C.E. as a faith-based community grassroots organization believes that the Citizens of the State of Hawaii should all have access to quality education, affordable homes and healthy living **with access to quality healthcare and our hospitals, physicians and other providers must be adequately reimbursed**.

This bill seeks to determine the mechanisms and degree of underpayment to our providers. This is a necessary study while we begin to address policy and administrative resolutions to this market structure that is unfair to our providers. We at FACE now realize this a complex matter but we thank this Legislature for taking a bold step in involving itself in this matter.

However in light of the emergency situation the State finds itself with the loss of physicians and the financial insolvency of our private/public hospitals, FACE would like to request that the Insurance Commission be required to provide the legislature an interim report 20 days prior to the commencement of the 2009 Legislature to provide preliminary information and to request assistance from the legislature in the event the Insurance Commission is unable to promptly obtain the necessary information for the final report and recommendations in 2010.

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