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TO THE HOUSE COMMITTEE ON HEALTH

TWENTY-FOURTH LEGISLATURE  
Regular Session of 2008

Wednesday, March 12, 2008  
8:00 a.m.

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

TO THE HONORABLE JOSH GREEN, M.D., 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 Insurance 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 12, 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 HEALTH  
Rep. Josh Green, M.D., Chair

Conference Room 329  
March 12, 2008 at 8:00 a.m.

**Testimony in support of SB 2864 SD 2.**

I am Coral Andrews, Vice President 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 weeks 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.

**HAWAII PSYCHIATRIC MEDICAL ASSOCIATION**

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COMMITTEE ON HEALTH  
Rep. Joshua Green, MD, Chair  
Rep. John Mizuno, Vice Chair

*Finance Hearing*  
*Wednesday, 3/12/08*  
*8:00 am*  
*Conference Rm 329*

Re: SB 2864 SD2  
RELATING TO INSURANCE

**SUPPORT**

The Hawaii Psychiatric Medical Association submits its testimony in support of SB 2864 SD2 requiring the insurance commissioner to conduct a study of the adequacy of health plan reimbursements to providers.

Access issues are created in part by Hawaii's inability to retain and recruit physicians. Low reimbursement is the often cited reason for departure.

Thank you for your consideration to pass this measure.

Steve Williams, MD  
Chair, Policy Committee  
Hawaii Psychiatric Medical Association